

MARKSCHEME

May 2006

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

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1. (a) Identify *two* main features of a partnership. [2 marks]

Main features:

- two or more partners
- unlimited liability is shared
- partners can share ideas, resources and workload
- partners can specialize in different business functions *e.g.* Danae in running the tours and Rocio in marketing and running the business
- limited sources of finance
- decision making (slower than sole traders but faster than a large company)
- *any other appropriate point.*

Award [1 mark] for each of the main features of a partnership up to [2 marks].

(b) Calculate the time taken to payback the initial investment of €4500 assuming *El Burro* operates at maximum number of treks per year. [3 marks]

| | | | |
|-----------------------------|------------------|---|---------------------------------|
| Profit from adult treks | 30 × 40 | = | €1200 |
| Profit from child treks | 10 × 60 per year | = | €600 |
| Profit per year | 1200 + 600 | = | €1800 |
| Time taken to payback €4500 | | = | $\frac{4500}{1800} = 2.5$ years |

[3 marks]

The calculation is correct.

[1 to 2 marks]

A basic understanding of payback is shown.

(c) Examine *two* ways in which *El Burro* can ensure its survival as a business. [7 marks]

To ensure survival the sisters have to set ground rules and business procedures to ensure that the partnership is successful. They need to ensure that they have realistically estimated their finances and that they operate the partnership within the law, including health and safety, insurance, liability, *etc.* All costs must be taken into account when setting the selling price of the treks to ensure that losses are not incurred. Market research needs to be done as there is a risk that the venture may not be successful if they do not provide what the customer wants.

As well as looking at these issues they need to look at more strategic ways to ensure survival

- diversification
- growth/expansion
- consumer satisfaction
- pricing strategies
- marketing strategies

Credit candidates for the examination of any two ways of ensuring survival, as long as they are relevant and properly supported.

[6 to 7 marks]

A detailed examination of two ways in which *El Burro* can ensure its survival. They are relevant and appropriate to *El Burro* and make reference to the long term.

[3 to 5 marks]

An examination of two ways in which *El Burro* can ensure survival though this may lack detail or relevance at the lower end of the band. If only one method is examined award no more than ***[3 marks]***.

[1 to 2 marks]

A limited and general response.

- (d) Discuss how the sisters can minimize potential conflict between themselves and the local community. ***[8 marks]*****

Local people have expressed concerns about the donkeys carrying tourists but Danae has assured them that the animals are strong enough as they are bred to carry heavy loads. The sisters must ensure that the welfare of the donkeys is paramount as the local people will be looking for signs that the donkeys are not being treated well. The sisters believe that donkeys are more environmentally friendly as there is no noise or pollution to damage the area. They need to make sure that if they are saying this, then this is the case. The local people have the potential to act as a pressure group and make life difficult for the company, stirring up negative publicity and getting in the way of running the business. The conflict can be minimized if the sisters fully involve the local people, keeping them up to date and informed about the progress of the donkeys. The good work that they are doing with the children, particularly the disabled, needs to be publicized to maximize good public relations.

More and better promotion of their friendly policies.

[6 to 8 marks]

A variety of ways in which the sisters can minimize the conflict with the community is discussed in detail. The discussion is relevant to *El Burro* and the local community.

[3 to 5 marks]

The ways in which the sisters can minimize the conflict with the community is discussed, though at the lower end the discussion may not be entirely relevant to *El Burro* or detailed enough.

[1 to 2 marks]

A limited and general response.

2. (a) Define the following terms:

- (i) *fixed assets*
- (ii) *current assets*
- (iii) *current liabilities.*

[6 marks]

Fixed assets – assets and property which cannot easily be converted into cash.

Current assets – a current asset is an asset on the balance sheet which is expected to be sold or otherwise used up in the near future usually within one year.

Current liabilities – a liability with a due date of less than one year.

Award up to [2 marks] for each suitable definition.

(b) Construct a profit and loss account for *Teddybears Picnics Ltd* for each of the years 2004 and 2005.

[5 marks]

| Profit and loss account | 2004 | 2005 |
|--------------------------------|-------------|-------------|
| | \$ | \$ |
| Sales revenue | 22 000 | 24 000 |
| <i>Less</i> | | |
| Cost of sales | 8 400 | 8 900 |
| Gross profit | 13 600 | 15 100 |
| <i>Less</i> | | |
| Overheads | 4 400 | 5 000 |
| Net profit | 9 200 | 10 100 |

[5 marks]

The profit and loss accounts for both years are correct and are laid out appropriately.

