



*Rewarding Learning*

**ADVANCED  
General Certificate of Education  
January 2011**

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## **Business Studies**

Assessment Unit A2 1

*assessing*

Making Business Decisions

**[AT211]**

**MONDAY 24 JANUARY, AFTERNOON**

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**MARK  
SCHEME**

- 1 Explain **two** reasons why Clear View Ltd should have a mission statement.

	<b>Knowledge</b>	<b>Application</b>
Level 2	[2] Good knowledge and understanding	[2] Good application
Level 1	[1] Some knowledge and understanding	[1] Some application
Level 0	[0] No knowledge and understanding	[0] No application

- (a) The mission statement sets out clearly what the firm plans to achieve.  
E.g. “. . . to be the best within the market sector”. [2]
- (b) Customers will be attracted by the vision of the company.  
E.g. “. . . developing products and services which meet or exceed customers expectations”. [2]

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- 2 Analyse the potential for conflict between three stakeholder groups within Clear View Ltd.

	<b>AO1 Knowledge and Understanding [2]</b>	<b>AO2 Application [2]</b>	<b>AO3 Analysis [3]</b>
<b>Level 2</b>	[2] Candidate demonstrates good understanding of the potential for conflict	[2] Candidate makes good application of the terms	[2–3] Good analysis of how three stakeholder groups could come into conflict
<b>Level 1</b>	[1] Candidate demonstrates some understanding of the potential for conflict	[1] Candidate attempts to make some application of the terms	[2] Some analysis of how stakeholders could come into conflict
<b>Level 0</b>	[0] Candidate demonstrates no understanding of the potential for conflict	[0] No attempt at application	[0] No analysis

Relevant answers may include:

- **Shareholders and directors:** With the sharp decline in pre-tax profits shareholders will be angry about the level of dividend they can receive, if any. Shareholders may want to replace existing directors or sell their shares
- **Employees and owners:** There is a downward decline in employment so workers are facing a cut in their working hours or redundancies. Given the current economic climate it is unlikely that the workers will get another job
- **Creditors and owners:** Clear View Ltd has borrowed money for a new cutting machine. The bank will be anxious about the repayment of the loan as turnover is declining.

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- 3 Discuss survival as an appropriate objective for an organisation such as Clear View Ltd.

	<b>AO1 Knowledge and Understanding [2]</b>	<b>AO2 Application [3]</b>	<b>AO3 Analysis [4]</b>	<b>AO4 Evaluation [6]</b>
<b>Level 3</b>		[3] Excellent application	[3] Excellent analysis of survival as an objective	[5–6] Candidate gives a balanced evaluation/forms a sound final judgement
<b>Level 2</b>	[2] Good knowledge and understanding of survival as an objective	[2] For fully applying the arguments to Clear View Ltd	[3] Good analysis of survival as an objective	[3–4] Candidate gives a good evaluation of the arguments presented and forms a final judgement
<b>Level 1</b>	[1] For some understanding of survival as an objective	[1] Some application to Clear View Ltd	[1–2] Limited analysis of survival as an objective	[1–2] Limited evaluation of the arguments presented
<b>Level 0</b>	[0] Candidate demonstrates no understanding	[0] Candidate demonstrates no attempt at application	[0] No analysis	[0] No evaluation

## Positive arguments:

- it is important that management focus on keeping the business operating in the foreseeable future
- the recession has had a drastic effect on turnover (down 24%). Production will be curtailed so tough decisions have to be made regarding employees, i.e. working hours/redundancy
- both operating and pre-tax profits are greatly reduced so management will have to justify their survival strategy to shareholders. Possible conflict regarding payment of dividends/some may sell their shares
- investment plans will have to be postponed indefinitely until recovery is established
- even with reduced profits Clear View Ltd have to meet their loan repayments (fixed cost). If it was secured on the assets then the bank may pressurise them to sell the company to recover the money.

## Negative arguments:

- rather than settle for survival in existing markets, management could consider seeking new markets abroad. Clear View Ltd has an excellent reputation for quality and extensive product range
- it is unlikely, however, that the firm could raise the finance for the necessary research or the setting up of a production plant overseas
- the recession is world-wide so it would be difficult to secure markets elsewhere
- the main objective of many organisations is to make a profit and this should have precedence over survival
- such a strategy may hold an organisation back if they pursue cost cutting etc.

Candidates are expected to evaluate throughout.

