

# Leaving Certificate Business Higher Level Examination Paper



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## SECTION 1

## Short Answer Questions

Answer eight questions. Each question carries 10 marks.

## 1. Span of Control

This is the number of employees that report directly to their manager/supervisor. A narrow span of control is appropriate when the level of supervision is high because the employees are inexperienced.

2. (a) 

PAYE	Pay As You Earn
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## (b) Two main features of the PAYE tax system:

- (i) There are different tax forms, all available from the Revenue Commissioners, e.g. P12A, P45, P60, P21.
- (ii) It is a direct tax on income earned. It is deducted and collected by the employer from the employee's income (wages).

## 3. (a) Gross Profit €22,000 – Expenses €12,000 = Net Profit €10,000

$$\text{Net Profit \% (Margin)} = \frac{\text{Net Profit}}{\text{Sales}} \times 100 = \frac{10,000}{50,000} \times 100 = 20\%$$

## (b) Net Profit for 2014 = 20%, Net Profit for 2013 = 25%

The Net Profit has decreased by 5 per cent, the firm's profitability has fallen so management could use this information as a reason for deciding to assess and control some costs, e.g. reduce overtime or negotiate better terms from suppliers.

## 4.

1.	True
2.	True
3.	False
4.	True
5.	False

- 5. A **merger** is a friendly agreement where two or more firms merge for their mutual benefit and form a new business entity, e.g. Waterford Foods merged with Avonmore to form Glanbia PLC. A **strategic alliance** is an agreement between firms to promote agreed aims/services but retain their separate legal entities.
- 6. **Storming** occurs and conflict exists as team members disagree on how to achieve agreed goals. There is a lack of teamwork as some insist on their opinions being accepted. **Norming** is where teamwork exists and there is trust amongst the team and constructive opinions are made and considered.
- 7. (a) **Exchange rate** is the price of a currency when expressed in terms of another currency, e.g. €1 = \$1.5.  
(b) (i) If the euro falls in value, exports are cheaper and imports are more expensive. This reduces profit.  
(ii) If the euro increases in value, other currencies are cheaper, exports become more expensive and less competitive sales and profits fall.

## 8.

1.	2.	3.	4.	5.
E	D	F	A	C

- 9. **Primary picketing** is where workers picket the employer directly involved in the dispute. **Secondary picketing** involves picketing another employer/business in order to make the dispute more effective.
- 10. Two methods of promoting intrapreneurship:
  - (i) Bonus payment for employees who suggest new ways to improve the firm's product/service.
  - (ii) Brainstorming meetings between management and staff where those present are encouraged to be creative with suggestions.

Answer four questions from Section 3 as follows:

- One question from Part 1.
  - Two questions from Part 2.
  - One other question from either Part 1 or Part 2.
- All questions carry equal marks.

## SECTION 3

### PART 1

#### People in Business/Business Environment

#### Question 1 – People in Business

##### (A) (i) Investor and Entrepreneur

###### Co-operative Relationship

This is where they both work together to achieve a common goal/aim. The co-operative situation exists where the entrepreneur outlines realistic business plans and assures the investors of a realistic return on the investment.

###### Source of Conflict

This will arise if the investor is dissatisfied with the return on the investment and feels misled by the business plans and profit projections originally outlined by the entrepreneur.

##### (ii) Supplier and Purchasing Manager

###### Co-operative Relationship

This is where the supplier provides top-quality goods and agreeable trading terms to the Purchasing Manager. In return, the Purchasing Manager agrees to the terms offered and makes payments as per the agreement.

###### Source of Conflict

The interest of both sides will conflict over the following issues:

- Quality of the goods supplied.
- Poor after-sales service.
- The purchasing manager is late in making payments.

##### (B) Specific Performance

- This is one of the remedies for a breach of a legally binding contract.
- The court makes an order that the original terms of the agreed contract be carried out.

###### Illustrative

If in a dispute over the sale of land the contract stated that the seller was to vacate on an agreed specified date, then any delay beyond that date would give the buyer the legal right to look for a court judgement for a specific performance.

##### (C) (i) **Employment discrimination** is the treatment of a person in a less favourable way than another person is, has been or would be treated in a comparable situation under nine grounds specified in the Employment Equality Act 1998.

- (ii) 1. Religion – different religious beliefs.  
2. Age – over 18/under 65.  
3. Traveller community – where one person is a member of the Traveller community and the other person is not.

##### (iii) **Role of the Director of Equality Tribunal**

- The role is to investigate and mediate complaints of discrimination in relation to employment.
- It is up to the Director of Equality Tribunal to confirm if the discrimination case is to be heard by either the:

(a) Equality Mediator

OR

(b) Equality Officer

**(a) Equality Mediator**

The process of mediation takes place in private and any agreement reached remains private (it is not published in the media). The Equality Mediator tries to get both parties to discuss the issue and eventually to agree an outcome. In advance of the discussions, they are not legally bound to accept the outcome. Once an agreement is reached then both sides must implement it, i.e. agree to its terms.

If mediation fails then the dispute/issue can be raised to an investigation level, which is then heard by an Equality Officer. In due course the Equality Officer will decide the outcome and issue a legally binding decision. Either party to the dispute can appeal the decision to the Labour Court within 42 days.

**Evaluation**

The role of the Director of Equality Tribunal is very effective in dealing with discrimination cases. The option to resolve disputes in private by the process of mediation is both practical and effective. If mediation fails another avenue through the Equality Officer exists.

**Question 2 – Domestic Environment**

(A) Advantages of a private limited company include the following:

**(i) Limited Liability**

All shareholders in a private limited company have limited liability. If the limited company goes bankrupt their maximum loss is the amount they invested. They are not personally liable for debts like a sole trader.

**(ii) Raising Finance**

Long-term interest-free finance can be raised by issuing shares to shareholders.

**(iii) Tax**

A private limited company pays 12<sup>1</sup>/<sub>2</sub>% tax on its profits. This rate is lower than the tax rate on the profits of a sole trader.

**(iv) Separate Legal Entity**

A private limited company is a separate legal entity which can sue or be sued in its own name.

(B) Economic effects on the Irish economy of the growth in employment include:

**(i) Increased Disposable Income**

The growth in employment results in a direct increase in people's disposable income. Spending on essentials like food and clothes will increase. Discretionary spending on items such as furniture, TVs, home computers and cars will also increase, as people are earning more and may be able to borrow more from the bank or a credit union.

**(ii) Increased Business Sales and Profits**

Firms will see an increase in sales and profits as demand for their goods increases. Some firms who had 'frozen' their prices during the period of big unemployment will now be able to increase prices. As business returns to profit, they will employ more staff on a contract or part-time basis.

**(iii) Tax Revenue for the Government**

Tax is a regular source of finance for the Exchequer. The growth in employment leads to an increase in the amount of PAYE collected by the Exchequer. Increased consumer spending will result in an increase in VAT receipts. Increased company profits will lead to an increase in Corporation Tax receipts for the Exchequer.

**(iv) Government Spending**

- Government spending or social welfare payments for unemployed people will reduce.
- Government spending on areas such as child dependent and old-age pensions may/will increase as the government revenue from direct and indirect taxes increases.
- The government will have more money to spend/invest in job creation projects and attract more FDI to Ireland.

**(C)** A business could operate in an environmentally conscious way as follows:

**(i) Wastage**

The cost of wastage can be minimised by ensuring, where possible, that products can be recycled.

**(ii) Pollution**

Every business involved in manufacturing should use production processes that will not cause pollution and environmental problems. Businesses must adhere to government/EU legislation or environmental protection.

**(iii) Selling into 'Greener Markets'**

'Green consumers' should be identified by field market research. These consumers support environmental issues and also support business that operates in an environmentally conscious way. Business sales and profits increase.

**(iv) Source of Goods**

A business should refuse to use cheap/low-quality raw materials supplied by countries that exploit workers by paying low wages and have poor working conditions.

**(v) Policy**

A business should have a stated policy of being open, honest and transparent in all issues relating to environmental matters. They will be supported by various stakeholders.

**Question 3 – Domestic/International Environment**

**(A)** Reasons why multinational companies (MNCs) may choose to locate in Ireland include:

**(i) Access to the Single European Market**

Having access to the huge barrier-free Single European Market of in excess of 500 million consumers is a big reason for locating in Ireland.

**(ii) Corporation Tax**

Multinational companies pay 12 1/2% Corporation Tax on their profits. This rate is much lower than the Corporation Tax rate in other EU member states. This favourable tax advantage is highlighted by the government when attracting foreign direct investment (FDI) to locate and invest in Ireland.

**(iii) Role of the IDA**

The IDA plays a vital role in attracting foreign direct investment to Ireland. Huge financial grants are available for jobs creation and investment, e.g. Intel received grants in excess of €130 m to locate their computer plant in Leixlip. This firm employs in the region of 5,000 people.

**(iv) Skilled Workforce**

Ireland has a highly skilled pool of 'high tech' people available to work in the MNCs. This was highlighted by Google when locating their head office in Ireland.

**(B) Standardised Marketing Mix**

- The components of the marketing mix are product, price, promotion and place.
- A standardised marketing mix means there is an identical process globally when applying the mix. The product is standardised and mass produced for the global market, e.g. Coca Cola.

**Adapted Marketing Mix**

- This is where some of the components of the marketing mix change in order for the product to meet consumer requirements and be competitive, e.g. the selling price may be changed (non-standardised) in different markets for local reasons, such as different VAT rates or lower competitor prices.

**Global Marketing Mix Product****Standardised**

- Multinational firms like Google sell their standardised product globally.

**Adapted**

- Car manufacturers have to adapt the vehicles to meet legal requirements, e.g. right-hand drive cars/left-hand drive cars.

**Global Price**

- Multinational firms strive to charge a fixed price in each market. This, however, is not always possible for reasons such as economic conditions (austerity impact on consumers' disposable income), different VAT rates and competitors.

**Global Promotion**

- Differences in languages and currency must be considered to promote the product/service. The choice of marketing promotion to be used – e.g. internet, Facebook, global TV, global trade fairs – are suitable when advertising/promoting a global brand, e.g. fashion products.

**Global Place**

- This relates to the global channels of distribution used to get the goods from the producer to the final consumer. One major development in distribution is the growth in online selling of goods advertised on the internet. Selling through agents or forming a strategic alliance for global distribution are also suitable for distribution of the product.

**(C) EU Directives and Regulations**

1. Legislation must first be proposed by the European Commission.
2. It is then discussed/amended and finally agreed by the European Parliament.
3. Finally, it is agreed/adopted by the European Council of Ministers (Council of the EU).
4. The EU Commission is responsible for having the new legislation implemented by an EU Directive or EU Regulation.
5. The European Council of Justice (ECJ) is the EU guardian of all EU laws and ensures they are properly implemented in all member states.

**EU Directives**

- This is a legislative decision of the EU that legally requires all member states to implement and enforce all EU laws.
- Member states will have to change/amend existing national laws within an agreed time limit. This is necessary for the workings of the Single European Market, e.g:  
Waste Framework Directive  
Public Procurement Directive.

**EU Regulations**

- The aim of an EU Regulation is to have an identical law at the same time in all member states, e.g. in consumer laws.
- The EU regulation replaces national law and is legally binding on member states, e.g. Regulations (EU) No. 11692/2011 includes new requirements for the way in which allergen information must be displayed in restaurants, delis, canteens, takeaways and retail outlets.

## SECTION 3

## PART 2

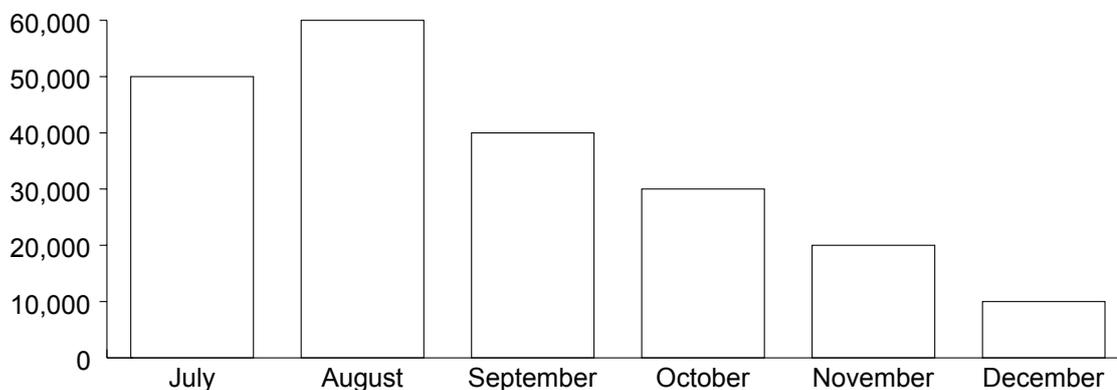
## Enterprise

## Question 4 – Managing

## (A) (i) Projected Sales of a New Water Conservation Product

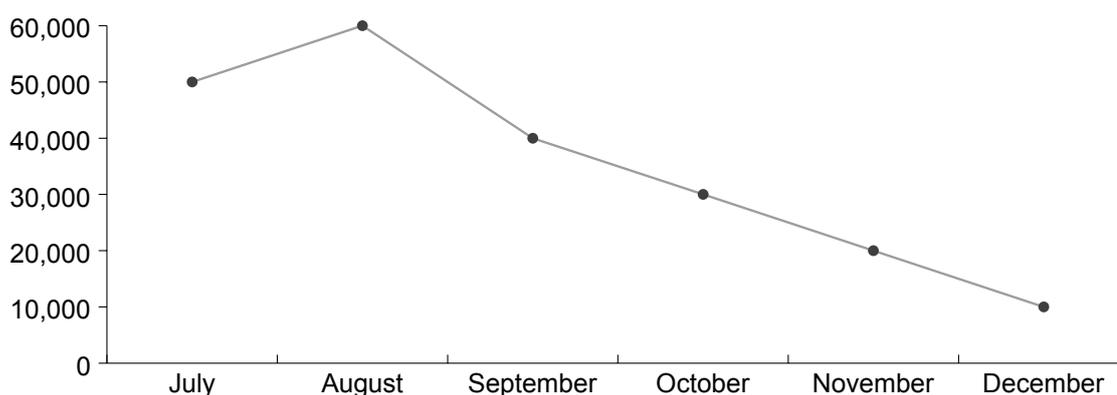
## Bar chart

Projected Sales of a New Water Conservation Product



## Line graph

Projected Sales of a New Water Conservation Product



## (ii) Principles Paul should consider include:

- **For Whom is the Data Intended?**

He must be aware of the intended audiences, and since the data is statistical its accuracy is essential, e.g. Paul O'Brien is due to make a presentation to the Board of Directors.

- **Language**

Technical jargon should not be used when explaining the 'raw data' and its significance/implications for the business. Paul O'Brien should explain the reasons for the projected sales trend in a simple manner.

- **Visual (one picture is worth a thousand words)**

By looking at the bar chart or line graph, each Director can absorb and understand the relevance of the information presented. Statistical information can be difficult to describe but is easier to illustrate, e.g. Paul O'Brien will present the following projected sales data by means of a bar chart or line graph.

## (B) Benefits of a functional organisational structure include:

- **Chain of Command and Authority**

The functional organisational structure shows the chain of command in a business. The line of authority is clear. Orders/instructions come from the top, e.g. Managing Director to subordinates and the response goes back up to the top (MD).

- **Specialisation**

The functional organisational structure enables a business to be organised into departments where each can specialise and maximise its efficiency. The marketing department doesn't involve itself in the workings or problems of the production department but it is essential that separate departments co-operate with each other.

- **Management**

The formal organisational structure prevents a management overload and enables them to develop strategic plans for the business.

- **Accountability**

This structure leads to clarity of roles and accountability. There is a Manager in charge of each department – this person reports to the Managing Director. The accountability flows upwards to the Board of Directors.

(C) Methods used to minimise the risk of bad debts:

- **Credit Limit**

Establish a credit limit for each customer and have an immediate response if it is not adhered to, e.g. a customer may be given a credit limit of €7,000 with payment due after 45 days.

- **Early Payment Incentive**

A financial incentive, e.g. a 5% discount, may be offered to debtors to pay on time. No discount is allowed if the debtor is late in making the payment. E.g. a debtor who owes €7,000 would receive a 5% discount of €350 if payment is made on time.

- **Invoicing**

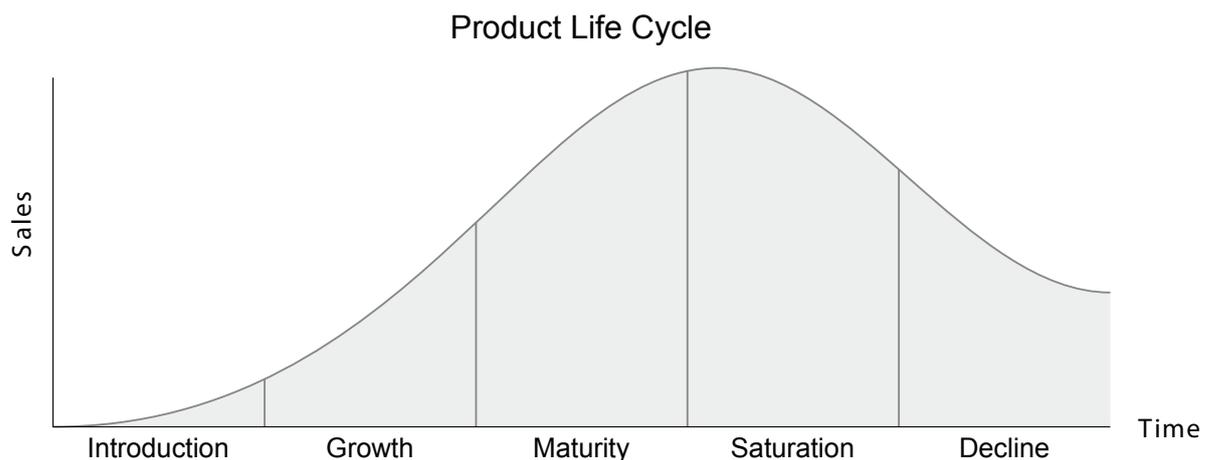
A business should ensure that the invoices are sent out to debtors in time. This stops debtors using 'No invoices received' as a reason for delayed payment. Such debtors should immediately be contacted by email and, if justified, their credit arrangement could be withdrawn.

