



Rewarding Learning

ADVANCED
General Certificate of Education
January 2013

Business Studies

Assessment Unit A2 1

assessing

Making Business Decisions

[AT211]

TUESDAY 15 JANUARY, MORNING



AT211

TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **all** questions.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed in Questions **5** and **6**.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each question or part question.

Study the information below and answer the questions that follow.

Coaches for all Occasions

Envir-Coaches Ltd. is a locally based manufacturing firm that produces energy efficient coaches for markets both at home and abroad. The coach company was founded in 2001 by the Simpson brothers, John and Trevor and it provided employment for 500 people. After a period of rapid growth the business became a private limited company in 2005 with family members investing in shares.

Envir-Coaches Ltd. recognises the importance of continued investment in eco-friendly products and in its mission statement promises “to meet customers’ expectations by delivering innovative, high quality, energy efficient coaches for all occasions”. This commitment to eco-friendly products has helped the firm establish a good reputation and secure new markets abroad. Also, the management team has spent considerable time conducting an environmental audit and revising their environmental policy to include energy saving targets for the year ahead.

Currently, Envir-Coaches Ltd. employs 1200 workers and exports 25% of its products to countries in Asia. With the help of Invest NI, the business has secured an order worth £5.5 million to supply coaches to a new customer in South Korea. John and Trevor are delighted as this will sustain employment at the plant for the next 12 months. Beyond that, however, the future is uncertain as the world economy struggles to recover from recession. Furthermore, Envir-Coaches Ltd. has no additional orders pending in the UK market so the outlook for the business is fairly bleak.

Management are planning to review the firm’s position using the financial data included in **Table 1** below and may consider drawing up a contingency plan to secure the long term survival of the company.

Table 1: Extracts from the Income Statement and Statement of Financial Position for Envir-Coaches Ltd.

| | 2011 £m | 2010 £m |
|------------------------------|------------|------------|
| Sales Revenue | 5.5 | 4.5 |
| Net Profit before tax | 1.0 | 0.5 |
| Non-current Assets | 8.0 | 6.0 |
| Current Assets | 2.5 | 1.0 |
| Current Liabilities | 1.5 | 0.5 |
| Total Equity and Liabilities | 10.5 | 7.0 |

To retain its competitive edge and reduce carbon emissions, Envir-Coaches Ltd. invests a substantial amount of capital in research and development and uses advanced technology to manufacture efficient, eco-friendly coaches. Meeting the “green” specification for the South Korean order is of paramount importance to the reputation of the business. John and Trevor therefore rely on their supplier to provide high quality, energy-saving components to build the coaches.

John has recently obtained information about Government grants available for investment in solar energy and he is currently researching this possibility. Installing a solar power system in the factory would cut costs and improve efficiency while reducing the firm's carbon footprint. Furthermore, surplus energy can be sold to the local energy provider to raise cash flow for the business. John plans to use investment appraisal tools to help him select the most cost effective solar power system from the alternatives outlined in **Table 2** below.

Table 2: Investment Projects

| Solar Power System A | | | | Solar Power System B | | | |
|----------------------|---------------------|-----------------------------|----------------------------|----------------------|---------------------|-----------------------------|----------------------------|
| Year | Cash Flow £000's | Discount Factor (10%) | Present value £000's | Year | Cash Flow £000's | Discount Factor (10%) | Present value £000's |
| 0 | (170) | 1.0 | (170) | 0 | (170) | 1.0 | (170) |
| 1 | 80 | 0.909 | 72.72 | 1 | 70 | 0.909 | 63.63 |
| 2 | 60 | 0.826 | 49.56 | 2 | 60 | 0.826 | 49.56 |
| 3 | 40 | 0.751 | 30.04 | 3 | 50 | 0.751 | 37.55 |
| 4 | 20 | 0.683 | 13.66 | 4 | 15 | 0.683 | 10.24 |
| 5 | 10 | 0.621 | 6.21 | 5 | 10 | 0.621 | 6.21 |
| NET PRESENT VALUE | | | 2.19 | NET PRESENT VALUE | | | -2.81 |

During the following month, two serious incidents cast a shadow over the celebrations in the business. Firstly, the local media reported "...coach manufactured by Envir-Coaches Ltd. careered out of control for no apparent reason. Fortunately, only the driver was on board and he wasn't badly injured". Consequently, the firm had to recall this coach, plus a further 10 of the same model, for inspection testing. John and Trevor are very worried about the adverse publicity and the potential legal claims for compensation. Secondly, the delivery of six new coaches to the firm's key customer in Liverpool was delayed by two weeks due to problems with the main supplier.

Unless handled correctly by management, these unfortunate events may prove detrimental to the reputation of the business and jeopardise future orders.

Candidates must answer **all** questions.

- 1 Explain **two** benefits to Envir-Coaches Ltd. of having a mission statement. [4]

- 2 With reference to **Table 1**, analyse the performance of Envir-Coaches Ltd. using the following accounting ratios: (i) Current Ratio and (ii) Net Profit Margin. [6]

- 3 Discuss the benefits and limitations of contingency planning to an organisation such as Envir-Coaches Ltd. [15]

- 4 Evaluate the use of Net Present Value as a method of investment appraisal for a business such as Envir-Coaches Ltd. [15]

- 5 Evaluate an alternative business objective to profit maximisation that would be appropriate for Envir-Coaches Ltd. [20]

- 6 Evaluate the usefulness of published accounts to the shareholders of Envir-Coaches Ltd. [20]

| Ratio Formulae | |
|---------------------------|---------------------------------------------------------------------------|
| Current Ratio: | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ |
| Net Profit Margin: | $\frac{\text{Net Profit before tax}}{\text{Sales Revenue}} \times 100 \%$ |

THIS IS THE END OF THE QUESTION PAPER