[3 to 4 marks]

The profit and loss accounts are generally accurate and laid out appropriately. Allow one error at the top end of the band.

[1 to 2 marks]

A basic understanding of the elements of a profit and loss account is shown.

- (c) **Produce a balance sheet for *Teddybears Picnics Ltd* for each of the years 2004 and 2005.** **[6 marks]**

| Balance sheet | 2004 | 2005 |
|-----------------------|-------------|-------------|
| | \$ | \$ |
| Fixed assets | 10 000 | 10 000 |
| Current assets | | |
| Stock | 4 800 | 5 200 |
| Cash | 1 200 | 1 000 |
| Debtors | 2 900 | 3 200 |
| | 8 900 | 9 400 |
| <i>Less</i> | | |
| Current liabilities | | |
| Creditors | 3 200 | 3 400 |
| Working capital | 5 700 | 6 000 |
| Net assets | 15 700 | 16 000 |
| Financed by | | |
| Retained profit | 8 700 | 9 900 |
| Long term liabilities | 7 000 | 6 100 |
| Capital employed | 15 700 | 16 000 |

[6 marks]

The balance sheets for both years are correct and are laid out appropriately in a suitable layout and format.

[3 to 5 marks]

The balance sheets are generally accurate and are laid out appropriately. Allow one error at the top end of the band.

[1 to 2 marks]

A basic understanding of the elements of a balance sheet are shown.

- (d) **Identify *three* ways in which *Teddybears Picnics Ltd* can improve their net profit.** **[3 marks]**

Teddybears Picnics Ltd can improve their net profit by:

- increasing sales revenue *e.g.* by raising the selling price of each teddy bear or selling more teddy bears
- decreasing cost of sales, *e.g.* by buying cheaper materials
- decreasing overheads *e.g.* sourcing cheaper electricity
- lowering prices to increase sales
- *other appropriate points.*

Award **[1 mark]** for each appropriate way of increasing net profit given up to a maximum of **[3 marks]**.

3. (a) **Define, with an example, the term *external stakeholder*.** [2 marks]

An external stakeholder is an individual, group or organization which has an effect on and/or is affected by a business but is not directly involved in it. Stakeholders have an interest in the operation of the business. Examples could include suppliers, competitors, local residents *etc.*

Award up to [2 marks] for a suitable definition and example. For an example or definition only, award [1 mark].

(b) **Explain the benefits to *Fairplay* of setting ethical objectives.** [4 marks]

Fairplay is making a profit from the sale of clothing and it needs to protect its image. Increasingly, external stakeholders are demanding an ethical response from companies and will take this into account when buying products. The perception of a company as an ethical organization is a powerful marketing tool. Faster communication means that events are reported so quickly that businesses can no longer hope that what goes wrong overseas will go unreported. *Fairplay* may also get involved in costly legal disputes, and by having ethical objectives they may avoid this. Setting ethical objectives would help to improve the morale of the workers as well as the owners. Happy workers are productive workers. It also shows that *Fairplay* is willing to respect the culture of different countries that they work with.

Consumers, suppliers and workers prefer to deal with ethical firms.

[4 marks]

The benefits to *Fairplay* of setting ethical objectives are explained. Reference is made to different stakeholders.

[2 to 3 marks]

Some of the benefits to *Fairplay* of setting ethical objectives are explained. Reference to stakeholders is limited.

[1 mark]

A limited and general response.

- (c) **Recommend *four* policies that *Fairplay* should include in its code of practice.** **[4 marks]**

Fairplay is promoting ethical responsibility and is keen to protect its corporate image. Therefore it is developing an ethical policy and guidelines for its overseas suppliers that include the following points:

- social care
- welfare of workers
- working environment
- respect for the rights of employees
- respect for the local legislation
- honesty and integrity in marketing
- fair pay to workers in the overseas plants
- fair treatment of workers

Candidates might come up with other relevant points.

Award **[1 mark]** for each appropriate recommendation up to a maximum of **[4 marks]**.

