UNIVERSITY OF COLOMBO, SRI LANKA

UNIVERSITY OF COLOMBO SCHOOL OF COMPUTING

DEGREE OF BACHELOR OF INFORMATION TECHNOLOGY (EXTERNAL)

Academic Year 2011/2012 – 2rd Year Examination – Semester 3

IT3404: Business Management

Structured Question Paper

26th February, 2012

(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 instructions and questions is English.
- This paper has **2 questions** and **12 pages**.
- **Answer all questions.** All questions 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 (×), (e.g. X) the numbers of the questions answered.

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

Case Study for Question No. 1

A plastic and rubber products manufacturer, 'PharmaPlast', mainly produces plastic products to the pharmaceutical industry in Sri Lanka and Maldives. It has been operating in the manufacturing sector for the last 12 years. PharmaPlast is a financially stable company which is one of the three manufacturers of plastic and rubber products, specifically, for the pharmaceutical industry in Sri Lanka. One of the other companies, who is the market leader, has 3 factories, uses the latest technology for manufacturing and has links with the USA pharmaceutical industry customers as well. PharmaPlast has two factories and only one factory is using modern machinery.

With unhealthy lifestyles of people, the pharmaceutical industry is becoming a very profitable industry to operate in. PharmaPlast has established links with most of the government hospitals and pharmaceutical companies operating in Sri Lanka. The private hospitals and other small scale operators are yet to be dealt with. The company is well known for its honesty, integrity and well experienced quality conscious staff who care about the customers and their well being. However, their staff is getting mature and the younger staff hired recently do not seem to possess these qualities. The company was started by an expert in the rubber industry and he will be handing over the operational activities to his son who is qualified in plastic products manufacturing.

There are many small scale rubber products manufacturers operating in Sri Lanka who are establishing collaborative links with large companies in various industries. Also, the quality and standards in the rubber and plastics manufacturing sector is on the rise and many companies find it difficult to adapt to these rapid changes. There are many high quality raw material suppliers and therefore, the quality and standards could be maintained to a certain extent. However, the prices of raw material is on the increase.

PharmaPlast has not focused much attention on marketing to neighbouring countries and promoting its products extensively. There are two international manufacturers who are waiting to enter into the Asian market with high quality products to compete in the same niche market. PharmaPlast has to think of some innovative products, new markets, product expansions and strategic alliances to be competitive in the plastics and rubber manufacturing sectors in the future. Also, the company has to train its new employees and have a good mix of new and experienced employees to get higher productivity.

The Management of PharmaPlast decided to hire a team consisting of business development managers and marketing executives to develop business strategies for the company to move forward in the same as well as other more profitable markets in the future.

Index No ………………………….

(1) (a) Carry out an Analysis on the current and future situation of the company in order to identify the strengths, weaknesses, opportunities and threats.

[15 Marks]

ANSWER IN THIS BOX

Strengths

- In the manufacturing sector for last 12 years
- Financially stable
- Existing markets in Sri Lanka and Maldives
- 1 of the 3 main manufacturers of plastic/rubber in Sri Lanka
- Has strong links with government hospitals/pharmaceutical companies
- Well known for its profitability and integrity
- Started by an expert in the rubber industry
- Son is qualified in plastic manufacturing
- Hired a qualified team for business development
- Company has two factories

Weaknesses

- One factory is using outdated machinery
- Mature staff in the company
- Young staff does not process quality consciousness
- Company does not have a good combination of senior and junior staff
- Training is needed for knowledge transfer to new staff

Opportunities

- It's a profitable industry to operate in
- Have to establish links with private/small operators
- Marketing in neighboring countries yet to be established
- New products and new markets to be found

