



UNIVERSITY OF COLOMBO, SRI LANKA

UNIVERSITY OF COLOMBO SCHOOL OF COMPUTING

DEGREE OF BACHELOR OF INFORMATION TECHNOLOGY (EXTERNAL)

Academic Year 2015/2016 – 2nd Year Examination – Semester 3

IT3404: Business Management
PART 2 - Structured Question Paper

27th July, 2015
(ONE HOUR)

To be completed by the candidate

BIT Examination Index No:

Important Instructions:

- The duration of the paper is **1 (one) hour**.
- The medium of instruction and questions is English.
- This paper has **3 questions** and **09 pages**.
- **Answer all questions.** All questions **do not** carry similar marks.
- **Write your answers** in English using the space provided **in this question paper**.
- Do not tear off any part of this answer book.
- Under no circumstances may this book, used or unused, be removed from the Examination Hall by a candidate.
- Note that questions appear on both sides of the paper.
If a page is not printed, please inform the supervisor immediately.

Questions Answered

Indicate by a cross (×), (e.g.

×

) the numbers of the questions answered.

To be completed by the candidate by marking a cross (×).	Question numbers		
	1	2	3
To be completed by the examiners:			

Case Study**“IKEA”**

IKEA is an internationally known home furnishing retailer. It has grown rapidly since it was founded in 1943. Today it is the world's largest furniture retailer, recognized for its Scandinavian style. The majority of IKEA's furniture is flat-pack, ready to be assembled by the consumer. This allows a reduction in costs and packaging. IKEA carries a range of 9,500 products, including home furniture and accessories. This wide range is available in all IKEA stores and customers can order much of the range online through IKEA's website. There are 18 stores in the UK to date, the first of which opened in Warrington in 1987. In July 2009 IKEA opened a store in Dublin too, first in Ireland.

IKEA stores include restaurants and cafeterias serving typical Swedish foods. They also have small food shops selling Swedish groceries, everything from the famous meatballs to jam. Stores are located worldwide. In August 2008 the IKEA group had 253 stores in 24 countries, with a further 32 stores owned and run by franchisees. It welcomed a total of 565 million visitors to the stores during the year and a further 450 million visits were made to the IKEA website. IKEA sales reached 21.2 billion Euros in 2008 showing an increase of 7%. The biggest sales countries are Germany, USA, France, UK, and Sweden. In 2008 IKEA opened 21 new stores in 11 countries and expects to open around 20 more as part of its strategy for growth.

Low prices are one of the cornerstones of the IKEA concept and help to make customers want to buy from IKEA. This low price strategy is coupled with a wide range of well designed, functional products. IKEA's products cater for every lifestyle and life stage of its customers, who come from all age groups and types of households. This is vital in times when the retail sector is depressed, as it increases IKEA's potential market.

Since it was founded IKEA has always had concern for people and the environment. The IKEA vision is to create a better everyday life for the many people and put this concern at the heart of the business. IKEA has responded to the public's rising concern for sustainability in its choice of product range, suppliers, stores, and communication. It has also spotted business potential in providing sustainable solutions. IKEA's concern for people and the environment encourages it to make better use of both raw materials and energy. This keeps costs down and helps the company to reach its green targets and have an overall positive impact on the environment.

- 1) (a) Carry out a situational analysis (using SWOT analysis technique) to understand the current situation of IKEA. **(40 Marks)**

ANSWER IN THIS BOX

Strengths	Weaknesses
(1) An internationally known home furnishing retailer (2) Grown rapidly since foundation (3) The world largest furniture retailer (4) High user-friendly nature of products (5) Reduction in cost and packaging	(1) More concern on low cost strategy (2) Only concern with the retail market
Opportunities	Threats
(1) Spread demand to the products worldwide (2) Customers' access online to website (3) Customers' lifestyle change towards using readymade home furnishing (4) High demand from the biggest sales countries (5) Customers coming from all age groups and types of households	(1) Rising concern of public on sustainability (2) Threat from the environment (3) Possibility of retail sector be depressed (4) Need to better use of raw materials and energy (5) Requirement to meet green targets

- (b) Use Micheal Porter's Five Forces Analysis to identify the nature of the competitive forces in the home furnishing market. **(30 Marks)**

ANSWER IN THIS BOX

1. Threats of New Entrants - Low

Threat of new entrants is low as it is very hard to establish a worldwide spread big home furnishing company for which a high investment is needed

2. Bargaining Power of Customers - Low

Power of buyers is low because there are no substitute products, customers may choose only among the industry

3. Bargaining Power of Suppliers - Low

The bargaining power of suppliers in this market seems to be low as the dependability in supply chain is high and there is a wide range of raw material supply

4. Bargaining Power of Substitutes - Low

There are less or no substitute products for furniture

5. Rivalry among Competitors - Low

Rivalry among competitive firms is high as there are several big companies that provide the same products

- (c) Briefly describe five (5) recommendations that would help the company to gain competitive advantage.

(30 Marks)

ANSWER IN THIS BOX

- (1) Use of much online techniques in the business processes
- (2) Using strategic alliance methods like franchising
- (3) Maintaining corporate identity based on Scandinavian culture and style
- (4) Offering different product range and customer oriented product and marketing packages
- (5) Secure the market in biggest sales countries and enter into new markets
- (6) Implement green marketing practices to address the environmental pressure

- 2) (a) Sakura (Pvt.) Ltd is a company owned by a young female entrepreneur, Shalani.
Followings are the transactions carried out during months of January and February 2014.