- **No Credit**

Inform a customer who is continually late with their payments that their credit facility is withdrawn and a policy of cash sales only is all that is available.

### Question 5 – Business in Action

(A) (i) **Product Life Cycle**



(ii) One characteristic of each stage of the product life cycle:

**1. Introduction**

*Characteristics*

- The product is produced to meet consumer requirements.
- A budget is required to launch the product and a tactical pricing policy is required, e.g. penetration pricing – this is a marketing strategy used by a business when launching a new product.

**2. Growth***Characteristics*

- The success of the marketing campaign leads to sales and repeat orders from retailers.
- Stock levels must be adequate to meet the ongoing demand.
- Competitors may react by reducing prices, so the firm's pricing policy must be monitored.
- Consumer reaction to the product must be done by field-study research.

**3. Maturity***Characteristics*

- The product is well established in the market and sales are at a maximum.
- Ongoing advertising and sales promotion is required and, if appropriate, the firm may try to develop export sales through a strategic alliance.
- New competition may exist, so upgrading/redesigning the product may be required.

**4. Saturation***Characteristics*

- The rate of sales increase declines but ongoing marketing is justified to maintain the profit contribution.
- A business may decide to extend the product life cycle by adjusting/changing the marketing mix, e.g. reduce the selling price as part of an extensive promotional campaign.

**5. Decline***Characteristics*

- Consumers see the product as old, so sales and profits decline.
- A firm may decide to allow the product go out of stock.
- It may no longer be profitable to produce the product, advertising should cease.

**(B) (i) 1. Product Screening****2. Feasibility Study****3. Prototype Development****4. Test Marketing****(ii) • Product Screening**

This is the second stage in the development process of a new product. It involves considering all the various factors involved in a new product, e.g. production methods, selling price, projected profits. It enables a business to justify the expense involved in producing a new product.

**• Feasibility Study**

This is the fourth stage in the development process of a new product. It is carried out to accurately know the costs of production, what the break-even point will be and how much the profit will be from projected sales. The outcome of the feasibility study will influence the decision of management to pursue plans to further invest and produce the product.

**• Prototype Development**

This is the fifth stage in the development process of a new product. A prototype of the product is produced and any technical problems will be highlighted and resolved. It is now possible to accurately cost the finished product and confirm it is within budget.

**• Test Marketing**

This is the sixth stage in the development process of a new product. It is done by the marketing department to discover market observation. Results will be relevant in deciding if changes in the marketing mix are required before deciding on product quality and marketing the product to consumers.

(C) The following key issues will have to be addressed:

- **Types of Business Legal Entity**

Lisa O'Brien must decide whether to establish her business as a sole trader or a private limited company. She should get advice on the benefits and negative implications of each type of business. A private limited company provides her with the benefit and security of limited liability. E.g. Lisa O'Brien may decide to invest some of her redundancy money in this business venture.

- **Finance**

Lisa O'Brien must plan the financial requirements of the business. She will require some short-term sources of finance, e.g. bank overdraft, creditors. She may also require medium-term sources, e.g. term loan or leasing to acquire the equipment for production.

- **Production**

Lisa O'Brien must choose the most suitable and cost-effective form of production. Job production and mass production are unsuitable. In this business, batch production is the realistic production method to use, e.g. Lisa O'Brien decided to manufacture individually designed disposable tableware and paper cups for small coffee shops and restaurants.

### Question 6 – Managing

(A) (i) The function of an **insurance proposal form** is for the person seeking insurance to fully disclose all material information so that the insurer can ascertain the risk involved and decide the amount of premium to charge.

(ii) The principle of insurance referred to is Utmost Good Faith (*uberrima fides*):

- Every insurance contract is one of good faith.
- Every question asked must be answered truthfully by the person seeking insurance.
- Giving inaccurate answers will make the insurance invalid, the insured will fail if a claim is made on a risk that was insured.

E.g. a person who loses their licence for a drink-driving offence must disclose this material fact to the insurer when renewing their insurance.

(iii) Two other insurance principles:

- **Insurable Interest**

A person must have an insurable interest in what is being insured. The person must benefit by its continued existence and suffer from its loss. The insured item, e.g. a car must have a monetary value.

- **Indemnity**

The insured person cannot profit from a loss suffered on which a claim is made against the insurer. Under the principle of indemnity, the insurer will only compensate the insured for a loss suffered which was adequately insured.

(B) Benefits of performance appraisal for employees:

- **Wages**

It enables employees to negotiate and justify a wage increase when having the performance review with the HR Manager. This opportunity is of benefit to employees.

- **Ongoing Training**

It allows employees to suggest/highlight where additional training is required for the job to be more efficiently done, e.g. computer training. This training benefits the employees as they are upskilled.

- **Industrial Relations**

Conflicts in the workplace between management/supervisor and staff can be discussed by the employees. The employees' viewpoint may enable management to understand the issue and take steps to resolve it. In turn, this will lead to an improved industrial climate amongst both sides. Employees will benefit from this improvement and will be more motivated in the job.

(C) (i) Reasons Amrod Ltd would prepare a cash flow forecast:

- **Financial Planning**

It will enable the management of Amrod Ltd to plan and project when cash is due into the business and when it can afford to make payments.

- **Raising Finance**

If seeking an overdraft facility or a term loan, the existence of a cash flow forecast would help to influence the bank as it is a form of financial planning.

- **Saving**

It will highlight when the firm has surplus cash that is not required in the short term, so it can be saved in a deposit account and earn interest.

(ii) A = (€10,000)                      B = (€30,000)                      C = (€20,000)

(iii) The financial problems are as follows:

- There is a deficit of €10,000 in October.
- There is a deficit of €25,000 in December.

How Amrod Ltd might deal with the financial problems:

- Negotiate a bank overdraft with the bank for October and December. This is a short-term source of finance to be used for a current reason.
- Leaning on the Trade – this involves seeking an extended payment period of time from the creditors. This may be agreed but at a cost of the loss of some discount.
- Consider a sales promotion for cash sales during October and December. If this was successful the cash receipts would increase and the deficit would be reduced or maybe eliminated.

### Question 7 – Business in Action

#### (A) Product/Service – Digital TV Service

This refers to the product or service being sold to consumers. A guarantee and an after-sales service would have to be available to consumers. E.g. in January 2015, Kurve Ltd launched its new digital television service, *VISION*.

#### Price – of the Digital TV Service

This refers to the price of the service and 'add on' costs of a maintenance contract and whether the service is dearer or cheaper than prices charged by competitors. Consumers/users are very conscious of price but quality and reliability are also factors for consideration. E.g. Kurve Ltd charged a reduced subscription for the first six months.

#### Place – re the Digital Service

This involves using the most suitable and practical system of promotion and distribution of the service to the consumer. Promotion of the service online is a popular and cost-effective way to link up with consumers. Using qualified TV/digital electricians to deliver and install the service would be acceptable to the customer. E.g. orders can be placed directly online.

(B) (i) **Public relations** (PR) refers to the various activities involved in creating an image of a firm's policies, products/services with both its customers and the general public. It involves promoting the name and image of a business in a positive way.

(ii) Methods include:

- **Relationship with the media**

The PRO is involved in issuing press releases to newspapers (local/national), radio, TV and magazines about activities involving the business.

- **Sponsorship**

This involves giving financial support towards the costs involved in a forthcoming local or national event. By being associated with the event, the firm obtains good publicity in the market place. E.g. Eircom was a sponsor for the All-Ireland GAA Senior Football Championship.

- (C) (i) **Market segmentation** involves a business realising that consumers have different profiles so it must clearly identify its target market – e.g. male, female, teenagers, adults – and the disposable income available for spending. It is essential in order that the marketing strategy and marketing promotion be relevant and cost effective.
- (ii) Methods to be used include:
- 1. Consumer Income Levels**
    - If the product is highly priced (e.g. a sports car) this will focus the marketing manager to target those customers with its marketing strategy.
    - High disposable income levels is also associated with niche markets, e.g. advertise the sports car in a car supplement in the *Irish Times*.

## **2. Geographic/Regional Locations**

Is the market for the product being advertised locally, regionally, nationally or internationally? The bigger the potential market the bigger the potential sales, so the marketing strategy has to be relevant. E.g. hotels advertising holiday breaks would advertise in a national newspaper rather than a local newspaper.

## SECTION 1

## Short Answer Questions

Answer eight questions. Each question carries 10 marks.

- Two benefits of local business for a local community:
  - Jobs are created in the area so there is an increase in the amount of money earned and spent.
  - An improvement in the commercial life of the area so there is increased sales and profits for local business, e.g. hotels, taxi businesses, etc.
- |   |   |   |   |   |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| B | F | D | A | C |
- Protectionism is where a country protects its domestic industry by imposing barriers on imports by using tariffs, quotas, subsidies and embargoes. It protects employment in domestic firms that cannot compete with imports.
- Two rights of a Data Subject under the Data Protection Acts 1988 and 2003 are:
  - They have a legal right to access information about them that is kept on file by the employer.
  - They can complain to the Data Protection Commissioner if an employer is in breach of the Act.
- (a) Interest rate is the cost of borrowing money for a bank, e.g. 5% – this means that a borrower pays 5% interest to the bank on the loan they receive. It also relates to the percentage earned by saving in a Deposit account.  
 (b) Two possible economic impacts of low interest rates include:
  - It is cheaper for businesses to borrow money for expansion purposes.
  - It helps to keep inflation rates low, which in turn increases consumer demand and business sales.
- |     |                            |
|-----|----------------------------|
| FDI | Foreign Direct Investment  |
| HRM | Human Resources Management |
| USC | Universal Social Charge    |
| ECB | European Central Bank      |
| CGT | Capital Gains Tax          |
- (a) Democratic style of leader  
 (b) A democratic leader will consult with the workers as to why the change is necessary, how it will impact on them and take their viewpoint on board, in order to get their support.
- Two functions of the Labour Relations Commissions are:
  - To provide a Conciliation Service to resolve a dispute between employer and employee.
  - To appoint a Rights Commissioner to investigate a dispute when only one worker is involved.
- A strategic alliance is where two firms jointly co-operate with each other, but retain their separate trading identity. Increased profit is the motive.  
 A takeover is when a business buys at least 51% of the voting shares of another business, thus controlling its operation.
- (a) Total Revenue = €300,000 [€60,000 × €5]  
 (b) Total cost of production = €168,000 [€48,000 + (€2 × 60k)]  
 (c) Profit at forecasted output = €132,000 [€300,000 – €168,000]  
 (d) Breakeven point in units = 16,000 units [€48,000 ÷ (5-2)]

Answer four questions from Section 3 as follows:

- One question from Part 1.
  - Two questions from Part 2.
  - One other question from either Part 1 or Part 2.
- All questions carry equal marks.

## SECTION 3

### PART 1

#### People in Business/Business Environment

#### Question 1 – People in Business/Business Environment

(A) (i) Three factors that can lead to industrial disputes:

1. Dispute over wages  
This can arise when unions seek a wage increase for their members and the employers refuse to agree to their request/demand.
2. Dispute over redundancy payments  
Workers being made redundant are legally entitled to redundancy payments. If unions/employers do not agree on the amount of the redundancy payment, it can lead to an industrial dispute with the employer.
3. Dispute over a worker being dismissed  
A dispute will arise if a worker is dismissed in breach of the terms of the Unfair Dismissal Act.

(ii) Two types of industrial action:

1. Official Strike  
This action is organised in line with the provision of the Industrial Relations Act 1990. A secret ballot is held and the employer must be given at least one week's notice of the strike.
2. Work-to-rule  
This is an alternative to going out on official strike. In a work-to-rule, the workers carry out their functions as per the contract of employment, but no more and no overtime. This approach reduces output and can adversely affect profits.

(B) The role of any two interest group in business.

1. Employees' interest group – ICTU  
This is a permanent interest group, the role of which is to influence the government on issues such as wages, taxation and government policy. They also try to influence decisions made by the EU.
2. Consumers interest group – CAI  
The role of the Consumer Association of Ireland is to promote and protect the interests of consumers. Through its magazine, 'Consumer Choice', it regularly updates its members on issues such as the Consumer Protection Act and EU consumer legislation, and directives that are relevant to consumers in Ireland.

(C) (i) Merchantable Quality

When consumers buy goods, they assume that they are of merchantable quality, i.e. that they are fit for normal daily use. For example, if a new dishwasher, which cost €400, breaks down after one week's use, it is a faulty dishwasher and is not of merchantable quality. In this case, the customer can seek a refund or a replacement dishwasher, or have it repaired.

(ii) Guarantees

Under the terms of the Sale of Goods and Supply of Services Act 1980, every retailer is responsible for the guarantee given by the manufacturer of the item sold. Any consumer who is dissatisfied with a faulty item sold by the retailer can insist on the retailer or manufacturer honouring the guarantee given with the product. The guarantee in law is an extra protection and legal right given to the consumer. The guarantee is very important to the consumer where costly items are involved, e.g. car, computer, etc.

**(iii)** Signs limiting consumer rights

Consumers have legal rights and retailers cannot diminish those rights by putting up signs that are in breach of the Sale of Goods and Supply of Services Act 1980. Signs such as 'Credit notes issued for exchanged goods' or 'No liability accepted for faulty goods purchased in this shop' are illegal. When a customer complaint is valid, the retailer that sold the faulty item is legally responsible for resolving the problem. The customer is legally entitled to a choice of repair, replacement or refund for the faulty item sold.

**(iv)** Unsolicited goods

This is referred to as Inertia Selling. It involves a seller sending goods to a customer who has not ordered them and seeking payment for them. In such a case, a consumer's legal rights are as follows: The person may keep the goods without paying for them if:

**(a)** they are not reclaimed after 6 months, provided the consumer has not unreasonably stopped the sender from collecting them **OR**

**(b)** they are not reclaimed 30 days after the consumer writes to the sender, stating that the goods were unsolicited and tells the seller when they can be collected.

**NB:** it is illegal to demand payment from a consumer for unsolicited goods.

**Question 2 – Domestic Environment****(A)** Opportunities and challenges of privatisation for the Irish economy

Opportunities:

**(i)** Revenue for the Exchequer

The government receives huge sums of money from the sale of state-owned enterprises. This revenue can be used for capital expenditure purposes, e.g. roads. Such activity will create jobs.

**(ii)** Reduction in state borrowing

The revenue received can be used by the government to reduce future borrowing requirements or perhaps reduce some indirect taxes.

Challenges:

**(i)** Profit motive

The main objective of private enterprise is to make profit. A state-owned enterprise may be unprofitable but is subsidised by the government. If it is privatised, the new owner may increase prices to consumers and trim costs by reducing the workforce. This is a challenge for the economy.

**(ii)** Lack of social commitment

Private enterprise will not have the same social commitment as a state enterprise. This will adversely affect consumers, as unprofitable services will be reduced or cease, e.g. postal services in rural areas.

**(B)** Reasons why a person might choose a franchise model of business include:**(i)** Cost

It is cheaper to set up a franchise business than a new business.

**(ii)** Economies of scale

Big savings can be made in store, e.g. layout, advertising and bulk stock purchasing.

**(iii)** Risk

There is less risk of failure as the franchise is established nationwide, due to its high profile name, e.g. Eason.

**(C)** Industrial Development Authority (IDA)

The main role of the IDA is to attract Foreign Direct Investment to set up in Ireland. It has been very successful in its role as it has attracted multinational companies such as Intel and Google to invest heavily in Ireland. They employ huge numbers of workers and positively impact on the Balance of Payments.

Enterprise Ireland is a government agency whose main role is to develop indigenous firms to set up business in Ireland and sell to both the domestic and export market. It provides financial support for research purposes, specifically in the IT areas. It also provides research to explore the export markets and helps to organise foreign trade fairs and trade missions to explore global markets.

### Question 3 – Domestic/International Environment

#### (A) (i) Global Business

Global business is where big firms realise that the world is really a single trading market, where standardised goods are mass produced and the product and brand names are recognised worldwide. The majority of sales are to global markets, i.e. exports such as Coca Cola and Intel.

#### (ii) Effects of globalisation on the Irish economy

##### 1. Balance of Trade

Growth in exports is limited to big firms that are able to successfully compete globally. Increased export sales have a positive impact on the balance of trade, e.g. increased exports by Kerry Group PLC.

##### 2. Jobs

Many global firms located in Ireland in order to have access to the “barrier-free” Euro market. They have created many jobs. This has a positive impact on the commercial life of the areas where the companies are located, e.g. Intel employs over 5,000 people in Co. Kildare.

##### 3. Taxation

Foreign global companies based in Ireland pay 12.5% corporation tax on their profits. E.g. in 2013, the exchequer received over €21 billion in taxes from global companies.

#### (B) Legislature process of the EU.

(i) The EU Commission proposes draft (new) legislation after a detailed consultation process with member states and a wide range of interested parties.

(ii) The proposals from the EU Commission are then discussed by the European Parliament. The views of interested stakeholders, including lobbyists and special interest groups, are considered. If amendments are to be made, the draft proposals must be returned to the EU Commission to redraft them and return them to the EU Parliament.

(iii) The legislation is eventually adopted by the Council of Ministers. Each EU member state accepts that the new EU law must take precedence over its own legislation. Legal instruments, such as regulations and directives, are used to ensure that the new EU law is implemented in all member states.

(iv) The European Council of Justice (ECJ) is the EU guardian of all EU laws and ensures that the laws are properly implemented in all member states.

