



**Business Management Trial Examination  
Higher Level Paper 2**

Tuesday 23<sup>rd</sup> August 2022 (morning session)

Candidate session number

1 hour 45 minutes

0	0	3	3	7	6	0	0	4	1
---	---	---	---	---	---	---	---	---	---

---

**Instructions to candidates**

- Do not open this examination paper until asked to do so.
- A clean copy of the business management formulae sheet is required for this examination paper.
- Section A: answer **one** question.
- Section B: answer **two** questions.
- A calculator is required for this examination paper
- The maximum mark for this examination paper is **[50 marks]**

Section A :  $2 + 2 + 4 + 2 = 10$  Well done!

Section B :  $(@4) \quad 2 + 3 + 0 + 8 = 13$   
 $(@5) \quad 2 + 0 + 3 + 7 = 12$   
6 pages

35 / 50

1.



Candidate session number

003376-0041

Candidate Name

JAMES SULLIVAN

At the start of each answer to a question, write the question number in the box using your normal handwriting

Example

27

2 7

Example

3

2 3

2

a) price discrimination is a pricing strategy whereby different prices are targeted towards different market segments. For example, a movie theater might sell products to adults at a different price to those for children or students. Usually, price discrimination is used to encourage more of a certain market segment to use a product, and profit more from those willing and able to pay extra.

②

$$\begin{aligned} \text{bi)} \quad \text{Gross Profit} &= \text{Sales revenue} - \text{COGS} \\ &= \$175000 - \$122000 \\ &= \$53000 \end{aligned}$$

①

$$\begin{aligned} \text{bii)} \quad \text{current ratio} &= \frac{8330}{6800} = 1.225 \\ &= 1.23 \end{aligned}$$

①



- a) If KPJ were to invest in purchasing  
c) Balance sheet for KPJ as at 31 Dec 2019.

	\$	\$
Fixed Assets		
Net fixed assets	63 000 ↗	
Curr Total current assets	8 330	
Total current liabilities	6 800	
Working Capital	1530 ↗	
TA - CL	64 530 ↗	
Less: long term liabilities	2800	
Net Assets	<u>61 730</u> ↗	
Financed By		
share capital	60 000	
acc. ret. profit	1 730	
Total Equity	<u>61 730</u>	↗ (ignoring)

- d) - If KPJ were to spend \$30 000 on a new projector, net fixed assets would nearly double (increase from \$63 000 to \$93 000), which is a substantial increase. Note this presumes that no fixed assets are going to be sold or depreciated.  
- This means that Net Assets, too, will increase significantly, meaning that KPJ will need to find new sources of equity or debt in order to fund it. How would this reflect in B/sheet?

- 4
- a) The public sector refers to any businesses which are owned by, or operated by, the government. Usually, organisations in the public sector will provide services that would not be well done by the private sector, such as many social (2) services e.g. in some

- b) Advantage: Emp share ownership scheme refers to a type of financial reward whereby employees are rewarded by being given shares (ownership) in the business. This is advantageous as it will motivate these employees, usually managers, to work even more productively as they now must also aim to increase the firm's profitability for their own benefit (potential dividends, as well as increasing the value of their stake). In the Disadvantage: share owners care of E&P CSS,

- b) Share ownership schemes are often a cheap way to motivate employees using financial means. This is because no cash needs to be lost to paying for additional financial rewards like bonuses and perks. This is clearly a viable option for CSS as Aga currently has complete ownership, meaning that dilution is not too large a problem at this point in time.

- ~~disadvantages~~: eventually, share ownership schemes become costly as further control in the business is diluted. If Aga were to reward too many employees with shares, she would quickly lose control over her firm, and its strategic direction. The

~~See main~~ level of innovation that is expected by scheme for employees, therefore, might become more relevant if they own to own application any significant percentage of the business.

(3)

c) advantage: a project-based organisational structure could

UNCOMPLETED Why?

N | R



**Candidate session number**

**Candidate Name**

0	0	3	3	7	6	-	0	0	4	4
---	---	---	---	---	---	---	---	---	---	---

JAMES SULLIVAN

**At the start of each answer to a question, write the question number in the box using your normal handwriting**

### Example 27

2 7

### Example 3

3

d) Many employees at CSS feel as if their financial reward system is unfair. To solve this, Ebun Aja is considering revamping CSS' strategy surrounding her organisation's motivation strategy:

<u>Driving</u>	<u>Eliminate</u>	<u>Restraining</u>
more focus on individual employee	PRD	- decrease productivity through less teamwork
(2) contributes equity cheap	2 vs. 4	(4) imp.

