



**BUSINESS AND ORGANISATION
HIGHER LEVEL
PAPER 2**

Monday 19 November 2001 (morning)

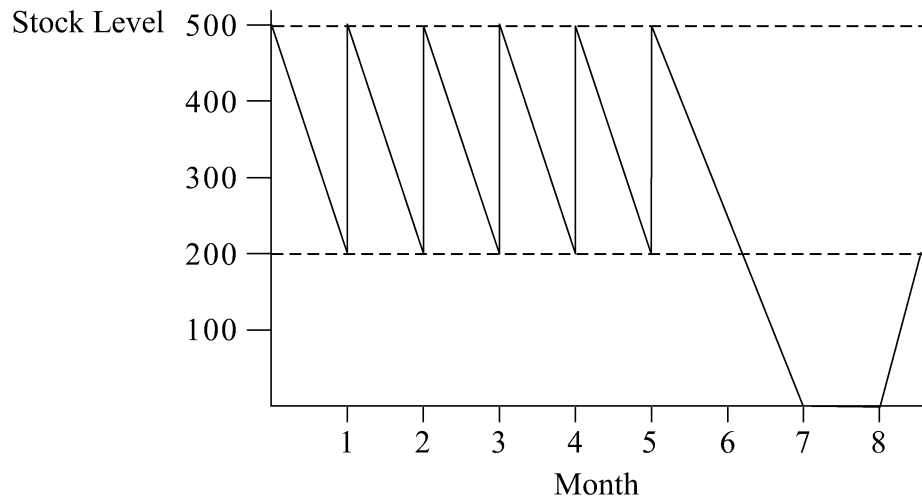
2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Answer four questions.

1. *Superstock* manufactures and distributes car components to retailers. The stock levels of raw material held by *Superstock* over the last 8 months are shown in Figure 1.

Figure 1 Stock Control Graph for *Superstock*



Superstock **Current Asset ratio** is 2.5 and **Acid Test ratio** is 1.2

The Production Manager believes that in general, *Superstock* has too much money tied up in working capital and argues that the company should release this money to purchase new fixed assets.

The Production Manager suggests the purchasing of a sophisticated computerised stock control system.

The Distribution Manager suggests the replacement of the outdated fleet of trucks (lorries).

Both managers argue that despite large initial costs the company will gain considerable benefits in the near future.

- (a) Define the following terms and use Figure 1 to identify the level of:
- lead-time
 - re-order level of stock. [2 marks]
- (b) Explain the **three** most important factors that will influence the minimum level of stock held by *Superstock*. [6 marks]
- (c) Identify what happened to the stock level from the 6th to the 8th month and assess the possible consequences. [1+3 marks]
- (d) In a memorandum (memo) to the Finance Director evaluate which investment proposal *Superstock* should adopt. [8 marks]

2. Susi Yin, a competent Information Technology (IT) specialist, has set up her own IT consultancy. She has appointed herself Chief Executive Officer (CEO) but she has only limited knowledge of human resource management (HRM) issues. To support her she has just appointed you as a new HRM specialist.

Susi Yin would like to:

- create a company that is highly flexible, adaptive and responsive to constant changes in the dynamic external environment;
- create a company that is customer focused;
- employ and maintain highly motivated staff for a long period of time - up to 20 people;
- establish efficient communication channels, a culture of trust and an efficient organisation;
- create a flexible pay structure, which will reward creativity as well as team working;
- use fringe benefits such as free health club membership and company cars.

Susi Yin believes in consultation, employee involvement and participation in the decision making process.

As the HRM specialist in the newly created organisation.

- (a) Describe **four** major functions of your newly created HRM Department. *[4 marks]*
- (b) Using appropriate motivation and behavioural theories analyse how Susi Yin can achieve the objectives listed above. *[8 marks]*
- (c) Suggest and evaluate an appropriate organisational structure that will enable Susi Yin to create a dynamic and responsive organisation. *[8 marks]*

3. *Dreamtoy* is a Private Limited Company, which manufactures toys.

Information for the year 2000

50 000 units were sold	= full capacity
Fixed costs	= \$20 000
Variable cost per unit	= \$2
Selling price per unit	= \$4

The Chief Executive Officer (CEO) is concerned about the following:

- during the production process the company generates a high level of waste, noise and pollution;
- some of the materials used in manufacture are suspected of being unhealthy and harmful for young children;
- workers, supported by the trade unions, complain about the low wage payments.

The activities of the company during year 2001 have resulted in:

- a fall of 50 % in the number of units sold, a fall in profits and a rise in dissatisfied shareholders demanding both an immediate improved profit level and higher dividends;
- complaints from local residents;
- the intervention of environmentalist pressure groups as well as consumer protection groups. Both of these are currently lobbying the government for closure of the company.

In your role as an external adviser/consultant.

- (a) (i) Define social (corporate) responsibility. [1 mark]
- (ii) Discuss **three** potential benefits for a socially responsible organisation. [3 marks]
- (b) Identify **three** major stakeholders of *Dreamtoy*. Assess their specific interest, power, and potential or actual effects on *Dreamtoy* activities. [7 marks]
- (c) (i) Calculate the margin of safety and the level of profit made in year 2000. Show your working. [4 marks]
- (ii) Calculate the margin of safety and the level of profit made in year 2001. Show your working. [3 marks]
- (iii) What price should the company charge to maintain the same level of profit as in year 2000? [2 marks]

4. *Easy ride* is a company that produces three bicycle models. Each model is regarded as an individual cost and profit centre.

In order to increase the level of profit for the organisation you have decided, in your role as the Production Manager, to look at the possibility of eliminating an unprofitable model or models.