#### (C) (i) European Monetary Union (EMU)

Impact on Irish business:

- The use of the Euro as a common currency greatly facilitates financial dealings for both importers and exporters within the Eurozone. There are no currency fluctuations in the Eurozone and this facilitates economic investment and growth.
- Price transparency exists as prices in the Eurozone are only quoted in Euros. This encourages business to be conscious of the advantage of advertising prices that give them an advantage over competitors.

#### (ii) EU Competitions Policy

- This makes it illegal for very big firms to abuse their dominant position. This allows for Irish businesses to compete in the EU market; they will survive if they are competitive.
- This also bans the formation of cartel agreements, where some competitors collude in order to keep prices high by restricting normal competition. Firms that are in breach of this policy can be heavily fined.

**(iii)** EU Social Charter

The impact of the social charter on Irish businesses includes:

- the rights of employees to fair wages, proper working conditions and safety at work.
- employees cannot discriminate between male and female in job offers, promotions, etc. and all employees have the right to engage in collective bargaining.

**SECTION 3****PART 2****Enterprise****Question 4 – Managing****(A) 1.** Statutory meeting

This is the first meeting of the shareholders in a new company and its functions are as follows:

- (a)** To give a copy of the Memorandum of Association and Articles of Association to the shareholders
- (b)** To give/issue a Share Certificate to each shareholder
- (c)** To appoint the company directors and auditor
- (d)** To agree the opening of a bank account for the company

**2.** Annual General Meeting

The function of the AGM is as follows:

- (a)** To allow the chairperson of the board of directors to inform the shareholders about the financial position of the company, its profits for the year and its plans for the future
- (b)** To consider the auditor's report for the year and the appoint auditors for the coming year
- (c)** To allow the shareholders to question the directors about the company's trading performance for the year
- (d)** The final item on the agenda for the AGM is AOB (any other business). This allows shareholders to raise questions on any issue not listed on the agenda

**3.** Formal Board Meetings

The function of board meetings which are held on a regular basis, e.g. one per month, include the following:

- (a)** To enable the Managing Director to update the directors on sales, profits and how they compare to the budget for the year
- (b)** To discuss market trends and their impact on the company

**(B)** Developments in technology have benefitted business communications as follows:**(i)** Video-conferencing

This facilitates holding a business conference with management in different countries and is regularly used by multinational companies. It is a fast and cost-effective way to communicate.

**(ii)** Speed

It is faster for management to communicate with staff due to access to email, mobile phones, sending texts, etc.

**(iii)** E-business

Improved technology enables e-business to be developed where business can be transacted, electronic payment can be facilitated and global advertising can be arranged.

**(iv)** Online business

Technology has also led to the development in online services, such as airline booking.

**(v)** EPOS

The Electronic Point of Sales enables business to record sales automatically, thus ensuring an accurate system of stock control. Re-ordering of stock is therefore timely and accurate.

(C) The different stages in Maslow's hierarchy of needs.

1. Physiological needs

These are the essential physical needs for workers to have, such as food, clothing and income.  
E.g. 3 Dimensions Ltd offers competitive salaries to its employees.

2. Safety/Security needs

These are the needs employees like to have: job security, employment contracts, pension.  
E.g. 3 Dimensions Ltd is committed to providing a safe and healthy work environment.

3. Social needs

These needs can be met through regular meetings both at work and socially, so that employees feel that their work is appreciated.

E.g. Dimensions Ltd holds weekly team meetings, enhancing the workers' sense of belonging.

4. Esteem needs

This is where employees are rewarded by promotion, new job titles, etc.

E.g. 3 Dimension Ltd recognises and rewards staff achievement.

5. Self-actualisation needs

These needs can be met by enabling ambitious employees to do well in the job and progress in their career.

E.g. 3 Dimensions Ltd provide opportunities for staff to develop new skills and experience new challenges.

### Question 5 – Managing

(A) (i) Internal Recruitment

This involves filling a vacancy for the existing workforce, i.e. promoting from within.

Benefits of internal recruitment:

- It is quicker and cheaper to fill the vacancy and no costs are incurred in advertising the position to newspapers or through a recruitment agency.
- It is a good way to motivate the staff, knowing that promotion from within is the policy when vacancies arise.

External Recruitment

This involves filling a vacancy by advertising it externally and not offering the job to an existing employee.

Benefits of external recruitment:

- The business may require a person with certain skills, e.g. computer skills. Such skills may not exist within the existing staff, so the firm has no option but to fill the vacancy by external recruitment.
- It may be easier for an external person with experience to introduce changes in how the business is run.

(ii) Job Description

A job description outlines the information that will attract suitable candidates to apply for the job. Its contents include the following:

- the job title, e.g. marketing manager
- qualification and experience required
- salary and bonus

A good job description should attract the best person to fill the vacancy.

Person specification

This outlines the qualifications (academic qualification – a degree), experience and skills the successful candidate must have. It stops people who are unsuitable from applying for the job.

**(iii) Job interview**

- The Human Resources manager usually interviews candidates for the job.
- The objective of the interview is to determine the person's suitability for the job. Questions will be asked to ascertain how he person will impress the employer, manage/interact with staff and be part of a team. This process will enable the best candidate to be chosen to fill the vacancy.

**(B) (i) Debt/Equity Ratio is the ratio of debt capital to equity capital.**

- debt capital is long-term capital/debt/source of finance, e.g. Debenture.
- Equity capital is the ordinary share capital of a company.
- If debt capital is greater than equity capital, the company is highly geared.

**(ii) Debt/Equity Ratio for 2013**

Debt capital	:	Equity capital + Retained Earnings
€200,000	:	€450,000 + €150,000
€200,000	:	€600,000
1	:	3 (or 0.33:1)
		Highly Geared

**(iii) The Debt/Equity Ratio is important when deciding on new resources of finance for the following reasons:**

- (a)** If the Debt/Equity Ratio is high, lenders may be reluctant to provide additional debt finance to the company.
- (b)** Because the risk is greater, the security required by the lender may not be available.
- (c)** In this case, the Debt/Equity is low and additional finance can be raised by issuing shares to the value of €450,000, because the Authorised Share Capital is twice the Issued Share Capital.

**(C) 'Underinsured' is where a risk is insured for an amount less than its value.**

E.g. a business premises that is insured against a firm for €250,000, but is worth €400,000, is underinsured.

Effect of being underinsured:

In the event of a claim being made for loss suffered, the insured person will not receive the full value of the loss from the insurer. This is known as Average Clause. Under the Principle of Indemnity, the insured cannot profit from a loss. The Average Clause applies when a partial loss occurs. Being underinsured could cause a major financial problem for a business if, e.g. the premises is destroyed by fire and it was underinsured.

**Question 6 – Managing/Business in Action****(A) (i) Job production****(ii) Two challenges:**

- The use of highly-skilled labour, earning high wages, is required because of the nature of the product. E.g. Sarah Fleming specialises in creating unique wedding dresses.
- The product cannot be made in advance. The order must be received before production commences. Since the selling price is high, the specific requirements of the customer must be met. E.g. there is an emphasis on a personal service.

**(iii) Implication of changing to another type of production process.**

- (a)** She would not be able to meet the unique requirements of some customers so sales would be lost to competitors.

**(b)** A positive implication is that if she adopted a Batch Production process, she could produce stock in advance, reduce her selling prices and attract more customers. Labour costs would be lower and sales and profits may increase. A better stock control system would be required.

**(B)** Three factors to be considered:

**(i)** The size of the loan and why it is required.

E.g. Sarah has applied for a bank loan of €10,000 to finance expansion.

**(ii)** The nature of the business, what does it sell and has it a good customer base.

E.g. Sarah works in the bridal and clothing industry.

**(iii)** Ability to pay back the loan will always be considered by the bank.

E.g. According to Sarah, business is good. The bank records on the firm's bank account will confirm this.

**(C) (i)** Short-term finance is due for repayment within one year. It should be used for short-term purposes.

**(ii)** Two sources of short-term finance Sarah may consider are:

– Creditors

This involves buying the new material from suppliers who give credit, e.g. 60 days. This is a cheap source of finance, as there is no interest cost involved. No security is required as the goods are supplied with reservation of title to the supplier.

– Bank overdraft

This involves the bank giving permission for Sensible Foods Ltd to overdraw its current account up to an agreed amount, e.g. €10,000. Interest is charged on the amount of the overdraft availed of. It is often used by a firm to pay its creditors.

### Question 7 – Business in Action

**(A)** The role and function of advertising is to inform potential customers about the availability of new and existing products, their price and where they are available for sale. Hopefully the advertising will entice people to buy the product/service. This is known as informative advertising. E.g. Sensible Foods Ltd are advertising their new range of low calorie confectionery products on national local radio.

Evaluation

It is my opinion that frequent extensive advertising is an effective way to reach a huge audience of potential consumers.

Sales promotion is a short-term marketing strategy that attracts consumers to buy the product because an additional incentive/benefit exists, e.g. 2 for the price of 1. They are used to target consumers in order to increase sales in the short-term and hopefully maintain the sales on an ongoing basis. For example, Sensible Foods Ltd advertised special offers for their new range of low calorie confectionery products.

Evaluation

Sensible Foods Ltd is a new business and it is my opinion that using sales promotion techniques is an effective way to get sales for its new range of products.

**(B) (i)** Factors to consider when choosing a suitable channel of distribution for its products.

– Cost of Distribution

Sensible Foods Ltd is a new company, so the cost of using an external nationwide distributor has to be considered. This cost has to be compared to the cost of buying its own delivery vehicles and employing staff. It will be more cost-effective to deliver their orders to a leading supermarket chain like Goodbuys.

– Nature of the product

Since the goods are a range of confectionery products, they will have a sell-by date, so speed of delivery is vital.

- (ii) One positive feature of using a leading supermarket chain to sell its product is that a chain will bulk buy and prominently display the range of products. They may use sales promotion techniques to attract customers. The potential for big sales exists, as the supermarket has a chain of shops so the goods will be advertised nationwide.

One negative implication of using a supermarket is that they may require big discounts and a long period of credit (e.g. 90 days). A new company like Sensible Foods Ltd may not be able to afford to offer such trading terms.

(C) Three challenges facing business start-ups:

1. Target market

The target market for the product/service you wish to sell. It may be necessary to do market research before deciding on the product/service to promote. The popularity of competitor's product must be considered.

2. Finance

How much will it cost to set up the business, rent premises, employ staff, produce, promote and distribute the product? Can the owners of the business borrow the necessary finance to set up the business? Will credit be available from suppliers?

3. Ownership structure

Will the new business be set up as a sole trader, partnership or private limited company? The importance of limited liability must be understood and considered. The other advantages and disadvantages of the different forms of business unit must also be considered, e.g. a sole trader has unlimited liability.

## SECTION 1

## Short Answer Question

Answer eight questions. Each question carries 10 marks.

1. (10 marks (6 + 4))

Two characteristics of a Private Limited Company

(i) **Limited liability**

Shareholders are only responsible for the company debts if it goes bankrupt only up to the amount they invested.

(ii) **Continuity of existence**

The company continues to trade after the death of a shareholder.

2. (a) (4 marks)

NCA = **National Consumer Agency**

(b) (6 marks (2 x 3 (2 + 1)))

Two functions of the NCA

- (i) To protect the interest of consumers by providing them with information on their rights when purchasing goods and services.
- (ii) To investigate complaints of misleading advertising of selling prices and where relevant to enforce on-the-spot fines.

3. (10 Marks ((A = 7 marks, B = 3 marks)

(a) (7 marks)

Current ratio = Current assets : Current liabilities (1)

Current assets	= Debtors	€12,000 (1)	
	Cash	€15,000 (1)	
	Stock	<u>€8,000 (1)</u>	<u>€35,000</u>
Current liabilities	= Bank (O/D)	€20,000 (1)	
	Creditors	<u>€50,000 (1)</u>	€70,000

Current ratio = CA : CL  
 = €35,000 : €70,000  
 = 0.5 : 1 (1)

(b) (3 marks)

- (i) Santry Ltd has a liquidity problem and cannot pay all its current debts as they fall due.
- (ii) The firm is overtrading, its current ratio of 0.5:1 is well below the acceptable ratio of 2:1.

## 4. (10 marks (3 + 3 + 2 + 1 + 1))

Sentence		True or False
1.	Batch production is used when making a single, one-off, unique product.	<b>False</b>
2.	In a hire purchase agreement, legal ownership of the good transfers to the buyer when the first instalment is made.	<b>False</b>
3.	A cash flow deficit can be addressed by negotiating a shorter period of credit with debtors.	<b>True</b>
4.	A sole trader is an ownership structure that benefits from limited liability.	<b>False</b>
5.	When a company's equity capital is greater than its debt capital, it has low gearing	<b>True</b>

## 5. (10 marks (6 + 4))

(i) **Cost**

It will cost money to set up the website, buy a business domain name and train staff in its use.

(ii) **Communication**

It is a fast and cost effective way to deal with suppliers, customers, staff and banks.

## 6. (10 marks (2 x 5 (3 + 2 (1 + 1))))

**Fixed costs**

These are incurred and remain the same whether the production (output) level is low or high, e.g. rent.

**Variable costs**

These vary and are directly related to production (output) levels, e.g. energy costs.

## 7. (10 marks (6 + 4))

- (i) Constructive dismissal can arise when the working conditions of an employee are made so difficult by management that the employee can no longer tolerate it and leaves.
- (ii) The employee can then claim for an unfair dismissal under the Unfair Dismissals Act 2007.

## 8. (10 marks (3 + 3 + 2 + 1 + 1))

1	2	3	4	5
<b>E</b>	<b>F</b>	<b>D</b>	<b>A</b>	<b>B</b>

## 9. (10 marks (2 x 4) + (1 x 2))

**Directive**

- An EU directive is a legal act of the EU.
- It is used to ensure all member states implement and enforce EU laws.
- Example: Directive on Product Liability.

**Legislation**

- Any EU legislation is legally binding on all member states and immediately replaces national laws.
- It unifies the laws in all member states and can be enforced by EU institutions.

## 10. (10 marks (2 x 5 (3 + 2)))

- (i) Workers are demotivated and lazy, morale is low so they will require ongoing supervision and training.
- (ii) As most workers are not ambitious, management should offer them an attractive bonus in order to improve both quality and output.

Answer four questions from Section 3 as follows:

- One question from Part 1.
- Two questions from Part 2.
- One other question from either Part 1 or Part 2.

All questions carry equal marks.

## SECTION 3

### Part 1

#### People in Business/Business Environment

#### Question 1 – People in Business

##### (A) (20 marks)

(i) **Marking scheme:** Explanation = 6 marks (4 + 2)

1. Data protection relations to the means by which a person's privacy rights are safeguarded in relation to the processing of any personal information.
2. It ensures that all personal information (both automated and manual) is accurate and only retained on a system for as long as is necessary.

(ii) **Marking scheme:** Functions = 14 marks = 2 x 7 (4 + 3)

The functions of the Data Protection Commissioner include:

1. To maintain a Register of Data Controllers.
2. To issue enforcement orders where breaches of the act occur. This includes serving a legal notice which compels a data controller to supply proof that incorrect data on a person has been corrected.

##### (B) (20 marks)

(i) **Marking scheme:** 10 Marks = 4 x 2 + 2 for evaluation

#### Small Claims Court (Procedure)

- It deals with claims by personnel consumers and/or a business relating to the purchase of faulty goods/services up to a maximum claim value of €20,00 (this figure is subject to change).
- It is a fast and low-cost service that aims to provide a fair solution to a minor dispute without either party having to engage the services of costly legal representation.
- The person who makes the consumer complaint is called the 'applicant', this person must complete an application form which can be obtained in the District Court from the Small Claims Register.
- The person against whom the complaint is made (i.e. the smaller the goods/service) is called the 'respondent'.
- The Small Claims Register will make a recommendation to resolve the problem, this is not legally binding and the decision can be appealed to the District Court.

#### Evaluation

In my opinion the Small Claims Court (Procedure) is a very sensible and successful way to resolve 'low value' consumer complaints. In practice, its success rate in resolving disputes is in the region of 80%.

(ii)

**Marking scheme:** 10 marks = 4 + 4 + 2 for evaluation

The LRC is responsible under the Industrial Relations Act 1990 to promote suitable industrial relation policies and procedures that will help in settling trade disputes.

Its functions include:

1. Providing an Industrial Relations Conciliation Service.
2. Providing an Industrial Relations Advisory Service that will highlight issues that cause industrial relations problems.
3. Nominating a Rights Commissioner to investigate a dispute involving one or a small number of employees.

### Evaluation

In my opinion the LRC has succeeded in its important role for promoting improved industrial relations policies and reducing the number of disputes being referred to the Labour Court. Statistics published by the LRC reveal that it has a 90% success rate in resolving industrial problems.

(iii)

**Marking scheme:** 10 marks = 4 + 4 + 2

- The EAT is an independent body which is responsible for implementing the statutory rights of employees in their employment and industrial relations rights, e.g. an unfair dismissal claim.
- The decision given by the chairman of the EAT is called a determination and is binding on both parties to the dispute.

### Evaluation

In my opinion the EAT has a successful track record in resolving industrial conflict. This is supported by the fact that its decision can only be appealed to the High Court on a point of law.

(C) (20 marks)

#### Marking Scheme:

Agreement: 8 marks (3 + 3 + 2)

Legality of firm: 6 marks (3 + 3)

Consideration: 6 marks (3 + 3)

### Agreement

This is one of the elements of a valid contract and it involves offer and acceptance.

An offer is not a contract and it can be made orally, in writing or by conduct.

The acceptance has to be identical to the offer, it must be accepted in time and it can be accepted orally, in writing or by conduct.

#### Example

Offer: Mary offered to purchase David's house for the advertised price for €250,000.

Acceptance: David accepted Mary's offer of €250,000 for the house he advertised.

### Legality of form

In order for the contract to be legally binding, some of them must be in writing.

