



UNIVERSITY OF COLOMBO, SRI LANKA



DEGREE OF BACHELOR OF INFORMATION TECHNOLOGY (EXTERNAL)
Academic Year 2010/2011 – 2nd Year Examination – Semester 3

IT3404: Business Management
PART 2 - Structured Question Paper

27th February 2011
(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 **2 questions** and **11 pages**.
- **Answer both questions.**
- Both questions will carry equal 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 (X), (e.g. ☐ X ☐) the numbers of the questions answered.

To be completed by the candidate by marking a cross (X).	1	2	
To be completed by the examiners:			

CASE STUDY

‘Baker’s Treat’ is a bakery chain situated in and around Colombo which commenced operation in year 2000. It was started by a former bakery owner and his daughter. The daughter studied the bakery business abroad and came back to Sri Lanka with an MBA and a good training on bakery Production and Marketing. The vision of ‘Baker’s Treat’ is “To be the most preferred baker in the country”. Their products include a variety of items such as bread, buns, cakes and a wide range of easy breakfast / lunch / dinner products.

The owners of ‘Bakers Treat’ invested in latest technology at the commencement of the business. They have been focusing their business on product quality and customer satisfaction. The industry they are in is very competitive due to the high demand for fast food to cater to the busy lifestyles of working people. Since ‘Baker’s Treat’ is focusing on the market-for main meals as well as short eats, it caters to a wider segment of the market. In future, they want to focus on bread for diabetics, low calorie bread and nutritious bread in addition to other healthy food.

Workers of this company are paid competitive salaries. However, there is a concern among the staff about their long working hours and absence of holidays to spend time with their families. Demotivation is becoming apparent among the staff due to the working environment as it is gloomy and very warm inside the production site of the bakery at each branch.

‘Baker’s Treat’ has 5 branches which are situated in strategic locations where there is a lot of traffic throughout the morning and evening hours. However, the quality of the service at the restaurants is low as customers who take-away food as well as eat-in customers use the same entrance. If they carry out proper market research, they will see that there are many customers who want to buy just a few items such as bread and cake and prefer to drive-through without getting out of the car. This segment of the market is neglected as all the customers have to park in the car park with limited space. Home-delivery service and large scale catering are other strategies adopted by their competitors, some of whom have been in the industry for over 25 years. Newcomers to the industry offer a range of beverages and are collaboratively working with supermarket chains or popular clothing shops.

- (1) (a) Carry out a situational analysis (using SWOT analysis technique) to understand the current situation of Baker's Treat.

(40 Marks)

ANSWER IN THIS BOX

Strengths	Weaknesses
<ol style="list-style-type: none"> 1. In business for over 10 years 2. Former bakery owner has started the business – experience 3. Having a wide range of food as short eats 4. Having a wide range of main meals 5. Investment in latest technology at the beginning 6. Competitive salaries to the workers 7. Five branches in strategic locations 	<ol style="list-style-type: none"> 1. Long working hours for the staff 2. Staff unhappy about absence of holidays 3. Demotivated staff 4. Gloomy and warm working environment at production sites 5. Take away and eat-in customers using the same entrance 6. Limited parking space for vehicles
Opportunities	Threats
<ol style="list-style-type: none"> 1. High demand for fast food 2. High demand for takeaway main meals 3. Diabetic Products 4. Low calorie products 5. Nutritious bread and healthy products 6. Good strategic locations and expanding in to other locations 7. Drive-through for takeaway customers 8. Commencing Home delivery service 9. Introducing large scale catering for functions 10. Collaborations with beverage companies 11. Opening branches in collaboration with supermarkets and clothing shops 12. Opening new branches in franchise with cafes, universities and schools 	<ol style="list-style-type: none"> 1. Very competitive 2. Long standing competitors (over 25 years) 3. New competitors coming in to the industry all the time 4. Competitors' new strategies such as home delivery and large scale catering 5. New comers' collaborations with beverage companies giving them the advantage 6. Competitors' collaborations with supermarket chains and other shops

- (b) Use Micheal Porter's five forces Analysis to identify the external pressure the company is faced with.

(30 marks)

ANSWER IN THIS BOX

1 – Threat of New Entrants – V. High

New entrants are coming to the market with new strategies such as home delivery and new collaborations with soft drink producers, supermarkets and clothes shops. New healthy products are being introduced to the market.

2 – Bargaining Power of Customers – High

Customers have a wide variety of choices. Therefore, they have high bargaining power. They go for health products and nutrition as well. Customers want convenience and quality.

3 – Bargaining power of Suppliers – Low

There seems to be not much of a problem with suppliers. The industry is large and competitive. There could be many suppliers.

4 –Bargaining power of substitutes – low

Substitute products are almost zero. Only substitute products could be the healthy food market.

5 –Rivalry among competitors – V. High

- Rivalry is very high as long standing competitors and newcomers of various standards are in the market.
- They adopt new strategies and collaborations all the time. Eg ; home delivery, large scale catering and collaborations with supermarkets, clothing shops.
- Competitors seem to be having strong collaborations with soft drinks manufacturers which gives them an added advantage.

- (c) Briefly describe five (5) recommendations that would give the company the competitive advantage. Justify your answer.

(30 Marks)

ANSWER IN THIS BOX

Any 5 of the following recommendations or similar answers

1. Drive-through for take-away customers

Customers like convenience. They want to quickly buy what they want and go away without the hassle in parking. Quick service is a necessity here in this strategy.

