

# **MARKSCHEME**

**November 2001**

**BUSINESS AND ORGANISATION**

**Higher Level**

**Paper 2**

1. (a) Define the following terms and use Fig 1 to identify the level of:

(i) lead-time

(ii) re-order level of stock.

[2 marks]

Lead time: the time between the order and the delivery of goods/stock.  
Figure 1 gives this as 1 month.

Reorder level of stock: the level of stock when a new order is placed. Figure 1 gives this as 200 units.

Allocate [1 mark] for correct definitions and [1 mark] for correct identification of re-order level from Figure 1.

(b) Explain the *three* most important factors that will influence the minimum level of stock held by *Superstock*.

[6 marks]

Factors may include:

- reliability of suppliers;
- cost of being out of stock;
- expectation of future demand;
- cash flow;
- cost of storage/insurance/security;
- discount on bulk purchases;
- the nature of the business.

[5 to 6 marks]

The candidate explains three factors relevant to *Superstock* in a clear/coherent and applicable manner.

[3 to 4 marks]

The candidate explains two factors relevant to *Superstock* in a clear/coherent manner. Or, the candidate lists three factors but the explanation is sometimes descriptive.

[1 to 2 marks]

The candidate lists a maximum of two factors with little/very limited explanation and no application to *Superstock*.

- (c) **Identify what happened to the stock level from the 6th to the 8th month and assess the possible consequences.** **[1+3 marks]**

Due to non-delivery and an accelerating acceleration use of stock, stock fell to zero in the 7th month for a duration of 1 month. In the 8th month *Superstock* received 200 units of stock - irregular delivery.

Potential consequences: production will stop for a month which can result in late delivery to retailers; loss of sales/revenue; loss of reputation and image; and a deterioration of the relationship with suppliers and retailers.

**[1 mark]** for a correct identification of what happened to stock. **[1 mark]** for each relevant assessment, up to a maximum of **[3 marks]**.

- (d) **In a memorandum (memo) to the Finance Director evaluate which investment proposal *Superstock* should adopt.** **[8 marks]**

Potential benefits due to the investment in sophisticated computerised stock control system may include:

- *Superstock* will be able to implement JIT to overcome current stock management problems. Current asset ratio which is currently dangerously high will improve – a better management of working capital;
- more efficient system of data collection - less waste; lower costs of production; improvement of efficiency;
- improved coordination between suppliers, producers and retailers;
- any other relevant benefits.

Potential benefits due to the investment in the replacement of outdated trucks may include:

- more reliable trucks will result in a more efficient transportation system;
- lower costs – fuel, wages, maintenance;
- better relationship between *Superstock* and retailers;
- any other relevant benefit.

Allocate **[1 mark]** for a correct ‘memorandum format’.

**[6 to 7 marks]**

For discussion of two to three benefits of each option. Evaluation of the options and recommendation(s) are logically and coherently presented. The candidate incorporated *Superstock* current liquidity problem in his/her evaluation.

**[4 to 5 marks]**

For discussion of one to two benefits of each option. Evaluation of the options and recommendation(s) are logically and coherently presented. The candidate incorporated *Superstock* current liquidity problem in his/her evaluation

**[3 marks]**

For explanation of one to two benefits of each option. Evaluation of the options and recommendation may lack depth.

The candidate did not incorporate *Superstock* current liquidity problem in his/her evaluation and/or final recommendation(s) are not preset.

**[1 to 2 marks]**

For describing some benefits. When no reference was made to *Superstock* – allocate **[1 mark]**.

2. (a) Describe *four* major functions of your newly created HRM Department. **[4 marks]**

The main HRM functions which are most relevant for a newly created company: planning, recruitment, selection, appointment, induction, training, appraisal.

**[4 marks]**: the candidate correctly describes four main functions which are relevant to the newly created company and Susi Yin's objectives.

**[3 marks]**: the candidate describes three functions relevant to the new company and Susi Yin's objectives.

**[1 to 2 marks]**: The candidate describes up to two functions - or provides only a list with limited or no reference to the case study.

- (b) Using appropriate motivation and behavioural theories analyse how Susi Yin can achieve the objectives listed above. **[8 marks]**

It is expected that the candidate will be able to use various theories and concepts to discuss the issue of satisfaction of needs, human relations vs. scientific management *e.g.* Maslow, Taylor, Herzberg, McClelland. The analysis should lead to an application of the various concepts/theories that enable the manager to achieve her objectives.