- (d) **Evaluate the costs and benefits to *Fairplay* of working more closely with its suppliers to ensure it meets the standards set out in its code of practice.** **[10 marks]**

The code of practice applies to *Fairplay's* suppliers and failure to comply with the standards means that *Fairplay* will discontinue working with those suppliers and go to others. This will cost *Fairplay* in the short-term as they will have to find new suppliers and negotiate new contracts. Yet this action may have long term marketing advantages. One of the benefits to *Fairplay* of working more closely with the suppliers is that they maintain a relationship with a supplier whose operations they know. As long as the supplier respects the code of practice *Fairplay* will not incur costs associated with negotiating a new contract.

Fairplay visits factories without notice to check standards. The benefit is that suppliers will ensure that they operate to the set guidelines and that they adhere to the policy. The downturn is that sending inspectors all over the world is costly and suppliers might be able to anticipate the inspection.

Good ethical standards will result in positive publicity for *Fairplay* and will help to enhance their brand image and reputation. A cost would be training the suppliers to meet standards and substituting those who do not live up to the policies. This would however also be a benefit as mistakes and low standards would be avoided in the future.

The policy probably means that *Fairplay* faces higher production costs, but these should be outweighed by the increased sales.

[9 to 10 marks]

A detailed and balanced evaluation of the costs and benefits to *Fairplay* of working more closely with their suppliers. The points made are relevant and appropriate to *Fairplay*.

[6 to 8 marks]

An attempt to evaluate the costs and benefits to *Fairplay* of working more closely with their suppliers. The costs and benefits are relevant and appropriate to *Fairplay*, but they are not all evaluated.

[3 to 5 marks]

A discussion of some of the costs and benefits to *Fairplay* of working more closely with their suppliers. The answer may be unbalanced, lack detail and appropriateness to *Fairplay* at the lower end of the band.

[1 to 2 marks]

A limited and general response.

4. (a) **Explain how computer games businesses can ensure their employees' skills meet the needs of a rapidly changing industry.** ***[4 marks]***

The developers need to invest in their employees in order to retain them where possible, but they also need to recruit new game developers with innovative ideas. Training needs to be provided that is of high quality and targeted to the needs of the company. Opportunities for developing new skills and enhancing current skills should be provided to all employees.

Dismiss employees who cannot keep up with the speed of rapid technological change. Employ young workers with creative ideas.

[4 marks]

A variety of ways in which skills are developed are explained, they are appropriate to computer game developers and are relevant to the case study.

[2 to 3 marks]

Some of the ways in which employees' skills are developed are explained. They are generally appropriate to computer game developers.

[1 mark]

A general response.

- (b) Describe the importance of innovation in a rapidly changing computer games market. [4 marks]**

Innovation is the key to success in the computer game market. The demands of consumers are constantly changing and exciting games are needed that provide a challenge to the target market. Product life cycles are very short in the computer games market and therefore keeping ahead of competitors is the key to success. Games are very costly and time consuming to produce. The risk of failure is high and therefore innovation and creativity are paramount alongside clever marketing and thorough market research. Looking for new opportunities such as games for mobile phones is also the key to the future success of the companies. It is important to create USP to justify premier pricing and maximize revenue.

[4 marks]

The importance of innovation in the computer games market is described. The response recognizes that innovation takes place in an era of rapid technological change and that life cycles of computer games are short.

[2 to 3 marks]

The importance of innovation in the computer games market is described, though it may lack detail. The response may not recognize fully that innovation takes place in an era of rapid technological change.

[1 mark]

A limited and general response.

- (c) Discuss the problems of financing research and development in the high risk market of computer games development. [7 marks]**

Research and Development (R&D) involves technical research or a new production technique. R&D can be very expensive. Large game developers may have their own research department or they can adapt new products and techniques used by other companies, e.g. films into games. On the other hand small niche players may find it difficult to raise sufficient finances given the high risk of failure. One of the problems of financing R&D is that there is a risk that the money spent on developing the new games are not recouped if the game does not reach the market.

R&D will be difficult to finance because of the high costs involved and the relatively short product cycle over which the investment can be recouped.

External long-term sources of finance will therefore often be inappropriate and publishers may need to source development funding internally – perhaps from other products in the product portfolio.

