



UNIVERSITY OF COLOMBO, SRI LANKA

UNIVERSITY OF COLOMBO SCHOOL OF COMPUTING

DEGREE OF BACHELOR OF INFORMATION TECHNOLOGY (EXTERNAL)

Academic Year 2013/2014 – 2nd Year Examination – Semester 3

IT3404: Business Management

PART 2 - Structured Question Paper

02nd March, 2014

(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 **12 pages**.
- **Answer all questions.** All questions 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

“Living Large”

Although the music business is struggling, the music company “Live Nation” is doing good business. It’s the world’s largest events and live music promoter, with more than 64 million people attending some 28,000 of those events each year. The company also owns the House of Blues chain of venues, where customers can enjoy different genres of live music. CEO Michael Rapino has guided the company since it was spun off as a separate business in 2005 from radio giant Clear Channel Communications.

On its Web site, Live Nation describes itself as the “future of music business.” Through live concerts, music venues and festivals, and the most comprehensive concert search engine on the Web, Live Nation is revolutionizing the music industry both onstage and online. Its strategy is to connect the artists to the fans. And Rapino isn’t satisfied with dominating only the concert business. Although Live Nation will continue to focus on its live music assets, Rapino is going after the record labels’ most important assets—the music stars. He’s offering them a one-stop operation that handles their every musical need. That offer is: “We already operate your tours. Why not let us make your albums, sell your merchandise, run your web site, and produce your videos and a range of other products you haven’t yet thought of.” In October 2007, Rapino landed a big name when he signed a first-of-its-kind deal with Madonna, who left her long time label Warner Records and signed a 10-year contract estimated at \$ 120 million to let Live Nation handle every part of her business except publishing. Madonna’s manager said, “The labels are in a jam. For a company to do well in music now, it’s got to be in all aspects of the business. And Live Nation is the risk-taker. It’s leading the charge.” Live Nation has signed Shakira, Jay-Z, and Nickelback to similar deals and hopes to add more superstars to its roster.

The key to Live Nation’s growth strategy is the ability to connect to those millions of people who attend shows every year. The company’s valuable database containing contact information for those fans gives it an efficient way to offer them additional music-related products and services.

- (1) (a) Carry out a situational analysis (using SWOT analysis technique) to understand the current situation of Living Nation.

(40 Marks)**ANSWER IN THIS BOX**

Strengths	Weaknesses
(1) World largest events and live music promoter (2) More than 64 million people attending its events each year (3) Owns the House of Blues chain of venues (4) Customers can enjoy different genres of live music (5) CEO Michael Rapino has guided the company since 2005	(1) Separated from radio giant Clear Channel Communications (2) Long working hours for the staff (3) Cost of covering all aspects of business (4) Only going after music stars (5) High bid to music stars
Opportunities	Threats
(1) Describes itself as the “future of music business” (2) Revolutionizing the music industry both onstage and online (3) To connect the artists to the fans (4) Offering a one-stop operation that handles their every musical need (5) It’s leading the charge	(1) Live Nation is the risk-taker (2) The company’s valuable database containing contact information for those fans (3) Severe competition in the music business (4) Rapid technological changes in the music business (5) Effect of other environmental forces

- (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 – High

New entrants are coming to the music market with new technological and other collaborative strategies.

2 – Bargaining Power of Customers – High

Music customers have a wide variety of alternatives to search new service providers.

3 – Bargaining power of Suppliers – High

Music stars like Madonna have a wide variety of choices to sell their talents.

4 –Bargaining power of substitutes – low

The company also owns the House of Blues chain of venues, where customers can enjoy different genres of live music. Therefore, product substitution effect is not relatively high due to this strategy of Live Nation

5 – Rivalry among competitors – V. High

Rivalry is very high as long standing competitors and newcomers of various standards are in the music market

- (c) State six (06) recommendations that would help the company to gain competitive advantage.

(30 Marks)

ANSWER IN THIS BOX

(1) CEO Rapino to stay in the business in future too

(2) Motivate its employees too to stay in the business

(3) Carefully handle the bids with music stars

(4) Develop more user friendly databases towards customers

(5) Balance both cost-effectiveness and product innovation

(6) Continue with the risk taking philosophy of doing business

- (2) Survival (Pvt.) Ltd is a company owned by a female entrepreneur, Suvini. Followings are the transactions carried out during January and February 2013.

