FEEDBACK TUTORIAL LETTER

1st SEMESTER 2021

ASSIGNMENT 2

Introduction to Business Management

BMI511S
Dear Student

Herewith is the Memo to your Assignment 2 together with some general comments that are inserted for your guidance.

**Question 1 (Multiple choice)** [12 Marks]

1.1 Cloete has just completed his Bachelors Degree in Software Engineering at NUST and has opened a new information technology shop that sells computers and equipment and provide information technology (IT) services such as the development of computer softwares. When Cloete deals with clients, he requires _______________ skills and when he is developing softwares he needs _______________ skills.
   A. Interpersonal; technical
   B. Conceptual; informational
   C. Interpersonal; conceptual
   D. Information; technical

1.2 The core components of the mission, described in the mission statement, are ________________.
   A. Product or service, philosophy, market and technology
   B. Product or service, market, objectives and technology
   C. Market, technology, objectives and strategy
   D. Technology, vision, product or services and philosophy

1.3 Select the correct statement.
   A. Organisations need managers more than leaders.
   B. Leadership is one of four management functions.
   C. All managers are leaders and all leaders are managers.
   D. Managers and leaders do not have the same sources of power.

1.4 Which statement is false?
   A. Control helps organisations to cope with environmental change.
   B. Control systems increase costs in an organization.
   C. Control helps an organization to cope with increasing organization size and complexity.
   D. Control helps to limit the accumulation of error.

1.5 Consider the list of activities below.
   i. Human resource planning
   ii. Recruitment of employees
   iii. Selection of employees
   iv. Development of employees
   v. Compensation of employees

Now choose the combination of activities that form part of the human resource function in an organization.
   A. i, ii, iii
   B. i, ii, iv, v
   C. i, ii, iii, iv
D. i, ii, iii, iv, v

1.6 Segmenting a population according to its annual income, occupation and lifestyle would fall under which type(s) of consumer segmentation bas(s)?

A. Behavioural and psychographic segmentation
B. **Demographic and psychographic segmentation**
C. Geographic, demographic, psychographic and behavioral segmentation
D. Geographic, demographic and psychographic segmentation

Comments
Congratulations!!! More than 70% of you did very well in this section. This section is normally an overview of all your Units that are covered within the assignment. It is also the section that is normally intended to enable you to prepare yourself for the rest of the assignment.
Question 2

How is my business doing?

Christine Links is the chief executive of Links Builders. She is keen to compare the performance and liquidity of her company with that of another building company. She obtained a set of published accounts for Flash Builders plc and used ratios to help her in the comparison.

These are the figures she used from both companies.

<table>
<thead>
<tr>
<th></th>
<th>Links</th>
<th>Flash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Employed</td>
<td>200</td>
<td>400</td>
</tr>
<tr>
<td>Gross profit</td>
<td>100</td>
<td>150</td>
</tr>
<tr>
<td>Net profit</td>
<td>20</td>
<td>60</td>
</tr>
<tr>
<td>Sales turnover</td>
<td>350</td>
<td>600</td>
</tr>
<tr>
<td>Current assets</td>
<td>100</td>
<td>150</td>
</tr>
<tr>
<td>Stock</td>
<td>50</td>
<td>60</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>45</td>
<td>120</td>
</tr>
</tbody>
</table>

(a) Calculate two profitability ratios for both companies. (6)

**Gross profit Margin = Gross Profit/sales \times 100**

<table>
<thead>
<tr>
<th></th>
<th>Links</th>
<th>Flash</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100/350 x 100</td>
<td>150/600 x 100</td>
</tr>
<tr>
<td>Gross profit margin</td>
<td>= 28.6%</td>
<td>= 25%</td>
</tr>
</tbody>
</table>

**Net profit margin = net profit/sales \times 100**

<table>
<thead>
<tr>
<th></th>
<th>Links</th>
<th>Flash</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20/350 x 100</td>
<td>60/600 x 100</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>= 5.7%</td>
<td>= 10%</td>
</tr>
</tbody>
</table>

(b) Calculate the liquidity ratios for both businesses. (6)