- i. Shalani commenced the business by introducing Rs. 2,000,000 in cash.
- ii. She bought a Rs. 600,000 worth of office equipment on cash and Rs. 400,000 worth of goods on credit from Lalani (Pvt.) Ltd.
- iii. Sales in cash and on credit are Rs. 300,000 and Rs. 150,000 respectively.
- iv. Paid Rs. 160,000 towards salaries for January.
- v. Shalani drew Rs. 20,000 in cash for her personal use.
- vi. Paid Rs. 6,000 towards transportation bill for the period.
- vii. Deposited Rs. 1,200,000 to open a bank account.
- viii. Paid Rs. 5,000 as bank interest.
- ix. Received Rs. 150,000 from the debtors.
- x. Paid Rs. 100,000 to the creditors.

Prepare necessary ledger accounts in “T” form to record the above transactions with carrying forward balances.

(50 Marks)

ANSWER IN THIS BOX

Cash Account			
Capital	2,000,000	Office Equipment	600,000
Sales	300,000	Salaries	160,000
Debtors	150,000	Capital	20,000
		Transportation	6,000
		Bank	1,200,000
		Bank Interest	5,000
		Creditors	100,000
		Balance C/F	359,000
	<u>2,450,000</u>		<u>2,450,000</u>
Balance B/F	<u>359,000</u>		
Capital Account			
Cash	20,000	Cash	2,000,000
Balance C/F	<u>1,980,000</u>		
	<u>2,000,000</u>		<u>2,000,000</u>
		Balance B/F	<u>1,980,000</u>
Office Equipment			
Cash	600,000		
		Balance C/F	600,000
	<u>600,000</u>		<u>600,000</u>
Balance B/F	<u>600,000</u>		

Purchases			
Creditors	400,000		
		Balance C/F	400,000
	<u>400,000</u>		<u>400,000</u>
Balance B/F	<u>400,000</u>		
Creditors			
Cash	100,000	Purchases	400,000
Balance C/F	<u>300,000</u>		
	<u>400,000</u>		<u>400,000</u>
		Balance B/F	<u>300,000</u>
Sales			
		Cash	300,000
		Debtors	150,000
Balance C/F	<u>450,000</u>		
	<u>450,000</u>		<u>450,000</u>
		Balance B/F	<u>450,000</u>
Debtors			
Sales	150,000	Cash	150,000
	<u>150,000</u>		<u>150,000</u>

		Salaries	
Cash	160,000		
		Balance C/F	160,000
	<u>160,000</u>		<u>160,000</u>
Balance B/F	160,000		
		Transportation	
Cash	6,000		
		Balance C/F	6,000
	<u>6,000</u>		<u>6,000</u>
Balance B/F	6,000		
		Bank A/C	
Cash	1,200,000		
		Balance C/F	1,200,000
	<u>1,200,000</u>		<u>1,200,000</u>
Balance B/F	1,200,000		
		Bank Interest	
Cash	5,000		
		Balance C/F	5,000
	<u>5,000</u>		<u>5,000</u>
Balance B/F	5,000		

(b) Following values were taken from the Income Statement and the Balance Sheet of Alpha Company Ltd, which is engaged in selling steel products.

Item	Rs.
Income/ Revenue	5,500,000
Income Tax	90,000
Cost of Sales	3,300,000
Administrative Expenses	200,000
Land and Building	4,000,000
Interest Expenses	20,000
Capital	5,000,000
Net Income	1,890,000
Inventory	600,000
Accounts Payable	900,000
Cash	850,000
Accounts Receivable	590,000
Long-term Bank Loan	750,000

Owner's Equity	6,890,000
Property, Plant, and Equipment	2,500,000

Calculate two ratios each useful to comment on the profitability and liquidity of Alpha Company Ltd. (30 Marks)

ANSWER IN THIS BOX

Liquidity Ratios

Current Ratio = Current Assets/Current Liabilities

$$= 2,040,000/900,000$$

$$= \mathbf{2.27}$$

Quick Ratio = (Current Assets-Inventory)/Current Liabilities

$$= (2,040,000-600,000)/900,000$$

$$= \mathbf{1.6}$$

Profitability Ratios (Any two of the following carry marks)

(1) Return on Assets = Net Income/Total Assets

$$= 1,890,000/8,540,000$$

$$= \mathbf{0.22}$$

(2) Return on Investment = Net Income/Equity

$$= 1,890,000/6,890,000$$

$$= \mathbf{0.27}$$

(3) Net Profit Ratio = Net Income/IncomeX100

$$= 1,890,000/5,500,000 \times 100$$

$$= \mathbf{34\%}$$

(c) State five (05) limitations of the ratios you calculated in above 2 (b) in analysing the profitability and liquidity of Alpha Company Ltd.

(20 Marks)

ANSWER IN THIS BOX

- (1) The historical figures appeared in the financial statements may not be very relevant to calculate the financial ratios and analyze them for the decision making of present and future of the business
- (2) Inflationary effect would not be reflected in the calculation of the financial ratios
- (3) Inventory may include many items that are difficult to liquidate quickly
- (4) Other non-financial elements are excluded from the ratio calculation
- (5) Most of the figures appeared in the financial statements are based on the personal judgments of managers

Index No
