

# SUCCESS AND FAILURE

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## Multiple choice

- |     |   |     |   |
|-----|---|-----|---|
| 1.  | B | 11. | B |
| 2.  | C | 12. | D |
| 3.  | D | 13. | D |
| 4.  | A | 14. | A |
| 5.  | D | 15. | B |
| 6.  | A | 16. | C |
| 7.  | C | 17. | A |
| 8.  | B | 18. | B |
| 9.  | A | 19. | A |
| 10. | B | 20. | B |

## Matching terms

n/a

## Short answer questions

### Question 1

- (a) Renalti's shareholders will desire high profits to maximise the return on their investments. Renalti's managers, including Eloise, may not share this objective, as they may choose to less risky, and profitable, projects to ensure their job stability.
- (b) Renalti could pay its managers a fixed percentage of the business's profits. This would encourage managers to maximise the business's profits, aligning their interests with those of the shareholders. In addition, Eloisi could organise regular meetings between with shareholder representatives, such as the board of directors, to discuss the performance of the business. These meetings would provide an opportunity for shareholders and managers to air grievances and issues of concern.
- (c) Renalti could launch a new range of luxury cars, with additional features, better styling and improved performance. This would allow Renalti to increase sales whilst retaining its current price level, thus increasing profits. Alternatively, Renalti could lower its prices, making its cars

more attractive to price-sensitive customers. Although this would reduce the company's margins, the increase in market share would give Renalti a competitive advantage over other businesses.

### Question 2

- (a) Insufficient cash flow.
- (b) Selling goods on credit may cause a business to experience cash flow problems. A business may find that its debts to its suppliers fall due before its customers have paid cash for their goods.
- (c) The accounting department should keep constant records of all transactions, particularly noting the business's cash position. They should look out for obvious signs of cash flow difficulties, such as a large number of unpaid debtors, or looming financial obligation, such as large debt repayments. By constantly monitoring and predicting cash flows, the accounting department can help the business to plan in advance for possible shortages, for example, by factoring accounts receivable or shortening credit terms.

### Question 3

- (a) Businesses fail for many reasons, including:
  - Overextension of financing – where a business borrows beyond its means and is unable to meet its interest repayments.
  - Poor cash-flow management – where a business is unable to generate sufficient cash inflows to pay its bills in the short term. Even profitable businesses can suffer from poor cash flow management.
  - Inadequate market share – where a business is simply unable to sell enough of its products to make a profit or generate cash to pay suppliers.
- (b) Overextension of financing – Yining could rely on equity rather than debt financing. Equity financing does not incur interest charges, nor does it need to be repaid, making it less a low-risk form of financing.  
Poor cash-flow management – Yining could factor its accounts receivable. This would ensure that all credit sales generate immediate cash-flow for the business.  
Inadequate market share – Yining could undertake extensive market research before launching new products. This would ensure that Yining only launched new products if they were sure to be profitable.
- (c) Strategy 1: Yining could develop a business plan. This would provide an overall framework for decision making and allocation of roles within the business, allowing it to achieve its goals more effectively. In addition, the business plan might include budgets and financial plans, allowing  
Strategy 2: Yining could introduce information technology, such as new machinery or inventory-monitoring systems, to reduce costs, monitor stock levels and maintain a more effective business. This should ensure that Yining's new business would be able to survive periods of low customer demand.