The candidate might analyse the issues of: job enlargement; job enrichment; various financial and non financial incentive schemes and methods of payment; training; promotion; team work and any other relevant issues.

**[7 to 8 marks]**

Most relevant theories and concepts are identified, analysed and applied to the case study in a clear coherent and analytical manner.

**[5 to 6 marks]**

Most relevant theories and concepts are identified and analysed. The application to the case study is coherent but may be descriptive in limited places.

**[3 to 4 marks]**

The candidate provides some suggestions about how to motivate employees. Limited reference is made to theories/concepts or to the company's objectives.

**[1 to 2 marks]**

The candidate demonstrates minimal knowledge of behavioural/motivation theories. No application to the case study.

- (c) **Suggest and evaluate an appropriate organisational structure that will enable Susi Yin to create a dynamic and responsive organisation.**

***[8 marks]***

It is expected that the candidate discusses the issues of formal and informal organisations; chain of command and span of control; organisational chart; authority and responsibility; centralisation and decentralisation.

Accept those forms of formal structure that are flat and decentralised – which enhance responsiveness and the use of skilled labour.

***[7 to 9 marks]***

The candidate evaluates most relevant structures and suggests one which is, by and large, substantiated and directly relevant to the case study. The candidate uses appropriate concepts/terminology.

***[4 to 6 marks]***

The candidate attempts to evaluate various structures but the answer is often descriptive and not always applicable to the case study.

***[1 to 3 marks]***

The candidate suggests a structure but does not evaluate it or link it to the case study. Appropriate concepts and subject terminology are lacking.

3. (a) (i) **Define social (corporate) responsibility.** **[1 mark]**

Social Responsibility – a willingness of a business to accept responsibility for its actions and their impact on a range of stakeholders.

- (ii) **Discuss *three* potential benefits for a socially responsible organisation.** **[3 marks]**

Some of the potential benefits: improve reputation/image – increased demand and increased profit; improvement in recruitment and retention of staff; improvement in employees motivation; attraction of ethical investors - a source of finance.

(i) **[1 mark]** for correct definition.

(ii) **[1 mark]** for each benefit discussed up to a maximum of **[3 marks]**.

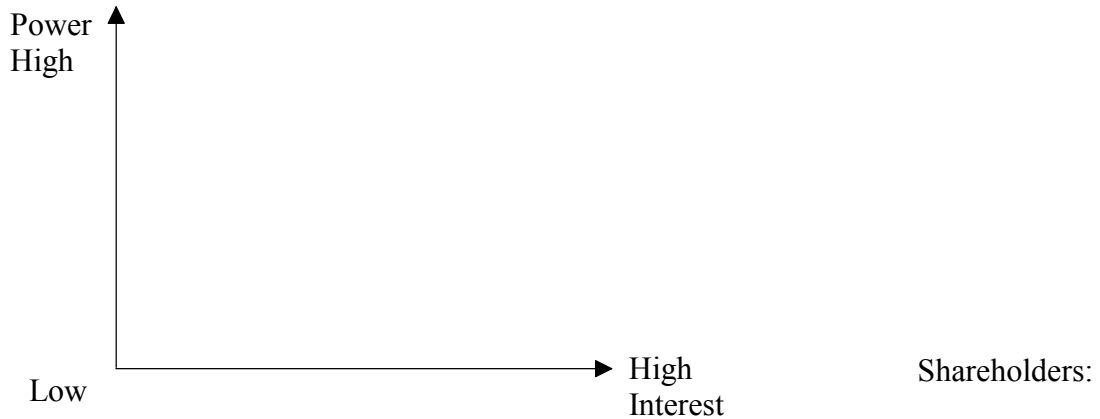
No more than **[2 marks]** for a list without discussion.

- (b) Identify *three* major stakeholders of *Dreamtoy*. Assess their specific interest, power, and potential or actual effects on *Dreamtoy* activities.

[7 marks]

The analysis may include the following:

### Stakeholders Analysis



*Interest:* improve profit, raise dividends. *Power:* high – they can sell shares. *Effects:* they can push price of shares down; make *Dreamtoy* vulnerable to take over.