#### Example

The contract for the sale of David's house to Mary for €250,000 must be in writing.

Insurance policy contracts must also be in writing.

### Consideration

This is something of value that is given by the buyer to the seller in a business transaction. It is usually in the form of money.

#### Example

David received €250,000 from Mary when he sold her the house. The €250,000 is the consideration.

**Question 2 – Domestic Environment****(A) (20 marks)**

**Marking Scheme:** Four points: 5 marks each

**Opportunities of partnership**

1. Up to twenty partners can invest in the business. This enables the business to have good financial backing to develop the business.
2. Better decision making will arise because business problems can be discussed between the partners.

**Challenges of partnership**

1. A partnership business has unlimited liability for its owners, this may make it difficult to attract more partners to invest in the business.
2. The profits have to be divided between all the partners as per agreement.

**(B) (20 marks)**

**Marking Scheme:** Four points: 5 marks each (2 + 3)

**The role of government in encouraging business****1. Taxation**

A reduction in direct and indirect tax will stimulate business activity and encourage business, e.g. reducing VAT on goods reduces costs to consumers and will lead to increased sales for business.

**2. State capital expenditure**

Increase in state capital expenditure on infrastructure projects, e.g. roads and schools, will create more jobs, increase disposable income and consumer purchases and will encourage business to expand.

**The role of government in regulating business**

The government regulates business through the existence of legislation that protects the different stakeholders. For example:

**1. Companies Acts 1963–2009**

Every entrepreneur setting up a new company must adhere to the rules outlined in the above legislation.

**2. Sale of Goods and Supply of Services Act 1980**

Every business must be aware of its legal rights under the above legislation when selling to customers. Consumers are also protected under the Consumer Protection Act 2007.

**(C) (20 marks)**

**Marking Scheme:** Four points: 5 marks each (2 + 3)

**1. E-business**

Technology has enabled e-business to expand as it facilitates consumers of products, such as books, and services, such as online booking.

**2. Additional indirect taxes**

New taxes, e.g. the property tax, reduces the amount of disposable income of house owners, leading to a reduction in sales and profits for shops.

**3. Recession**

The severe recession has led to the closure of many small, medium and large firms. In some cases, liquidators have been appointed and suppliers have incurred bad debts. Many employees (in some cases long-serving ones) have lost their jobs when well-established businesses closed down.

**4. ICT**

The existence of a highly skilled workforce enables firms to modernise and compete with global firms. It has also helped to attract foreign investment to Ireland, e.g. Paypal in Dundalk.

**Question 3 – Domestic/International Environment****(A) (20 marks)****(i) Balance of trade**

This is the difference between the total value of a country's visible exports, e.g. beef, and its visible imports, e.g. oil, for the same period of time, e.g. one year.

**Balance of payments**

This is the difference between the value of a country's total exports (visible and invisible) and its total imports (visible and invisible) for the same period of time, e.g. one year.

**(ii)**

	<b>2012</b>	<b>2011</b>
Balance of trade	€10,004m	€9,660m
Balance of invisible trade	(€6,669m)	€9192m
Balance of payments	<b>€3,235m</b> <b>Surplus</b>	<b>€4,68m</b> <b>Surplus</b>

**(iii)** Invisible exports relate to the amount of money spent by visitors to Ireland on services rather than on products. For example, money spent by foreign tourists in Ireland.

**(B) (20 marks)****Opportunities facing large indigenous companies in exporting to non-EU countries**

1. There is the potential for increased export sales to countries such as Brazil, India and South Africa.
2. There is the potential for improved economics of scale thus enabling the firms to become more competitive in the global market. Such firms become less dependent on Ireland's small open economy.

**Challenges facing large indigenous companies in exporting to non-EU countries**

1. A major challenge is for those firms to control all its costs in order to be able to compete with firms operating in non EU countries.
2. There is the challenge to ensure that employees have the appropriate IT and language skills so that firms can avail of the profitable business opportunities that exist.

(C) (20 marks)

**Marking scheme:** Four points: 5 marks each (2 + 3)

### Benefits

1. **Barrier-free access**

Irish exporters have barrier-free access to sell into all EU member states. This benefits the economy as exports improve the balance of trade.

2. **EU Financial assistance**

The economy continues to receive financial assistance from EU structural funds for spending on infrastructure projects.

3. **Public procurement**

Irish firms are entitled to tender for all EU government contracts valued in excess of €50,000. Every firm that successfully tenders will increase its profits. The economy benefits from increased tax revenue from corporation tax and PAYE revenue from the employees tax.

4. **Single currency**

The use of the euro in the eurozone has certainly led to price stability. This was good for consumers. It also encourages foreign investment into the economy and this is good for job creation and business expansion.

## SECTION 3

### Part 2

### Enterprise

#### Question 4 – Enterprise/Managing

(A) (20 marks)

(i)

**Marking scheme:** 6 marks (4 + 2)

**Intrapreneurship** relates to employees involved in entrepreneurial activity within a business. They are not risk takers but they suggest new ideas or approaches to improve how things are done.

(ii)

**Marking scheme:** 14 marks (2 x 7 (4 + 2 + 1))

#### Methods of promoting intrapreneurship

- **Empowerment of employees**

This helps to encourage creativity as workers are given more responsibility in decision making and problem solving issues that arise. It gives them more authority, so they feel more important and many of them will respond with positive suggestions.

- **Financial incentive**

This involves financially rewarding employees whose suggestions are implemented by the business, e.g. a bonus.

**(B) (20 marks)**

**Marking scheme:** Four points: 5 marks each (2 + 3)

**Benefits of a matrix organisation**

1. It enables the best use to be made of the expertise and skills that exist amongst management and staff.
2. It enables a specific project such as the introduction of ebooks to be implemented in a cost effective manner.

**Challenges of a matrix organisation**

1. Management must ensure that members of the project team are clear on the authority of the Project Manager as against the role of the Functional Manager. Steps must be taken to ensure there is no confusion and conflict between them.
2. All the required training must be given to employees to improve their communication skills in order for the firm to maximise the benefits of teamwork.

**(C) (20 marks)****Marking scheme:**

Two points: 7 marks each (4 + 3)

One point: 6 marks (3 + 3)

**Importance of planning**

1. Planning is an important management activity when deciding the goals of a business and how they can be achieved in a cost-effective manner. Proper planning for its future will enable EducaPrint to achieve growth.
2. A SWOT analysis is a vital early step in the planning process. It will highlight the strengths and opportunities of the business. EducaPrint management now see the opportunity for growth by producing ebooks.
3. Strategic planning is long-term planning which outlines the goals to be achieved over the next six years. EducaPrint may consider developing global markets for its ebooks.

## Question 5 – Managing

## (A) (20 marks)

**Tax computation of Audrey Stapleton**

Gross salary	78,000
Add benefit-in-kind (holiday voucher)	<u>2,000</u>
Gross (total) taxable income	80,000

**Less tax payable**

First €32,000 @ 20% =	6,560	
Balance (€47,200) @ 41% =	<u>19,352</u>	
Gross PAYE tax before deductions, tax credits		25,912

**Less tax credits**

Single Tax Credit	1,650	
PAYE Credit	1,650	
Rent tax credit	<u>320</u>	<u>3,620</u>
		22,292

Gross tax – Tax credit = Net tax payable  
 €25,912 – €3,620 = €22,292

**Add Universal Social Charge**

€10,035 @ 2%	=	200.72	
€5,980 @ 4%	=	239.20	
€63,984 @ 7%	=	<u>4,478.88</u>	4,918.80

**Add PRSI**

4% of gross income		
= 4% of €80,000		<u>3,200.00</u>

Total statutory deduction 30,410.80

Net income (per annum)

78,000 – 30,410.80 = 47,589.20

Net income per month =  $\frac{47,589.20}{12}$

= €3,965.77

**(B) (20 marks)****Marking scheme:** Four points: 5 marks each (2 + 3)**Financial rewards****1. Time rate**

This is fixed rate, e.g. €12 per hour for a fixed number of hours worked, e.g. 35 hours per week. In this case, the employee would earn a gross wage of  $35 \times €12 = €420$  per week. An employee who works in excess of the specified fixed number of hours, e.g. 40 hours, is usually paid time and a half, e.g.  $€12 + 50 \text{ per cent} = €18$  per hour, which is earned for the extra 5 hours worked (€90).

**2. Commission**

As well as paying a wage, some firms also pay a sales commission, e.g. 5 per cent of sales. This form of financial reward is paid by a firm as an incentive to encourage them to increase sales.

**Non-financial rewards****1. Benefit-in-kind (BIK)**

This is where a business rewards some employees with a non financial reward, e.g. a company car. This policy is good for staff morale and job status. The BIK value is added to gross salary when calculating gross taxable income.

**2. Shares in the business**

A firm may offer employees a number of shares instead of a taxable cash bonus. This policy will encourage key managers to remain with the firm. As yearly profits increase, so does the value of the shares.

**(C) (20 marks)****(i)****Marking scheme:** 10 marks (2 x 5 (2 + 3))**Reasons to prepare a cash flow forecast**

1. To project the household income so that it can live within its means. It enables the household to control its financial commitment.
2. To indicate to the bank manager when a short term overdraft facility is required and how it can be funded.

**(ii)****Marking scheme:** 10 marks (2 x 5 (2 + 3))**Overcoming a cash flow problem**

1. Reducing its expenditure on discretionary items, e.g. holidays and confine the spending to essentials, e.g. food.
2. Arranging a short-term bank overdraft facility with the bank manager. The interest rate on the bank overdraft is an extra cost to be incurred.  
Another option would be for the household earners to work some overtime in order to increase both its net income and disposable income.

## Question 6 – Managing/Business in Action

(A) (20 marks)

**Marking scheme:** Four points: 5 marks each

**Internal sources of new IT product ideas**1. **Brainstorming session**

This involves meetings from different departments of the business to discuss in a positive manner new ideas which may benefit an IT company.

2. **Research and development departments (R&D)**

Large IT companies invest huge amounts of money in R&D. Such departments undertake research in order to improve existing IT products and develop new IT products.

**External sources of new IT product ideas**1. **Competition**

By observing and monitoring competitors, an IT firm will find out why customers prefer their products. Is it prices, quality, range of products, support services. It may be necessary to match or improve on what competitors offer.

2. **Market research agency**

A specialist IT market research agency can investigate the market and make suggestion as to where there is a gap in the market for new IT products.

(B) (20 marks)

**Marking scheme:** Two points: 10 marks each (2 + 3 + 3 + 2)

**Methods of business expansion**1. **Merger**

- This is where two or more businesses that were independent of each other agree to a voluntary merger into a new single legal business entity.

*Example:* Glanbia PLC was formed by a merger of Waterford Foods and Avonmore.

- Some mergers involve diversification into a new area thus spreading the business risk of relying on one business. Costs are reduced, duplication will be eliminated and economies of scale can be achieved.

**Evaluation of a merger**

In my opinion, a merger is an effective way of making the new single business entity more secure in the competitive market. A diversification merger makes the new entity less dependent on one market, it reduces business risk and the new firm can become more competitive.

2. **Takeover**

- This happens when one company purchases 51 per cent or more of the voting shares in another company.
- It is an expensive way to grow and expand the business as payment has to be made by the acquiring business. The acquired business then loses its trading identity.

*Example:* Eircom made a successful takeover bid for Meteor at a cost of €420 million.

**Evaluation of a takeover**

In my opinion, growth and expansion by a takeover is a necessity for firms in the IT business who want to survive and compete in the global market. Even if the takeover costs are high that becomes the price to be paid for the global survivor.

(C) (20 marks)

**Marking scheme:** Four points: 5 marks each (4 + 1)

### Implications of business expansion

#### 1. Organisation structure

##### Short-term implication

- Explanation will involve putting a new management structure in place. A formal management structure would be suitable, this would involve appointing managers to different departments, e.g. sales manager.

##### Long-term implication

- As business expands additional expertise in the areas of HR, finance and IT may be required to support the functional line management structure. In some instances, a matrix structure may have to be introduced.

#### 2. Product mix

##### Short-term implication

- The product mix will have to increase to attract more customers.
- The marketing mix will have to be amended to meet consumer requirements.

##### Long-term implication

- Expansion may involve the firm becoming a target for or being involved in a merger or a takeover.
- A greatly enhanced marketing mix will be required to meet the demands of a very competitive material.

#### 3. Profitability

##### Short-term implications

- Profits will decrease due to an increase in expenditure on capital expenditure items, such as vehicles, new premises and IT requirements.
- Overlapping activities leads to work duplicating and the firm doesn't get the benefit of economies of scale.

##### Long-term implications

- Increased sales and increased profits means that shareholders should receive increased dividends.
- Business expansion should lead to a huge benefit in economies of scale, thus enabling the business to be more competitive in global markets.

#### 4. Employment

##### Short-term implications

- Some employees may be made redundant as it will be necessary to streamline the business and eliminate duplication of work. Redundancy costs could be high but must be paid.
- Management-staff working relationships may be strained, this may adversely affect output.

##### Long-term implications

- As the business expands, staff numbers will increase, therefore manpower planning will be required so a specialist HR department will play an important role with recruitments and employment contracts.
- Wage levels will increase in order to ensure top staff want to remain with the expanding business.

## Question 7 – Business in Action

## (A) (20 marks)

**Marking scheme:** Two points: 10 marks each (2 + 3 + 3 + 2)

**Market research techniques include:**

1. **Desk research** (also called secondary research)
  - This involves using both internal and external information which has been collected.
  - The sales department of All-Weather Wellies Ltd would have internal information on the firm's sales, trends in the market and the spending pattern of consumers.
  - External information would be available from business reports published in trade magazines or statistics on imports of umbrellas, scarves and hats by the Central Statistics Office.
2. **Field research** (also called primary research)
  - This involves market research that is carried out by directly contacting the consumers in the market place in order to obtain their opinions. Information obtained from the consumers is called primary data.
  - Field research is done through surveys, questionnaires, sampling and test marketing.
  - Field research will enable the management of All-Weather Wellies Ltd to obtain detailed and accurate information on consumers' spending habits on discretionary products like umbrellas.
  - Field research is a costly and time-consuming but it is an effective way for All-Weather Wellies Ltd to obtain specific responses that will help them in deciding on expanding its product range.

## (B) (20 marks)

(i)

**Marking scheme:** 6 marks (3 + 2 + 1)

- This involves dividing up the consumer market into different and obvious sections, i.e. customer profiles – male/female, income levels and disposable income patterns of consumers.
- The management of All-Weather Wellies Ltd will further segment the market into age profile and income levels of consumers who are festival goers – perhaps an age group 18–28.
- A further segment of the market would involve targeting those who attend sporting events.

(ii)

**Marking scheme:** 14 marks (2 x 7 (4 + 3))

**Reasons for engaging in market segmentation**

- **Competitive advantage**  
All-Weather Wellies Ltd may develop a competition advantage and increase the sales of its products.
- **Cost-effective market research**  
By focusing its research on its potential market, the research is cost-effective and results are more accurate. Subsequent advertising will also be accurately targeted and cost effective.

## (C) (20 marks)

**Marking Scheme:** Four points: 5 marks each (2 + 3)

**1. Cost-plus pricing**

All costs incurred in producing, marketing, warehousing, disturbing and administration are totalled, then a profit margin is added to this amount.

**2. Competitor pricing (also called market pricing)**

All-Weather Wellies Ltd operates in a very competitive market so the selling price must be carefully considered by the marketing manager. If a new range of products is to be launched with a selling price 10 per cent cheaper than competitors, this could lead to a positive response from consumers. This policy is called penetration pricing.

**3. Premium pricing**

This pricing strategy is associated with high-quality, expensive items. It would be a risky strategy for the range of products being sold by All-Weather Wellies Ltd unless it has a successful high-price brand image.

**4. Skimming pricing**

This is a short-term policy where All-Weather Wellies Ltd may decide to charge high prices for its products as they are confident of big sales. Such a policy will enable the firm to recover all its costs and make big profits.

## SECTION 1

## Short Answer Question

Answer eight questions. Each question carries 10 marks.

1. (10 marks (4 + 4 + 2))

Enterprise is where people are innovative and creative to come up with new ideas to develop a business. It involves taking both a personal and financial risk in organising the resources required to produce a new product hoping to make profit.

*Example:* A person opening a new restaurant.

2. (10 marks (5 x 2))

1	2	3	4	5
<b>D</b>	<b>A</b>	<b>E</b>	<b>C</b>	<b>F</b>

3. (10 marks (1 x 6 (3 + 3) + 1 x 4 (2 + 2)))

Tax rates are the different rates that tax is levied on taxable income. The current low rate of 20 per cent is called the standard rate and the higher rate is now 41 per cent.

Tax credits refers to the amount of your income that you do not pay any tax on, e.g. Single Personal Credit. Credits are only allowed at the lower standard rate. They are used to reduce an employee's tax liability on gross income.

4. (a) (4 marks (2 + 2))

Delegation involves assigning authority to another person who is then responsible for the work assigned, e.g. managing director appointing a sales manager.

(b) (6 marks (3 + 3))

- (i) It ensures that specialist type work is completed by a suitably qualified person.
- (ii) It avoids the situation where management is overburdened, they now have more time for strategic planning.

5. (10 marks (1 x 6 (3 + 3) + 1 x 4 (2 + 2)))

- (i) It enables the firm to use the expertise available in different departments, e.g. IT, finance.
- (ii) It is set up in firms that are involved in specialist projects, e.g. building a new airport.

6. (10 marks (3 + 3 + 2 + 1 + 1))

R & D	<b>Research and Development</b>
PLC	<b>Public Limited Company</b>
IBEC	<b>Irish Business and Employers Confederation</b>
EGM	<b>Extraordinary General Meeting</b>
DIRT	<b>Deposit Interest Retention Tax</b>

**7. (10 marks (1 x 6 (3 + 3) + 1 x 4 (2 + 2)))**

A merger is a voluntary combining together of two or more firms for their mutual benefit to form one new bigger business.

