

Certificate in

Business Practice



Level 2

Series 3 2003

(Code 2309)

Model Answers

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Certificate in Business Practice Level 2

Series 3 2003

How to use this booklet

Model Answers have been developed by LCCIEB to offer additional information and guidance to Centres, teachers and candidates as they prepare for LCCIEB examinations. The contents of this booklet are divided into 3 elements:

- (1) Questions – reproduced from the printed examination paper
- (2) Model Answers – summary of the main points that the Chief Examiner expected to see in the answers to each question in the examination paper, plus a fully worked example or sample answer (where applicable)
- (3) Helpful Hints – where appropriate, additional guidance relating to individual questions or to examination technique

Teachers and candidates should find this booklet an invaluable teaching tool and an aid to success.

The London Chamber of Commerce and Industry Examinations Board provides Model Answers to help candidates gain a general understanding of the standard required. The Board accepts that candidates may offer other answers that could be equally valid.

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Scenario

For the purposes of this examination you are an administrator in the Head Office of Athena House Group, a large international retailing company with shops in a number of countries.

QUESTION 1

Athena House Group is planning to expand its business by opening new shops in several countries where it is not trading at present – Taiwan, Japan and Australia.

Task: Prepare a briefing sheet for your employer relating to the following questions and topics.

- (a) (i) What is meant by an international market? (2 marks)
- (ii) What are the benefits to Athena House Group of trading in an international market? (4 marks)
- (b) Apart from opening new shops, suggest ways in which a business such as Athena House Group might improve its market position. (5 marks)
- (c) How might the following groups of people be affected by Athena House Group's plans to open new shops:
- (i) employees
- (ii) shareholders
- (iii) Athena House Group's bankers? (6 marks)
- (d) How might the government assist and influence Athena House Group's planned expansion? (4 marks)
- (e) Describe 2 ways in which a bank may assist Athena House Group with its planned expansion. (4 marks)

(Total 25 marks)

Model Answer to Question 1

- (a) (i) anywhere where goods and services are sold
between countries
involving exporting and importing
- (ii) more sales revenue
and so possibly more profit
more opportunities to sell its products
to more market segments
opportunities to become better known
opportunities to buy goods in a wider market
- (b) introduce new products
lower its prices
have sales/special offers
improve the quality of its merchandise
advertise on a wider scale
look at alternative methods of selling eg Internet
improve its customer service
introduce a loyalty scheme
- (c) (i) Employees
more opportunities for employment
possibility of greater job security
opportunities for travel
opportunities for promotion
- (ii) Shareholders
optimism may mean the share value will rise
may mean more profits – greater dividends
- (iii) Company bankers
requests for extending the company's borrowing
may be worried that the company is overextending itself
may have to give credit references to firms abroad
- (d) introductions in the listed countries
advice and information on trading in these countries
provision of interpreters through embassies
export credits facilities
possibility of grants
encouragement of exporting retail services
- (e) provision of finance – loans, overdrafts
contacts with banks in the countries where AHG is expanding
payment facilities for foreign transactions eg bank draft, electronic transfer, documentary credits
personal facilities eg currency for the company's personnel who may be travelling to these countries
advice on trading conditions in these countries

All other relevant points accepted

QUESTION 2

Athena House Group is a public limited company operating in the private sector of business. It started as a small business owned by John Thomson. It has grown over the years as the result of both vertical and horizontal mergers and also by ploughing back profits into the business. It has a reputation for valuing its employees.