<u>Driving</u>	<u>Dream</u>	<u>Restraining</u>
(4) encourage innovation - and adaptive organisational culture	project	- loss in equality of employees (3) (1)

The elimination of ~~pro~~ performance related pay can be seen to have a variety of ~~long~~ <sup>short</sup> disadvantages. This is because the concept works on the idea that the individual or group performance outcomes are directly related to financial renumeration. When it comes to highly skilled professions, however, it becomes important to recognise the financial contribution of an individual, rather than simply merely the targets set for individuals. According to Adam's equity theory, employees will naturally compare their own inputs into the organisation against their outputs. This is likely why employees in CSS feel as if they are being treated unfairly, because individual performance targets might not fully represent the input of an employee into the business.

However, performance related pay also encourages a variety of teamwork and motivation. While it is likely that in CSS, many ~~the~~ employees set individual targets, due to the specialised nature of the firm as well as job production, many performance-related targets will be directly attributable to the group teamwork and input into the firm. This would likely create an organisational culture with high levels of teamwork and solidarity, which is also crucial in organisations working in technological industries such as CSS. Due to this, and the nature of CSS's business, this has been identified as a major restraining force on the FFA.

Giving employees autonomy to complete their own innovative projects not satisfies many aspects of Daniel Pink's motivational theory, which is highly applicable in contemporary companies like CSS, which specialize in the quaternary sector. It is likely that the type of work demands highly motivated employees, who operate in a small, dedicated workforce. Hence, giving employees freedom to master <sup>be</sup> ~~their~~ own passions within the organisation <sup>but</sup> ~~more~~ would significantly improve their ~~creative~~ motivation <sup>and</sup> productivity. The other 80% of the time, ~~at~~ <sup>the</sup> However, it also ~~is~~ adds tremendous value <sup>to</sup> ~~the~~ business, as the creative output of employees can be regarded as intrapreneurial activating, allowing CSS to advance its highly specialised software solutions. In the long term, CSS would likely be better off according to Pinks motivational theory, which is why this driving force has been identified as a "4" on the FFA.

Finally, the introduction of change 3 in the organisation ~~would~~ <sup>be</sup> could have various detrimental effects to the organisational culture of employees. There is clearly negative sentiment within the business, as employees are conflicted by the idea of inequality between themselves and others. Organisational change, particularly with regard to motivational strategies, in this sense, are often met with resistance within the workforce.

According to Adams' equity theory, the ability to choose either a CSS or personal project could be seen as demotivational, as some employees will be immediately adding value to the organisation (e.g. increasing profits), while others will not be. It should, however, be noted that in the IT sector, organisational cultures often revolve around the concept of "high reward, slow feedback," meaning that the long term contributions of those working on a "dream project" should not go unnoticed, and could be of immense value in the specialised organisation that CSS is. This is why the restraining force is seen as only a "1" on the FFA.

It is recommended that Aga maintains performance related pay in her organisation, while removing while introducing the "dream project" initiative, because employees whom are more motivated to work as a team and innovate are of immense value to IT firms like CSS. Despite both of

Well justified for dream project  
What is your reasoning for maintaining the PEP?

Overall, well balanced with strong application

→ disadvantage of change 3: unclear purpose  
resistance to change, loss of direction,  
ambiguous qualitative motivation factors.





Candidate session number

0 0 3 3 7 6 - 0 0 4 1

Candidate Name

JAMES SULLIVAN

At the start of each answer to a question, write the question number in the box using your normal handwriting



Example

27

2	7
---	---

Example

3

	3
--	---



<input type="checkbox"/>	5
--------------------------	---

a) - e-commerce involves using the internet as a distribution channel for goods and services.

- e-commerce ~~is~~ works well in organisations where customers do not need the convenience of physical location, meaning that a business can afford to spend less ~~of~~ on location in these operations.

(2)

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

b) - ageing workforce. ageing workforce! While older employees are said to "have more specialised skills," they are becoming older and less flexible. The ageing workforce mean that AEC might face various internal work shortages into the future, especially if the uptake of younger workers is limited.

This is not caused by rapid sales

(0)

- rising property costs: due to the factory being located in a growing area, ~~the~~ the costs of living are ~~free~~ increasing drastically, meaning that employees are likely to become demotivated due to larger costs of living or increased transport time. ~~for~~ AEC may need to subsidise this, impacting cash flow, if it gets worse.