*Example:* Waterford Foods PLC and Avonmore PLC merged to form Glanbia PLC.

A franchise is an agreement whereby a franchiser (an existing successful business) sells a license to a franchisee (a new business) to use its established high-profile name, store layout and business ideas in return for an annual fee and a percentage of sales on profits.

*Example:* Easons.

**8. (a) (4 marks (2 + 2))**

Primary sector relates to primary industries involved in natural resources, e.g. fishing.

**(b) (6 marks (3 + 3))**

- (i) Fish quotas introduced by the EU due to overfishing.
- (ii) Development of wind energy.

**9. (10 marks (6 (3 + 3) + 4))**

A trading bloc is where a group of countries agree to form a common market for trading amongst themselves. No tariffs or quotas will exist, e.g. EU.

**10. (10 marks)****(i) (6 marks (3 + 3))**

BEP in units: 10,000

BEP in euros: €450,000

**(ii) (2 marks)**

Profit at Forecast Sales in euros: €125,000

**(iii) (2 marks)**

The margin of safety is where sales can fall to a level where no profit is made by the business and no loss is incurred.

Answer four questions from Section 3 as follows:

- One question from Part 1.
- Two questions from Part 2.
- One other question from either Part 1 or Part 2.

All questions carry equal marks.

## SECTION 3

### Part 1

#### People in Business/Business Environment

#### Question 1 – People in Business

(A) (20 marks)

##### MARKING SCHEME:

The procedure must be in the correct sequence, if not marks will be lost.

There are three points:

Two points: 7 marks (4 + 3)

One point: 6 marks (3 + 3)

Marks are given for the heading and for the explanation.

The procedure is as follows:

1. **Counsel the employee**

This is where the employer must advise (counsel) the employee about what the problem is and the steps the employee must take to rectify the situation.

2. **Verbal warning**

This involves the employer giving the employee a verbal warning about why he may be dismissed. Of course, the employee is allowed to respond to the allegations and explain his viewpoints on the issues.

3. **Written warning**

This follows a verbal warning and happens if there is no improvement in the employee's behaviour after the verbal warning. If problems with the employee continue, the employer may then give a final written warning.

**(B) (20 marks)****MARKING SCHEME:**

Three terms need to be explained:

Two terms: 7 marks (4 + 3)

One term: 6 marks (3 + 3)

The first point requires a text explanation (4 marks) and the second point has to be an example (3 marks).

**1. By breach**

This is where a party to the contract does not keep its side of the agreement so the contract is terminated. The other party may decide to sue for damages suffered against the offending party.

For example, a condition of a written contract agreed that furniture valued at €2,500 is to be black leather. The furniture delivered to the customer was brown leather. In this example, the customer is legally entitled to seek damages or insist on specific performance by the seller.

**2. By frustration**

This is where an unforeseen event happens which makes it impossible for one party to the contract to complete it.

*For example*, if one party to the contract died.

**3. By agreement**

This is where all parties to a contract agree to mutually terminate it.

*For example*, an employment contract may be ended by agreement if it includes a clause stating that the employment contract can be legally ended in a specific period of time, e.g. one month, if notice is given.

**(C) (20 marks)****MARKING SCHEME:**

Role/functions of the NCA: 18 marks (3 x 6 (3 + 3))

Evaluation: 2 marks

The word 'evaluate' is in the question – this is always a compulsory point and should also be the final point.

**1. To promote and protect the interests and welfare of consumers.**

This is done by informing consumers of their consumer rights through its phone helpline/website.

**2. To enforce the relevant consumer law.**

This can be achieved by the NCA looking for an injunction or a prohibition order against a trader.

**3. To investigate suspected breaches by a trader of the Consumer Protection Act 2007.**

*For example*, the NCA can legally impose on the spot fines for breaches relating to the non-display of selling prices to consumers.

**Evaluation of the NCA**

In my opinion, the NCA is very effective in discharging its role and functions in promoting consumer welfare. It achieves this by investigating, enforcing and insisting on traders complying with the conditions of the Consumer Protection Act 2007.

**Question 2 – Domestic Environment****(A) (25 marks)****MARKING SCHEME:**

Your answer must be structured under the four headings specified in the question.

Formation: 7 marks

Liability: 6 marks

Finance: 6 marks

Control: 6 marks

**Formation**

1. A co-operative is formed under the Industrial and Provident Societies Acts 1893–1978.
  2. A co-operative requires at least eight members all over eighteen years of age.
  3. A co-operative is a business venture where every member has only one vote and profits are for their mutual benefit.
- 
1. A private limited company is formed under the Companies Acts 1963–2009.
  2. A private limited company requires a minimum of one and a maximum of ninety-nine shareholders.
  3. Three documents must be prepared to form a private limited company – a Memorandum of Association, Articles of Association and Form A1. These are sent to the Companies Registration Office which, in time, issues a Certificate of Incorporation.

**Liability**

1. All members of the co-operative have limited liability.
  2. They have no personal liability for the debts of the co-operative as their liability is limited to the amount of money they invested in the co-operative.
- 
1. All shareholders in a private limited company have limited liability.
  2. They have no personal liability for the debts of the company. Their loss is limited to the amount of money they invested in the company.

**Finance**

1. In a co-operative, the finance is subscribed by its members.
  2. Profits are divided between the members in proportion to their turnover with the business or as a percentage of savings with the co-operative, as in a credit union.
- 
1. Finance is raised by selling shares to the shareholders.
  2. Shareholders receive dividends from the profits.

**Control**

1. A co-operative has a democratic structure which allows only one vote per member.
  2. The co-operative is administered by a management committee which is responsible for daily business decisions.
- 
1. In a private limited company, every shareholder has a vote for each share owned.
  2. The shareholders elect a board of directors who then appoint a managing director to run the business on a daily basis. Shareholders own and control the company.

**(B) (20 marks)****MARKING SCHEME:**

The answer must be structured under two headings: Increased taxation and Decreased public expenditure.

Impact of increased taxation: 10 marks (2 x 5 (2 + 3))

Impact of decreased public expenditure: 10 marks (2 x 5 (2 + 3))

**Increased taxation**

This has a negative impact on business as follows:

1. Increases in VAT from 21% to 23% has increased the cost of purchases for consumers. In turn, this leads to a reduction in traders' sales, a reduction in profits and money being reinvested.
2. Increased taxation in a range of areas, such as motor tax and household charges, reduces the amount of disposable income that consumers can spend on goods and services. Sales on non-essential items, such as holidays, are reduced so it has a negative impact on the tourist industry.

**Decreased public expenditure**

This has a negative impact on business as follows:

1. By reducing the social welfare payments to unemployed people, it reduces their disposable income, their spending power on goods and services so business sales and profits are reduced.
2. A government embargo which has reduced the number of vacancies being filled in the public service has had a negative impact on employment levels in the economy.

**(C) (15 marks)****(i)****MARKING SCHEME:**

You are asked to define 'business ethics', not discuss it.

Definition: 5 marks

Outline of ethical behaviour: 10 marks (2 x 5 (2 + 3))

1. Business ethics relates to a code of behaviour for people in business in their dealings with stakeholders, e.g. employees, customers, suppliers.
  2. It relates to what is right, wrong and honest in dealing with stakeholders.

**(ii)** Ethical behaviour can be encouraged as follows:

1. **Have a written code of ethics**  
This document clearly states how the business should behave with various stakeholders on related issues, e.g. employers – pay a fair wage; customers – sell quality goods at a fair price.
2. **Training staff**  
A code of ethics should be made known to staff during induction training.

## Question 3

## (A) (20 marks)

**MARKING SCHEME:**

Four points: 5 marks each

One of the points made must be related to production because of its importance in facilitating the growth of globalisation. This point is compulsory and if you omit it from your answer, you will be marked out of three points – even if you make four points.

**Four developments in technology****1. Communication/mobile technology**

Video-conferencing and email facilitate speedy communication of information in the global market. This speeds up management discussion and decision-making.

**2. Marketing**

The internet enables businesses to market their products globally and to develop global brands. Electronic payments by customers have enabled e-businesses to expand globally.

**3. Design/CAD**

Computer-aided design has had a major impact on the designing of products, making it faster and easier to do so and also to react to changing global market requirements. This is important if it is necessary to redesign packaging to respond to a competitor.

**4. Production/Computer-aided manufacture**

Using computer-aided manufacture, where all equipment is computer controlled, enables the manufacture of standardised goods to be streamlined and mass produced. This reduces the unit cost of production, increases productivity and enables firms to become more competitive and profitable globally.

## (B) (20 marks)

**MARKING SCHEME:**

There are three points and each requires a heading, an explanation and an example.

Points made: 6 marks (3 x 2)

Explanations: 9 marks (3 x 3)

Examples: 5 marks ((2 x 2) + (1 + 1))

An alternative point to those given below that could be made is the use of subsidies.

**Barriers to free trade include:****1. Tariff**

This is a tax on the value of goods imported from non-EU member states. This tariff increases the cost of imports so that they are less competitive in the market than home-produced goods.

*For example, a tariff on beef imported from New Zealand.*

**2. Quotas**

This involves putting a physical limit on the quantity of a specified product that can be legally imported in a year. This has the effect of discouraging imports of certain products and should lead to an increase in sales of domestically produced goods.

*For example, the EU has imposed a quota on the amount of clothes from China that may be imported into the EU.*

**3. Embargo**

This is where there is a total ban on importing physical goods from a specified country.

*For example*, in 1998 countries imposed a Temporary Embargo on imports of beef from the UK due to disease.

**(C) (20 marks)****MARKING SCHEME:**

Council of Ministers: 10 marks

European Commission: 10 marks

Three points required for each (4 + 3 + 3).

**Council of Ministers**

1. This council involves one minister from each member state and is the main decision body of the EU.
2. Legislation drafted and proposed by the European Commission must be approved and adopted by the Council of Ministers before it then becomes law.
3. A unanimous vote of all the council ministers is required on vital issues such as the EU budget and tax policies.

**European Commission**

1. Proposing new legislation and having it drafted.
2. When legislation is passed it is then implemented by the European Commission.
3. Implementing EU policies and EU directives and representing the EU on the international stage, e.g. at meetings of the World Trade Organisation.

**SECTION 3****Part 2****Enterprise****Question 4 – Enterprise****(A) (20 marks)****MARKING SCHEME:**

Four points: 5 marks each

Heading: 2 marks

Explanation: 1 mark

Example: 1 mark

Precise explanations are required as it only has 1 mark.

The factors to consider include the following:

**1. Urgency**

How urgent is the information to be communicated? If it is really urgent, the fastest way to communicate it is by phone or email.

*Example:* To order goods from a supplier if the stock is required that day if possible.

**2. Cost**

The cost of communicating the information must be considered. A cost-effective manner should always be considered.

*Example:* A big firm may use a video-conferencing facility to communicate with its managers worldwide. This greatly reduces travel and hotel costs.

**3. Language**

Using complex or technical words may cause the receiver to misinterpret the information. Clarity is essential when relaying information.

*Example:* 'Goods will be in stock next Friday.'

**4. Secrecy**

How confidential is the information that is being communicated? Should it be given in writing or verbally?

*Example:* A human resource manager should arrange a meeting to discipline or terminate a contract of employment rather than phone the person or communicate the decision by email.

**(B) (20 marks)****MARKING SCHEME:**

Chairperson: 10 marks

Secretary: 10 marks

Three points required for each (4 + 3 + 3).

**Duties of the chairperson**

1. To convene a meeting and in conjunction with the secretary to prepare an agenda.
2. To make sure that a quorum is present to enable the meeting to proceed.
3. To make sure that the minutes of the previous AGM are read out, adopted and signed.

**Duties of the secretary**

1. To arrange the meeting and send the notice and agenda to members entitled to attend.
2. To read out to members present the minutes of the previous AGM and to take the minutes of the current AGM.
3. To inform the meeting of written correspondence received by the club or company.

**(C) (20 marks)****MARKING SCHEME:**

For each style of leadership: 10 marks (2 + 3 + 3 + 2)

There are only three styles of leadership on the syllabus. The two styles of leadership you discuss must be on the syllabus.

**1. Autocratic**

Characteristics of this style of leadership include:

- (i) This leader wants to be in control of all issues and does not consult when making decisions.
- (ii) Instructions are issued and must be obeyed without any questions.

**How it may be used in business**

It is suitable in the short term if a sudden major problem arises and management is required to make some tough decisions in response to a business problem, e.g. an unexpected financial problem.

## 2. Democratic

Characteristics of this style of leadership include:

- (i) It involves management consulting with employees and getting a consensus on decisions being made.
- (ii) It encourages the employees to share their experience with management and make suggestions that may benefit the business, i.e. become intrapreneurs.

### **How it may be used in business**

It is a fact that this style of leadership is very popular and successful in modern business. Because of the current recession many firms have lost market share and have to make some employees redundant.

Proper consultation between management and union representatives facilitated the downsizing of the workforce due to the trading difficulties.

## Question 5 – Managing

(A) (20 marks)

**MARKING SCHEME:**

Layout of letter:	8 marks	Re:	1 mark
Heading:	1 mark	Closing salutation:	1 mark
Inside name/address:	1 mark	Signature:	1 mark
Date:	2 marks	4 risks:	8 marks (4 x 2)
Opening salutation:	1 mark	4 types of insurance:	4 marks (1 x 4)

EXON Insurance PLC

Your Ref

44 Risky Terrace

Our Ref

Bray

County Wicklow

20-5-2012

email: info@exonins.ie

Bianua Ltd

27 Henry Street

Dublin 1

Dear Sir

Re: Possible business risks and the appropriate types of insurance for Bianua Ltd

The following is a list of possible business risks and appropriate types of insurance policies your company should consider.

## 1. Fire risk

Insurance against losses incurred by fire damage to the premises and stocks.

## 2. Theft risk

Insurance against losses incurred by the theft of money or goods.

## 3. Risk of a customer being injured when in the premises

Public liability insurance protects the business against a claim from a member of the public (i.e. a customer) when on the premises.

## 4. Risk of an employee being injured while working

Employer liability insurance protects the business against a claim from an employee resulting from an accident at work.

Yours faithfully

Patricia Quinn  
Risk Manager

(B)

**MARKING SCHEME:**

Each formula:	4 marks (4 x 1)
Each correct answer:	4 marks (4 x 1)
Other calculations for ROI:	4 marks
Other calculations for current ratio:	2 marks
Other calculations for acid test ratio:	3 marks
Other calculations for debt equity ratio:	3 marks

\*Capital employed = Ordinary share capital + Retained earnings + Long-term liability

**(i) (20 marks)**

$$\begin{aligned} \text{Return on investment} &= \frac{\text{Net profit}}{\text{Capital employed}} \times \frac{100}{1} \\ &= \frac{€50,000}{€500,000 + €100,000 + €300,000} = \frac{€50,000}{€900,000} = 5.56\% \end{aligned}$$

$$\begin{aligned} \text{Current ratio} &= \text{Current assets} : \text{Current liabilities} \\ &= 155,000 : 85,000 \\ &= 1.82 : 1 \end{aligned}$$

$$\begin{aligned} \text{Acid test ratio} &= \text{Current assets} - \text{Closing stock} : \text{Current liabilities} \\ &= 155,000 - 80,000 : 85,000 \\ &= 75,000 : 85,000 = 0.88 : 1 \end{aligned}$$

$$\begin{aligned} \text{Debt equity ratio} &= \text{Debt capital} : \text{Ordinary share capital} + \text{Retained earnings} \\ &= 300,000 : 500,000 + 100,000 \\ &= 300,000 : 600,000 = 0.5 : 1 \end{aligned}$$

**(ii) (20 marks)****MARKING SCHEME:**

Profitability:	10 marks (2 + 3 + 3 + 2)
Liquidity:	10 marks (2 + 3 + 3 + 2)

**Profitability**

The return on investment (ROI) is 5.56%

Industry average ROI is 11%

The ROI for shareholders in Bianua Ltd is 50% of the industry average. This however is a new company that is already profitable. The ROI at 5.56% is bigger than deposit interest rates being paid by commercial banks.

**Recommendations for Bianua Ltd**

Try to reduce operating expenses and increase sales in order to bring the ROI up to at least the industry average.

**Liquidity**

The current ratio = 1.82 : 1

Average industry current ratio = 2 : 1

The current ratio in Bianua Ltd is about 9% below the industry average but it still has enough money to pay its current debts.

Acid test ratio = 0.88 : 1

Industry average ATR = 1.2 : 1

Using this ratio, the business is not able to pay all its debts when due. This could cause problems with some suppliers.

**Recommendations for Bianua Ltd**

1. Offer extra discounts to increase cash sales.
2. Improve credit control to reduce bad debts.

**Question 6 – Managing/Business in Action****(A) (20 marks)****MARKING SCHEME:**

Two benefits: 10 marks (5 + 5)

Two risks: 10 marks (5 + 5)

**Benefits of empowering employees**

1. Decision-making is given to employees who are dealing with the customers so their issues are resolved quicker.
2. Staff morale is improved as they are motivated and appreciated by management, all results in a better service to the customer.

**Risks of empowering employees**

1. Unless adequate training is provided for the employees, they may not have the necessary skills to understand and resolve the problems that may arise.
2. Some employees may be unhappy with the extra remuneration for taking on responsibilities and may become demotivated.

**(B) (20 marks)****Idea generation****MARKING SCHEME:**

Idea generation: 10 marks (3 + 4 (for text) and 3 (for example))

Feasibility study: 10 marks (3 + 4 (for text) and 3 (for example))

This involves management developing new ideas for products or services so as to enable a business to expand/survive and to increase sales and profits. Within the business, the new ideas could come from different sources, such as brainstorming sessions between management and staff. External ideas may come from observing what competitors are selling.