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- 4 Evaluate the advantages and disadvantages of Average Rate of Return (ARR) as a method of investment appraisal to a business such as Clear View Ltd.

	<b>AO1 Knowledge and Understanding [2]</b>	<b>AO2 Application [3]</b>	<b>AO3 Analysis [4]</b>	<b>AO4 Evaluation [6]</b>
<b>Level 3</b>		[3] Candidate makes excellent application of the terms	[4] Excellent analysis of the advantages and disadvantages of ARR as a method of investment appraisal	[5–6] Candidate gives a balanced evaluation of the arguments presented and forms a sound final judgement
<b>Level 2</b>	[2] Candidate gives a good understanding of the advantages and disadvantages of ARR as a method of investment appraisal	[2] Candidate makes good application of the terms	[2–3] Good analysis of the advantages and disadvantages of ARR as a method of investment appraisal	[3–4] Candidate gives a good evaluation of the arguments presented and forms a final judgement
<b>Level 1</b>	[1] Candidate demonstrates some understanding of the advantages and disadvantages of ARR as a method of investment appraisal	[1] Candidate attempts to make some application of the terms	[1] Limited analysis of the advantages and disadvantages of ARR as a method of investment appraisal	[1–2] Candidate provides limited evaluation of the arguments presented
<b>Level 0</b>	[0] Candidate shows no understanding of ARR	[0] No attempt at application	[0] No analysis	[0] Candidate gives no evaluation of the arguments presented

Before choosing a particular investment project, the management should apply investment appraisal methods to arrive at the most appropriate decision.

**Advantages:**

- the ARR expresses the average annual profit of a project as a % of the initial capital investment. For Machine A this was 16.6%, for Machine B this was 20.8%
- management will find the calculations easy and this will save time and reduce the risk of inaccuracy
- ARR takes account of all cash flows within the time period. This provides a more realistic picture so an informed decision can be made
- ARR is easy to understand and therefore the outcome can be communicated effectively by the finance manager to other members of the management team. The decision for Clear View Ltd will be to purchase Machine B because it has the most favourable returns.

**Disadvantages:**

- ARR ignores the timings of cash flows. In relation to Clear View Ltd, Machine A produces greater returns in the early years although Machine B is more profitable in the final year. Also Machine B represents a lower initial cost to the firm so a further saving of £10 000 can be made
- the additional £20 000 which Machine A earns in years 1 and 2 compared with Machine B, could be invested and this might affect the outcome of the decision to choose Machine B
- there is an element of risk as figures are based on estimates.

**Final judgement**

It is beneficial for Clear View Ltd to use ARR to assist with an investment decision but the data is only a projection and should be treated with caution.

Candidates are expected to evaluate throughout.

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- 5 Evaluate the benefits and limitations to an organisation such as Clear View Ltd of using Ansoff's Matrix as a decision-making tool.

	<b>AO1 Knowledge and Understanding [4]</b>	<b>AO2 Application [4]</b>	<b>AO3 Analysis [5]</b>	<b>AO4 Evaluation [6]</b>
<b>Level 3</b>	[3–4] Candidate demonstrates excellent knowledge and understanding of the benefits and limitations of using Ansoff's Matrix as a decision-making tool	[3–4] Candidate makes excellent application of the benefits and limitations of using Ansoff's Matrix as a decision-making tool	[4–5] Excellent analysis of the benefits and limitations to Clear View Ltd of using Ansoff's Matrix	[5–6] Candidate gives a balanced evaluation of the arguments presented and forms a sound final judgement. QWC is excellent
<b>Level 2</b>	[2] Candidate gives a good understanding of the benefits and limitations of using Ansoff's Matrix as a decision-making tool	[2] Candidate makes good application of the benefits and limitations of using Ansoff's Matrix as a decision-making tool	[2–3] Good analysis of the benefits and limitations of using Ansoff's Matrix	[3–4] Candidate gives a good evaluation of the arguments presented and forms a final judgement. QWC is good
<b>Level 1</b>	[1] Candidate demonstrates some understanding of the benefits and limitations of using Ansoff's Matrix as a decision-making tool	[1] Candidate attempts to make some application of the benefits and limitations of using Ansoff's Matrix as a decision-making tool	[1] Limited analysis of the benefits and limitations to Clear View Ltd of using Ansoff's Matrix	[1–2] Candidate provides limited evaluation of the arguments presented. QWC is limited
<b>Level 0</b>	[0] Candidate shows no understanding of the the benefits and limitations of using Ansoff's Matrix as a decision-making tool	[0] No attempt at application of the benefits and limitations of using Ansoff's Matrix as a decision-making tool	[0] No analysis of benefits or limitations of using Ansoff's Matrix	[0] Candidate gives no evaluation of the arguments presented. QWC is poor

Ansoff's Matrix is a decision-making tool for management to help analyse the strategic position of the firm and plan the way forward.