Pressure groups: *Interest:* to protect the environment/customers; to modify the behaviour of the firm. *Power:* medium to high. *Effects:* create bad reputation/a fall in sales; initiate government intervention; may lead to closure.

Residents/consumers: *Interest:* improve product quality and safety. *Power:* high. *Effects:* create bad publicity which results in a significant fall in demand.

Other possible stakeholders for the analysis: the government, employees, managers, competitors.

#### [6 to 7 marks]

A clear logical assessment which covers three major relevant stakeholders with direct reference to interest, power and potential/actual effects on *Dreamtoy*.

The assessment includes evaluation of the most significant stakeholders.

#### [4 to 5 marks]

A clear logical analysis which covers three major stakeholders with reference to interest, power and potential/actual effects.

#### [2 to 3 marks]

Analysis which covers two major stakeholders with reference to interest, power and potential/actual effects - or an analysis that does not cover all required aspects of the question. The assessment does not always relate to *Dreamtoy*.

#### [1 mark]

A limited/superficial discussion/description.

- (c) (i) Calculate the margin of safety and the level of profit made in year 2000. Show your working. **[4 marks]**

Calculations of the margin of safety and profit for the year 2000:

$$\text{BEP} = \text{FC} \div \text{contribution} = \$20\,000 \div (4-2) = 10\,000 \text{ units}$$

$$\text{Margin of safety} = 50\,000 - 10\,000 = 40\,000 \text{ units}$$

$$\text{Profit} = \text{contribution} \times \text{margin of safety} = \$40\,000 \times 2 = \$80\,000$$

**[4 marks]**

Correct calculations and clear working methods.

**[2 to 3 marks]**

Some minor errors either in the margin of safety or the profit level.

**[1 mark]**

A very limited attempt, which results in errors.

- (ii) Calculate the margin of safety and the level of profit made in year 2001. Show your working. **[3 marks]**

Calculations of the margin of safety and profit for the year 2001.

$$\text{BEP as above} = \$10\,000$$

$$\text{Margin of safety: } 25\,000 - 10\,000 = 15\,000 \text{ } (\$25\,000 \text{ is } 50\% \text{ of the full capacity figures).}$$

$$\text{Profit: } 15\,000 \times 2 = 30\,000$$

**[3 marks]**

Correct calculations and clear working methods.

**[2 marks]**

Some minor errors either in the margin of safety or the profit level.

**[1 mark]**

A very limited attempt which results in errors.

- (iii) What price should the company charge to maintain the same level of profit as in year 2000? **[2 marks]**

$$\text{Price} = \frac{\text{profit target} + \text{total costs}}{\text{Output}} = \frac{\$80\,000 + \$20\,000 \text{ (FC)} + (\$2 \times 25\,000) \text{ (VC)}}{25\,000} =$$

$$\frac{\$150\,000}{25\,000} = \$6 \text{ per unit.}$$

**[2 marks]** for correct calculations. **[1 mark]** for a reasonable attempt which shows some understanding of the subject matter but contains a mathematical error.

**NB** Do not double penalise the candidate if they use incorrect figures from c(i) and c(ii).



4. (a) Describe *two* benefits that an organisation gains from using 'cost centres'. [2 marks]

Potential benefits may include the following:

- clearer comparison between departments/activities regarding performance/efficiency;
- a better decision making process and better allocation of resources;
- empowerment, responsibility, accountability which can result in improved motivation and efficiency.

Allocate [1 mark] for each relevant benefit described up to a maximum of [2 marks].

- (b) (i) Prepare an absorption cost statement and calculate profit/loss for each cost centre. [5 marks]

Absorption cost statement. (\$000)

	Child Bike	Teenager Bike	Adult Bike	Total
	\$000	\$000	\$000	\$000
Sales	120	200	220	540
Total Direct Cost	80	60	100	240
Absorbed overheads				
Rent	23.3	29.2	17.5	70
Admin	20	17.5	12.5	50
Total absorbed	43.3	46.9	30	120
Profit/Loss	(3.3)	93.1	90	180

For allocation use the formula:

$$\frac{\text{cost centre basis} \times \text{overheads}}{\text{Total basis}} = \text{absorbed overheads}$$

Administration:	$\frac{40 \times 50}{100} = 20$	$\frac{35 \times 50}{100} = 17.5$	$\frac{25 \times 50}{100} = 12.5$
Rent:	$\frac{80 \times 70}{240} = 23.3$	$\frac{100 \times 70}{240} = 29.2$	$\frac{60 \times 70}{240} = 17.5$

[5 marks]

Correct calculations of the above and a clear presentation of absorption cost statement.

