

## Paper 3 Exam Practice Question - Lisa Accessories

### Business Management

### Higher level

### Paper 3

Time: 1 hour and 15 minutes

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#### Instructions to candidates

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Answer **all** questions.
- A calculator is permitted for this examination paper.
- The maximum mark for this examination paper is [**25 marks**].

## **Lisa Accessories – Creating treasures from plastic**

Read the resources and answer **all** the questions that follow.

### **Resource 1 – About Lisa Accessories (extracts from official website)**

#### **Our CEO’s vision – by Lisa, the founder of *Lisa Accessories (LA)***

“Plastic waste management has, over the years, become a major issue in Douala. I realized that I wanted to develop a social business that would incorporate “creating treasures from plastic”. Yes, let’s make plastic become the next favorite accessory in your wardrobe. Let us be creative, and let us upcycle these plastics while providing jobs to underprivileged people; this is the essence of my social business”.



Image. 1. “Upcycled accessories made of plastic” prompt, Canva, version 1, 2 November. 2023, canva.com/

#### **Our mission statement**

In plastic, we trust, by developing distinct designs for all seasons and looks. This is our simple formula for creating the most stylish plastic accessories line.

We take strict care to implement ethical trade practices by providing fair and living wages and excellent working conditions for our staff. We also provide healthcare insurance and pay the school fees to workers with young children.

#### **How our accessories are made**

At *Lisa Accessories (LA)*, our manufacturing process solely relies on the help of human resources. Our wonderful team carefully segregates plastic bags based on their colours, shapes, and sizes. No

machine can replace this process. The plastic is washed, dried, and ironed to be stitched for a true makeover and transformation work. Our accessories collection includes handbags, bracelets, necklaces, scarves and hats. Each product is made with its very own variation of colours, so we have a unique piece that is always made just for you...



Image 2. “Upcycled accessories made of plastic” prompt, Canva, version 1, 2 November. 2023, canva.com/

## **Resource 2 – Minutes of Meeting from 2<sup>nd</sup> February 2023 (internal document)**

### **Collaborative planning meeting – Update of the beginning of Quarter 1**

Chair: Lisa (CEO)

Meeting start time: 9AM

Meeting end time: 10:30AM

Date: February 2<sup>nd</sup>, 2023

Attendees: Management Team of *Lisa Accessories* (CEO, Finance manager, Operations manager, Human Resources manager, and Marketing manager)

#### **The discussions held and the plan of action taken in the meeting are as follows:**

A new deal has been signed with 10 retail outlets based in the Middle East. The Marketing manager is already working on a new marketing mix for customers in the region, with their different preferences and expectations. The finished accessories will be shipped and taken care of by *LA*, including additional

export and marketing costs. The retail outlets in the Middle East will take a 20% commission on each sale.

- *LA's* inventory management software system needs to be repaired or replaced. The inventory management system has been down for two weeks already. During this time, the inventory for the finished accessories has been counted manually. The Operations manager has reached out to a few suppliers as the previous inventory management system supplier has gone out of business. This issue is having a negative impact *LA's* labour productivity.
- Discussion on water consumption included the Finance manager presenting her concerns at the increase in water consumption at *LA*, especially with a noticeable increase of 50% shown on *LA's* January bill. According to the Human Resources manager, new staff in *LA's* workshop were recruited last month but were not provided with the usual induction or on-the-job training sessions due to the lack of experienced staff available at the time.
- *LA* needs to secure additional short-term sources of finance. Based on the current financial situation, the Finance manager is urging Lisa to find new investors or be able to find immediate sources of finance so expenses can be paid in February. All expenses from January and the loss stated in *LA's* profit and loss account have been covered thanks to the emergency fund.

### **Resource 3 – Financial abstract of *Lisa Accessories* profit & loss account in 2023 (converted into USD currency)**

- Sales revenues: \$365,600
- Cost of sales: \$30,000
- Expenses for purchasing new machinery: \$120,000
- Marketing expenses: \$100,000
- Production workshop rent: \$10,000
- Utility bills: \$6,500
- CEO salary: \$22,000
- Finance manager, Operations manager, Human Resources manager, Marketing manager combined annual salaries: \$57,600
- Employees' salaries: \$4,000
- Employees' children's school fees (paid for 10 children): \$18,000
- Health insurance coverage for 40 employees: \$6,000
- Dividends paid: \$41,100

#### Resource 4 – Email sent from *LA*'s CEO to shareholders

Dear valued Shareholders

I would like to invite you for an exceptional general meeting this Friday to look into the issues that were discussed with the Management Team on February 2<sup>nd</sup>, 2023 (attached herewith the minutes).

To deal with the current situation faced by *LA*, I am willing to consider the following plan:

- Seek and apply for suitable sources of finance to ensure *LA* is able to pay all payments due for this quarter and into the future.
- Find appropriate ways to improve our water consumption management in our production workshop. In particular, *LA* would like to look into setting up a rainwater collection system.
- Make progress with our market development strategy in the Middle East, which has growth potential but also to be careful about the costs associated with exporting our accessories.

I am open to additional suggestions for this plan.

Yours faithfully,

Lisa

#### Questions

Answer **all** the questions

(a) Using an appropriate business management theory, describe a human need that *Lisa Accessories (LA)* meets by providing health care insurance to its employees and paying school fees on behalf of their employees with young children.

[2 marks]

(b) Explain **two** possible challenges facing *Lisa Accessories (LA)*.

[6 marks]

(c) Using all the resources provided and your knowledge of business management, recommend a possible plan of action to ensure the sustainability of *Lisa Accessories (LA)* for the next five years.

[17 marks]