



Rewarding Learning

**ADVANCED
General Certificate of Education
January 2012**

Business Studies

Assessment Unit A2 1

assessing

Making Business Decisions

[AT211]

THURSDAY 26 JANUARY, MORNING

**MARK
SCHEME**

1 With reference to Tesco explain what is meant by the term **gearing**?

	AO1 Knowledge	AO2 Application
Level 1	[1]–[2] Correct answer.	[1]–[2] Answer applied to Tesco.
Level 0	[0] Incorrect answer.	[0] No application.

Gearing refers to the proportion of funds in the business that have come from a borrowed source. A firm that has more than 50% of its funds from a borrowed source is considered “highly geared”. In 2009 Tesco’s gearing level increased to 74%. [4]

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2 Analyse the current position of Tesco using any **two** elements of the PESTEL analysis.

	AO1 Knowledge and Understanding [2]	AO2 Application [2]	AO3 Analysis [2]
Level 2	[2] Candidate demonstrates good understanding of two elements of PESTEL.	[2] Candidate makes good application of the terms.	[2] Good analysis of how the elements impact on Tesco.
Level 1	[1] Candidate demonstrates some understanding of the terms.	[1] Candidate attempts to make some application of the terms.	[1] Limited analysis of how the elements impact on Tesco.
Level 0	[0] Candidate demonstrates no understanding of the terms.	[0] No attempt at application.	[0] No analysis.

Relevant points may include:

- **Political:** Tesco's proposed job creation (11 000) will be welcomed by people in the community and by local government. However, Tesco may not be able to proceed with its planned investment due to political pressure from local traders who are likely to lobby their MPs. The opening of a Tesco store in their area may prove too much competition for smaller traders thus resulting in closure and loss of jobs. Also a large Tesco store can affect the atmosphere in small village areas
- **Economic:** It is a good time to borrow for Tesco as interest rates are more attractive so repayments would be low. However, due to the current economic climate, Tesco may find it difficult to raise the required capital for investment. Also, Tesco is currently highly geared so banks may be unwilling to lend money
- **Social:** Tesco plans to create 11 000 jobs which is good for the local community. However, the recruitment and selection process can be costly
- **Technology:** Further investment in technology by Tesco will increase efficiency and in the long term reduce costs thus improving profitability. However, this investment may lead to job losses particularly if plans for an increase in self-service and on-line shopping go ahead. This may attract adverse publicity for Tesco
- **Environment:** Investing in large stores requires lots of space and results in an increase in traffic pollution from customers, suppliers and distribution carriers. People living in these areas may form a pressure group to protest and this can attract adverse publicity for Tesco
- **Legal:** Tesco has to apply for planning permission to build its new stores and this may not be granted if its chosen location is considered detrimental to the local habitat of animals or takes in green belt land.

[6]

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3 Discuss **growth** as a business objective for Tesco.

	AO1 Knowledge and Understanding [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] Excellent understanding.	[3] Excellent application.	[3] Excellent analysis.	[5]–[6] Sound evaluation and mature judgement.
Level 2	[2] For good understanding.	[2] Good application.	[2] Good analysis.	[3]–[4] Candidate gives a good evaluation.
Level 1	[1] For some understanding.	[1] For limited application.	[1] For limited analysis.	[1]–[2] For limited evaluation.
Level 0	[0]	[0]	[0]	[0]

Relevant points may include:

Growth is one of the most common objectives for firms who wish to be leaders in the market sector.

Benefits

- a growth strategy might secure the future prospects of Tesco plc
- having a growth strategy can enhance Tesco's competitive position in the market
- a growth strategy can minimise the chances of business failure
- a growth strategy can encourage management to analyse all possibilities before focusing on a specific course of action
- having a growth strategy should motivate workers as it is more likely to give them greater job security
- growth can increase market share
- growth can improve image, e.g. job creation.

Drawbacks

- a growth strategy can lead to diseconomies of scale – marks may be awarded for reference to specific examples
- a growth strategy can fail if it takes place too quickly
- growth may not be possible especially in the current economic climate
- too much focus on growth at the expense of other objectives
- constraints in external environment can prevent growth
- if growth is too extensive may reduce competition – open to investigation.

Final judgement

By choosing the objective of **growth** Tesco management will create a vision for the future security of the business and instil greater confidence in all stakeholders. [15]

Candidates are expected to evaluate throughout their answer.

- 4 Evaluate Tesco's financial performance using the information provided in the case study.

