

IB Business Management Worksheet 04

1.3 Business objectives - Shareholder value, dividends and cash flow

Topic	Protecting shareholder value, cash flow and financial trade-offs
Level	SL/HL foundation
Time	55 minutes
Total marks	50

Instructions for students

- Answer all questions. Show application to the business case when required.
- Use IB command terms carefully: define, explain, analyse, discuss, evaluate.
- For extended responses, make a justified judgement supported by the case and business concepts.
- Case data are fictional and created for assessment practice.

Key syllabus coverage

- Managers of companies are expected to protect value for shareholders.
- Shareholder value can be affected by share price expectations and dividends.
- Cash flow is the movement of cash into and out of a business over a period.
- A long cash cycle can create pressure even if profit is expected later.

Section A - Multiple choice

Choose the best answer. Each question is worth 1 mark.

1. Shareholders are:

- A. Employees who receive bonuses
- B. Owners of companies
- C. Suppliers that offer trade credit
- D. Customers who buy regularly

2. A dividend is:

- A. A payment of profit to shareholders
- B. A cash outflow to suppliers only
- C. A type of mission statement
- D. A measure of market share

3. Cash flow refers to:

- A. Only the profit made in a year
- B. The movement of cash into and out of a business
- C. The number of shares issued
- D. The value of inventory in a warehouse

4. A long cash cycle means:

- A. Cash is received before resources are purchased
- B. There is a long gap between paying for resources and receiving cash from customers
- C. The business cannot make profit
- D. All customers pay in cash immediately

5. Managers may retain profit rather than pay high dividends in order to:

- A. Reduce investment in the business
- B. Fund future expansion
- C. Avoid all shareholder interest
- D. Decrease the share price deliberately

6. Which action may improve short-term cash flow but reduce profit?

- A. Offering a discount for immediate cash payment
- B. Increasing the selling price without losing sales
- C. Receiving a grant
- D. Reducing material costs with no quality effect

Section B - Short answer

7. Define the term cash flow. [2]

8. Explain one reason why managers may want to protect shareholder value. [4]

9. Explain two possible objectives of shareholders in a company. [6]

10. Construct one SMART cash-flow objective for a construction business. [2]

Section C - Data response / case study

Case study: MedBuild Projects plc

MedBuild Projects plc designs specialist medical buildings. It pays suppliers early in the construction phase but receives most customer payments after buildings are inspected. Shareholders have asked why dividends are low even though the company has several profitable contracts.

The finance director argues that cash flow must be the priority until two large projects are completed.

Indicator	Project Alpha	Project Beta
Cash outflow before first customer payment	\$2.4m	\$1.7m
Months before first major cash inflow	11	8
Expected total profit	\$650,000	\$420,000
Customer pays early if offered discount	3% discount	2% discount

11. Define the term dividend. [2]

12. Explain why MedBuild may have a long cash cycle. [4]

13. Analyse one benefit and one cost of offering customers an early-payment discount. [6]

14. Evaluate whether MedBuild should prioritise cash flow over dividends this year. [8]

Section D - Extended response

15. Evaluate the importance of cash-flow objectives for businesses with long cash cycles. [10]

Answer key and marking guidance

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Mark positively. Award credit for valid alternative answers that are accurate, relevant and applied to the case. Do not require the exact wording used in this key.

Section A - Multiple choice answers

Q	Answer	Rationale
1	B	Shareholders own shares and are owners of companies.
2	A	Dividends distribute some profit to shareholders.
3	B	Cash flow tracks cash inflows and outflows.
4	B	A long cash cycle delays inflows after outflows.
5	B	Retained profit can finance investment and long-term growth.
6	A	A discount speeds cash inflows but reduces revenue per sale and profit margin.

Section B - Short answer guidance

Q7. Award up to 2 marks: movement of cash (1) into and out of a business over a time period (1).

Q8. Managers are employed to run the business for owners (1). If shareholder value rises, shareholders may benefit from a higher share price or dividends (1), which can increase investor confidence and make it easier to raise finance (1). A well-applied explanation gains the final mark (1).

Q9. Award 3 marks for each objective. Possible objectives: rising share price/capital gain, dividends, long-term growth, lower risk, ethical performance that protects reputation, and effective management plans.

Q10. Example: "Reduce average customer payment time from 60 days to 35 days within 10 months." Award 2 for SMART; 1 for partially SMART.

Section C - Data response / case study guidance

Q11. Award up to 2 marks: a payment to shareholders (1) from company profits/surplus (1).

Q12. MedBuild pays large sums to suppliers before customer cash is received (1), and major inflows may not occur for 8-11 months (1). This means the gap between cash outflows and inflows is long (1), creating potential pressure despite expected profit (1).

Q13. Benefit: faster customer payments would improve liquidity and help pay suppliers/debts during the 8-11 month gap. Cost: discounts reduce revenue and expected profit, which could lower funds available for dividends or investment. Award for balanced, applied analysis.

Q14. Arguments for cash flow: large upfront outflows, risk of failing to pay debts, long cash cycle, survival and completion of projects. Arguments for dividends: shareholders expect returns and low dividends may reduce investor confidence. Judgement should usually favour cash flow this year because a profitable contract can still fail if cash is insufficient, but communication with shareholders is important.

Section D - Extended response guidance

Indicative content: cash-flow objectives help ensure debts and wages can be paid on time; businesses may fail through cash shortages even when profitable on paper; long cash cycles require careful monitoring of payment terms and financing; excessive focus on cash may reduce profit if discounts are overused or investment is delayed; objectives need to be linked to profit, growth and shareholder expectations. Strong answers should define relevant terms, apply arguments to the case, analyse effects on stakeholders and objectives, and reach a supported judgement. Judgement: Cash-flow objectives are crucial in long cash-cycle industries, but they should be balanced with profitability and long-term value creation.

Generic 10-mark extended response rubric

Marks	Descriptor
1-2	Limited knowledge; response is mostly descriptive or contains serious inaccuracies.
3-4	Some relevant knowledge and explanation; limited application to the business or question.
5-6	Clear explanation and some analysis; applied to the business, but balance or depth may be uneven.

Marks	Descriptor
7-8	Good analysis of both sides or several perspectives; well applied with reasoned links to objectives and stakeholders.
9-10	Balanced, fully applied evaluation with a clear, justified judgement and recognition of limitations or trade-offs.