*Example:* Steve Jobs had the idea to develop the iPhone as it would provide a wide range of facilities, e.g. email, for its users.

**Feasibility study**

This is the next stage to be done after the concept development. It involves investigating how viable it is for the business to produce the product – the costs that would be incurred, potential sales and projected profits. It involves financial planning, market research, production feasibility and environmental issues.

*Example:* Steve Jobs commissioned a feasibility study on the proposed iPhone. The results encouraged him to develop a prototype.

**(C) (20 marks)****MARKING SCHEME:**

Importance: 12 marks (2 x 6 (3 + 2 + 1))

The 1 mark is for referring the answer to ZAC Computing as per the information supplied.

Evaluation: 2 marks

The evaluation is a compulsory point.

- (i) A business plan is a written document that outlines the objective of the business and the policies required for it to succeed. It includes information on ownership, finance to be invested, the product to be produced and identifies where the potential market is for the business.
- (ii) **Importance of the business plan**
1. It should firstly set out its operational plan. This is a short-term plan for the first year, it refers to weekly cash flow requirements, projected sales, staff requirements. This plan is an immediate guide and focus for management.  
*Example:* ZAC Computing Ltd is a new innovative IT business that will require finance to compete in the marketplace.
  2. The existence of a business plan shows that management are planning for future success. This will impress a bank and potential investors who will want to assess any risk involved if they give a loan to the business.  
*Example:* ZAC Computing Ltd will have to include a finance section in its business plan.

**Evaluation**

In my opinion, the contents of the plan will clearly confirm to the shareholders if the business will succeed. If the plan shows good potential, its existence will impress stakeholders, like a bank.

**Question 7 – Business in Action****(A) (20 marks)****MARKING SCHEME:**

Two points: 12 marks (2 x (3 + 3))

One point: 5 marks (1 x (3 + 2))

Examples: 3 marks (3 x 1)

Each point should have an example.

**1. Type of goods involved**

Are the goods to be distributed bulky or perishable? Have the goods to be consumed/used before a certain date?

*Example:* Daily newspapers would be distributed directly to the newsagent retailer.

**2. Size of the consumer market**

If the consumer market is large, it is usually more cost-effective for the manufacturers to distribute through a wholesaler who will break down the bulk, store the goods and distribute them regionally to retailers.

*Example:* Kellogg's distribute Corn Flakes through wholesale groups like Musgraves.

**3. Cost**

This is a factor that must be monitored. The more stages in the channels of distribution, the higher the selling price to the consumer. Distribution costs must be controlled in order for the seller to be competitive.

*Example:* Ryanair ceased dealings with travel agents and enabled customers purchase airline tickets online.

**(B) (20 marks)****MARKING SCHEME:**

Product design: 10 marks (5 + 5)

Product packaging: 8 marks (4 + 4)

Evaluation: 2 marks

**Product design**

The product is one of the elements of the marketing mix. It must be designed in a manner that appeals to consumers in terms of shape, colour, compact size and image. It must be produced to the standard of merchantable quality and fit for purpose.

*Example:* iPhone

**Evaluation:**

In my opinion, product design is essential for attracting customers and creating a brand image and customer loyalty.

**Product packaging**

This is important because:

1. It is essential to package products, such as bread, cakes, i.e. pre-packed goods.
2. Packaging contains important information for consumers, such as health warning, expiry date and price.

**Evaluation:**

In my opinion, product packaging is very important when attracting consumers and creating a brand image.

**(C) (20 marks)**

Reasons for expansion include the following:

1.

**MARKING SCHEME:**

Two points: 12 marks (2 x (3 + 3))

One point: 5 marks (1 x (3 + 2))

Super Toys Ltd: 3 marks (1 x 3)

Super Toys Ltd should be mentioned in each point and will gain 1 mark for each mention (3 marks in total).

**Diversification of markets**

It is always wise to spread the business risk and not to rely for all the success in one country. A major problem arises if there is an economic decline as happened in Ireland.

*Example:* By expanding into the UK, Super Toys Ltd is less dependent on its stores in Ireland.

**2. Economies of scale**

As the business expands, the unit cost of manufacturing and distributing larger quantities is reduced. There are always savings when doing business on a bigger scale.

*Example:* There will be savings as Super Toys Ltd's new products will be produced for a bigger market.

**3. Security**

Becoming a bigger firm makes your position in the marketplace more secure. It also discourages competition.

*Example:* Super Toys Ltd already has 45 shops nationwide – it is a chain of shops.

## SECTION 1

## Short Answer Question

Answer eight questions. Each question carries 10 marks.

1. (a) (4 marks (2 + 2))

These are products purchased in bulk quantities from the manufacturer/supplier that contain the retailers own brand name and logo.

Example: Tesco milk.

(b) (6 marks (2 x 3 (1 + 2)))

Two reasons why retailers use own-brand products:

(i) **Lower selling price**

Due to savings from bulk buying the retailer can sell the products at cheaper prices than competitors' non-branded goods. This leads to increased sales.

(ii) **Product range**

The existence of own brand products allows retailers to successfully increase its product range under the same label without having to spend extensively on advertising.

2. (4 marks (2 + 2))

(a) It is the net profit earned by a business as a percentage of the money invested in it by its shareholders.

(b)

**MARKING SCHEME:**

Correct formula: 1 mark

Four figures: 4 marks (4 x 1)

Correct answer: 1 mark

Answer must include '%' or 'per cent'

$$\frac{\text{Net profit}}{\text{Capital employed}} = \frac{€57,000}{€140,000 + €56,000 + €24,000}$$

$$= \frac{€57,000}{€220,000} = 25.9\%$$

3. (a) (4 marks (2 + 2))

1. **Annual General Meeting (AGM)**

Every business should hold a yearly meeting known as its AGM. Shareholders are entitled to attend and ask questions of the directors.

2. **Formal Board Meetings**

It is normal for a business to hold regular board meetings (monthly) to review monthly sales and issues that may exist.

(b) (6 marks (2 x 3 (1 + 2)))

(i) **Effective decision-making**

Board meetings enable directors to be updated by the managing director and then make decisions on future strategy.

(ii) **Updating members**

The AGM enables the board of directors to update and inform shareholders on profits and dividends.

**4. (a) (6 marks (3 + 3))**

Span of control refers to the number of employees that report directly to one manager/supervisor.

**(b) (4 marks (2 + 2))****(i) Management skill/expertise**

The more skilful the manager, the wider/bigger will be the number of employees that can be effectively supervised.

**(ii) The type of product**

If a firm produces high cost, high quality items, e.g. jewellery, then a small/narrow span of control is relevant.

**5. (a) (4 marks (2 + 2))**

These refer to the amount of money spent by Irish consumers purchasing foreign services.

*Example:* Irish residents holidaying in Spain.

**(b) (6 marks)**

Balance of Trade

Balance of Trade = Visible Exports – Visible Imports

€50 billion – €30 billion

€20 billion surplus

Balance of Payments:

= Balance of Trade + Balance of Invisible Trade

= €20 billion + (€40 billion – €35 billion)

= €20 billion + €5 billion

= €25 billion surplus

	<i>Answer box</i>	<i>Surplus OR Deficit</i>
(i) Balance of Trade	<b>€20 billion</b>	<b>Surplus</b>
(ii) Balance of Payments	<b>€15 billion</b>	<b>Surplus</b>

**6. (10 marks (2 x 5 (3 + 2)))****(i) Low corporation tax**

The low corporation tax of 12½ per cent has attracted huge foreign direct investment into Ireland.

**(ii) Grants**

The availability of grants for new business and expansion of existing business encourages investment, in turn this creates business activity.

**7. (10 marks (2 x 5 (3 + 2)))****(i) Official strike**

This is an officially organised strike where there has been a secret ballot as required by the Industrial Relations Act 1990. The union gives the employer one week's notice of the strike.

**(ii) Work to rule**

This is where employees do exactly what is stated in their job specs, they do the minimum possible with little co-operation.

## 8. (10 marks)

Sentence	True or False
1. The role of the IDA is to attract foreign direct investment into Ireland.	True
2. Privatisation is the transfer of ownership from the private sector to the government owned public sector.	False
3. A code of ethics is a set of moral rules clarifying expected behaviour of individuals in business.	True
4. An environmentally conscious business uses clean production processes and packaging that can be recycled.	True
5. An increase in the value of the euro € against the US dollar \$ is good for Irish exporters to the US.	False

## 9. (a) (4 marks)

**Short-term finance**

This is finance that is available to a business/individual for a time period up to one year. It is due to be paid/repaid within one year, e.g. bank overdraft.

## (b) (6 marks (3 + 3))

**Trade credit**

**TIP:** Only one point needs to be made for question 9(b).

This is where a firm would purchase stock on credit (e.g. 30 days) from a supplier in order to sell it to its customers. It is known as leaning on the trade.

## 10. (10 marks (2 x 5 (3 + 2)))

(i) **Communication**

Management must inform employees/unions of the need to make changes and how the business will suffer if essential changes are not introduced.

(ii) **Financial reward for employees**

Reward the employees who support the change with a bonus or salary increase.

Answer four questions from Section 3 as follows:

- One question from Part 1.
- Two questions from Part 2.
- One other question from either Part 1 or Part 2.

All questions carry equal marks.

## SECTION 3

### Part 1

#### People in Business/Business Environment

##### Question 1 – People in Business

###### (A) (15 marks)

The relationship between investors and entrepreneurs (as stakeholders) can be co-operative or competitive.

###### Co-operative relationship

Both rely on each other so a co-operative relationship is essential. The relationship is co-operative when the investor earns a satisfactory return from the finance invested in the business. This is helped when the entrepreneur outlines a good business plan for the investor to be involved.

###### Competitive relationship

The business relationship may become competitive when they differ on policy. This would arise if the entrepreneur wanted to reinvest profits while the investor wants all the profits to be distributed.

###### (B) (30 marks)

(i)

**MARKING SCHEME:** Four points: 5 marks each (2 + 3)

###### 1. Merchantable quality

The goods sold must be of merchantable quality and suitable for their normal use, e.g. a new fridge that breaks down after one week was not a merchantable quality.

###### 2. Sale by sample

If goods are sold based on a sample then it is implied that the bulk quality is similar to the quality of the sample. For example, if a consumer buys ten rolls of wallpaper based on a sample, then the quality of the ten rolls must be the same as the sample.

###### 3. Guarantee

The retailer is responsible to the consumer for the manufacturer's guarantee. The guarantee with a product is protection for the consumer who can claim against either the retailer or the manufacturer if dissatisfied with a faulty purchase. A guarantee lasts for a specified time period, e.g. 1 year.

###### 4. Services

It is implied that services (e.g. car repairs) are undertaken by qualified people who will use due care and attention.

(ii)

**MARKING SCHEME:** Two points: 5 marks each (2 + 3)

Two forms of redress:

**1. Refund**

A consumer who purchases a faulty product, e.g. a cooker, and acts properly by contacting the seller when the fault was discovered is entitled to a cash refund.

**2. Replacement**

A consumer may ask for the faulty product, e.g. car, to be replaced by a similar model of car.

**(C) (15 marks)****MARKING SCHEME:** Three points: 5 marks each (2 + 3)**1. Conciliation**

This is when the employer and employee both agree that a neutral third party tries to resolve the dispute. This is achieved by the third party listening to both sides and recommending a solution which either party can reject.

**2. Arbitration**

This is where the employer and employee both agree that a neutral third party called an arbitrator can be appointed to resolve the problem. In such a case both the employer and employee agree in advance to accept the recommendation of the arbitrator.

**3. Negotiation**

This is where both sides become involved in direct negotiations in order to resolve the dispute without third-party involvement.

**Question 2 – Domestic Environment****(A) (20 marks)****MARKING SCHEME:** Four points: 5 marks each (2 + 3)**1. Effect on business sales**

Sales and profits in business will be reduced so the government revenue from VAT and corporation tax will fall.

**2. Business closures**

Some firms will close down due to the decline in business. This leads to job losses.

**3. Social Welfare**

Increased unemployment will increase the amount of social welfare payments the State has to pay out from its reduced tax revenue.

**4. Reduction in business investment**

People are hesitant to invest in new business and create jobs due to the lack of confidence in the economy.

**(B) (20 marks)****MARKING SCHEME:** Four points: 5 marks each (2 + 3)

Legal documents must be prepared and sent to the Registrar of Companies.

**1. Memorandum of Association**

This document sets out the relationship that will exist between the new company and the general public. It includes:

- Name of the private company, including 'Ltd', e.g. Jones Ltd.
- A statement in writing that the company is limited in liability and the amount of its authorised share capital.

**2. Articles of Association**

This outlines the internal rules and regulations for running the business as a private limited company. It includes:

- Voting rights for ordinary and preference shares.
- The procedure for calling an AGM and the quorum required.
- How directors are to be elected to the board.

**3. Form A1**

This includes:

- A signed statutory declaration that the new private company will comply with all the requirements of Irish company law.
- A statement of the company's authorised and issued share capital and details of those shareholders who have agreed to become directors of the new company.

**4. Certificate of Incorporation**

When the Registrar of Companies has received and is satisfied with the Memorandum of Association, Articles of Association and Form A1, a Certificate of Incorporation will be issued. On receipt of this document the company can commence to trade as a separate legal entity.

**(C) (20 marks)****(i)**

**MARKING SCHEME:** (8 marks (2 x 4 (2 + 2)))

Community development involves developing a local community both economically and socially through the efforts and support of local people and local organisations. It involves taking steps to reduce unemployment levels in a community.

**(ii)**

**MARKING SCHEME:**

Two points: 5 marks each (2 + 3))

Evaluation: 4 marks

**1. Financial support**

CEBs provide financial assistance up to 50 per cent to local entrepreneurs who have a viable business plan.

**2. Mentor**

The local CEB will provide a mentor for either a new or existing business to advise the owner in areas like finance, research, new products, etc.

**Evaluation**

In my opinion, the CEBs have provided important services to enable the development of local communities and have helped job creation in an area, e.g. Wicklow County Enterprise Board.

**Question 3 – Domestic/International Environment****(A) (20 marks)****MARKING SCHEME:** Four points: 5 marks each (2 + 3)**1. Changes in Technology**

Major developments like the internet and video-conferencing have enabled exporters to have more success in the global markets. Exporters no longer depend on Ireland's small open economy. e-business has enabled Irish exporters to market their goods both locally and globally.

**2. Opening new and emerging markets**

China is one of the top three biggest economies globally. Efficient and competitive Irish exporters now have opportunities for mass sales in the huge Chinese market. This has a positive impact on the sales and profits of Ireland's exporters.

**3. EU expansion**

As more countries join the EU, the size of the 'free trade' market increases. This provides more opportunities for Ireland's exporters to increase sales and profits.

**4. Globalisation**

The increase in global multinationals who mass sell into the mass market makes it difficult for Ireland's exporting to be competitive. Only the efficient exporters will survive.

**(B) (25 marks)****MARKING SCHEME:** 5x5 (1 + 2 + 2)**1. Creates jobs**

Foreign direct investment has a huge positive impact on the economy as it creates many jobs which immediately reduces the number of people unemployed.

**2. Tax revenue**

The economy benefits from increased tax revenue from PAYE, VAT from consumer spending and corporation tax on profits.

**3. Balance of Trade**

Multinational companies export to global markets and this has a positive impact on the Balance of Trade.

**4. Spin-off impact**

The location of multinationals has a huge positive spin-off to the commercial life of those areas in relation to infrastructure, consumer spending, developing of shopping centres.

**(C) (15 marks)****MARKING SCHEME:**

Two points: 6 marks each (3 + 3)

Evaluation: 3 marks

1. Special interest groups are pressure groups that attempt to influence the political and decision-making process of the EU even though they are not elected by the general public as MEPs are.
2. To achieve their aims they extensively lobby Ireland's MEPs and EU institutions to influence them in policy decision-making.

**Evaluation**

In my opinion, the special interest groups are effective in ensuring that their wishes are reflected in EU policy decisions. The IFA have been involved in ongoing extensive lobbying on the CAP. The ICTU lobbied over the minimum wage in the EU Social Charter.

**SECTION 3****Part 2****Enterprise****Question 4 – Enterprise/Managing**

(A) (20 marks)

**MARKING SCHEME:** Four points: 5 marks each (2 + 2 + 1)

**1. Leadership**

This involves leading by example and motivating others to support the venture.

*Example:* Colm has decided to form a tidy towns committee so he is its leader.

**2. Delegating**

This involves delegating work by sharing the workload so that all tasks will be efficiently done on time.

*Example:* Each member of the tidy towns committee will have some task to do.

**3. Planning and goal setting**

This involves planning for the future of a project and resolving problems that arise.

*Example:* Colm's short-term plan is to enter the National Tidy Towns Competition.

**4. Innovation**

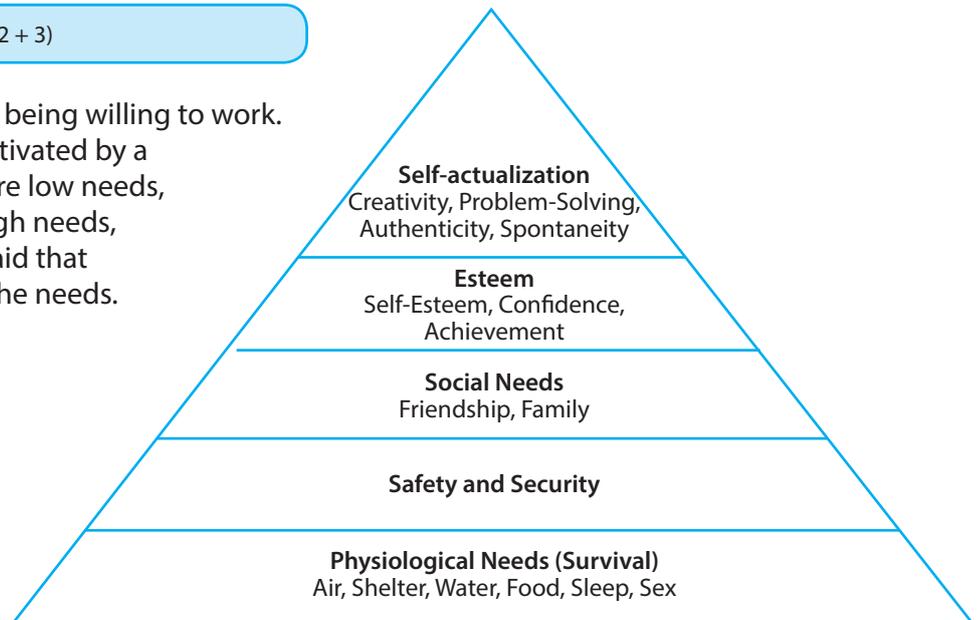
This involves suggesting new ideas to support a project.