Task: Prepare a set of notes which may form the basis of an article in the Athena House Group company magazine covering the following:

- (a) What is meant by the private sector of business. (2 marks)
- (b) (i) 2 features of a public limited company (2 marks)
(ii) 2 features of a sole trader (2 marks)
(iii) Why it is better to operate as a public limited company rather than as a sole trader. (3 marks)
- (c) (i) An explanation of the differences between a vertical merger and a horizontal merger. (Use diagrams to illustrate your answer). (4 marks)
(ii) 2 advantages of horizontal mergers for Athena House Group. (2 marks)
(iii) 2 advantages of vertical mergers for Athena House Group. (2 marks)
- (d) Ploughing back profits is an example of internal finance for Athena House Group. Explain why ploughing back profits is a better method of financing growth than borrowing from the bank. (4 marks)
- (e) How individual employees may have contributed to the success of Athena House Group. (4 marks)

(Total 25 marks)

Model Answer to Question 2

- (a) that part of business which is owned by private individuals either separately (sole trader) or in groups (plc)
- (b) (i) owned by shareholders
who purchase shares on stock exchange
is a legal entity
has limited liability
can raise very large amounts of capital
is controlled by Board of Directors
which is answerable to shareholders
- (ii) one owner
who makes all the decisions
and can act flexibly
usually small
easy to set up
but difficult to raise capital
- (iii) because shareholders have limited liability
unlike the sole trader who has unlimited liability
and so is liable for all the losses of the business
because it is easier to raise capital through the
stock exchange
or through banks who regard a plc as less of a risk

Other relevant points accepted

- (c) (i) vertical merger is when a company merges with its suppliers or its customers

Smith Textile Mill



Athena House Group

horizontal merger is when a company merges with other companies in the same line of business and at the same stage of production

Athena House Group \longleftrightarrow Sing Retailers

- (ii) merge with their competitors
and achieve a larger scale business
with the possibility of greater profits
and more influence in the retail trade

Other relevant points accepted

- (iii) guarantees supplies
can control supplies
and can control quality of the supplies

NB AHG is not likely to merge with customers as these are individuals.

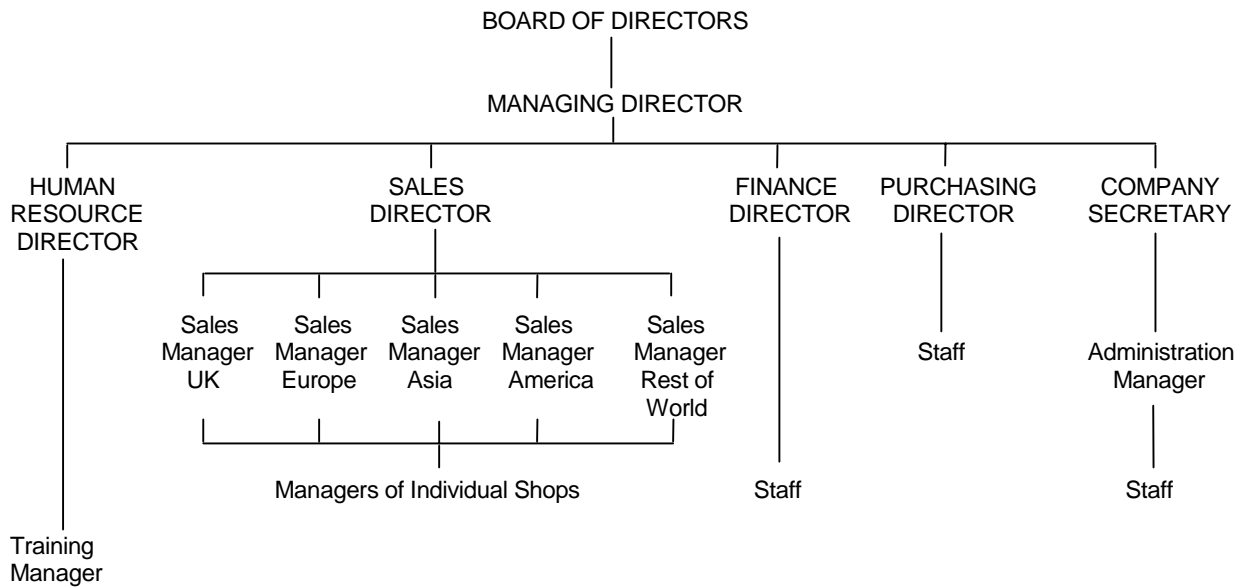
Model Answer to Question 2

- (d) does not have to pay interest
readily available/does not have to wait
does not have to be repaid
can use any amount required
does not have to make a formal request
may not be granted a loan by the bank
- (e) being polite to customers
being helpful to customers
giving helpful information to customers
taking every opportunity to make a sale
processing orders accurately
answering telephone enquiries politely

