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## Business Management Trial Examination Higher Level Paper 2

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

Candidate session number

1 hour 45 minutes

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### 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]**

6 pages

## Section A

Answer **ONE** question from this section.

### 1. MiniVS (MV)

*MiniVS (MV)* imports light bulbs, which it sells business to business (B2B) to customers in the UK. In 2020, *MV* ran into cash-flow problems and had to use debt factoring.

*MV* has now solved its cash-flow problems. It operates a cost-plus (mark-up) pricing strategy and places a 100% mark-up on the light bulbs that it purchases from suppliers.

The forecasted opening cash balance for January 2021 is £20 000.

**Table 1: Forecasted data per month for *MV*  
for the first six months of 2021 (all  
figures in £)**

	Months 1–3	Months 4–6
Cash sales per month	75 000	70 000
Warehouse overheads	5 000	5 000
Office salaries	30 000	30 000
Marketing costs	1 000	1 000

The finance director is concerned that the online market for light bulbs in the UK is becoming increasingly price competitive. She believes that if suppliers raise prices in the second half of 2021, *MV* will have to abandon its cost-plus (mark-up) pricing strategy to be price competitive.

- (a) State **two** features of debt factoring. [2]
- (b) Using the information in **Table 1**, construct a fully labelled cash flow forecast for *MV* for the first six months of 2021. [6]
- (c) Explain the potential impact on *MV*'s gross profit margin if the prices charged by its suppliers increase in the second half of 2021. [2]

## 2. KPJ

KPJ operates a cinema in a small town. It uses a price discrimination strategy for cinema tickets.

**Table 2: Selected financial information for KPJ for year ending 31 December 2019 (all figures in \$)**

Cost of goods sold	122 000
Long-term liabilities (debt)	2800
Interest and tax	9500
Gross profit	X
Total current assets	8330
Sales revenue	175 000
Net fixed assets	63 000
Expenses	81 000
Total current liabilities	6800
Share capital	60 000
Accumulated retained profit	1730

- (a) Define the term *price discrimination*. [2]
- (b) Using **Table 2**, calculate:
- (i) X (*no working required*); [1]
- (ii) the current ratio for 2019 (*no working required*). [1]
- (c) Using **Table 2**, prepare a balance sheet for the year ending 31 December 2019. [4]
- (d) Explain the possible changes to KPJ's balance sheet for 2019 if KPJ spent \$30 000 on a new digital projector. [2]

## Section B

Answer **TWO** questions from this section.

### 3. Ultima Motors

When *Ultima Motors* purchased a smaller foreign rival, *Mythic Auto*, it decided to continue producing its flagship model, the *Mythic GT* in Mythic's dedicated Grenville plant. The Grenville plant was chosen to produce the *Mythic GT* because the local market associated with *Mythic* made overseas production inappropriate. \$300 million was invested by *Ultima* to upgrade Grenville to deliver exceptional quality products using highly efficient lean manufacturing. Totally new production lines were installed allowing complete production in a single location. Production efficiency was further improved by locating all major parts suppliers alongside the factory, allowing for just-in-time production system.

The Grenville Vision is a statement of principles aiming to create a world-class manufacturing facility. A new set of working relationships were agreed to with employees. Production line workers were given responsibility for identifying continuous improvements and were organized into smaller teams working with a group leader. These teams were given considerable responsibility for implementing change. This led to dramatic increases in productivity, and increased pride and commitment within the workforce.

Implementing the total quality culture involved workshops for managers, union representatives, supervisors and production line workers based on participation and empowerment. The production process and working culture at the plant was transformed by over a million hours of training; an average of approximately 350 hours for each employee.

- (a) Define the term **vision statement**. [2]
- (b) With reference to *Ultima Motors*, explain two **non-financial rewards** that have [4]  
been used to increase motivation at the Grenville plant.
- (c) Explain **two** advantages of *Ultima Motors* adopting **Just in Time (JIT)** [4]  
production at the Grenville plant.
- (d) Evaluate methods for achieving a **total quality culture** at *Ultima Motors*. [10]

#### 4. Contemporary Software Solutions (CSS)

*Contemporary Software Solutions (CSS)*, a private limited company, designs custom software packages for public sector organizations. Ebru Aga is the sole shareholder, though she is considering an employee share ownership scheme.