- i. Suvini commences the business introducing Rs. 1,000,000 cash.
- ii. She bought a Rs. 300,000 worth of office equipment on cash and Rs. 200,000 worth of goods on credit from Nalani (Pvt.) Ltd.
- iii. Sales on cash and credit are Rs. 150,000 and Rs. 75,000 respectively.
- iv. Paid Rs. 80,000 towards salaries for January.
- v. Suvini drew Rs. 10,000 in cash for her personal use.
- vi. Paid Rs. 3,000 for transportation bill of the business.
- vii. Deposited Rs. 600,000 in bank.
- viii. Paid bank interest Rs. 2,500.
- ix. Received Rs. 75,000 from debtors.
- x. Paid Rs. 50,000 to creditors.

- (a) Prepare T- accounts for the above transactions and indicate the balances.

(50 Marks)

<u>ANSWER IN THIS BOX</u>			
Cash Account			
Capital	1,000,000	Office Equipment	300,000
Sales	150,000	Salaries	80,000
Debtors	75,000	Capital	10,000
		Transportation	3,000
		Bank	600,000
		Bank Interest	2,500
		Creditors	50,000
		Balance C/F	179,500
	<u>1,225 ,000</u>		<u>1,225,000</u>
Balance B/F	179,500		

Capital Account

Cash	10,000	Cash	1,000,000
Balance C/F	990,000		
	<u>1,000,000</u>		<u>1,000,000</u>
		Balance B/F	990,000

Office Equipment

Cash	300,000		
		Balance C/F	300,000
	<u>300,000</u>		<u>300,000</u>
Balance B/F	300,000		

Purchases

Creditors	200,000		
		Balance C/F	200,000
	<u>200,000</u>		<u>200,000</u>
Balance B/F	200,000		

Creditors

Cash	50,000	Purchases	200,000
Balance C/F	150,000		
	<u>200,000</u>		<u>200,000</u>
		Balance B/F	150,000

Sales			
Balance C/F		Cash	150,000
	225,000	Debtors	75,000
	<u>225,000</u>		<u>225,000</u>
		Balance B/F	<u>225,000</u>
Debtors			
Sales	75,000	Cash	75,000
	<u>75,000</u>		<u>75,000</u>
Salaries			
Cash	80,000		
	<u>80,000</u>	Balance C/F	<u>80,000</u>
Balance B/F	80,000		<u>80,000</u>
Transportation			
Cash	3,000		
	<u>3,000</u>	Balance C/F	<u>3,000</u>
Balance B/F	3,000		<u>3,000</u>
Bank A/C			
Cash	600,000		
	<u>600,000</u>	Balance C/F	<u>600,000</u>
Balance B/F	600,000		<u>600,000</u>

- (b) Following values were taken from the Profit & Loss Account and the Balance Sheet of Leather Company Ltd, which is selling shoes to the customers.

Item	Rs.
Income/ Revenue	3,460,000
Income Tax	50,000
Cost of Sales	300,000
Administrative Expenses	100,000
Land and Building	700,000
Interest Expenses	10,000
Capital	5,000,000
Net Income	3,000,000
Inventory	500,000
Accounts Payable	1,000,000
Cash	800,000
Accounts Receivable	500,000
Long-term Bank Loan	700,000
Owner's Equity	4,700,000
Property, Plant, and Equipment	3,500,000

Calculate two ratios each of which can be used to comment on the profitability and liquidity of Leather Company Ltd.

(30 Marks)

ANSWER IN THIS BOX

Liquidity Ratios

Current Ratio = Current Assets/Current Liabilities

$$= 2,800,000/1,000,000$$

$$= \underline{\underline{2.8}}$$

Quick Ratio = (Current Assets – Inventories)/Current Liabilities

$$= (2,800,000 - 500,000)/1,000,000$$

$$= 2,300,000/1,000,000$$

$$= \underline{\underline{2.3}}$$

Profitability Ratios

Return on Assets = Net Income/Total Assets

$$= 3,000,000/6,000,000$$

$$= \underline{\underline{0.5}}$$

Return on Investments = Net Income/Equity

$$= 3,000,000/4,700,000$$

$$= \underline{\underline{0.64}}$$

- (c) State five (05) common limitations in ratios you calculated in 2 (b) above in analysing the profitability and liquidity of Leather 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 analyse 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
