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—Visionary IB Education—
Success in the IB Diploma

BUSINESS MANAGEMENT

STANDARD AND HIGHER LEVEL

TOPIC THREE: FINANCE AND ACCOUNTS

Topic THREE end of unit assessment

Section A: 50 minutes

Section B: 30 minutes

INSTRUCTIONS TO STUDENTS

- Do not open this assessment until instructed to do so.
- Section A: answer **all** questions.
- Section B: answer **one** question.
- A calculator **is** required for this assessment.
- A clean copy of the IB Business Management formulae sheet is **not** required for this examination paper.
- The maximum mark for this assessment is **[45 marks]**.

SECTION A

Answer **all** questions from this section.

GENERAL MOTORS (GM)



General Motors financial problems brought the company at the verge of bankruptcy in 2009. The major reasons for the crisis at GM was its inability to bring out new vehicles that suited the needs of its customers, poor business strategy, and high costs associated with employee healthcare and pension benefits. These problems, coupled with global financial crisis and recession in the economies of several developed and developing countries adversely impacted the revenues of GM, which fell by 11% in 2008 as compared to 2007. In order to solve its liquidity crisis, GM approached the US Government for

financial aid and eventually secured a bailout in excess of US\$50 billion.

This injection of cash into the business enabled GM to meet its short- and long-term financing needs enabling it to meet its current and planned revenue and, importantly, capital expenditures. GM had long relied on high margin SUVs in its key US market to maintain profitability, even as competitors such as VW and Toyota continued to capture market share, at home and abroad. The company's high margin SUVs also managed to lessen the impact of higher per unit labour costs and lower manufacturing productivity.

GM emerged from bankruptcy protection in July 2008, much sooner than most analysts had initially predicted. GM continued to invest heavily in China even while it cut back on models, brands and production in the US in one of the largest ever company restructurings a US company has ever undertaken.

As GM increased its profitability in the aftermath of the global financial crisis of 2008-2009, it then had to issue another profit downgrade warning in 2014. This was when the firm faced an unprecedented vehicle recall in the wake of its faulty accelerator and ignition problems now linked to at least 23 deaths, the automaker has issued six dozen recall campaigns totaling 30 million vehicles worldwide.

Now GM is planning to embark on an ambitious investment programme in China. GM in a series of joint ventures in China is planning to invest \$14 billion from 2016 through 2020 to open five new vehicle-manufacturing plants and support sales of just under 5 million vehicles annually. In the same time frame, GM expects to launch 60 new or refreshed vehicles, including nine new sport utility vehicles (SUVs). The simplified net cash flows for this investment are detailed below:

Table 1: Net cash flows	
Year	Net cash flows (\$ millions)
2016	(11 000)
2017	(2 000)
2018	4 000
2019	5 000
2020	7 000

OTHER FORMULAE

INVESTMENT APPRAISAL

$$\text{Average rate of return} = \frac{(\text{total returns} - \text{capital cost}) \div \text{years of use}}{\text{Capital cost}} \times 100$$

QUESTIONS:

- a. Define *revenue expenditure*. **[2 marks]**
- b. Using net cash flows in Table 1 above calculate
- i. The payback period **[3 marks]**
 - ii. The average rate of return (ARR) **[3 marks]**
- c. Explain why forecasting future cash flows adds uncertainty to investment appraisal. **[3 marks]**
- d. Analyse the suitability of both debt **and** equity sources of finance for GM's planned investment programme in China. **[6 marks]**
- e. Evaluate the different strategies that GM has for dealing with liquidity problems. **[8 marks]**

IB Business Management UNIT THREE assessment

IB Business Management: www.BusinessManagementIB.com

SECTION B

Answer **one** of the following questions.

CONCEPT QUESTIONS

1. With reference to one or two organisations that you have studied, discuss the role of sources of finance in organisational **change** and **strategy**. **[20 marks]**
2. With reference to one or two organisations that you have studied, discuss how **culture** and **ethics** influence accounting practices in organisations. **[20 marks]**
3. With reference to one or two organisations that you have studied, discuss the role of investment appraisal in association with **innovation** and **strategy**. **[20 marks]**