*Example:* Colm will have to suggest new ideas to get local people to support the project of making the local area the tidiest village.

**(B) (20 marks)**

(i) **MARKING SCHEME:** 5 marks (2 + 3)

Motivation involves people being willing to work. Maslow said people are motivated by a Hierarchy of Needs, some are low needs, e.g. safety, and some are high needs, e.g. social image. Maslow said that employee's job will satisfy the needs.



(ii)

**MARKING SCHEME:**

One point: 5 marks

Five points: 2 marks each

1. **Physical needs**

Pay the workers a fair wage so that they can afford to buy food and clothes and have an acceptable standard of living.

2. **Security needs**

Give the employee a contract of employment and ensure safe working conditions.

3. **Social needs**

Make sure that social facilities/trips exist so that a friendly atmosphere exists in the workplace.

4. **Esteem needs**

A manager can improve a worker's status in the workplace and also in the local area by rewarding them with a job title and promotion, e.g. sales director.

5. **Self-actualisation needs**

A manager can encourage workers to be ambitious, attend training courses, apply for promotion positions advertised, make suggestions that may improve the business.

**(C) (20 marks)**

**MARKING SCHEME:** Two points: 10 marks each (2 + 4 + 4)

1. **Stock control**

A good stock control system will ensure that a firm's stock levels are adequate to meet customer's requirements, i.e. the firm has an optimum stock level (the right amount).

Stock control enables a firm to achieve efficiencies by not incurring excessive warehouse costs for carrying excess stock levels.

Efficiency is also achieved by having adequate stock levels in order to ensure no sales are lost because something is out of stock.

**2. Quality control**

Quality is a degree of excellence in the products produced, i.e. no faulty goods sold to customers. High-quality standards will exist when control checks exist in the production process.

Quality control enables a firm to be highly efficient. This reduces and hopefully eliminates the firm incurring wasteful costs producing and selling faulty goods. Good quality control can lead to a policy of zero defects. This is good for the reputation of the firm with its customers.

**Question 5 – Managing****(A) (15 marks)**

**MARKING SCHEME:** Three points: 5 marks each (2 + 3)

**1. Increased job satisfaction**

All the employees participate in discussions so their opinions are considered, this leads to better motivation.

**2. Specialisation**

Different team members specialise at what they do best so all talents are harnessed, this leads to greater commitment by everyone.

**3. Problem-solving**

Less conflict exists, this is good for team spirit and efficiency levels. Targets are more likely to be reached and the work atmosphere is good.

**(B) (25 marks)****MARKING SCHEME:**

PAYE:	6 marks (3 + 3)
VAT:	6 marks (3 + 3)
Corporation Tax:	6 marks (3 + 3)
Evaluations:	7 marks (3 + 2 + 2)

**PAYE**

1. This is a direct tax on the income/salary of an employee.
2. It is deducted by the employer from the employee's salary and paid over to the Revenue Commissioner every month.

**Evaluation of PAYE (3 marks)**

In my opinion, the PAYE system of taxation is a legal requirement that imposes administration costs on a business. It is a time-consuming, bureaucratic system whereby administration costs are incurred as personnel in the salary section have to collect and complete tax forms, e.g. P45.

**VAT**

1. This is an indirect tax charged on the selling price of goods and services at different VAT rates.
2. Every business is legally required to register for VAT if its annual sales exceed the minimum amount stipulated by the Revenue Commissioner. Once registered, the business receives a VAT number which must be quoted on all invoices.

**Evaluation of VAT (2 marks)**

In my opinion, administering VAT is a time-consuming costly role for a business. VAT returns have to be submitted to the Revenue Commissioners every two months. VAT on purchases increases the initial cost to the business.

**Corporation tax**

1. This is a tax on the profits made by a company.
2. The current corporation tax rate is 12½ per cent.

**Evaluation of corporation tax (2 marks)**

In my opinion, the level of corporation tax in Ireland is lower than in many other countries. This is the reason why foreign multinationals invest in Ireland.

**(C) (20 marks)****(i)****MARKING SCHEME:** Two points: 4 marks each

1. Risk management is an organised approach to handling all the potential risks that an individual or a business may be exposed to.
2. A business should appoint a risk manager to identify every possible risk, such as fire, theft, personal injuries, and then find out the insurance premium costs involved to insure them.

**(ii)****MARKING SCHEME:** Three points: 4 marks each (2 + 2)

Three methods a manager might consider to minimise risk within business:

**1. Insure the risk**

This is where a business transfers the risk of incurring a financial loss to an insurer and pays them an insurance premium.

**2. Security control system**

A firm should have a good security control system in place. This includes employing security staff and installing a video camera (CCTV).

**3. Health and safety, and staff training**

A firm should have a stated policy on health and safety. Ongoing and induction training should be arranged so that both existing and new staff are aware of all potential risks.

**Question 6 – Business in Action****(A) (25 marks)****(i)****MARKING SCHEME:** Two points: 5 marks each (2 + 3)

1. A merger is a voluntary agreement of two firms to merge for their mutual benefit and form one bigger business entity.  
*Example:* Avonmore PLC and Waterford PLC merged into one single firm called Glanbia PLC.
2. A takeover is when one business purchases at least 51 per cent of the voting shares in another company. It is a costly form of business expansion.  
*Example:* Eircom acquired the Meteor mobile phone company for a price in excess of €400 million.

(ii)

**MARKING SCHEME:** Three points: 5 marks each (2 + 3)

### Benefits

#### 1. Fast

It is a fast way to expand as it is a form of inorganic growth.

*Example:* Kilronan Ltd can use this form of expansion to increase its market share.

#### 2. Costs

After the merger, the bigger firm will benefit from economies of scale.

*Example:* Kilronan Ltd can benefit from economies of scale by producing bigger quantities of its food products.

### Risks

#### 3. Industrial relation problems

A merger may result in an overlap of roles in the new enlarged business, this may lead to the workforce being downsized and involve the firm in costly redundancy payments.

*Example:* Kilronan Ltd may find that it doesn't require all the staff of the firm it has merged with.

### (B) (15 marks)

**MARKING SCHEME:** Three points: 5 marks each (2 + 3)

#### 1. Risk

- Debt capital can be a high risk as both the debt and interest must be paid.
- Equity capital is low risk as no interest charge exists on the money raised from the shareholders.

#### 2. Gearing

- Debt capital can cause the company to be highly geared.
- Raising finance from a share issue will enable the company to be lowly geared.

#### 3. Security

- Debt capital may require the company to provide security.
- No security is required when raising capital through a share issue.

### (C) (20 marks)

**MARKING SCHEME:** Four points: 5 marks each (2 + 3)

Choose two internal and two external sources.

#### Internal sources include:

##### 1. Brainstorming sessions

These are meetings involving management and staff from different departments holding meetings to be positive and creative in looking at new ideas. Each new idea is analysed then considered for future development or maybe rejected.

*Example:* Kilronan Ltd may use this approach to try to extend the range of its chilled food products.

##### 2. Sales personnel

They know the retail outlets in the marketplace so are in an excellent position to give feedback to management on trade, consumer reaction and suggestions.

**External sources include:****1. Market research agencies**

Kilronan Ltd could employ a market research agency to do field research and submit a formal report on market trends and opportunities.

**2. Competitors**

Kilronan Ltd could observe why competitors' products are popular with consumers and use this information to develop some new products.

**Question 7 – Business in Action****(A) (10 marks)**

**MARKING SCHEME:** Two points: 5 marks each (1 + 2 + 2)

**1. Preferred type of legal ownership**

Three options exist:

- (1) A sole trader where there is one owner who controls the business and has the risky challenge of operating with unlimited liability.
- (2) A partnership where there can be up to 20 owners sharing their skills, the workload and the profits.
- (3) A private limited company will guarantee all shareholders the protection of limited liability.

**2. Management and staff recruitment**

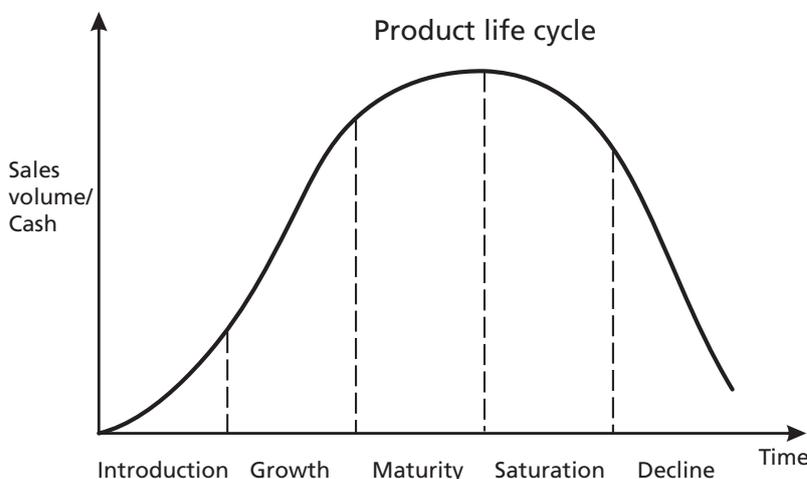
The business must recruit staff who have the necessary skill and experience to enable the firm to be effective and competitive.

**(B) (25 marks)**

(i)

**MARKING SCHEME:**

Title:	1 mark
Axis labels:	2 marks (1 mark each)
Each phase marked:	5 marks (1 mark each)
Curve:	2 marks



(ii) **MARKING SCHEME:** Three points: 5 marks each (2 + 3)

1. **Product**

Amend the size, design, use of the product so as to attract new consumers.

2. **Price**

During a recession, reduce the selling price so as to help the consumers whose disposable income is less than it used to be.

3. **Promotion**

Introduce special offers e.g. 2 for 1, in order to increase sales to consumers. This is a short-term measure with long-term benefits for the business.

(C) (25 marks)

(i) **MARKING SCHEME:**

Break-even chart:	<b>20 marks</b>
Title:	1 mark
Axis labels:	4 marks (2 marks each)
Total revenue:	2 marks
Total costs:	2 marks
Fixed costs:	2 marks
Profit at forecast:	3 marks
Margin of safety:	3 marks
Break-even point:	3 marks

$$(a) \text{ Break-even point} = \frac{\text{Fixed costs}}{\text{Contribution}} = \frac{\text{€300,000}}{\text{SP} - \text{VC}} = \frac{\text{€300,000}}{\text{€10}}$$

$$= \text{30,000 units}$$

(b) Profit at forecast output of 40,000 units

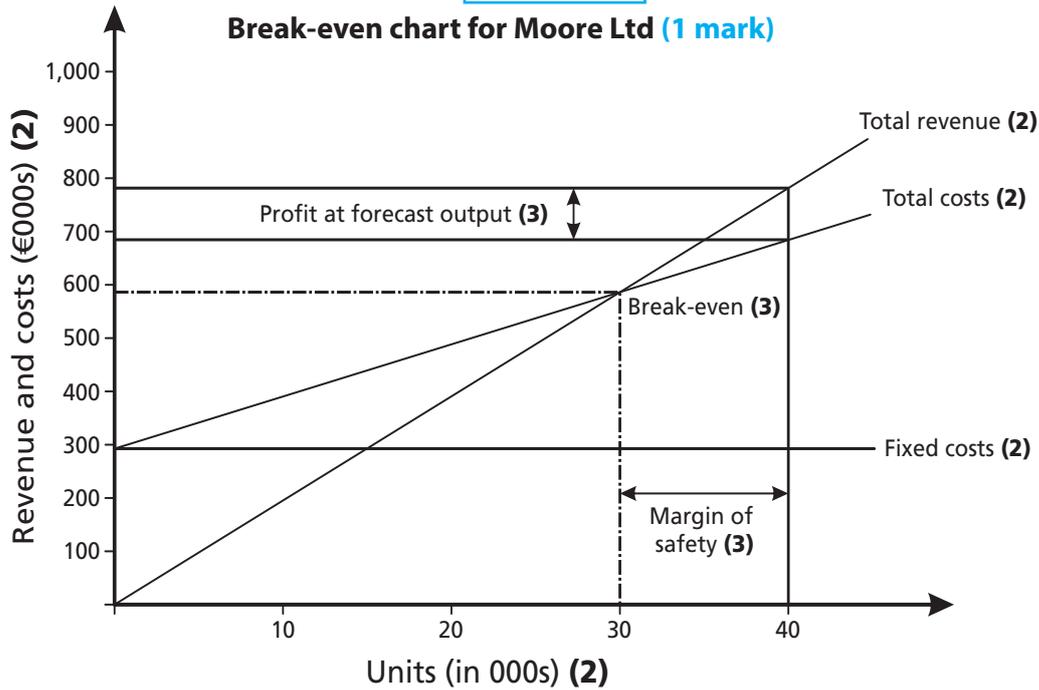
Selling price = €20 per unit

Variable costs = €10 per unit

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Fixed costs:	€300,000
Variable costs:	€400,000 (40,000 units x €10)
Total costs (FC + VC):	€700,000
Total revenue:	€800,000 (40,000 units x €20)
Profit:	<b>€100,000</b>

(c) Margin of safety =  $40,000 - 30,000 = 10,000$  units



(ii)

**MARKING SCHEME:** 5 marks (2 + 3)

The function of a feasibility study is to prepare a report for management into the potential profitability of a business proposal idea. Based on the findings in the report, management will decide to proceed or reject the business proposal.

## SECTION 1

## Short Answer Question

Answer eight questions. Each question carries 10 marks.

1. (a) (4 marks (2 + 2))

An indigenous firm is an Irish owned or Irish-managed business that manufactures goods or provides a service in Ireland.

*Example:* Supermac's in Galway.

(b) (6 marks (2 x 3 (1 + 2)))

(i) **Jobs**

Indigenous firms provide employment in the local areas which in turn increases the disposable income and spending of the employees. This leads to increased sales and profits for business in the local economy.

(ii) **Taxation**

They provide increased revenue for the Exchequer from PAYE and corporation tax.

2. (10 marks (2 x 5 (3 + 2)))

**Prototype development:**

This means producing the first or a few samples of a new product and testing it with a few customers in the market. After the tests, it may be necessary to modify the prototype.

**Test marketing:**

This involves testing the market to gauge consumer reaction to a new product and its potential sales success.

3. (a) (6 marks (3 + 3))

This is defined as the price of one currency when it is exchanged for another.

*Example:* €1 to £1.20.

(b) (4 marks (2 + 2))

(i) Exports become more expensive so are less competitive. Export sales will decrease and profits decline with jobs now less secure.

(ii) Some exporters will have to seek export markets in other EU member states.

4. (10 marks (5 x 2))

1	2	3	4	5
F	A	D	C	B

5. (a) (4 marks)

This is the internal rule book of an incorporated limited company. It includes the internal rules for running the company.

(b) (6 marks (3 x 2))

(i) The authorised share capital in its divisions into ordinary and preference shares.

(ii) The voting rights for the different types of shares.

(iii) The procedure for electing and removing directors.

## 6. (i) (4 marks (2 + 2))

BEP in units and euros:

Units: 4,000

Euro: €40,000

## (ii) (3 marks)

Profit at Forecast Sales in euros: €30,000

## (iii) (3 marks)

Margin of safety in units: 60,000

## 7.

**MARKING SCHEME:**

10 marks

Example required for (a) & (b)

## (a) (5 marks)

**Insurable interest is:**

Where the insured must benefit by the existence of the object insured and suffer by its loss. For example, a house owner insures it against fire.

## (b) (5 marks)

**Indemnity is:**

Where an insured does not make a profit from a loss situation, the insured only recovers the loss incurred. For example, a four-year-old car was insured for €14,000 but had a market value of €11,000. It is written-off in a crash. In this case, the insured is only entitled to €11,000 from the insurer.

## 8. (10 marks (2 x 5))

A quota is where there is a limit on the quantity of a product that may be legally imported within a year. This barrier to free trade restricts and discourages imports. A tariff is a tax on the value of products imported, it makes them dearer to sell on the home market.

## 9. (i) (4 marks (2 + 2))

**Redundancy**

When a decline in business causes an employer to make an employee redundant.

## (ii) (3 marks (1 + 2))

**Misconduct**

An employee who steals money/goods from the workplace can be dismissed fairly.

## (iii) (3 marks (1 + 2))

**Incompetence**

If an employee is not able to do the work needed to the required standard.

## 10. (a) (7 marks)

Net pay is €43,144

## (b) (3 marks (2 + 1))

(i) PAYE tax credit

(ii) Carers' tax credit

**TIP:**

This tax question is now out of date, because the USC didn't exist in 2010.

Answer four questions from Section 3 as follows:

- One question from Part 1.
- Two questions from Part 2.
- One other question from either Part 1 or Part 2.

All questions carry equal marks.

## SECTION 3

### Part 1

#### People in Business/Business Environment

#### Question 1 – People in Business

##### (A) (30 marks)

(i)

**MARKING SCHEME** Three points: 6 marks each (3 +3)

1. Secret ballot

*Example:* Under the provisions of the act, there must be a secret ballot before the union can authorise strike action.

