



22125011



**BUSINESS AND MANAGEMENT  
HIGHER LEVEL  
PAPER 1**

Friday 18 May 2012 (afternoon)

2 hours 15 minutes

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**INSTRUCTIONS TO CANDIDATES**

- Do not open this examination paper until instructed to do so.
- A clean copy of the ***Business and Management*** case study is required for this examination paper.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.
- Section C: answer the compulsory question.
- A calculator is required for this examination paper.
- Clean copies of the ***Business and Management*** formulae sheet and discount tables are required for this examination paper.
- The maximum mark for this examination paper is [80 marks].

## SECTION A

Answer **two** questions from this section.

1. (a) General Ron Meiri was autocratic (*lines 8–9*). Identify **four** key features of an autocratic leadership style. *[4 marks]*
- (b) “The organizational structure of the *UWP* Mission was tall” (*lines 9–10*). Explain **one** advantage and **one** disadvantage of this type of structure. *[4 marks]*
- (c) Analyse the appropriateness of a bank loan as a source of finance for Kos Palouk’s new lorry (*lines 129–130*). *[7 marks]*
  
2. (a) Loyka’s economy is mainly in the primary sector (*line 1*). Briefly describe the nature of business activity in this sector. *[2 marks]*
- (b) Outline **one** reason why Kos Palouk does not need to do any additional marketing at the *UWP* Mission. *[2 marks]*
- (c) Using information from Appendix 5a,
  - (i) calculate the net profit margin **and** the gross profit margin for Kos Palouk from his current operation (**Option 1**). *[2 marks]*
  - (ii) calculate the net profit margin **and** the gross profit margin for Kos Palouk from his forecast operation (**Option 2**). *[2 marks]*
- (d) Interpret your results from part (c) and the data from Appendix 5a **and** 5b. *[7 marks]*
  
3. (a) Kos Palouk prepared a business plan (*line 142*). Identify **four** elements of a business plan. *[4 marks]*
- (b) With reference to Kos Palouk’s business, distinguish between just-in-time and just-in-case stock control (*lines 136–138*). *[4 marks]*
- (c) Analyse the value of the social and environmental audit (*line 96*) for both General Diane Pierce **and** the local community. *[7 marks]*

**SECTION B**

Answer *the compulsory* question from this section.

4. (a) Describe the use and value of a critical path analysis (*lines 87–88*). [4 marks]
- (b) Explain **two** methods of sampling that Colonel Michael Donovan could have used to carry out the primary research (*line 97*). [4 marks]
- (c) Explain **one** advantage and **one** disadvantage of the organizational culture of military organizations such as the *UWP* Mission. [4 marks]
- (d) Recommend to General Diane Pierce whether the hospital should be built. [8 marks]

**Additional information**

*There is no additional information in this paper for Sections A and B.*

**SECTION C**

Answer *the compulsory* question from this section.

5. As part of his evaluation of **Option 3** (*lines 153–157*), Kos Palouk consulted Sami Taibi, who owned and operated a medium-sized grocery store. Sami said that Beral had no reliable produce suppliers and there was a business opportunity if someone could make reliability their unique selling point (USP). However, the deterioration of the situation outside of the *UWP*-protected area was making reliable purchase and distribution of produce difficult (*Item 1*).

To ensure reliability, Kos would require a loan of \$42 000 to:

- Purchase two lorries (2 at \$15 000 = \$30 000). Because of the poor quality of the roads, the lorries would require frequent maintenance. One lorry could still deliver produce while the other was being maintained.
- Increase working capital (\$12 000) for higher stock levels.

Unfortunately, the bank will loan Kos a maximum of \$30 000, as they do not wish to loan funds for working capital as well as for the purchase of the lorries (*Item 2*).

Kos had an idea. He proposed to Sami that they merge his grocery store with Kos' wholesale produce business. The combined operation would be organized as a private limited company and Kos proposed a 50-50 share ownership. It would also have the following advantages:

- It would have two revenue streams: wholesale (from Kos' operations) and retail (from Sami's grocery store).
- The grocery store would acquire produce at wholesale prices.
- The combined operation would always guarantee supply to the grocery store before other customers.

However Sami was reluctant to give up 50% ownership of his grocery store for an unproven operation. Sami made a different proposal: Kos would merge his wholesale operation into Sami's grocery store in exchange for 25% of the shares of the new private limited company. The merger would also result in a new contract and management structure (*Items 3 and 4*).

*(This question continues on the following page)*

*(Question 5 continued)*

- (a) Identify **two** advantages to Kos Palouk of merging his wholesale produce business with Sami Taibi’s grocery store. *[2 marks]*
  
- (b) Explain **two** advantages to Sami Taibi and Kos Palouk of organizing the new (merged) business as a private limited company. *[4 marks]*
  
- (c) Calculate:
  - (i) the annual depreciation **expense** of one \$15 000 lorry with a useful life of 7 years and a residual value of \$1000 using the straight line method. *[1 mark]*
  
  - (ii) the depreciation **expense** in the **second year** of one \$15 000 lorry using the reducing balance method, with a depreciation rate of 32% (*show all your working*). *[2 marks]*
  
- (d) Using Vroom’s expectancy theory of motivation, or any other motivation theories, examine Sami Taibi’s proposal. *[9 marks]*
  
- (e) Using information contained in the case study and Items 1 to 4, advise Kos Palouk on Sami Taibi’s proposal. *[12 marks]*

**Additional information is on the following pages.**

**Additional Information**

**Item 1: Extract from *Beral Courier*, a local newspaper**

Rumours of increased violence outside the *UWP*-protected area were recently confirmed by the office of the local governor. Attacks against vehicles on roads near Bosca, Boussena, Saura and Gana have been confirmed by local police. One driver, who was returning from Saura, was seriously injured. In another instance, there was severe damage to a road, causing vehicles to take a different route, which doubled the travel time. The local governor announced an increase in police patrols in the area.

The impact of the increased violence has had an immediate impact on local Beral shops, which reported shortages of produce.

**Item 2: Bank loan offer to Kos**

Loan amount:	\$30 000
Interest rate:	8% (fixed)
Repayment schedule:	7 years, payments monthly
Monthly payment amount:	\$475 (principal and interest)
Collateral:	all assets of business, including the two lorries, and Kos' personal residence

**Item 3: Sami's proposal for a new contract**

**3.1: At start of new (merged) business**

Kos' ownership: 25%  
Sami's ownership: 75%

Kos' monthly salary: \$650

If there are dividends, Kos would receive 25% of the dividends.

The new private limited company would take out the \$30 000 bank loan. Sami's grocery store would provide the additional \$12 000.

**3.2: Potential change in ownership structure**

Sami has set Kos a target of annual sales of \$96 000 (\$8000 per month on average) for the wholesale operation for 2 consecutive years (this figure would **not** include "sales" to Sami's grocery store).

- If the wholesale operation did not reach the annual sales target for 2 consecutive years within 7 years (the duration of the loan), Kos would remain a 25% owner with his original salary of \$650 per month (no change in ownership structure).
- If the wholesale operation meets the two-year performance target, Kos would receive an additional 24% ownership in the private limited company. His salary would be adjusted so that it was always equal to 96% of Sami's salary. He would also be entitled to 49% of any dividends.

**Item 4: Management structure if Sami's proposal is implemented**

