



**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 1**

Monday 5 May 2008 (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) (i) Define the term *partnership agreement*. [2 marks]
- (ii) Explain **two** possible reasons why Max and Terry “formalized their agreement with a Deed of Partnership” (*lines 10-11*). [4 marks]
- (b) Explain **two** disadvantages of operating *Organix* as a partnership. [4 marks]
2. (a) Evaluate John’s view that further market research is not required before proceeding with the opening of further farm shops (*lines 73-76*). [8 marks]
- (b) (i) Define the term *branding*. [2 marks]
- (ii) Discuss the advantages **and** disadvantages of adopting a single brand for all the different areas of *Organix*’s business. [8 marks]
3. (a) Prepare a PEST analysis for *Organix*. [8 marks]
- (b) Based on the threats from the PEST analysis prepared in part (a), discuss **two** strategies for *Organix* to minimize the impact of these threats on their business. [8 marks]
4. (a) Define the term *flexible working practices*. [2 marks]
- (b) Distinguish between Terry’s and Alison’s management styles. [6 marks]
- (c) To what extent might the motivation of the head chef, Oliver Jayo, differ from the restaurant serving staff? Use appropriate motivation theory in your answer. [8 marks]

SECTION B

Answer **one** question from this section.

5. Following the loss made by *Organix* in 2006, Max and Terry commissioned *Seagers*, a firm of accountants, to prepare a detailed report on the financial situation of the firm. As part of their report *Seagers* looked in detail at the operation of the restaurant business and suggested that Max and Terry prepare a break-even analysis for the restaurant to ensure that they were aware of when the restaurant moved into profitability each year. The accountants gave the following information:

- average level of expenditure per meal CA\$38
- average cost of ingredients for each meal CA\$15
- wages for waiting staff CA\$45 000 per annum
- salaries for chefs CA\$60 000 per annum
- heat, electricity, lighting and other expenses CA\$55 000 per annum
- restaurant capacity 1200 meals per month.

Seagers also suggested that each of the different areas of *Organix's* business should be set up as separate profit centres to allow for proper assessment of the profitability of each of them.

- (a) Using examples from *Organix's* restaurant business, distinguish between fixed, semi-variable and variable costs. [6 marks]
- (b) Assuming that the restaurant is currently serving 750 meals per month, prepare a break-even chart showing clearly the **annual** break-even level of output, level of profit and the margin of safety. [6 marks]
- (c) Discuss *Seagers'* proposal to split the different areas of *Organix's* business into profit centres. [8 marks]

6. Following the loss made by *Organix* in 2006, Max and Terry commissioned *Seagers*, a firm of accountants, to prepare a detailed report on the financial situation of the firm. As part of their report *Seagers* looked in detail at each different area of the business and prepared management accounts for each of *Organix's* separate divisions. The report gave the following information:

	Farm	Farm shop	Restaurant
Turnover (CA\$)	285 000	128 000	342 000
Gross profit (CA\$)	201 800	75 000	182 000
Net profit (CA\$)	48 000	18 000	36 000
Current assets (CA\$)	73 500	48 000	28 500
Current liabilities (CA\$)	68 250	39 000	29 750
Stock (CA\$)	19 000	7 500	12 000
Ratios			
Return on Capital Employed (%)	21.82	15.00	12.20
Gross Profit Margin (%)			
Net Profit Margin (%)			
Current Ratio (times)	1.08	1.23	0.96
Acid Test Ratio (times)			

The *Seagers* report also suggested to the firm that they needed to adopt tighter financial control in order to improve *Organix's* financial position. They offered two different options that could be considered:

- the preparation of budgets and a variance analysis for *Organix* as a whole
- the separation of each area of the business into profit centres.

Because of the administrative burden and costs of adopting these options, Terry has decided to choose just one of them and he is currently considering which one would be the most effective.

- (a) Calculate the Gross Profit Margin, the Net Profit Margin and the Acid Test Ratio for the farm, farm shop and restaurant. [6 marks]
- (b) Explain **one** possible reason for the difference in the value of the Gross Profit Margin for the farm and the restaurant. [4 marks]
- (c) (i) Define the term *profit centre*. [2 marks]
- (ii) Using the figures in the table above and those calculated in part (a), and any other relevant information from the case study, evaluate both of the options offered by *Seagers* and suggest which is likely to be the most effective at improving the financial position of *Organix*. [8 marks]