[3 to 4 marks]

Calculations are largely correct. Allow for minor errors. The format may be inaccurate in places.

[1 to 2 marks]

A superficial attempt to allocate costs. Calculations are largely incorrect. The statement is largely inaccurate.

- (ii) Prepare a marginal/contribution cost statement (\$000). *[4 marks]*

	<b>Child Bike</b>	<b>Teenagers Bike</b>	<b>Adult Bike</b>	<b>Total</b>
Sales	120	200	220	540
Total Direct Costs	80	60	100	240
Contribution	40	140	120	300
Less fixed overheads				120
Profit/Loss				180

*[4 marks]*

A correct calculation and an appropriate presentation of the statement.

*[2 to 3 marks]*

Concepts understood but the calculation is incorrect in places.

*[1 mark]*

Limited, superficial knowledge of the notion of marginal contribution.

- (c) Evaluate the proposal to eliminate an unprofitable model or models. Consider both financial *and* non-financial issues. *[9 marks]*

The evaluation should:

- look at individual models; ‘Child bike’ is a loss-making model but makes a positive contribution towards covering fixed overheads. Fixed overheads will not be reduced if a model is eliminated;
- incorporation of non-financial issues such as HRM – employment/redundancies and potential costs to the organisation and the employees; industrial relations – the effects on motivation, morale, efficiency;
- marketing issues such as targeting and segmentation; the product life cycle, product portfolio; future demand from a particular segment;
- possibilities of future cost reduction or price increase to eliminate a loss;
- discussion of the company’s strategic objectives;
- any other relevant issue.

*[8 to 9 marks]*

A thorough evaluation of the most relevant issues. The evaluation incorporates both financial and non-financial issues.

The recommendation is well substantiated.

*[5 to 7 marks]*

A good evaluation of the major relevant issues but the answer is less well supported by either financial or non-financial issues. Recommendation are largely well substantiated.

*[3 to 4 marks]*

Superficial evaluation of mainly financial or non-financial issues. Recommendations are not well substantiated **or** merely mentions some issues with no recommendation *[3 marks]*.

*[1 to 2 marks]*

Limited knowledge of the subject matter.

5. (a) Describe *two* possible benefits and *two* possible drawbacks for the Japanese organisation that can result from the proposed international take-over. **[4 marks]**

Possible benefits: rapid brand acquisition; close proximity to customers; labour or raw materials; method for bypassing trade restrictions; economies of scale; creation of synergy.

Possible drawbacks: language and cultural incompatibility; diseconomies of scale; resistance to change.

**[4 marks]**

An identification and description of two benefits and two drawbacks.

**[2 to 3 marks]**

An identification and description of less than four issues - provided the candidate covers some costs and benefits.

**[1 mark]**

An identification of one issue.

- (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]**

Some of the relevant STEP factors may include the following:

- Social – population size/changes, taste and preference, lifestyle, culture, attitudes towards foreigners;
- Technology- availability of technology; speed of change;
- Economics – the business cycle, trade policy, inflation rate, exchange rate, interest rate, taxation;
- Political/Legal – regulations, legislation, government policies regarding taxes and subsidies.

**[1 mark]** for an explanation of aspect from each group of factors - up to a maximum of **[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]**

Some of the most relevant characteristics of ‘lean production’: JIT, time-based management; team-working; TQM; quality control circles.

**[4 to 5 marks]**: an identification of the most relevant characteristics and a logical explanation of how these can enable the company to overcome the specific stated problems.

**[2 to 3 marks]**: identification of a few relevant characteristics – but a more descriptive answer.

**[1 mark]**: a very vague knowledge of the subject matter.

- (d) Write a memorandum (memo) to the Managing Director that evaluates and recommends *three* strategies to overcome resistance to change.

**[7 marks]**

Possible strategies to overcome resistance to change: (Kotter and Schlesinger).