Other relevant points accepted

QUESTION 3

You have a new junior administrator working with you. She has been given a simplified organisation chart of the company as shown below:



Task: Your task is to answer her questions below relating to the organisation chart and functional areas of the company. Use bullet points for your answers.

- (a) What information is the organisation chart meant to tell her about the company? (3 marks)
- (b) What are the functions of the Purchasing Director in a retailing company like Athena House Group? (4 marks)
- (c) Why is the Sales Director in charge of so many managers? (2 marks)
- (d) What responsibilities does the Training Manager have? (3 marks)
- (e) What are vertical and horizontal channels of communication? Can you give me an example of each from the organisation chart? (4 marks)
- (f) I read that the Company Secretary organises insurance cover for the company. Why does Athena House Group need insurance such as employer's liability and public liability? (5 marks)
- (g) I realise sales figures are provided by the Sales Director to other people. Can you give me **4** other examples of information provided by the functional areas to other functional areas?
(NB The **4** examples may come from one functional area or one from each of **4** functional areas.)
(4 marks)

(Total 25 marks)

Model Answer to Question 3

- (a) how the company is organised
 - who reports to whom
 - lines of communication
 - titles of staff
 - functional areas within the company
 - staff relationships

Other relevant points accepted

- (b) to obtain value for money
 - to search for new products
 - to search for new suppliers
 - to make sure that goods are delivered when required
 - to make sure that shops are supplied
 - to make sure that goods are of suitable quality
 - to keep records of purchases
 - to handle procedures for imported goods
 - to supervise staff in the functional area

Other relevant points accepted

- (c) because the business is spread across the world
 - and no one person can be responsible for managing all the shops all over the world
 - because each area has particular requirements
 - and these are best served by appointing a manager
 - to oversee that particular area

Other relevant points accepted

- (d) to prepare training programmes
 - to give new staff introductory training programmes
 - to coordinate all training
 - to update existing staff when required
 - to prepare training courses on particular aspects of the business eg customer care
 - to organise training courses

Other relevant responsibilities accepted

- (e) vertical – up and down the chain of command eg managers
 - of individual shops to sales manager for the region to
 - sales director to managing director and vice versa

horizontal – between people on the same level
eg the sales managers of the particular regions,
Training Manager and Staffing Manager

Other relevant points accepted

Model Answer to Question 3 continued

- (f) General points accepted or those relating to the particular insurance risks such as:

to protect itself against claims
to provide compensation if a risk occurs
required by law (employer's liability)
against claims made by employees
who have an accident at work
because of AHG's negligence
against claims made by customers
who have accidents on AHG's premises

Other relevant points accepted

- (g) Human Resources - staffing needs, information on training
Sales – performance of individual shops, details of complaints
Finance – accounts figures, information on pay scales
Purchasing – new products available, delivery dates
Company Secretary – records of staff, contracts,
minutes of Board Meetings, share register

QUESTION 4

You have been studying an extract from Athena House Group's Balance Sheet.