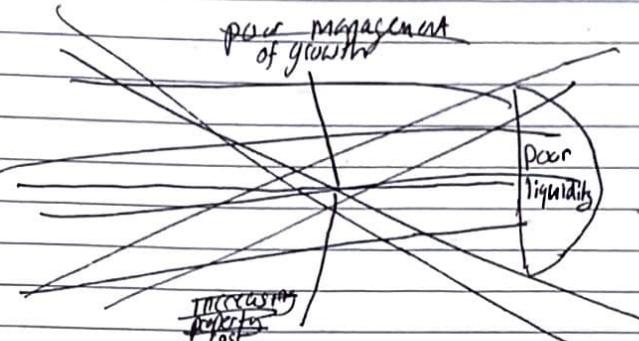
<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

c) pricing: by focusing more on core business operations (manufacturing), the relocation out of the growing city would let them reduce costs, increase profit margins and potentially further enhance their USP of cheaper, cheap B2B products. However, increasing transport costs would make AEC less competitive in the B2B market, which is located within the growing city. In the market mix, there is a link between price and quality. The distribution channel of AEC is 95% to other small organisations within the same city. Relocating outside the city would mean that AEC's proximity to market becomes impaired, perhaps making them lose their "loyal customers". AEC would need to look into new distribution channels for their products, perhaps through wholesalers, in order to remain profitable. However, this would reduce their ability to capitalise from these USPs.

→ Could refer to growth elsewhere

(3)

d) In order to solve a significant liquidity problems that they are facing, AEC is considering a sale-and-leaseback of their factory, changing to JIT and shortening credit terms.



$$\text{debtors days} = \frac{2179000}{24000000} \times 365 \\ = 33.14 \text{ days} \\ = 34 \text{ days}$$

Driving	Restraining
(3) short term cash injection	- decreasing creditor days (3)
feature import - flexibility	- loss of loyal customers (3)
(4) creditor days decrease	- organisational change (4) increase stock storage

The sale-and-leaseback of the factory would likely give AEC a large cash injection due to the increasing property prices. This would involve selling the property and then without any operational changes, lease it back immediately. Sale-and-leaseback can be

seen as a good external source of finance for short term liquidity management, which is the situation in which AEC is in. Therefore, while this solution will do little to solve the operational issues which have been identified it will help AEC receive cash in to the business in order to solve the identified liquidity issues, which is very important in the current crisis in which they are in. This is why it has been identified as a "3" on the FFA. However, long term liquidity will be affected by lease payments and the Another aspect of the option, to revert to JIC stock control systems, can also be seen as a <sup>revolving</sup> ~~detuning~~ force on the FFA, significant as it will increase stock turnover within the organisation. As AEC has identified a liquidity issue, the increase of stock turnover will Solvency <sup>reduce</sup> ~~increase~~ emphasise this. This is primarily because AEC's debtor days are considerably high, meaning that by the time that stock is bought from suppliers, and is paid (30 days), the stock is still sitting within AEC (due to stock turnover of 35 days). Adopting JIC will only increase stock turnover, widening the gap between cash outflow and cash inflow, a major cause of liquidity crises within organisations.



Candidate session number

0 0 3 3 7 6 - 0 0 4 1

Candidate Name

JAMES SULLIVAN

At the start of each answer to a question, write the question number in the box using your normal handwriting

Example 27

2	7
---	---

Example 3

	3
--	---

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

Adopting JIT stock control will significantly improve the stock turnover of AEC, by giving them more flexibility in how they can manufacture their goods. Next, by the time goods are bought from the supplier, manufactured and bought, the cash inflow is likely to match up better with the cash outflow due to creditor payments (roughly 30 days). The stock control currently in place at AEC is likely a main cause of liquidity issues, as it takes too long for cash outflow to be recuperated by inflows.

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

However, the other aspect of the strategy to decrease creditor days is likely to worsen the liquidity position. This is because AEC will need to weather cash outflow before receiving inflow from debtors. The calculated debtor days ratio (34 days) already is higher than creditor days (20) (30 days). If this were to worsen even more, AEC's liquidity position could become even worse.



In opposition to this decreasing debtor days from 34 days will likely be breached as AEC will be able to recuperate their cash outflow faster than they did before. This is a major source of liquidity crisis within an organisation, as the debtor days ratio is already 4 days longer than creditor days. Therefore, by helping customer's credit terms could bring about significantly more liquidity within the firm, helping them benefit from a positive deficit between debtor days and creditor days.

However, decreasing the credit terms will likely result in a loss of loyal customers, which has been identified within the city. This could be harmful, as decreasing the number of customers will also decrease liquidity due to thinner profit margins thereof. This could likely cause further long term issues, however is not of major concern as the aim of Option 2 is to solve the short term liquidity crisis.

As the identified stake and Option 2 is much more beneficial on the FFA than the restraining forces, it is recommended that AEC incorporate it into their business strategy. This is because the identified weaknesses are only long term, while the advantages are short term,

and will help them resolve the current crisis.

Good effort.

Key area for improvement is more explicit understanding of theory, particularly related to long term vs. short term strategies for liquidity (Working capital) management.

(7)

53