**Current ratio = current assets /current liabilities**

<table>
<thead>
<tr>
<th></th>
<th>Links</th>
<th>Flash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>100/45</td>
<td>150/120</td>
</tr>
<tr>
<td></td>
<td>= 2.2:1</td>
<td>= 1.25:1</td>
</tr>
</tbody>
</table>

**Acid test ratio = current assets – stock/current liabilities**

<table>
<thead>
<tr>
<th></th>
<th>Links</th>
<th>Flash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acid test ratio</td>
<td>100-50/45</td>
<td>150-60/120</td>
</tr>
<tr>
<td></td>
<td>= 1.1:1</td>
<td>= 0.75:1</td>
</tr>
</tbody>
</table>

(c) Comment on your results in (a). and (b) (6)

(a) Although the gross profit margin of Links is higher than that of Flash, Flash overall performance is much better than that of Links.
(b) From these results it is clear that Links Builders is in a more liquid position than Flash Builders.

Current ratio
Links for each N$1 of short-term debts it has N$2.20 comparing to Flash with N$1.25

Acid Test ratio
Links for each N$1 of short-term debts it has N$1.10 comparing to Flash with N$0.75

Comments
In commenting on the ratio, your analysis should always be based on comparisons. You compare against competitors, past performance, budgeted ratios and against the recommended ratios. For example, liquidity ratios, you could have compared those ratios against the recommended ratio which are: current ratio 2:1 and acid test ratio 1:1. Congratulations to the few of you that had correctly done that. Lastly take note that some of you failed to express the ratios correctly and consequently lost marks as a result.

Question 3

Auto Motor Spares
The sole owner of Auto Moto Spares needs to increase production as a result of increasing demand from motor accessory shops. Current capacity has been at 4,000 units per year. Each spare is sold to the retailers for N$60. Production costs are:

Direct labour N$20
Direct materials N$16
Fixed costs N$58,000

The owner is considering two options for expansion:

Option 1 Extend the existing premises but keep the same method of production. This would increase fixed costs by N$30,000 per year, but direct costs would remain unchanged. Capacity would doubled.

Option 2 Purchase new machinery, which will speed up the production process and cut down on wasted materials. Fixed costs would rise by N$8,000 per year, but direct costs would be reduced by N$4 per unit. Output capacity would increase by 60%.

(a) Identify the Break-even point in units for each option. (8)

(a) Option 1

Fixed costs N$58 000 + 30 000 = 88 000 total fixed costs

Therefore

Contribution Margin = Selling price – Variable costs

\[
\text{Contribution Margin} = \frac{24}{24} = 60 - 36
\]

\[
\text{BEP} = \frac{\text{FC/Contribution Margin}}{\text{Selling price – Variable costs}}
\]
Option 2  
58 000 + 8 000 = 66 000 total fixed costs  
Contribution Margin = 60-32=28  
66 000/28  
BEP = 2 357 Spares

(b) Which option would you advice the owner to choose? Motivate your answer. (4)

Option 2: The business only need to sell 2 357 Spares to start making a profit.

Comments
Most of you do not understand the concept break even point analysis. Please make an effort, the tutors are always readily available to assist you. Take note that any cost in units is a variable cost. Secondly in deciding whether a cost is a variable cost or fixed you need to be guided by the definitions of the various costs. Make sure you understand those definitions.

Question 4
In 1972, your grandfather put N$2000 into a special trust to be paid to a future grandchild (you) in the year 2022. How much will this trust be worth in the year 2022 if it has been earning 12% interest compounded quarterly?

FV = PV (1 + i)^n  
FV = N$2,000.00 (1+0.124/4)^50  
FV = N$2,000.00 (1.03)^200  
FV = N$738,711.63

Comments
Most of you are familiar with the concept of “Time Value of Money”. However, some of you ignored the different compounding periods and treated all investments as if they are all compounded annually. Please note that whenever an investment is not compounded annually it means the “i” and the “n” have to be changed. Secondly you are urged to always indicate your formulas. You lose marks by not doing that. Lastly you are reminded to always define your answer by indicating a dollar (N$) if it is money.