

BUSINESS AND MANAGEMENT

Time Allowed – 1.5 hours

**Answer THREE questions – ONE from each Section
 Show all workings clearly.
 State and explain any assumptions which you make.
 Non-programmable calculators may be used.**

SECTION A - Answer ONE question from this section

1. Red and Blue are kitchenware suppliers offering credit. All purchases from suppliers are on credit terms. Whilst all of Red's sales are on credit, a quarter of Blue's sales are in cash and the rest are on credit.

Summary of Key Financial Data 2019

	Red £m	Blue £m
Sales	36	36
Cost of Sales	22	32
As at 31/12/19		
Cash and Bank	2	0
Bank Overdraft	0	5
Long-Term Creditors	5	1
Trade Creditors	1	5
Trade Debtors	3	4
Stock	4	2

You are required to:

- a) Calculate the working capital cycle for each company. **(20 marks)**
- b) Comment on and compare each company's working capital management on the basis of its working capital cycle. **(7 marks)**
- c) Explain the advantages and disadvantages of a business holding stock. **(7 marks)**

(Total 34 marks)

2. The Sandy Bay Hotel has 30 rooms and a total of 45 beds. The standard rate charged is £60 per person per night. The Managing Director is keen to analyse the various factors that may impact on next year's profitability and has provided the price and historical cost data for the accounting period ended 31st December 2019. For next year (i.e. year ended 31st December 2020) he is expecting an occupancy rate of 60%. The tax on profits will be 20%. The variable costs are £20 per person per night and total fixed costs are estimated to be £250,000.

You are required to:

- a) Explain the concept of the Margin of Safety in a situation such as that described in the question.

(5 marks)

- b) Estimate the company's break-even point in units and in sales value. In the light of the Managing Director's expectations, calculate also the company's margin of safety and the expected profit after tax.

(17 marks)

Recent economic events have influenced the initial estimates of operating costs. It is expected that variable costs will rise by 10% and fixed costs by 5%. The Marketing Manager believes that a sales price increase of 2% is the maximum increase that can be passed on to the customers without any loss of business.

You are required to:

- c) Estimate the new break-even point in units and in sales value. Also calculate the new profit after tax and margin of safety.

(8 marks)

- d) Estimate the occupancy rate needed to break-even at the revised cost and charge levels.

(4 marks)

(Total 34 Marks)

3. A manufacturer has not been able to source all the material it requires to produce its three products (A, B and C). The following table sets out the key data.

	A	B	C
Demand (Units)	1,000	2,500	2,000
Unit Price (£)	0.90	1.20	1.20
Materials cost per unit (£)	0.25	0.58	0.75
Labour costs per unit (£)	0.60	0.55	0.35

You are required to:

a) Determine the amount of each product the company should make to maximise profits when only £2,000 worth of material is available.

(17 marks)

b) Explain the nature of and reasons for budgeting and the problems that can arise in preparing a budget.

(17 marks)

(Total 34 Marks)

SECTION B - Answer ONE question from this section

4. 'Economics is about scarcity, choice and opportunity cost.' Explain what this means and give examples to illustrate your answer. How can the principles of choice based on opportunity cost be related to the decisions of parents with small children about whether or not to seek paid employment?

(33 marks)

5. Explain how absolute advantage and comparative advantage differ.

(33 marks)

6. Discuss whether climate change presents an opportunity or threat to businesses in the current business environment.

(33 marks)

SECTION C - Answer ONE question from this section

7. Discuss the positive and negative environmental impacts that tourism can have on a destination. Provide examples to highlight your answer.

(33 marks)

8. In what way does a 'brand' differ from a 'product'?

(33 marks)

9. Define the term 'ethics', apply the discipline to the marketing concept and explain the common ethical norms applied in marketing.

(33 marks)