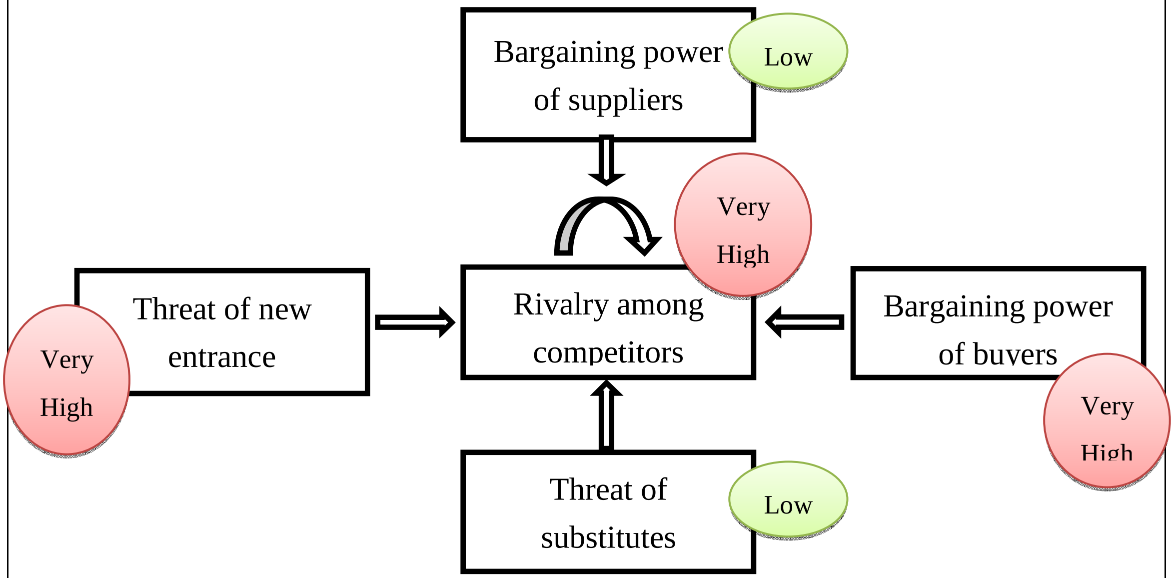
Threats

- Market leader has collaborative links with USA pharmaceutical industry
- There are many small scale rubber manufacturers
- Quality and standards in the rubber/plastic industry is high
- Prices of raw materials are on the increase
- International manufacturers waiting to enter into Asian market
- Currency fluctuation in global market

(b) What are the external competitive forces working on this company? Briefly discuss the forces and justify your answer.

[15 Marks]

ANSWER IN THIS BOX



Bargaining power of suppliers:
It is low as there are many high quality suppliers in the market

Bargaining power of buyers:
This force is very high as the quality standards have gone up and there is high competition in the market with many competitors, and the switching costs are low as well as the products have not much differentiation

Treat of substitutes:
This force is very low as there are almost no substitutes for plastic/rubber in the pharmaceutical sector.

Treat of new entrance:
This is very high as this is a lucrative industry, there are small operators also doing well and other international competitors are also trying to come in.

Rivalry among competitors:
It is very high as there are large companies competing as well as small companies competing in this profitable industry sector.

(c) “PharmaPlast has to think of some innovative products, new markets, product expansions and strategic alliances to be competitive in the plastics and rubber manufacturing sectors in the future." Using the thinking behind this company's strategic initiatives, propose Market Penetration, Market Development, Product Development and Collaboration strategies for PharmaPlast.

[20 Marks]

ANSWER IN THIS BOX

Market Penetration	Market Development
Same Produc • Marketing Strategies • Pricing • Promotions • Joint Ventures with large companies	• Private Hospitals • Small & medium companies • Links with corporate clients who use plastic/ rubber products
Product Development	**Collaboration Strategies**
New Product • New features to existing products • Toys • School bags • Bottles	• Other countries in region • Collaborative ventures with large scale pharmaceutical companies abroad • Toy manufactures • Car manufactures • Construction Industry

Index No ………………………….

(2) Manjula Perera is in the business of creating graphics and earns fees through services rendered to customers.

On 1st of January 2012, the firm's balance sheet showed the following balances.

Assets		**Owner's Equity**	
Arts Supplies	Rs. 45,000	M. Perera	Rs. 230,000
Prepaid rent	Rs. 8,000		
Debtors	Rs. 164,000	**Liabilities**	
Cash	Rs. 65,000	Creditors	Rs. 52,000
	Rs. 282,000		Rs. 282,000

Following are some of the transactions of Manjula's business for the Month of January 2012.

