



88085011



**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 1**

Thursday 6 November 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) Describe **three** of Alison Modano’s responsibilities as the human resource manager for *Organix*. [6 marks]
- (b) Define the term *staff turnover* (lines 117-118). [2 marks]
- (c) Alison Modano is arguing that wages for serving staff in the restaurant should be increased by 35% (lines 126-127). Evaluate her claim “that the resulting lower recruitment and training costs as well as higher productivity will compensate for the higher wage levels” (lines 128-129). [8 marks]

2. (a) Describe **two** elements that you would expect to find in *Organix*’s business plan (line 43). [4 marks]
- (b) With reference to *Organix*, distinguish between strategic objectives and operational objectives. [4 marks]
- (c) (i) Using a SWOT framework, identify **four** opportunities available to *Organix*. [4 marks]
- (ii) Discuss whether *Organix* would be better able to take advantage of **two** of the opportunities identified in part (i) if they converted “from a partnership to a limited company” (line 155). [8 marks]

3. (a) (i) Define the term *mission statement* (line 59). [2 marks]
- (ii) Explain how *Organix*’s mission statement could help them devise an appropriate marketing strategy. [4 marks]
- (b) Prepare a marketing mix for the new farm shop that is scheduled to open in December 2008 (lines 48-49). Your proposals for each element of the mix must be justified. [10 marks]

4. (a) Identify **two** sources of conflict between Terry and the farm workers. [2 marks]
- (b) Examine **two** strategies to help resolve **one** of the conflicts identified in (a). [6 marks]

SECTION B

Answer **one** question from this section.

5. Due to the loss that was made in 2006, *Organix* has commissioned a report from *Seagers*, a firm of accountants. However, due to a breakdown in communication over the deadline for the report, it has been delayed for several months. Max is trying to establish further the cause of the loss and so has collected together appropriate financial documents to prepare some draft accounts. However, the documentation is incomplete and only includes the figures below.

Figures (for year ending 31 December 2006)	\$000
Total sales revenue	975
Gross profit	230
Expenses	265
Net profit before tax and interest	–35
Interest	35
Tax	0
Net profit after tax and interest	–70
Figures (as at 31 December 2006)	
Fixed assets	800
Cash	29
Stock	71
Debtors	50
Current liabilities	64
Net assets	886
Loan capital	745
Retained profit	141
Capital employed	886

(This question continues on the following page)

(Question 5 continued)

- (a) (i) Define the term *gross profit*. *[2 marks]*
- (ii) Using the figures above, prepare the balance sheet (as at 31 December 2006) and the profit and loss account (for the year ended 31 December 2006) for *Organix*. *[6 marks]*
- (b) Using the balance sheet and profit and loss account prepared in (a), calculate the following:
- (i) gross profit margin
- (ii) net profit margin
- (iii) current ratio
- (iv) acid test ratio. *[4 marks]*
- (c) Discuss **two** reasons for *Organix* suffering a loss in 2006 (*lines 137-139*). *[8 marks]*

6. *Organix* has, for many years, relied on employing seasonal unskilled labour for the harvesting of their fruit and vegetables. These workers have been paid on a piece rate basis. *Organix* has found it increasingly difficult to recruit this labour and is considering the purchase of harvesting machinery, which will replace the majority of the seasonal unskilled labour. They are considering two models: the Harvester and the PickIT. The Harvester requires a more substantial investment, but is more flexible and will enable them to pick 65% of their crops. In addition it is easier to operate and involves less training. The PickIT is cheaper to purchase and maintain, has a longer expected life span, but is only capable of picking 45% of their crops.

Machine	Investment cost (\$000)
Harvester	245
PickIT	170

Year	Expected net cash flows	
	Harvester	PickIT
1	55	35
2	65	50
3	75	60
4	85	70
5	100	85

Assuming a discount rate of 8%, the discount factors for 5 years would be:

Year 1	0.926
Year 2	0.857
Year 3	0.794
Year 4	0.735
Year 5	0.681

- (a) Identify **two** variable costs that the *Organix* farm incurs. [2 marks]

 - (b) Comment on the likely impact on the cost structure of *Organix* if the new harvesting machinery is purchased. [4 marks]

 - (c) Calculate the payback period **and** net present value for both the Harvester **and** PickIT machines using a discount rate of 8%. (*Show all your working*) [6 marks]

 - (d) Taking into account financial and non-financial factors, recommend whether *Organix* should invest in the Harvester or the PickIT. [8 marks]
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