ATHENA HOUSE GROUP		
BALANCE SHEET		
as at 31 December 2002		
	2002	2001
	\$m	\$m
Fixed Assets	350	330
Current Assets		
Stock	25	20
Debtors	5	5
Cash at Bank	20	15
Current Liabilities		
Creditors	10	10
Overdraft	15	10
NET ASSETS EMPLOYED	375	350
Financed by		
Shareholders Funds	280	280
Long Term Loan	20	20
Profit & Loss Account	25	20
Reserves	50	30
CAPITAL EMPLOYED	375	350

Task 1: Write a set of notes for the office covering the following points:

- (a) The purposes of the Balance Sheet. (4 marks)
- (b) Using examples relevant to Athena House Group as a retailing group, an explanation of the following terms found in the Balance Sheet:
- (i) fixed assets (2 marks)
 - (ii) stock (2 marks)
 - (iii) current liabilities (2 marks)
 - (iv) reserves (2 marks)
 - (v) capital employed (2 marks)
- (c) The Profit & Loss Account has also been prepared.
- (i) Give **2** purposes of a Profit & Loss Account. (2 marks)
 - (ii) Give **2** items of information contained in a Profit & Loss Account. (2 marks)

Task 2: You are required to prepare and to send out copies of the Annual Report and the Accounts to Directors and Shareholders.

- (a) Describe how you might make use of Information Technology to perform this task. (4 marks)
- (b) State **one** means of communication you would use for this task. Give reasons for your choice. (3 marks)

(Total 25 marks)

Model Answer to Question 4

Task 1:

- (a) to provide a snapshot of the company at any one time
giving details of what the company owns
and what the company owes
required by law
to be provided annually for shareholders

Other relevant points accepted

- (b) (i) those items which the company owns that
are permanent such as land, shops, vehicles
- (ii) the contents of the shops and warehouses
which the company sells eg clothing
- (iii) anything that the company owes and will
have to pay within a short period of time
eg overdraft, creditors
- (iv) profits kept back from previous years
when the company made a profit
it could have been given as dividend to the
shareholders but was retained for future use
- (v) the capital that is used within the business
ie \$375m in 2002
- (c) (i) to show the revenues and costs of the business
over a period of time
to show how much profit/loss the business made
over a period of time
to show past expenses
to provide shareholders with details of how the
company has traded in the past year
- (ii) sales revenue
cost of goods sold
gross profit
expenses
net profit

Task 2:

- (a) word processing/desktop publishing of notice
of meeting, annual report, accounts
database of shareholders' details
accounts stored on computer using accounting
package
- (b) letter post - bulk printed materials have to
be sent. Can easily be delivered
Internet - accounts and notice of meeting etc
can be posted on the company's website
fax/e-mail might be suitable for single items
but not for sending all the documentation
to individual shareholders

Other relevant points accepted

QUESTION 5

Athena House Group's mission statement is:

THE CUSTOMER COMES FIRST. WE AIM TO GIVE THE CUSTOMER THE BEST POSSIBLE SERVICE.

You have been asked to carry out some tasks relating to the mission statement and working practices when dealing with customers.

Task 1: Write a briefing note to explain why the customer is important to Athena House Group. (5 marks)

Task 2:

(a) Explain what is meant by a mission statement. (2 marks)

(b) Athena House Group is a large retailing group. Suggest **2** other aims which might be included in Athena House Group's mission statement.

(NB You do not need to rewrite the mission statement.) (4 marks)

Task 3: Service standards are the measures of the quality of service provided by Athena House Group to its customers, eg to deliver goods which have been ordered within 3 working days.

Write a suitable service standard relating to each of the following areas of work in Athena House Group:

(a) answering the telephone (2 marks)

(b) customer enquiries (2 marks)

(c) dealing with customer complaints (2 marks)

(d) serving customers in the shops (2 marks)

(e) goods offered for sale. (2 marks)

Task 4: Write a set of bullet points to explain how service to its customers might be checked by the company to make sure it is as effective as possible. (4 marks)

(Total 25 marks)

Model Answer to Question 5

Task 1:

AHG is dependent on customers for trade
if there were no customers, there would be no income
and no employment
it relies on customers to buy the goods
to return to buy more goods
and to tell others about AHG

Other relevant points accepted

Task 2:

- (a) a general statement which sums up the nature and direction of the company and states the overall aims of the company
- (b) to provide quality
to provide value for money
to provide an efficient service
to be the best retailing group

Other relevant aims accepted

Task 3:

Suitable service standards such as:

