



BUSINESS AND MANAGEMENT

9771/01

Paper 1 Business Concepts

May/June 2011

2 hours 30 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section 1

Answer **all** questions.

For each question there are four possible answers **A, B, C** and **D**.

Choose the one you consider correct and record your choice in the Answer Booklet.

Section 2

Answer **all** questions.

Section 3

Answer **one** question.

You are advised to spend 25 minutes on Section 1, 1 hour 20 minutes on Section 2, and 45 minutes on Section 3.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **10** printed pages and **2** blank pages.



Section 1: Multiple Choice

Answer all questions in this section.

You are advised to spend 25 minutes on the 20 questions in this section.

- 1 One of the roles of ACAS is to:
- A encourage an increase in trade union density.
 - B help resolve industrial disputes.
 - C increase the power and influence of employers' associations.
 - D provide training courses in industrial sectors where there are skill shortages.
- 2 This is a quotation from a Chief Executive Officer: 'Our products are so well known we will not be affected by competing innovative products'.
- This quotation could be classified as being an example of:
- A market mapping.
 - B marketing myopia.
 - C marketing orientation.
 - D offensive marketing.
- 3 Which one of the following is an example of price discrimination?
- A A reduction in room rates at the Adelphi Hotel during the recession.
 - B Apple charging a higher price in Germany than in Greece for the latest iPod.
 - C British Airways charging twice as much for a 'Business Class' seat as an economy 'World Traveller' seat on a flight to New York.
 - D The price of a basic Ford Focus is £12000 but the price of the fastest model – the RS – is over £23000.
- 4 In September 2009, the Office of Fair Trading fined 100 construction companies nearly £130m for engaging in deals to keep bid prices for new construction work artificially high. This illegal activity is an example of:
- A collusion.
 - B competitive practice.
 - C industrial action.
 - D monopoly.

- 5 One of the most likely effects on UK businesses of an increase in income tax rates by the UK Government is:
- A an increase in pay demands.
 - B an increase in profit after tax.
 - C increasing applications from workers in other EU countries for UK job vacancies.
 - D increased demand for income elastic goods.
- 6 One of the claimed advantages of using the declining balance method of depreciation for fixed assets compared to the straight line method is:
- A it accords more closely with the actual fall in the value of assets over time.
 - B it increases the firm's cash flow throughout the lifespan of the asset.
 - C it is easier to calculate.
 - D it results in a lower net book value after the asset has been sold.
- 7 One of the main objectives of the 1994 EU directive that forced EU businesses (which employ more than 1000 employees and operate in at least two member states) to introduce Works Councils was to:
- A force large EU-based businesses to publish social audits which include employee data.
 - B encourage EU businesses to cut their workforces to below 1000 employees.
 - C encourage improvements in consultation between senior managers and workforces.
 - D encourage inward foreign direct investment into the EU.
- 8 One of the claimed benefits of delegation of authority to junior managers in an organisation is:
- A it avoids the need for delayering and the job losses this often involves.
 - B it increases the chain of command of the organisation.
 - C it leads to junior managers accepting full responsibility for their decisions.
 - D it prepares junior managers for more challenging future roles.

Year	Net cash flow (£m)
0	(9)
1	3
2	3
3	4
4	4

Table 1

- 9 A business has forecast the net cash flows from an investment project as shown in Table 1. What is the expected average rate of return (ARR)?
- A 1.388%
- B 13.88%
- C 15.55%
- D 31.88%
- 10 The Cadbury Committee Code of Best Practice included which one of the following recommendations?
- A Internal audit committees should be abolished and only external auditors used.
- B Non-executive directors should not be appointed as they have no functional authority.
- C The roles of Chief Executive Officer and Chairman should be separated.
- D There should be a less active role played by institutional investors such as pension fund managers.
- 11 A business has estimated the price elasticity of demand for one of its products at -1.5 . Assume that the PED estimate is accurate. Current sales revenue from this product is £50 000. The price rises from £2 to £2.40 per item.
- By how much will total annual revenue from the sale of this product change?
- A (£7500)
- B (£8000)
- C (£10 000)
- D (£24 000)

12 An extract from the accounts of a company contains the following information.

Current ratio = 1.8
Current liabilities = £36 000
Stocks = £10 800

Based on this information, the acid test ratio of the company would be:

- A 0.5
- B 1.0
- C 1.5
- D 2.0

13 Company X is a single product business. The break-even level of production is 50 000 units, direct costs are £7 per unit, the selling price is £10 and the annual level of sales is 75 000 units.

Calculate the annual profit made by company X.

