

**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 1**

Wednesday 5 May 2004 (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 the questions.
Section B: answer one question.

SECTION A

Answer **all** the questions in this section.

1. (a) Define, with reference to the case study, what is meant by *outsourcing production* (line 82). [2 marks]
- (b) Discuss the advantages and disadvantages to *Riveau Yachts* of expansion through outsourcing production rather than manufacturing all the yachts themselves. [10 marks]
2. (a) Using examples from the case study explain the difference between fixed and variable costs. [6 marks]
- (b) Evaluate **three** different methods of costing that would help with *Riveau Yachts*' aim of introducing cost control. [10 marks]
3. (a) Using an appropriate tool (such as the Boston Consulting Group Matrix) represent the product portfolio of *Riveau Yachts* as outlined in *Appendix 1*. [4 marks]
- (b) Make recommendations to the company as to how they could develop the D950 model. [6 marks]
4. (a) Prepare a SWOT analysis for *Riveau Yachts*. [10 marks]
- (b) Using the SWOT analysis (prepared in (a)) evaluate which of the approaches suggested by *Future Strat* (lines 85-91) *Riveau Yachts* should adopt. [12 marks]

SECTION B

Answer **one** question from this section.

5. The financial director at *Riveau Yachts* has been carrying out a review of their accounts and accounting policies. In particular he has decided to review the way they account for depreciation of their fixed assets.

Annette Manning recently spent \$150 000 on a computer-controlled machine for cutting and painting of various components. The machine is expected to have a useful life of five years.

- (a) If the financial director chooses to use the reducing balance method of calculating depreciation and charged depreciation at 30 % each year, what would be the book value at the end of 5 years? Show your workings. [3 marks]
- (b) Use the profit and loss account and balance sheet in *Appendices 2 and 3* respectively to calculate the following ratios:
- Net profit margin for 1993 and 2003
 - Current ratio for 1993 and 2003
 - Return on capital employed for 1993 and 2003. [6 marks]
- (c) Using ratio analysis and information from the profit and loss account and balance sheet in *Appendices 2 and 3* respectively, evaluate the financial performance of *Riveau Yachts* from the perspective of a potential investor. [11 marks]

6. The board of *Riveau Yachts* agreed in September 2003 to a proposal from the marketing director, André, to produce new differentiated models of the X1025 and the S1200 for the charter holiday market. To help them make their decision they asked André to produce a sales budget for the new models which were launched in January 2004. The forecasts he made were as follows:

Forecast sales: January to April 2004 (number of yachts)				
	January	February	March	April
X1025	20	30	60	45
S1200	10	20	35	15

The retail selling price of the X1025 is \$75 000 and of the S1200 is \$110 000, but *Riveau Yachts* offer a 15 % discount to the charter operators.

However, the actual sales achieved varied from the forecasts that André had prepared. The sales variances are given in the table below:

Sales variances: January to April 2004 (number of yachts)				
	January	February	March	April
X1025	5A	3A	15F	2F
S1200	4A	8A	5F	3A

Where A is an “adverse” variance and F is a “favourable” variance.

- (a) *Riveau Yachts* need to analyse the cash flows resulting from the sale of the new models. Assuming a starting balance of \$50 000 and monthly expenses of \$4 000 000 and taking into account the sales variances prepare a cash statement for *Riveau Yachts* for January to April 2004. [5 marks]
- (b) Identify **three** possible methods that *Riveau Yachts* could use to finance any cash shortages they may face from the launch of the new yachts. Evaluate which method will be the most appropriate for them. [7 marks]
- (c) Discuss possible reasons for the sales variances identified in the table. [8 marks]