	AO1 Knowledge and Understanding [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] Excellent understanding.	[3] Excellent application.	[3] Excellent analysis.	[5]–[6] Sound evaluation and mature judgement.
Level 2	[2] For good understanding.	[2] Good application.	[2] Good analysis.	[3]–[4] Good evaluation.
Level 1	[1] Some understanding.	[1] Limited application.	[1] Limited analysis.	[1]–[2] Limited evaluation.
Level 0	[0]	[0]	[0]	[0]

Relevant points may include:

Positive

- sales revenue has increased as a result of in-store and on-line shopping
- Tesco has enjoyed a slight increase in both the grocery and non-food market share. This was brought about by an increase in sales turnover from in-store initiatives such as Discount Brands and improved customer Clubcard together with the increasing popularity of on-line Tesco Direct
- the increase in Net Profit Margin indicates that the Step Change programme of cost reduction, improved efficiency and the 8% energy saving is starting to pay off
- Tesco's return on capital employed has increased together with earnings per share and this should be enough to keep existing shareholders reasonably happy.

Negative

- Tesco continues to be "highly geared", increasing from 52% to 74%. This additional 22% was possibly secured to finance the investment in energy saving self-service technology. The interest repayment on this finance will be significant and it is now a fixed cost that Tesco must meet.

Final Judgement

The figures are optimistic and while Tesco plc reported, "... the global economy is recovering..." the rate of recovery in the years ahead is still uncertain. Also the Government has to introduce measures to reduce the deficit so it is difficult to predict what the impact will be on consumers' disposable income and how this will affect Tesco's non-food market. [15]

Candidates are expected to evaluate throughout their answer.

- 5 Evaluate the usefulness of published accounting information to any **four** stakeholder groups of Tesco.

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

Relevant points can include:

Benefits:

- **Owners:** The shareholders of Tesco will use financial information so they can evaluate how well the management team carried out their stewardship function. Also they can compare the return on their investment with previous years
- **Financial institutions:** Banks require information from Tesco's accounts to ascertain its ability to meet interest payment and also to decide the level of risk should Tesco apply for additional funds for future investment. For example, Tesco is currently highly geared
- **Managers:** Tesco management will use financial information to calculate the profitability of the business and compare its performance against set targets. Also the information will assist with forward-planning and inform future investment decisions and cost-cutting initiatives
- **Employees:** The workers in Tesco can use the financial information to make judgements about the future security of their employment, the timing of higher wage demands and general improvement in future working conditions
- **Customers:** The customers can assume that an increase in profits will lead to improved choice, quality, lower prices and more Clubcard rewards
- **Government:** Agencies working on behalf of the government will use the financial information to ascertain how much Tesco has to pay for corporation tax, VAT and rates
- **Potential Investors:** Financial information relating to profitability and solvency will indicate to potential investors of Tesco how worthwhile their investment might be
- **Suppliers:** New suppliers for Tesco will use financial information to assess the creditworthiness of the company. Also they will be able to estimate their profit margins for supplying produce to Tesco
- **Competitors:** Benchmarking
- **Community:** Job creation.

Drawbacks

- the availability of this financial information is often a few months after the end of the financial year so therefore the content may not reflect the real economic situation or company status. This can mislead many stakeholders
- the nature of the content of financial and the reporting techniques used may be too difficult for some stakeholders to fully understand so it can be confusing
- the financial information often concentrates on quantitative data at the expense of qualitative data so stakeholders may not get a full picture of the company's performance.

Final Judgement

Published accounting information is of significant benefit to some but not all stakeholders and should be treated with caution. [20]

Candidates are expected to evaluate throughout their answer.

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- 6 Evaluate the qualitative factors that may influence investment decisions made by a firm such as Tesco.

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

Relevant points can include:

In addition to the quantitative factors that may influence Tesco's investment decisions a number of qualitative factors should be considered by management.

Positive:

- **Staff Morale:** If the staff in Tesco are highly motivated and have engaged in elements of decision-making, then it is likely they will embrace the challenges that investment in new technology may bring
- **Industrial Relations:** Changes to work practices may be implemented more easily if the changes are communicated to the staff and they are part of the negotiation process.
- **Ethical:** Tesco management may adopt a more ethical stance when choosing locations for new stores. A particular site may cost more financially but reduce the environmental impact on wildlife habitat. Such a decision can enhance Tesco's image
- **Availability of Funds:** Tesco may be considered a safe investment for financial institutions as it is the largest retailer in the UK
- objectives of organisation
- economic situation
- customer loyalty/satisfaction
- quality of research/market knowledge
- quality of leadership (risk takers).

Or any other valid points.

Negative:

- staff may view additional investment as a threat to the security of their jobs and this can lead to de-motivation, absenteeism and a reduction in the quality of service
- any change in work practices that may lead to job losses is likely to cause conflict leading to industrial action
- new sites chosen on the basis of cost rather than ethics are likely to attract bad publicity for Tesco
- Tesco may have difficulty securing additional funds for future investment as it is already highly geared. As a result it may have to postpone or cancel investment plans until the gearing position improves.

Final Judgement

Before a decision is made it is essential that Tesco take into consideration all aspects of the qualitative factors as these may in fact cancel the financial benefits of the proposed investment. [20]

Total

20

80

Candidates are expected to evaluate throughout their answer.