Figure 1 - Revenue/Cost information for each model.

	Child Bike	Teenager Bike	Adult Bike	Total
	\$000	\$000	\$000	\$000
Revenue	120	200	220	540
Direct Labour Cost	60	30	60	150
Direct Material Cost	20	30	40	90
Total Direct Cost	80	60	100	240

Production Information

	Child Bike	Teenager Bike	Adult Bike	Total
Factory Floor Space meters ²	80	100	60	240
Employees per model	40	35	25	100

Notes: Fixed indirect overheads=\$120 000 comprised of \$70 000 rent and \$50 000 administration.

An elimination of a single model will not result in any reduction of the fixed/indirect overheads.

- (a) Describe **two** benefits that an organisation gains from using ‘cost centres’. [2 marks]
- (b) (i) Prepare an absorption cost statement and calculate profit/loss for each cost centre. [5 marks]
- Note:** Allocate rent according to the factory floor space of specific models.
Allocate administration costs according to the number of employees per model.
- (ii) Prepare a marginal/contribution cost statement (\$000). [4 marks]
- (c) Evaluate the proposal to eliminate an unprofitable model or models. Consider both financial **and** non-financial issues. [9 marks]

5. A Japanese manufacturing company with substantial financial reserve is considering a take-over of a European company producing similar products.

During a visit to Europe to inspect the company, the visiting Japanese executives were not impressed with the:

- flow production method;
- high production costs;
- high stock and high waste level;
- long lead-time;
- unchallenged and de-motivated staff.

Moreover, the staff appeared hostile, and clearly feared change.

As a member of the Japanese Executive Committee.

- (a) Describe **two** possible benefits and **two** possible drawbacks for the Japanese organisation that can result from the proposed international take-over. *[4 marks]*
- (b) Explain **one** factor from each part of a STEP (PEST) analysis that the Japanese company should assess before entering a foreign market. *[4 marks]*
- (c) Explain to the European staff the relevant characteristics of ‘lean production’ that would enable the company to overcome the problem of high stock, high waste level and a long lead-time. *[5 marks]*
- (d) Write a memorandum (memo) to the Managing Director that evaluates and recommends **three** strategies to overcome resistance to change. *[7 marks]*

6. Hotel *LandMark* is an established hotel, which is located in a centre of a major capital city. With a total of 250 bedrooms, it is an architectural landmark that was built over 100 years ago. It is independently operated as a family business. It has never really marketed itself but has relied on established corporate customers from within the successful local and regional business economy and recommendation through word of mouth communication. It considers that it is a ‘home away from home’ for business travellers. However, its occupancy rate has fallen from 75 % to 55 % over the last two years. This trend puts the hotel under considerable financial constraints.

A global hotel franchise has just taken over and upgraded a near-by competitor. The franchise is well known throughout the world for its standardised products and services. Its aggressive marketing is directed towards business travellers.

The family management has decided to have an urgent strategic review of the business.

The focus will be on two objectives:

- to regain the position of Hotel *LandMark* as the hotel of first choice for the business traveller;
- to increase the share of up-market (up scale) city-based tourism, which is expected to expand in the near future.

- (a) What is the difference between marketing a good and marketing a service? [3 marks]
- (b) Evaluate the most effective techniques of market research that the hotel could use in preparation for their strategic review. [8 marks]
- (c) Produce a marketing strategy for Hotel *LandMark* to achieve the chosen objectives. [9 marks]

7. An IT manager has just spent \$16 000 on a new *Super Computer* with the aim of improving efficiency throughout an organisation.

Due to fast changing technology, the expected usefulness of the *Super Computer* is 3 years and its likely residual (scrap) value is \$1 000.

The functional managers of the organisation have been very impressed with this acquisition and have all decided to make full use of its advantages.

- (a) (i) Calculate the depreciation allowance and net book value for each year using the straight-line method. [3 marks]
- (ii) Calculate the depreciation allowance and net book value for each year using the reducing balance method. [3 marks]

Note: Depreciation rate = 40%

- (b) Discuss and compare the effects of these **two** methods of asset depreciation on the organisation balance sheet **and** profit and loss account. [4 marks]
- (c) (i) Describe **two** advantages and **two** disadvantages of each method of depreciation. [4 marks]
- (ii) Recommend with an explanation which method should be used in this organisation. [2 marks]
- (d) Analyse, on behalf of **one** functional manager of your choice, how the efficiency in his/her department will be improved from the use of the *Super Computer*. [4 marks]

8. Ms Brown is a sole trader. She owns a furniture workshop called *Comfort* where production and retailing take place.

Ms Brown has gained a reputation for:

- the high quality of furniture made in a ‘job production’ process;
- customer focus – she is very responsive and adaptable to customers’ needs and demand.

Currently, Ms Brown is considering an offer to go into partnership with a larger local furniture business. The owner of the larger business, Mr Green, has just upgraded his ‘batch production line’ and also has cash to re-invest in the furniture business.

The following data have been extracted from *Comfort* accounts on December 2000:

	\$		\$
Turnover for year	30 000	Current Liabilities	3 000
Stock	2 500	Gross Profit	15 000
Debtors	1 000		
Cash in bank	250		

- (a) Define ‘job production’ and ‘batch production’. [2 marks]
- (b) (i) Calculate the following and show your workings:
- acid test ratio
 - debt collection period
 - gross profit margin. [3 marks]
- (ii) Analyse your findings. [5 marks]
- (c) Discuss **three** potential benefits and **three** potential drawbacks for *Comfort* that may result from accepting the partnership proposal. [6 marks]
- (d) Explain **four** additional options that might enable *Comfort* to improve its working capital. [4 marks]
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