

**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 1**

Monday 17 November 2003 (afternoon)

2 hours

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Section A: answer all questions.
Section B: answer one question.

SECTION A

Answer **all** questions in this section.

1. (a) With reference to the case study select, with justification, **three** key characteristics that you believe should be included in a mission statement for *Rainbow Club Ltd*. [6 marks]
- (b) Analyse how the development of a mission statement would benefit *Rainbow Club Ltd*. [6 marks]
2. (a) Assess the effectiveness of *Rainbow Club Ltd*'s communication with its internal and external stakeholders. [8 marks]
- (b) Evaluate methods for improving communication with the club's stakeholders and recommend **three** improvements which you feel will be most successful. Explain your recommendations fully. [10 marks]
3. (a) Discuss whether *Rainbow Club Ltd* should redevelop its present site (option A) or relocate to Carlton (option B). [10 marks]
- (b) Analyse the advantages and disadvantages for *Rainbow Club Ltd* of globalizing its marketing and operations. [8 marks]
4. Evaluate the sources of finance that are available to *Rainbow Club Ltd* to fund its redevelopment. [12 marks]

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SECTION B

Answer **one** question from this section.

5. The board of directors of *Rainbow Club Ltd* are considering the medium term development options. Robert Graves outlines the only three options which are, in his opinion, available to the Club.
- (i) Improve their present premises, but not expand or redevelop the site beyond its present area
 - (ii) Redevelop the existing premises and acquire additional land for a larger rink, retail units, a cinema complex and additional parking
 - (iii) Relocate the club to Carlton and construct a large entertainment and leisure centre with extensive car parking

Robert goes on to discuss how all of the options will require significant extra finance, some of which will come from increased ticket prices. The success of the option selected will be dependent on the state of the economy, which will affect price and income elasticities of demand for ice hockey seats, and customer demand in the retail outlets and cinema complexes. At present it appears there is a 40 % chance of the economy significantly improving, leading to high demand and a 40 % chance of some improvement in the economy and customer demand. There is a 20 % chance that economic growth will fall, leading to lower demand.

In a supporting paper, Robert Graves provides the following information to summarize the costs and financial returns for each of the three options in different economic conditions:

Upgrading and development costs for each option:

<i>Option</i>	<i>\$m</i>
(i)	5
(ii)	12.4
(iii)	25.6

Estimates of profits for the three options given different customer demand

<i>State of demand</i>	<i>Probability</i>	<i>Profits from option:</i>		
		<i>(i)</i>	<i>(ii)</i>	<i>(iii)</i>
		<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
High	0.4	11	21	43
Medium	0.4	4	14	27
Low	0.2	-2	2	15

(This question continues on the following page)

(Question 5 continued)

- (a) Prepare a decision tree to illustrate the **three** options outlined by Robert Graves and calculate the expected values for each. Show your working, fully label your decision tree and include a key. [8 marks]
- (b) Select the most desirable option on financial grounds. Show your working. [1 mark]
- (c) Assess the advantages and disadvantages of using a decision tree to support the choice of expansion option for *Rainbow Club Ltd*. [7 marks]
- (d) Explain what Robert Graves meant when he said that the state of the economy will affect price and income elasticities of demand for ice hockey seats. [4 marks]
6. (a) With reference to the accounts of *Rainbow Club Ltd* and through the use of at least **four** ratios, analyse financial trends and comment on whether any of these trends should be of concern to the board of directors. [10 marks]
- (b) Discuss why ratios produced for *Rainbow Club Ltd* may differ noticeably from those of a trading company that buys and sells finished products. [4 marks]
- (c) The net worth of *Rainbow Club Ltd* may be greater than recorded in the balance sheet, because of the presence of valuable intangible assets. Explain, with reference to the case study, what is meant by intangible assets and why accountants prefer to remove these from the balance sheet wherever possible. [6 marks]
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