2. Collaborations with Supermarkets/Clothes shops

Customers who go to shops spend a lot of time and are quite prone to eat and drink something. A total satisfaction is the opportunity here and a lot of customers from other industries (shoppers) can be attracted to Baker's Treat's products.

3. Trend for Healthy Low Calorie Products

A lot of customers tend to care about healthy food due to the busy lifestyles they lead. This would attract a lot of health conscious eaters.

4. Home-Delivery Service

Convenience for customers and the service could be provided for a service charge.

5. Large scale catering for parties

This will expand the customer base. However, this needs a lot of additional services.

6. Collaborations with soft drink manufacturers

This is a good strategy as soft drink manufacturers will also market the products.

7. Corporate locations such as schools, office canteens, universities, tutorials, etc.

These are franchises where a different set of customers can be catered to in niche markets.

- 2) (a) Maithree Foods Pvt Ltd is a company owned by Mr. Maithree Perera. Followings are the transactions carried out in January and February 2010.
- Maithree commences a business introducing Rs. 50,000,000.00 cash.
 - He buys a Rs. 200,000.00 worth of kitchen utensils on cash and Rs. 300,000.00 worth of goods on credit from Nihal Pvt. Ltd.
 - Sales on cash and credit are Rs. 100,000 and Rs. 50,000 respectively.
 - Paid salaries for January Rs. 100,000
 - Maithree took Rs. 2000.00 in cash to pay his house electricity bill.
 - Paid transportation bill Rs. 1000
 - Deposited Rs. 500,000.00 in bank and created an account
 - Paid bank interest Rs. 1000.00

Make T- accounts for the above given transactions and indicate the balances.

(50 Marks)

ANSWER IN THIS BOX

Cash Account			
Capital	50,000,000	Kitchen utensils	200,000
Sales	50,000	Salaries	100,000
		Capital	2,000
		Transportation	1,000
		Bank	50,000
		Bank Interest	1,000
		Balance C/F	49,696,000
	<u>50,050,000</u>		<u>50,050,000</u>
Balance B/F	49,696,000		

Capital Account			
Cash	2,000	Cash	50,000,000
Balance C/F	49,998,000		
	<u>50,000,000</u>		<u>50,000,000</u>
		Balance B/F	49,998,000

Kitchen utensils			
Cash	2,000		
		Balance C/F	200,000
	<u>200,000</u>		<u>200,000</u>
Balance B/F	200,000		

Purchases			
Nihal	300,000		
		Balance C/F	300,000
	<u>300,000</u>		<u>300,000</u>
Balance B/F	300,000		

Nihal Pvt Ltd			
		Purchases	300,000
Balance C/F	300,000		
	<u>300,000</u>		<u>300,000</u>
		Balance B/F	300,000

Sales			
		Cash	100,000
		Debtors	50,000
Balance C/F	150,000		
	<u>150,000</u>		<u>150,000</u>
		Balance B/F	150,000

Debtors			
Sales	50,000		
		Balance C/F	50,000
	<u>50,000</u>		<u>50,000</u>
Balance B/F	50,000		

Salaries			
Cash	100,000		
		Balance C/F	100,000
	<u>100,000</u>		<u>100,000</u>
Balance B/F	100,000		

Transportation			
Cash	1,000		
		Balance C/F	1,000
	<u>1,000</u>		<u>1,000</u>
Balance B/F	1,000		

Bank			
Cash	50,000		
		Balance C/F	50,000
	<u>50,000</u>		<u>50,000</u>
Balance B/F	50,000		
Bank Interest			
Cash	1,000		
		Balance C/F	1,000
	<u>1,000</u>		<u>1,000</u>
Balance B/F	1,000		

- (b) Following values are taken from the Profit and Loss Account and the Balance sheet of Sumanasena & Company, which is in the business of selling hardware.

	Rs.
Income/ Revenue	500,000
Income Tax	12,000
Cost of sales	250,000
Administrative expenses	25,000
Land and building	800,000
Interest expenses	5,000
Capital	10,000,000
Net sales	3,000,000
Inventory	500,000
Accounts payable	500,000
Cash	700,000
Notes payable	600,000
Long term bank loan	500,000
Owner's equity	3,100,000
Property, Plant and Equipment	3,500,000

Calculate two ratios each of, which can be used to comment on the profitability and liquidity of Sumanasena & Company.

(30 Marks)

ANSWER IN THIS BOX

Liquidity ratios

Current ratio

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

2400

2200

1.090909091

Quick ratio

$$\frac{\text{Current assets- Inventories}}{\text{Current liabilities}}$$

1900

2200

0.863636364

Profitability ratios

Return on assets

Net income

Total assets

3,000,000

4,700,000

0.638297872

Return on investments

Net income

equity

3,000,000

3,100,000

0.967741935

- (c) If you were asked to compare the profitability and liquidity status of Sumanasena & Co. with Seetha Jewellers, a company which produces and sells gold jewellery, describe 2 limitations you would observe in your analysis.

(Assume that the required ratios of Seetha Jewellers are given to you.)

(20 Marks)

ANSWER IN THIS BOX

- Inventory may include many items that are difficult to liquidate quickly.
- A reference point is needed. To be meaningful, most ratios must be compared to historical values of the same firm, the firm's forecasts or ratios of similar firms.
- Year-end values may not be representative. Certain account balances that are used to calculate ratios may increase or decrease at the end of the accounting period because of seasonal factors. Such changes may distort the value of the ratio. Average values should be used when they are available.