(i) Billed customers for design services on account, Rs. 146,000.
(ii) Paid Rs. 25,000 to creditors.
(iii) Collected Rs. 135,000 from debtors.
(iv) Provided design services for cash, Rs. 9,000.
(v) Purchased various arts supplies on credit, Rs. 14,000.
(vi) Paid for delivery of graphics to advertising firms, Rs. 1,800.
(vii) Paid January salaries, Rs. 22,500.
(viii) Paid January advertising expenses, Rs. 3,500.
(ix) Paid telephone and electricity charges for January, Rs. 2,400.
(x) Withdrew Rs. 8,000 for personal use.
(xi) Recorded Rs. 4,000 of the prepaid rent as rent expense for January.
(xii) Counted art supplies on hand at 31st January, Rs. 28,500 worth remained.

(a) Set up the T-accounts for 1st January balance sheet given above and enter the opening balances.

Record the above transactions in the following T-accounts.

M. Perera Drawings; Service Fees; Rent Expense; Salaries Expense; Delivery Expense; Advertising Expense; Telephone and Electricity Expense; Supplies Expense.

When recording the transactions listed above, indicate the corresponding transaction number.

[30 marks]

ANSWER IN THIS BOX

Supplies

Balance	b/d	45,000	(xii)		30,500
(v)		14,000	Balance	c/d	28,500
		59.000			59,000
Balance	b/d	28,500			

Continued

Prepaid Rent

Balance	b/d	8,000	(xi)		4,000
			Balance	c/d	4,000
		8,000			8,000
Balance	b/d	4,000			

Debtors

Balance	b/d	164,000	(iii)		135,000
(i)		146,000	Balance	c/d	175,000
		310,000			310,000
Balance	b/d	175,000			

Perera, Capital

			Balance	b/d	230,000

Perera, Drawings

(x)		8,000			

Continued

Service Fees

		(i)	146,000
Balance c/d	155,000	(iv)	9,000
	155,000		155,000
		Balance b/d	155,000

Cash

Balance b/d	65,000	(ii)	25,000
(iii)	35,000	(vi)	1,800
(iv)	9,000	(vii)	22,500
		(viii)	3,500
		(ix)	2,400
		(x)	8,000
		Balance c/d	145,800
	209,000		209,000
Balance b/d	145,800		

Salaries Expense

(vii)	22,500		

Advertising Expense

(viii)	3,500		

Telephone & Electricity

(ix)	2,400		

Supplies Expense

(xii)	30,500		

Creditors

(ii)	25,000	Balance b/d	52,000
Balance c/d	41,000	(v)	14,000
	66,000		66,000
		Balance b/d	41,000

(b) Following balances are extracted from the balance sheet and the Profit and Loss Statement for the year ended 31st March 2011 from a company in the service industry.

Sales	Rs. 207,500	Cost of Sales	Rs. 145,000
Selling and Distribution Expense	Rs. 19,750	Current Assets	Rs. 72,750
Total Assets	Rs. 99,950	Total Liabilities	Rs. 43,140
Non-Current Liabilities	Rs. 12,500	Total Expenses	Rs. 44,570
Interest Expense	Rs. 1,500	Income Tax	Rs. 4,930
Net Profit (after tax)	Rs. 11,500		

As at 31st March 2010, total assets accounted to Rs. 120,000.
Calculate the following ratios based on the values given above.

(i) Return on Assets (ii) Return on Capital Employed
(iii) Return on Sales (iv) Current Ratio

[20 marks]

ANSWER IN THIS BOX

(i) Return on Assets $= \dfrac{\text{Net Profit+ (before tax + Interest)}}{\text{Average Total Assets}}$

$$= \frac{11{,}500+4{,}930+1{,}500}{\frac{(120{,}000+99{,}950)}{2}}$$

$$= \frac{17{,}930}{109{,}975}$$

$$= \underline{\underline{16.3\%}}$$

(ii) Return on Capital Employed $= \dfrac{\text{Net Profit (before tax) + Interest}}{\text{Total Assets- Current Liabilities}}$

$$= \frac{11{,}500+4{,}930+1500}{99{,}950-(43{,}140-12{,}500)}$$

$$= \frac{17{,}930}{69{,}310}$$

$$= \underline{\underline{25.8\%}}$$

(iii) Return on Sales $= \dfrac{\text{Net Profit (after tax)}}{\text{Net Sales}}$

$= \dfrac{11,500}{207,500}$

$= \underline{\underline{5.5\%}}$

(iv) Current Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

$= \dfrac{72,750}{43,140-12,500}$

$= \dfrac{72,750}{30,640}$

$= \underline{\underline{2.37 \ : \ 1}}$

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