



**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 1**

Tuesday 2 November 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) Explain what is meant by “a more team-based and flexible approach to production” (*line 124*). [4 marks]
- (b) Discuss the practical issues and challenges the production director, Annette Manning, may face in implementing new approaches to quality management. [10 marks]
2. (a) Explain **three** factors that have contributed to rising labour turnover at *Riveau Yachts*. [6 marks]
- (b) Using the motivation theories of Maslow and Herzberg, assess how the human resource manager, Danielle Jarman, can improve the motivation of workers at *Riveau Yachts* and reduce labour turnover. [12 marks]
3. (a) What strategies are available to *Riveau Yachts* to develop their brand name in order to reduce the price sensitivity of their products? [6 marks]
- (b) André, the marketing director, is “arguing the case for developing new differentiated models of their boats specifically for the charter holiday market” (*lines 71 to 72*). In a report to the board of directors analyse the advantages **and** disadvantages of this strategy. [14 marks]
4. Evaluate whether *Riveau Yachts* should become a public limited company (*line 149*). [8 marks]

SECTION B

Answer **one** question from this section.

5. Annette Manning has been given approval by the board of directors to automate the process of building the hulls for the yachts. This will mean investing in new computer-controlled production equipment. She has researched extensively the equipment available and has narrowed her choice of machines down to two options. The purchase cost and expected additional net cash flows from the machines are given in the tables below.

Machine	Investment cost (\$)
A	65 000
B	85 000

Year	Expected net cash flows (\$)	
	Machine A	Machine B
1	45 000	25 000
2	35 000	35 000
3	25 000	55 000
4	25 000	55 000
5	25 000	35 000

Assuming an interest rate of 10 %, the discount factors for five years would be:

Year	Discount factor
1	0.909
2	0.826
3	0.751
4	0.683
5	0.621

- (a) Using this information calculate the payback period, ARR (accounting rate of return) and NPV (net present value) (assuming a discount rate of 10 %) for each of the machines. [6 marks]
- (b) Using the values you have calculated in part (a) assess the financial advantages **and** disadvantages to *Riveau Yachts* of investing in each of the machines. [6 marks]
- (c) Discuss other factors that *Riveau Yachts* would need to take into account before making their decision about this investment. [8 marks]

6. The board of directors of *Riveau Yachts* are keen to know what the financial results are likely to be for 2004 and so have asked the financial director to prepare a forecast set of accounts. The financial director has started to collect forecasts of the financial information for the financial year 2004. He has so far managed to get the following information:

Total sales revenue	\$160 000 000	Stock	\$28 550 000
Gross profit	\$18 750 000	Debtors	\$18 250 675
Net profit	\$7 250 000	Cash	\$789 950
Retained profit	\$1 894 000	Current liabilities	\$20 500 250
		Net assets	\$75 841 000

He is also using the following supplementary information and assumptions:

- the number of shares is the same as in 2003
- the board want to pay a dividend of \$0.50 per share
- the interest bill will be the same as in 2003
- the tax bill will be \$1 250 000
- share capital and loan capital figures will be the same as in 2003.

- (a) Construct the forecast balance sheet and profit and loss account for 2004.

[8 marks]

- (b) The firm is considering conversion to a public limited company in 2005. With reference to the figures you have calculated in part (a) and using **four** ratios, evaluate these forecast accounts from the point of view of a potential investor.

[12 marks]