For years, CSS managed its employees closely, setting individual targets for performance and requiring regular progress reports. Following Adams's equity theory, CSS tied financial rewards to frequently measured performance outcomes. Though managers clearly explained to individual employees how additional financial rewards were linked to specific contributions they made, many employees still felt the system was unfair.

After reading Daniel Pink's theory of motivation, Ebru reconsidered her management style and CSS's system of financial rewards. She liked when Pink reported that a major American company allowed employees to work 20 % of their time on projects of their choice. Ebru implemented the following three changes:

- **Change 1:** Adopting a project-based organizational structure for CSS projects.
- **Change 2:** Eliminating performance-related pay (PRP).
- **Change 3:** Allowing employees to spend 20 % of their time on any project they wish, either one of CSS's or their own "dream project".

Employees' reactions were mixed. Some employees were thrilled. They had many ideas of their own that they wanted to explore. Other employees, however, did not like the change. In the 20 % of their time given to any project they wished, they chose to work on projects given to them by CSS. They felt it was unfair. Although they were advancing important projects of the company, they would no longer get performance-related pay (PRP), while others spent their time on projects that might not contribute to CSS's profitability.

[Source: © International Baccalaureate Organization 2018]

- (a) Define the term *public sector*. [2]
- (b) Explain **one** advantage **and one** disadvantage for CSS of introducing an employee share ownership scheme. [4]
- (c) Explain **one** advantage **and one** disadvantage for CSS of implementing a project-based organizational structure (**Change 1**). [4]
- (d) With reference to Adams's equity theory and Daniel Pink's motivation theory, discuss Ebru's decision to eliminate performance-related pay (PRP) (**Change 2**) and to allow employees to spend 20% of their time on any project they wish (**Change 3**). [10]

## 5. Advanced Electrics Co. (AEC)

Advanced Electrics Co. (AEC) manufactures motors used in small kitchen appliances. It operates in its original factory built in 1977, which is located near the centre of a large and growing city. Since 1977, property values have risen significantly and are forecasted to increase further. Most of AEC's workers purchased their homes decades ago and live near the factory. Younger workers, however, complain that accommodation near the city centre costs too much for them to live nearby. Older workers are loyal to the company and in many cases have specialized skills.

Recently, AEC's sales have rapidly increased through internal growth, and the factory should reach full capacity within several years. AEC's loyal customers value its unique selling proposition (USP): lower prices than competitors of comparable quality. Customers are small businesses located in the city which use AEC's motors to help with the manufacture of inexpensive appliances for local markets. 5% of AEC's sales are made through business-to-business (B2B) e-commerce. Sales are increasing.

AEC is profitable. Stock turns over in 35 days and creditor accounts are settled in 30 days. Last year, RWM's sales revenue was \$24,000,000 and its debtor account balance was \$2,176,000 at the end of the financial year. The industry standard of credit terms is for customers (debtors) to pay in 30 to 35 days. Because of the poor management of sales growth and just-in-case stock control, RWM has a liquidity problem.

To resolve its liquidity problem, AEC is considering two options:

**(Option 1)** Sell the factory and relocate to a much larger one located 27km from the city centre. The new factory would cost significantly less.

**(Option 2)** Sell the factory and lease it back from the purchaser. Change to just-in-time stock control management and shorten the credit terms given to customers from 30 to 15 days.

- (a) Identify two features of **e-commerce**. [2]
- (b) Explain **two** problems for AEC, **other than** liquidity, of **rapid sales growth**. [4]
- (c) Assess the possible **impact on pricing and place** in the marketing mix, if AEC **moves** from its current location. [4]
- (d) Evaluate AEC's second approach (Option 2) to **resolving its liquidity** problem. [10]