- (a) to answer the telephone within five rings
to read back any messages taken
- (b) to answer customer enquiries within x days
to provide detailed information as required
- (c) to respond to customer complaints within x working days
to provide a written reply within x days
- (d) to maintain eye contact with customers
to greet each customer politely
- (e) goods offered for sale should be fit for the purpose
goods offered for sale should be clearly labelled and priced

Other suitable service standards accepted

Model Answer to Question 5 continued

Task 4:

- asking customers if they are satisfied
- observing customers in the shops and how they are treated by staff
- asking customers to complete questionnaires
- market research - asking customers at random
- analysing customer trends
- comparing sales figures with previous years
- comparing the level of complaints with previous years
- staff appraisal

Other relevant points accepted

QUESTION 6

You have received the following memorandum from the Administration Manager:

M E M O R A N D U M

To Administrator

From Administration Manager

Date 28 May 2003

COMMUNICATION AND THE EXPANSION PROGRAMME

As you know, we are planning expansion of our business in Taiwan, Japan and Australia. Communication is likely to become more difficult as our business becomes larger.

Please prepare a fact sheet concerning communication for use in our planning. Attached are the tasks that I want you to carry out.

DC

Task 1: Explain why effective communication is important for our business.

(4 marks)

Task 2:

(a) At present we use the following methods of communication to contact suppliers and customers:

TELEPHONE FAX LETTER CATALOGUE FACE TO FACE

(i) Describe the circumstances in which we would use the telephone to contact suppliers. (2 marks)

(ii) Why do we use letters to contact customers rather than fax? (2 marks)

(iii) List **3** reasons for using catalogues in our business. (3 marks)

(iv) When is face to face communication of benefit in our business? (2 marks)

(b) Explain why e-mail might be more suitable for contacting suppliers and customers. Are there any drawbacks to using e-mail? (4 marks)

Task 3:

(a) We have been making use of the Internet for some aspects of our business for several years. List **5** ways in which a retailing company such as Athena House Group might make use of the Internet to carry out and to increase its business. (5 marks)

(b) How might teleconferencing facilities assist our business? (3 marks)

(Total 25 marks)

Model Answer to Question 6

Task 1:

to promote a good public image
to enable employees to cope with change
to enable employees to receive instructions
so that people understand each other and can work together
to pass on essential information eg changes in pay
to be able to order goods
to talk to customers

Other relevant points accepted

Task 2:

- (a) (i) when emergency supplies are required
when the order is late
when AHG wishes to make a complaint
when AHG wishes to discuss an order with the supplier
when AHG wishes to obtain further information
- (ii) so that we can give more information
and enclose leaflets/catalogues
because not all customers own fax machines
can obtain discount for bulk postings
- (iii) to target other market segments
to operate a mail order business
to give more details of the goods offered for sale
to sell goods and so earn more profits
to keep up with the competition
- (iv) when you need to have a discussion
when you are unsure about how the message will be received
when there is a problem
when other means of communication may distort the message

Other relevant points accepted

- (b) it is quick
it can be sent to a person's mailbox out of hours
it can provide a written record
it is very cheap
most companies are using e-mail
it can be direct to the person you wish to contact
passwords can provide security

drawbacks might be:

people do not open their mailboxes
computers may crash
viruses may corrupt the system

Other relevant points accepted

Model Answer to Question 6 continued

Task 3:

- (a) for information gathering eg about competitors
- to advertise the shops/goods for sale
- to introduce new products
- to introduce new shops eg in Taiwan etc
- to operate in the global market
- to establish a website to give information on the company so that goods can be sold on-line
- to enable AHG to obtain new suppliers
- and also to buy on-line

Other relevant ways accepted

- (b) enables managers in different parts of the world to link up for meetings
- so saving travel costs and time
- accommodation costs and disruption to work schedules
- enables meetings to be set up very quickly
- so that managers can react to changes much more rapidly

Other relevant points accepted



**EXAMINATIONS
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