- education and communication;
- participation and involvement;
- facilitation and support;
- negotiation and agreement;
- manipulation and co-optation;
- explicit and implicit threat.

Alternatively, the candidate may discuss the use of: information, communication, consultation, participation, reassurance and emphasis of the positive aspects of change, allocation of responsibilities, involvement in planning and implementing change.

**[1 mark]** for a memorandum format.

**[5 to 6 marks]**

Identification and evaluation of three strategies. Advice is well substantiated/relevant to the case study scenario.

**[3 to 4 marks]**

Identification of three strategies but the advice may not be fully substantiated given the case study scenario/information.

Or, identification and evaluation of two well-substantiated strategies based on the case study

**[1 to 2 marks]**

Identification and description of less than three strategies. Advice is not substantiated or not given **[1 mark]**.

6. (a) **What is the difference between marketing a good and marketing a service?** **[3 marks]**

When a *service* is being marketed, it is expected that the 7Ps will be used - as opposed to the use of the 4Ps for *goods* marketing. The 7Ps are used because of the special characteristics of a service- intangibility, can not be stored, interaction between the provider and the consumer.

The 7Ps: Price, Product, Promotion, Place, Physical evidence, People, Process.

**[3 marks]**

Identification of the 7Ps and a clear explanation of the special characteristics of a service.

**[2 marks]**

Identification of some of the 7Ps and minimal explanation of the special characteristics of a service.

**[1 mark]**

Limited, vague descriptions.

- (b) **Evaluate the most effective techniques of market research that the hotel could use in preparation for their strategic review.** **[8 marks]**

The evaluation should include the identification of:

- what data/information does the organisation need to find out?
- from whom?
- how? - various primary and secondary research methods; consideration of strengths and weaknesses.
- recommendations regarding which techniques to use.

**[7 to 8 marks]**

A discussion of most of the above in a coherent and logical way.

At least two to three methods of each type of market research are identified and evaluated in relation to the case study.

**[5 to 6 marks]**

A discussion of most of the above points in a coherent and logical way.

Up to two methods of each type of market research techniques are identified and evaluated. The application to the case study is less rigorous than the level above.

**[3 to 4 marks]**

A rather limited discussion of different types of market research. The application to the case study is limited.

**[1 to 2 marks]**

A very superficial answer that lacks depth. It may include only a short list of one or two examples of market research.

- (c) **Produce a marketing strategy for Hotel *LandMark* to achieve the chosen objectives.**

**[9 marks]**

The answer is an open one and should include:

- (i) reference to the company's objectives
- (ii) reference to the competitor's strategy
- (iii) the identification of relevant strategy(s) using the subject models/ concepts *e.g.* Ansoff matrix, segmentation, positioning, USP and any other relevant concepts
- (iv) the use of the Marketing Mix – the 7Ps in a logical and consistent manner given the information provided in the case study
- (v) discussion/awareness of finance/budget constraints
- (vi) any other relevant points, provided the candidate logically explains the reasoning for a given strategy/tactic.

**[7 to 9 marks]**

A coherent and logical marketing strategy which relates to most of the issues mentioned above and other relevant issues.

The marketing strategy incorporates between 6Ps to 7Ps and the subject's models and concepts will have been used.

**[4 to 6 marks]**

A marketing strategy which uses the 4Ps and relates to few of the issues mentioned above. The application to the case study is descriptive. The use of the major subject concepts may be minimal at the lower end of this boundary.

**[1 to 3 marks]**

An answer that is descriptive and very superficial. This may include just a basic mention of up to 4Ps.

7. (a) (i) Calculate the depreciation allowance and net book value for each year using the straight-line method.

*[3 marks]*

The straight line method.

Depreciation allowance:

$$\frac{\text{original costs} - \text{residual value}}{\text{expected life}} = \frac{\$16\,000 - \$1\,000}{3} = \$5\,000$$

Years	Depreciation Allowance (each year)	Net Book Value
1	5 000	11 000
2	5 000	6 000
3	5 000	1 000

*[3 marks]*

A completely accurate and clearly presented answer (including the formula/workings).

Both the depreciation allowance and the net book value are clearly and correctly presented.

*[2 marks]*

For a largely correct and reasonably presented answer. Minor mistakes can occur in the answer. Both, the depreciation allowance and the net book value are attempted.