- A £25 000
- B £50 000
- C £75 000
- D £225 000

14 Which one of the following is the most likely consequence of a profitable investment financed by a long-term loan?

- A The gearing ratio will fall as the loan is obtained.
- B The internal rate of return will be less than the rate of interest on the loan.
- C The present day value of future cash flows will be greater than the value of similar cash flows received now.
- D The rate of return on capital invested by shareholders will increase.

- 15 In January 2009 the market shares of the three computer games consoles available in the UK market were:

Nintendo Wii	57%
Microsoft Xbox	25%
Sony PS3	18%

Assume that in January 2010 the size of the total market for games consoles was 15% up on a year earlier and the sales of the Xbox were 10% up on a year earlier.

What was the market share of Microsoft Xbox in January 2010?

- A 13.9%
- B 20.9%
- C 23.9%
- D 32.9%
- 16 A business employs 325 workers. The average number of days worked per year by a worker is 200. In 2010 the records of the business show that there were 2275 days of staff absence. The absenteeism rate in 2010 was:
- A 1.35%
- B 3.0%
- C 3.3%
- D 3.5%
- 17 The average sterling (£) exchange rate against other major currencies is most likely to depreciate when:
- A interest rates in the UK are lower than those in other major economies.
- B the rate of economic growth in the UK is above the average for other major economies.
- C the rate of inflation in the UK is lower than that in other major economies.
- D the total value of UK imports is declining.
- 18 An example of an external economy of scale is:
- A a business gains qualified staff from a further education college specialising in courses geared towards local industry.
- B a company is able to obtain external finance at a lower rate of interest due to the size of the capital sum required.
- C a large business can justify the employment of a specialist advertising agency.
- D a large business uses an external recruitment agency to select specialist staff.

- 19 In the Boston Matrix, a product which has a high market share in a low growth market is called a:
- A cash cow.
 - B dog.
 - C problem child/question mark.
 - D star/rising star.
- 20 Quality control checks on weights of packets of biscuits established that the mean net weight was 210 grams and the standard deviation was 5 grams. The weight printed on each packet was 'Net weight 200 grams'. This data suggests that:
- A half of the packets are likely to be underweight.
 - B there is approximately a 2.2% chance of a packet of biscuits being below the advertised weight.
 - C there is approximately a 2.2% chance that packets would be above the advertised weight.
 - D there is no risk of any packets being below the advertised weight.

Section 2: Case Study

Answer all questions in this section.

You are advised to spend 1 hour 20 minutes on this section.

Whitesands Hotel

The Whitesands Hotel had been owned by the Wells family since 1905. Last year it was bought by the Majestic Hotel chain and a new manager, Fergus Clancy, was appointed. He was given the objective, by the Majestic Hotel Board of Directors, of substantially increasing the return on capital employed of the hotel to at least 15%. He has already introduced significant changes to the way the hotel is operated, its marketing strategy and the services it offers to guests. He has just studied the cost and revenue data shown in Table A with the hotel's financial controller. 'If we had closed the sports centre last year the profits of the hotel would have been £15 000 higher. I want to close it as soon as possible.'

Hotel profit centres	Bar	Accommodation	Conference facilities	Sports centre
Revenue	95	450	85	58
Direct labour costs	22	220	30	38
Other direct costs	31	60	12	10
Allocated fixed costs	25	75	25	25

Table A: Whitesands Hotel profit centre data: Year ending 31/5/11 (£000)

Fergus makes big changes

Sue Wells, the former manager, had once described her hotel business as being 'like a big family, welcoming friends into our home'. Staff worked on average for ten years at the hotel – eight years above the industry average. They liked the way Sue had taken decisions with their interests in mind. Fergus had identified this business culture and was determined to change it. He viewed the business as just another Majestic profit machine and was not at all disappointed when about one third of the staff resigned within the first few months of him taking control. 'Introducing flexible employment contracts and modern methods of communication, training and appraisal have been essential to drag this hotel into the 21st century' he told the Human Resources manager.

Conference profit centre to be expanded

The growth in the business conference market had hardly been affected by the serious economic recession caused by the credit crunch. Fergus planned to make Whitesands the best conference centre in the region. Negotiations were under way with a building contractor to extend the hotel's existing facilities and fit 'state of the art' equipment into three new conference suites with a maximum capacity of 500 people.

He told his senior managers at a recent meeting that: 'The old management focused on wedding receptions. These have seasonal highs and lows. My aim is to attract a different market altogether. We are located close to an international airport, have five Head Offices of multinationals within a ten-mile radius and Olympic Games events are planned in this region in summer 2012.'