Benefits:

- the Matrix sub-divides the options into four specific strategies that management can consider. E.g. Clear View Ltd has chosen a growth strategy through product development and diversification
- further growth may be considered by management through market development abroad. Management can focus on the risks associated with this decision. For example, Clear View Ltd has an excellent reputation for quality products and this may be sufficient to help it penetrate a new market overseas
- using Ansoff's Matrix can assist the firm in estimating the likely outcome of any marketing decision taken within the context of its business plan
- the Matrix can assist the management in ascertaining the level of risk involved in each strategy.

Limitations:

- Ansoff's Matrix is too simplistic and even if Clear View Ltd follows a particular strategy there is no guarantee of success. E.g. the recession will impact on any growth strategy
- the main focus of Ansoff's Matrix is market potential rather than the resources the firm requires to support its chosen strategy of diversification
- decisions based on Ansoff's Matrix can be subject to bias by a particular manager who wishes to pursue a particular course of action.

Final judgement

Ansoff's Matrix is a useful tool for decision-making in relation to Clear View's strategy for growth. It also encourages the management to focus on the potential risks involved in new markets.

Candidates are expected to evaluate throughout.

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- 6 Evaluate the usefulness of published accounts to the shareholders of Clear View Ltd.

	<b>AO1 Knowledge and Understanding [4]</b>	<b>AO2 Application [5]</b>	<b>AO3 Analysis [5]</b>	<b>AO4 Evaluation [6]</b>
<b>Level 3</b>	[3–4] Candidate demonstrates excellent knowledge and understanding of the usefulness of published accounts to shareholders	[4–5] Candidate makes excellent application of the terms	[4–5] Excellent analysis of the usefulness of published accounts to shareholders	[5–6] Candidate gives a balanced evaluation of the arguments presented and forms a sound final judgement. QWC is excellent
<b>Level 2</b>	[2] Candidate demonstrates a good understanding of the usefulness of published accounts to shareholders	[2–3] Candidate makes good application	[2–3] Good analysis of the benefits and limitations of published accounts to shareholders	[3–4] Candidate gives a good evaluation of the arguments presented and forms a final judgement. QWC is good
<b>Level 1</b>	[1] Candidate demonstrates some understanding of the usefulness of published accounts to shareholders	[1] Candidate attempts to make some application	[1] Limited analysis of the usefulness of published accounts to shareholders	[1–2] Candidate provides limited evaluation of the arguments presented. QWC is limited
<b>Level 0</b>	[0] Candidate shows no understanding	[0] No attempt at application	[0] No analysis of benefits or limitations of published accounts	[0] Candidate gives no evaluation of the arguments presented. QWC is poor

Shareholders are the owners of Clear View Ltd and have invested their money in the business. At the end of the financial year management will draw up financial accounts showing how well the company has performed.

Positive:

- the information available in the accounts should communicate to the shareholders of Clear View Ltd how efficient management were in their stewardship of the company throughout the year
- the shareholders know the accounts have been audited independently so this will reassure them of their validity
- the information will enable shareholders to form an opinion regarding the long-term prospects of the company
- the accounts will contain information about the firm's gearing so the shareholders can assess the level of risk before committing to further investment. For example, £50 000 was borrowed for new machinery.

Negative:

- the accounts concentrate mainly on quantitative issues affecting Clear View Ltd and is therefore of limited use
- it is difficult for shareholders to compare financial performance with other companies. This is due to the fact that each company will adopt its own accounting policy when preparing financial statement. E.g. expenses may be reported differently so determining profitability will be difficult
- information relating to profitability can help shareholders assess the potential return on their investment and allows comparisons to be made with alternative sources such as saving/investing in another institution
- the shareholder's ability to interpret or understand the financial data may be very limited and so informed decisions cannot be made.

Final judgement

Published accounts can provide some insight into the performance of the company and assist shareholders to assess future investment. However, it would be advisable for the shareholder to seek expert advice before making any investment decision.

Candidates are expected to evaluate throughout.

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**Total**

**80**