*[1 mark]*

For a largely incorrect answer. Either the depreciation allowance or the net book value have been overlooked.

- (ii) Calculate the depreciation allowance and net book value for each year using the reducing balance method.

*Note: Depreciation rate = 40 %*

*[3 marks]*

The reducing balance method.

Years	Depreciation Allowance (each year)	Net Book Value
1	$\$16\,000 \times 40\% = \$6\,000$	$\$15\,000 - \$6\,000 = \$9\,600$
2	$\$6\,000 \times 40\% = \$3\,600$	\$5 760
3	$\$5\,400 \times 40\% = 2\,100$	\$3 456

*[3 marks]*

For a completely accurate and clearly presented answer (including the formula/working).

Both the depreciation allowance and the net book value are clearly and correctly presented

*[2 marks]*

For a largely correct and reasonably presented answer. Minor mistakes can occur.

Both the depreciation allowance and the net book value are attempted.

*[1 mark]*

For a largely incorrect answer. Either the depreciation allowance or the net book value have been overlooked.



- (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]***

The effect of the two methods on the balance sheet and the profit and loss account:

- the balance sheet will show the book value of fixed assets (original value – cumulative depreciation);
- the book value falls every year;
- depreciation is shown in the P/L account under expenses (it is a provision, no money is paid);
- eventually, the entire value of assets will appear as expenses when the asset depreciates fully;
- clearly, the amount of depreciation - which is different under the two methods - affects fixed assets as well as the operating/net profit level;
- implication for: share price, taxes, dividends *etc.*

***[3 to 4 marks]***

The candidate discusses most of the issues above and any other relevant points. A clear distinction between the effect on the P/L account and the B/S has been made.

The candidate shows awareness that each method results in different figures on both accounts.

***[1 to 2 marks]***

The candidate discusses some of the issues above. A clear distinction between the effect on the P/L account and the B/S has not been made.

The candidate does not show awareness that each method results in different figures on both accounts.

- (c) (i) Describe *two* advantages and *two* disadvantages of each method of depreciation. *[4 marks]*

**Advantages of the straight-line method:**

easy to calculate;  
encourage long term thinking/planning.

**Disadvantages:**

relies heavily on estimation of the useful life period and the residual value;  
can be unrealistic as some assets depreciate rapidly in the first few years/months – overvalued assets on the B/S;  
might require a long write off of assets on the P/L account.

**Possible advantages/disadvantages of the reducing balance method:**

**Advantages:**

more accurate fixed assets valuation on the B/S and more accurate depreciation provision on the B/S as some assets depreciate faster in the first year;  
balances the maintenance costs (a falling figure).

**Disadvantages:**

heavy first year depreciation may discourage investment in assets;  
problems with calculating the appropriate % of depreciation rate to apply.

*[4 marks]*

The candidate described two correct advantages and two disadvantages for each method.

*[2 to 3 marks]*

The candidate described less than two correct advantages and disadvantages for each method.

One method is overlooked – up to *[2 marks]*.

*[1 mark]*

The candidate presents a very limited list.

- (ii) Recommend with an explanation which method should be used in this organisation. *[2 marks]*

Allocate *[2 marks]* for a well substantiated answer that draws on the identification of some advantages and disadvantages of each method and also refers to the type of asset/computer.

Allocate *[1 mark]* for an answer that draws on the identification of some advantages and disadvantages of each method but does not refer to the type of asset/computer.

- (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]*

*[4 marks]*

The candidate produces a clear, imaginative response applicable to a given function in the organisation. The answer clearly demonstrates how efficiency may be improved.

*[2 to 3 marks]*

The candidate produces a reasonable response but the answer tends to be descriptive and general.

Limited reference to improved efficiency – *[2 marks]*.

*[1 mark]*

The candidate produces a vague, limited response. The candidate describes where computers are used within the organisation.

8. (a) Define 'job production' and 'batch production'. *[2 marks]*

Definition:

- job production involves the production of a single, unique, non-standard product at a time;
- items all undergo one operation before being moved onto the next operation *e.g.* baking bread.

*[2 marks]* for correct, clear definitions. *[1 mark]* for one correct definition or when the definitions are not sufficiently accurate.