If we get the marketing strategy right we could aim for prestigious, high value added conferences, trade shows, award ceremonies and so on. I have allocated £100 000 to the budget for marketing this centre and this should ensure a good market share. The question is: can we get this operational by the end of June 2012?' 40

Planning the project

Fergus asked the operations manager, whose primary responsibility is the day-to-day running of the hotel, to draw up a simple network diagram of the conference centre project. This should give a good indication of whether the conference facilities would be ready to launch by the end of June 2012, if the Majestic Board gives funding approval by 30 September 2011. 45

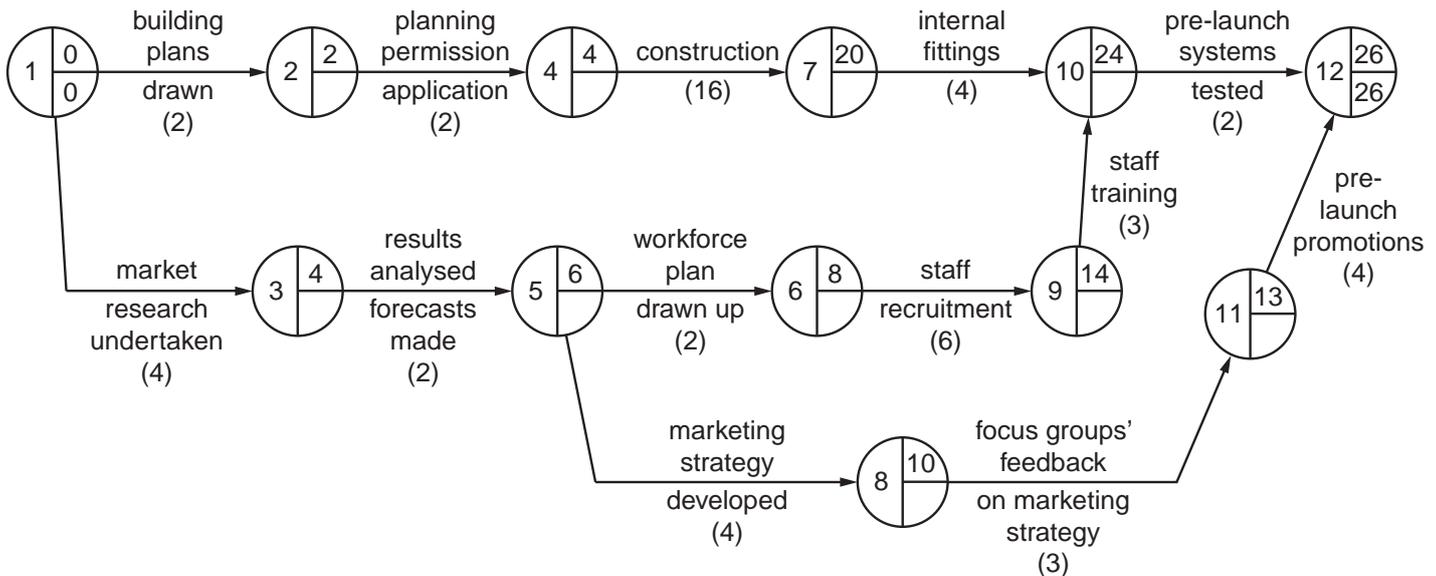


Figure A: Network diagram for conference facilities (durations in weeks)

- 21 Discuss, using the data in Table A and other information, whether Fergus is right to want to close the sports centre. [10]
- 22 Assume the conference project goes ahead. Recommend an appropriate marketing strategy that Fergus could adopt. Justify your answer. [10]
- 23 Evaluate whether Fergus could have changed the culture of the hotel without causing such a high labour turnover. [10]
- 24 (a) (i) State the length of the critical path. [1]
(ii) State the latest finish time at Node 9. [1]
- (b) Evaluate the extent to which the network analysis will guarantee the successful completion of the conference project. [8]

Section 3: Essay

Answer one question in this section.

You are advised to spend 45 minutes on this section. Relevant references to real world business examples will be expected.

- 25** 'An environment where people have to think brings with it wisdom and this wisdom brings with it continuous improvement (kaizen).' Teruyuki Minoura, Toyota Motor Corporation.

Discuss whether all businesses should create work environments in which staff 'have to think'. [40]

- 26** The UK real GDP fell by more than 2.0% between June 2008 and June 2009. Evaluate the extent to which UK businesses were adversely affected by this. [40]

- 27** 'The only thing harder than planning for an emergency is explaining why you didn't.'

Evaluate the extent to which contingency planning is essential for all businesses. [40]

- 28** Discuss whether UK businesses should focus less on staff motivation techniques during a period of rapidly rising unemployment. [40]

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