2. Trade union recognition

*Example:* Under this act, employees are legally allowed join a trade union.

3. Immunity

*Example:* Under this act, the union and its members cannot be prosecuted by an employer who suffers financial loss due to an official dispute.

(ii)

**MARKING SCHEME** Two points: 6 marks each (3 + 3)

1. **Official dispute**

This type of dispute happens after the union organises a secret ballot of all its members. It then gives the employer one week's notice as per the Industrial Relations Act 1990.

2. **Work-to-rule**

This is a go-slow tactic which reduces output but employees have to be paid wages. This tactic puts pressure on management to resolve the dispute.

##### (B) (20 marks)

(i)

**MARKING SCHEME**

Two points: 7 marks each (3 + 4)

Evaluation: 3 marks

1. The role of the Small Claims Court provides redress for consumers who have a claim for faulty goods which are not of merchantable quality up to the current claim value of €2,000.

2. It provides a fast, low-cost way to resolve a dispute without having to incur high legal fees.

#### Evaluation of the Small Claims Court

In my opinion, the Small Claims Court has been a very successful, low cost way of resolving the majority of disputes referred to it by dissatisfied consumers.

(ii)

**MARKING SCHEME**

Two points: 7 marks each (3 + 4)  
Evaluation: 3 marks

1. The role of the Office of the Ombudsman is to investigate complaints from the public if they are unhappy with how they were treated by government departments or public bodies, such as An Post and the HSE.
2. The ombudsman will investigate a complaint in private but only after the person has attempted to resolve the issue with the public body involved.

**Evaluation of the Office of the Ombudsman**

In my opinion, this office is very successful in resolving complaints it receives. It receives many thousands of complaints yearly and resolves the majority of them.

**(C) (10 marks)**

Capacity to contract means that all the parties to a contract (individuals and companies) must have the legal right to enter into the contract. A person must be at least 18 to enter into a contract legally. People who are insane or bankrupt do not have the capacity to enter into a legally binding contract.

**Question 2 – Domestic Environment****(A) (20 marks)****MARKING SCHEME**

Four points: 5 marks each  
State: 1 mark  
Explain: 2 marks  
Example: 2 marks

1. **Avoiding pollution**  
A business must be sensitive to any concerns of other people in the area. Pollution must and can be avoided by manufacturers by using clean technology in all production processes.
2. **Recycling products**  
Waste can be minimised by using products that can be recycled. The majority of the parts used in car assembly can be recycled.
3. **Safety**  
Ensure that safety is a priority when designing and manufacturing products. For example, airbags in vehicles.
4. **Role of consumers**  
A business should consult with consumers if natural resources are to be used, e.g. wind energy. This should be used in an environmentally friendly manner.

**(B) (20 marks)****MARKING SCHEME**

Four points: 5 marks each

State: 1 mark

Explain: 3 marks

**1. Financial requirement**

Additional finance may be required for expansion. A profitable sole trader may not have the expansion finance. This problem can be resolved by changing the status of the business to finance the expansion.

**2. Management structure**

A sole trader is the sole manager of the business. As it expands, an improved management structure is necessary. More people must be involved in management as the increased workload must be shared, i.e. delegated. By forming a private limited company, the business will have a management structure, i.e. board of directors, managing director, etc.

**3. Taxation**

A company pays a lower rate of tax on profits (12½ per cent) than a sole trader.

**4. Continuity of existence**

It is easier for the business to continue as a going concern when it is owned by shareholders rather than a sole trader.

**(C) (20 marks)****MARKING SCHEME**

Four points: 5 marks each

State: 2 marks

Explain: 3 marks

**1. Employer**

The government is the single biggest employer in the economy.

**2. Foreign investment**

The government attracts through grants, foreign investment into Ireland. This leads to an increased number of employees and a reduction in the number of people unemployed.

**3. Infrastructure**

The government invests millions in infrastructure projects such as roads and schools. This increases the number of employees in the construction industry.

**4. Taxation**

Government policy on taxation such as reducing PAYE and VAT rates increases consumers' disposable incomes. This in turn results in increased sales, profits and creates more jobs.

**Question 3 – International Environment****(A) (20 marks)****(i)****MARKING SCHEME** Two points: 3 marks each

1. An open economy is one where business and people who own factors of production can trade in goods and services.
2. They have the right to be involved in importing, exporting, buying, selling. Ireland is an open economy.

(ii)

**MARKING SCHEME** 14 marks (2 x 7 (3 + 2 + 2))

- The Balance of Trade is the difference between the value of visible exports and visible imports for the same period of time, e.g. 1 year. Example:
 

Visible exports for 2010	=	€500m
Visible imports for 2010	=	€ <u>350m</u>
Surplus on Balance of Trade	=	€ <u>150m</u>
- The Balance of Payments is the difference between the value of total exports (visible and invisible) and total imports for a period of time, e.g. 1 year.  
If total imports exceed total exports the balance is a deficit on the Balance of Payments.

**(B) (20 marks)****MARKING SCHEME** Four points: 5 marks each (2 + 3)

- Global banking crisis**  
This crisis caused a global recession. Ireland's 'Celtic Tiger' economy collapsed as businesses closed down, banks called in loans and jobs were lost, even in the banks.  
**Impact on business**  
Example: Firms found it very difficult to get new bank loans and credit from suppliers. The property market collapsed.
- Currency fluctuations**  
The global recessions badly impacted Ireland's exporters. In 2010, Ireland's exporters lost about 28 per cent in competitive pricing.  
**Impact on business**  
Example: As the euro increased in value against sterling, it meant that exports to Ireland's biggest EU trading partner became dearer and less competitive.
- Globalisation**  
The growth in globalisation of multinational businesses that regard the world as one huge single market for the mass production of standardised products (e.g. iPhones) is evident in Ireland's economy. This makes it more difficult for Ireland's indigenous industry to compete.  
**Impact on business**  
Example: In order to compete, some global firms relocated to countries with lower wage costs, e.g. Dell moved its plant to Poland where wage costs are 50 per cent lower. This led to increased unemployment in Ireland.
- EU expansion**  
Ireland has access to free trade in the EU member states. As more countries join the EU, the single trading market gets bigger and provides more business opportunities.  
**Impact on business**  
Example: There is a bigger market for Ireland's exporters.

**(C) (20 marks)****MARKING SCHEME** 4 x 5 (2 + 3)

Choose two from the following:

**Importance of the Competition Policy**

- It ensures that there is free and fair competition so that consumers benefit.
- It makes it illegal for competitive firms to form a cartel whereby they would rig the market by 'fixing' high prices.

**Importance of the Common Fisheries Policy**

1. It makes it illegal for non-EU fishing fleets to overfish in Irish waters. There are high financial penalties for EU law breakers.
2. It guarantees a supply of quality fish for Ireland's consumers and ensures income support for fishermen.

**Importance of the Common Agricultural Policy (CAP)**

1. It provides income stability for farmers through price regulations, this provides them with an incentive to remain employed in the industry.
2. Ireland's consumers can support the agri-industry because the products are top quality at competitive prices.

**SECTION 3****Part 2****Enterprise****Question 4 – Enterprise/Managing****(A) (20 marks)**

- (i) **MARKING SCHEME** SWOT analysis explanation: 6 marks (4 + 2)

1. It is an important component of the long-term strategic planning of a business.
2. It examines the firm's internal strengths and weaknesses and its external opportunities and threats. It enables a business to be efficiently organised so as to avail of opportunities that may arise and to be able to deal with any weaknesses or threats.

- (ii) **MARKING SCHEME**

Total of 14 marks

Name the business: 2 marks

Four headings: 3 marks each (2 + 1)

Give two points for each heading

Name of Business: Ryanair

**Strengths**

1. It has an established and globally recognised brand name.
2. Customers book their flights online thus making it cost-effective and expedient.

**Weaknesses**

1. It sometimes attracts bad publicity in the media.
2. Some customers dissatisfied with in-flight facilities.

**Opportunities**

1. New destinations in an enlarged EU.
2. To be more price competitive.

**Threats**

1. It cannot control costs due to travel taxes.
2. Difficult to compete with global low-cost competition.

**(B) (20 marks)****MARKING SCHEME**

Strategic planning: 10 marks (4 + 4 + 2 (for example))

Tactical planning: 10 marks (4 + 4 + 2 (for example))

**Strategic planning**

1. This is long-term planning by management as it plans the future of the business.
2. The existence of the strategic plan enables the business to achieve its stated mission, i.e. what it aims to achieve.  
*Example:* Easons developed a chain of franchised shops nationwide.

**Tactical planning**

1. This is short-term planning by management which deals with the current situation and how yearly targets will be achieved.
2. It outlines what immediate action is required to enable the business achieve some key aims.  
*Example:* A firm involved in an advertising campaign to enable it achieve the budget sales target for a new product.

**(C) (20 marks)****MARKING SCHEME**

Benefits: 2 x 5 (2 + 3)

Chain of command: 5 marks (2 + 3)

Span of control: 5 marks (2 + 3)

Benefits include the following:

1. It prevents management from becoming overloaded, this is done by setting up different specialist departments with a specialist manager in charge of each department, e.g. sales manager.
2. It enables different specialist departments to co-operate with each other so proper teamwork exists.
3. **Chain of command**  
This is the direction where instructions are passed down from management to subordinates and feedback is referred back up the line. A clear management structure, called a line relationship, exists and top management has authority over the manager of each department.
4. **Span of control**  
This is the number of people who report up to one manager. If a sales manager has responsibility for nine employees in the sales department then the span of control is nine. In the functional organisation structure, the span of control can be wide (big) or narrow (small), it depends on the type of work, the skill of employees and the type of product.

## Question 5 – Managing

## (A) (20 marks)

(i) **MARKING SCHEME** 5 marks (2 + 3)

1. A performance appraisal involves the human resource manager reviewing the performance of an employee at the end of a stated time period, e.g. a year.
2. This review will enable the human resource manager to form a judgement on an employee's work and decide where improvements can be made and if training is required.

(ii) **MARKING SCHEME** Three points: 5 marks each (2 + 3)

Benefits of performance appraisal include:

1. **Wage review**  
It enables the firm to decide a suitable wage increase for its employees.
2. **Improved productivity and morale**  
It improves staff morale as they see that their hard work is being rewarded, this leads to an increase in productivity.
3. **Management feedback**  
It enables management to find out from employees any conflicts or issues that are adversely affecting them and what action should be taken.

## (B) (20 marks)

**MARKING SCHEME**

Four ratios: 4 x 5 marks each

Ratio formula: 4 x 2 marks

Calculations: 4 x 3 (1 + 1 + 1) marks

(i) **Net profit margin**

$$\frac{\text{Net profit}}{\text{Sales}} \times \frac{100}{1} = \frac{33,750}{13,500} \times \frac{100}{1} = 25\%$$

(ii) **Current ratio**

$$\begin{aligned} &= \text{Current assets} : \text{Current liabilities} \\ &= \text{€}84,500 : \text{€}65,000 \\ &= 1.3 : 1 \end{aligned}$$

(iii) **Acid test ratio**

$$\begin{aligned} &= \text{Current assets} - \text{Closing stock} : \text{Current liabilities} \\ &= \text{€}84,500 - \text{€}39,000 : \text{€}65,000 \\ &= \text{€}45,500 : \text{€}65,000 \\ &= 0.7 : 1 \end{aligned}$$

(iv) **Debt equity ratio**

$$\begin{aligned} &= \text{Debt} : \text{Equity (ordinary share capital + Retained earnings)} \\ &= \text{€}192,000 : 300,000 + \text{€}20,000 \\ &= \text{€}192,000 : 320,000 \\ &= 0.6 : 1 \end{aligned}$$

**(C) (20 marks)****MARKING SCHEME**

Investors/Shareholders: 6 marks (1 + 2 + 3)

Suppliers: 8 marks (1 + 2 + 5)

Employees: 6 marks (1 + 2 + 3)

**(i) Investors/Shareholders**

They are interested in the net profit margin as profit determines the amount of dividends to be paid out.

In 2008, the net profit margin was 32 per cent.

In 2009, the net profit margin was 25 per cent.

Existing shareholders will be dissatisfied with a decrease of 7 per cent in the net profit margin.

Potential investors will not be impressed that the debt equity ratio has increased from 0.4 : 1 to 0.6 : 1.

**(ii) Suppliers**

Suppliers, i.e. creditors, are always interested in the ability of CES Ltd to pay them on time.

The current ratio for 2008 was 2 : 1.

The current ratio for 2009 was 1.3 : 1.

Suppliers will be concerned with the adverse trend in this ratio.

The acid test ratio for 2008 was 1.1 : 1.

The acid test ratio for 2009 was 0.7 : 1.

This ratio is an indication of the ability of CES Ltd to pay its suppliers from its cash balances. An ideal and standard acid test ratio is 1:1. In this situation, the suppliers would have some concern as CES Ltd cannot pay all its suppliers from its cash/bank balance. An improvement in its acid test ratio is essential to calm suppliers' fears of a liquidity problem.

**(iii) Employees**

Employees want job security so profit trends and margins interest them. They will notice the reduction in the net profit margin and the liquidity issue with the trend in the acid test ratio. This situation will weaken their argument for a wage increase.

**Question 6 – Managing/Business in Action****(A) (20 marks)****MARKING SCHEME**

Three points: 5 marks each (2 + 3)

Evaluation: 5 marks (2 + 3)

Choose either two benefits and one risk or one benefit and two risks from the following:

**Benefits include:**

1. It enables the franchisee or franchisor to expand the business into new locations without much financial investment.
2. It is a fast and cost-effective way to expand the business. Marie's Pizzas could establish a number of franchise restaurants with franchisees in different areas.

**Risks include:**

1. The franchisor loses control of the day-to-day running of the business as this is done by the franchisee.
2. The reputation of the franchisor's business could be damaged by poor-quality standard of service from the franchisee.

**Evaluation**

In my opinion, franchising is an effective way to expand a business. Easons has over 20 franchised shops located nationwide. Each franchised shop buys its goods from the franchisor and also pays them an agreed share of profits.

**(B) (10 marks)****MARKING SCHEME**

Two benefits: 2 x 4 marks each (2 + 2)  
Refer to Marie's Pizza: 2 marks

**1. Financial planning**

A business plan will impress the bank and/or potential investors that management are focused on the future and are aware of problems that may arise.

*Example:* The accountant has recommended that a business plan be prepared before going ahead with the expansion idea.

**2. Assessing sales and profits**

The existence of the business plan will enable management to compare the actual sales and profits with the projections.

*Example:* If the targets are not reached, action will be required.

**(C) (30 marks)****(i) MARKING SCHEME** Three points: 5 marks each (2 + 3)

Factors include the following:

**1. Cost**

A business will want to obtain the finance required at the cheapest cost possible. By comparing the APR of different banks, the borrower will know the cheapest and dearest provider of finance.

**2. Reason**

The reason why the finance is required will influence the suitability of each source and for how long it is required.

*Example:* If a business requires €100,000 to buy a new computer system, a long-term source of finance is suitable, a short-term source of finance is not suitable.

**3. Security**

It is normal practice for a bank to require suitable security when giving a big loan. If security is not available the bank may refuse to give a loan.

**(ii) MARKING SCHEME**

Two points: 8 marks (2 + 3 + 3) and 7 marks (2 + 3 + 2)

Short-term sources of finance are not suitable - give only medium-term sources.

**1. Leasing**

- Leasing an asset such as a delivery van enables Marie's Pizzas to use it without owning it, i.e. it rents it from the leasing finance company.
- Marie's Pizzas improves its cash flow as it pays the lease payments usually on a monthly basis rather than having to pay out the full cash price of the delivery van in one payment.

2. **Hire purchase**

- This involves purchasing the delivery van, paying for it usually by monthly instalments with ownership passing to Marie's Pizzas on payment of the final instalment.
- No security required to avail of this source of finance but it is costly.

**Question 7 – Business in Action**

**(A) (15 marks)**

**MARKING SCHEME** Three points: 5 marks each (2 + 3)

**(i) Exploratory reason**

It provides business with information about the size of the market for its products and the spending patterns of different market segments.

**(ii) Descriptive reasons**

It provides business with information about consumers' reaction to competitors' products and their market share.

**(iii) Projected sales**

The results of the market research will enable the sales manager to predict sales of new products.

**(B) (20 marks)**

**MARKING SCHEME**

Sales promotion: 7 marks (4 + 3)

Evaluation: 3 marks

Public relations: 7 marks (4 + 3)

Evaluation: 3 marks

**Sales promotion**

1. Sales promotion involves a business using marketing tactics on a temporary basis in order to attract customers to avail of some bonus on offer, e.g. a free gift.
2. The main aim of sales promotions is to increase sales and profits. This is achieved by short-term price reductions, free gifts, e.g. free shampoo with a magazine.

**Evaluation**

In my opinion, sales promotion is both a popular and effective form of marketing and is regularly used by supermarkets.

**Public relations**

1. Public relations involves a business trying to create a good image for its products by creating good publicity and building a good corporate image.
2. It involves the PRO issuing press releases, holding press conferences and being involved in sponsorship support for sports events.

**Evaluation**

In my opinion, sponsorship is a very effective way of generating good publicity for a business. It is a cost-effective form of advertising.

(C) (25 marks)

**MARKING SCHEME**

Benefits for business: 10 marks (2 x 5 (2 + 3))

Benefits for consumer: 10 marks (2 x 5 (2 + 3))

Examples: 5 marks (2 + 3)

**Benefits for business****1. Marketing**

A business with a brand name finds it easier to distinguish its products from competitors similar products.

*Example:* Tayto crisps.

**2. Sales**

Branded goods are easy to recognise in supermarkets and result in repeat sales.

*Example:* Kellogg's brand.

**Benefits for the consumer**

1. Branding enables the consumer to recognise products as they remember the brand name.

2. Branding enables the consumer to assess the quality and value of the product.

*Example:* Tayto crisps.