- (b) (i) Calculate the following and show your workings:

**acid test ratio**

**debt collection period**

**gross profit margin**

*[3 marks]*

$$\text{Acid Test} = \frac{\text{CA} - \text{Stock}}{\text{CL}} = \frac{3750 - 2500}{3000} = 0.41$$

$$\text{Debt collection period} = \frac{\text{debtor} \times 365}{\text{Turnover}} = \frac{1000 \times 365}{30000} = 12.17 \text{ days}$$

$$\text{Gross Profit Margin} = \frac{\text{GP} \times 100}{\text{Turnover}} = \frac{15000}{30000} \times 100 = 50 \%$$

*[1 mark]* for each ratio that is correctly calculated and clearly presented - up to *[3 marks]*.

Up to *[2 marks]* when workings have not been shown.

**(ii) Analyse your findings.****[5 marks]****The analysis:**

Although one would expect a relatively high level of profit for slow moving goods, *Comfort's* gross profit margin is very high. It would be useful to see the net profit margin.

However, the Acid Test ratio is extremely and dangerously low. It indicated liquidity problems and poor management of working capital. *Comfort* can go into receivership despite being very profitable.

Debt collection period is low. The company is efficient in collecting its debts. The size of debtor may be attributed to the poor management of working capital. However, calculations of other ratios may be required for a better overall analysis for example, net profit margin, comparison over time and comparison with the industry norm.

**[4 to 5 marks]:**

For a clear, logical analysis that distinguishes between profit and liquidity.

The analysis of the three ratios is well integrated. The candidate is aware that for a better analysis other ratios are essential.

**[2 to 3 marks]**

For a clear, logical analysis of two ratios. Limited comments on the liquidity versus profitability issue.

The analysis of the three (or two) ratios is not fully integrated.

**[1 mark]**

For a descriptive, superficial answer.

**NB** *Do not double penalise candidates for correctly analysing their incorrect ratios brought forward from b(i).*

- (c) Discuss *three* potential benefits and *three* potential drawbacks for *Comfort* that may result from accepting the partnership proposal. [6 marks]

Some of the potential benefits:

- there may be additional, much needed injection of cash/sources of funds into *Comfort* – liquidity ratios will improve;
- cost cutting due to the batch production method used by Mr Green;
- increased potential for growth – market power and economies of scale;
- less constraints of time, skills, knowledge (as well as resources), more opportunities for sharing responsibilities and specialisation;
- stock might fall due to the use of batch production method;
- any other relevant issues.

Some of the potential drawbacks:

- loss of flexibility and responsiveness to customers' needs which can be associated with the job production method as well as the company size and culture;
- *Comfort* can lose its USP;
- loss of personal control;
- loss of contact with staff;
- profit sharing;
- any other relevant issue.

[5 to 6 marks]

The candidate discusses three drawbacks and benefits in a clear and coherent manner. The discussion is directly related to the case study.

[3 to 4 marks]

The candidate discusses two drawbacks and benefits in a clear and coherent manner. The discussion is directly related to the case study.

*Or:*

The answer is biased towards one category (drawbacks or benefits)

*Or:*

The candidate discusses three drawbacks and benefits but the discussion is **not** related to the case study [3 marks].

[1 to 2 marks]

A superficial list of benefits and drawbacks from forming a partnership is presented. No direct application to the case study.

- (d) Explain *four* additional options that might enable *Comfort* to improve its working capital. **[4 marks]**

Some additional options which can be available for *Comfort* to improve liquidity:

- sell stock;
- negotiate short-term loans;
- stimulate sale for cash;
- a reduction in debtors - on immediate cash although *Comfort* is quite efficient;
- *(the above are the most applicable for Comfort)*;
- sell fixed assets for cash;
- improve credit control system. Start a rigorous drive on overdue accounts;
- increase in creditors – buy raw material on credit;
- reduce personal drawing.

**[4 marks]**

The candidate explains four additional most relevant options in a coherent and logical manner.

A reference to *Comfort's* particular situation has been made.

The answer refers to the ratios calculated in question 1.

The best answers will identify a possible lack of information in the case study regarding some options (the amount of personal drawing, bad debts, fixed assets)

**[3 marks]**

For an answer that explains three most relevant additional options. A limited reference to *Comfort's* particular situation has been made.

**[1 to 2 marks]**

For a theoretical list of some options. No application to *Comfort* has been made.

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