Cash flow resulting from the release of games will come some time after the initial development when costs have been paid. Employees may become disheartened if their games are not developed after the research phase, and move to other companies, the costs of retraining would then form part of the R&D picture. If confidentiality is broken and games are leaked to competitors or to the market then the game is no longer innovative and therefore it will not be possible to gain the benefits from the finance invested.

[6 to 7 marks]

The problems of financing research and development are discussed in detail. There is application to the computer game development. The response recognizes that the computer game market is high risk and therefore difficult to finance.

[3 to 5 marks]

An attempt to discuss the problems of financing research and development is evident. The discussion is relevant to computer game development. The response should recognize that the computer game market is high risk, although at the bottom end little reference is made to finance.

[1 to 2 marks]

A limited and general response.

- (d) Examine the long-term implications for the UK games industry of outsourcing development to Eastern Europe and Vietnam. *[5 marks]***

The long-term implications may include:

- the quality of production may be difficult to monitor
- the number of jobs available in the UK games industry will decrease and skills may be lost
- if expertise is lost there is a danger that the skills cannot be secured in the future
- relocation of resources to a more productive environment may offer more opportunities for marketing and product development for UK games
- development costs for games may fall resulting in a reduced risk for UK games publishers
- *any other relevant point.*

[4 to 5 marks]

The long-term implications of outsourcing are examined including advantages and disadvantages. They are relevant and appropriate to the UK computer game development industry.

[2 to 3 marks]

There is some recognition of long-term implications but the answer lacks breadth and detail.

[1 mark]

A general response.

5. (a) **Explain, with appropriate examples, the difference between fixed and variable costs.** *[4 marks]*

Fixed costs do not vary with output, e.g. rent. Variable costs vary directly with output e.g. materials.

Award *[1 mark]* for a suitable explanation *[1 mark]* for an appropriate example of fixed costs and variable costs up to a maximum of *[4 marks]*.

- (b) **Calculate the**
(Clearly show your working out.)
 (i) **break-even point** *[4 marks]*

Fixed costs
 Rent \$1700

Variable costs
 Keyring components \$0.16 per keyring
 Clips \$0.03 per keyring
 Photo paper \$0.06 per keyring

Total variable costs = \$0.25

Contribution per keyring
 Selling price – variable cost per keyring
 \$3.65 – \$0.25 = \$3.40

Number of keyrings needed for break-even = $\frac{\text{Fixed costs}}{\text{Contribution per keyring}}$
 $\frac{1700}{\$3.40} = 500$

Award *[2 marks]* for the correct break-even point and up to *[2 marks]* for calculation and appropriate method of working.

- (ii) **margin of safety at 1000 keyrings** *[1 mark]*

Margin of safety = 1000 – 500 = 500

Award *[1 mark]* for the correct margin of safety.

- (iii) **profit at 1000 keyrings** *[2 marks]*

Profit = Total revenue – Total costs
 Profit = (\$3.65 × 1000) – 1700 + (\$0.25 × 1000) = \$1700

Award *[1 mark]* for the correct profit and *[1 mark]* for indication of appropriate working or method.

(iv) profit at 2500 keyrings.

[2 marks]

Profit = Total revenue – Total costs

$$\text{Profit} = (\$3.65 \times 2500) - 1700 + (\$0.25 \times 2500) = \$6800$$

Award [1 mark] for the correct profit and [1 mark] for indication of appropriate working or method.

(c) Analyse the limitations of using break-even analysis as a planning tool.

[7 marks]

The limitations of break-even analysis include:

- it assumes that all the output is sold; in fact sales may not equal output
- it assumes output is all sold at one price. In reality the firm may have to lower the price to sell more
- it assumes variable costs are constant per unit. In reality they may vary with discounts or changes in productivity
- the analysis is only as useful as the underlying data; if data is out of date, it has limited usefulness
- its usefulness depends on the skill and experience of Phil Newman in estimating the costs and quantities.

[6 to 7 marks]

There is a detailed and varied analysis of the limitations of break-even analysis. The analysis is appropriate and relevant to *Keysnapz*.

[3 to 5 marks]

An attempt to analyse the assumptions of break-even analysis is evident. The analysis is generally appropriate and relevant to *Keysnapz*, but may not include all the limitations.

[1 to 2 marks]

A limited and general response.
