



ADVANCED
General Certificate of Education
January 2013

Business Studies

Assessment Unit A2 1

assessing

Making Business Decisions

[AT211]

TUESDAY 15 JANUARY, MORNING

**MARK
SCHEME**

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

	AO1 Knowledge [2]	AO2 Application [2]
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. "...delivering innovative, high quality, energy efficient coaches for all occasions".

(b) "Green" customers will be attracted by the vision of the company, e.g. "...to meet customer's expectations ...energy efficient coaches".

Other valid benefits accepted.

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- 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.

	AO1 Knowledge and Understanding [2]	AO2 Application [2]	AO3 Analysis [2]
Level 2	[2] Candidate demonstrates good understanding of both ratios.	[2] Candidate makes good application of both ratios.	[2] Good analysis of both ratios and how they impact on the performance of Envir-Coaches Ltd.
Level 1	[1] Candidate demonstrates some understanding of both ratios.	[1] Candidate attempts to make some application of both ratios.	[1] Limited analysis of the ratios and how they impact on the performance of Envir-Coaches Ltd.
Level 0	[0] Candidate demonstrates no understanding of ratios.	[0] No attempt at application of ratios.	[0] No analysis.

Relevant ratios may include:

	2011	2010
Current Ratio	1.7:1	2:1
Net Profit Margin	18%	11%

Analysis comments

- current ratio – measures solvency of the business. It is slightly down in 2011 but still within the ideal ratio of 1.5–2:1. This means the firm can afford to meet its short term debts
- net profit margin – this has increased from 11% in 2010 to 18% in 2011. The business is focusing on greater efficiency so costs will fall and profit will increase. The purchase of solar power system A will add to cost efficiencies. [6]

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

	AO1 Knowledge and Understanding [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] Candidate demonstrates excellent understanding of the benefits and limitations of contingency planning to Envir-Coaches Ltd.	[3] Candidate makes excellent application of the benefits and limitations of contingency planning to Envir-Coaches Ltd.	[3] Candidate demonstrates excellent analysis of the benefits and limitations of contingency planning to Envir-Coaches Ltd.	[5]–[6] Candidate gives a balanced evaluation of the arguments presented and forms a sound final judgement.
Level 2	[2] Candidate demonstrates good understanding of the benefits and limitations of contingency planning to Envir-Coaches Ltd.	[2] Candidate makes good application of the benefits and limitations of contingency planning to Envir-Coaches Ltd.	[2] Candidate shows good analysis of the benefits and limitations of contingency planning to Envir-Coaches Ltd.	[3]–[4] Candidate gives a good evaluation of the arguments presented and forms a final judgement.
Level 1	[1] Candidate demonstrates some knowledge and understanding of the benefits and limitations of contingency planning to Envir-Coaches Ltd.	[1] Candidate makes some application of the benefits and limitations of contingency planning to Envir-Coaches Ltd.	[1] Limited analysis of the benefits and limitations of contingency planning to Envir-Coaches Ltd.	[1]–[2] Candidate provides limited evaluation of the arguments presented.
Level 0	[0] Candidate shows no understanding of the benefits and limitations of contingency planning to Envir-Coaches Ltd.	[0] Candidate makes no attempt at application of the benefits and limitations of contingency planning to Envir-Coaches Ltd.	[0] Candidate provides no analysis of the benefits and limitations of contingency planning to Envir-Coaches Ltd.	[0] Candidate provides no evaluation of the arguments presented.

A contingency plan is an alternative course of action which a business might follow if their original plan is compromised in such a way that it can no longer be adopted.

Benefits

- having a contingency plan will help ensure that the business can still meet its key objectives even though the original plan has been changed, e.g. offsetting a fall in demand in the home market by further expansion abroad means the firm can maintain employees, achieve sales and profit levels are maintained
- drawing up a contingency plan forces management to consider all aspects of the business where there is potential for problems and to agree specific strategies to tackle the issues, e.g. customer orders are late due to problems with the supplier – may change supplier or introduce a JIT system and deal with a range of suppliers
- contingency planning avoids crisis management – John and Trevor can include strategies for dealing with a PR situation such as the product recall or poor cash flow, e.g. selling off non-current assets/sell and lease back
- a contingency plan can be regularly reviewed and amended to meet the needs of the business. Very important as the future of the business is uncertain so management may include strategies for reducing costs through greater efficiencies, e.g. grant for solar power system in factory or staff cuts
- involving staff in the drawing up of contingency plans and preparing them for future changes can ease the burden in the event of the original plan being abandoned.

Limitations

- time consuming to draw up and may prove costly to research
- additional training may be required so staff will be confident with new procedures/processes should the contingency plan be implemented and this is costly
- management may become obsessed with the contingency plan and may lose focus on the original objectives of the business. The reputation of the firm may suffer as a result
- must be kept under review so scarce resources may be used up if changes are required.

Final judgement

Given the rapidly changing nature of the external environment and economic uncertainty it would be in the best interests of Envir-Coaches Ltd. to have a Plan B to secure the long term future of the company. [15]

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

	AO1 Knowledge and Understanding [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] Candidate demonstrates excellent knowledge and understanding of the advantages and limitations of NPV.	[3] Candidate demonstrates excellent application of the advantages and limitations of NPV.	[3] Candidate demonstrates excellent analysis of the advantages and limitations of NPV.	[5]–[6] Candidate gives a balanced evaluation and forms a sound final judgement of NPV.
Level 2	[2] Candidate demonstrates good knowledge and understanding of the advantages and limitations of NPV.	[2] Candidate demonstrates good application of the advantages and limitations of NPV.	[2] Candidate demonstrates good analysis of the advantages and limitations of NPV.	[3]–[4] Candidate gives a good evaluation of the arguments presented and forms a final judgement.
Level 1	[1] Some knowledge and understanding of the advantages and limitations of NPV.	[1] For limited application of the advantages and limitations of NPV.	[1] For limited analysis of the advantages and limitations of NPV.	[1]–[2] For limited evaluation of the arguments presented.
Level 0	[0] Candidate demonstrates no understanding.	[0] Candidate demonstrates no attempt at application.	[0] No analysis.	[0] No evaluation.

Net Present Value (NPV) is a method of investment appraisal that discounts all future cash flows to present values and then compares the total present value of all cash inflows with the present value of all cash outflows.

Advantages

- calculations should be reasonably straightforward
- NPV takes account of all cash flows
- takes account of the timing of the cash flows
- is more realistic and therefore improves the quality of decisions.

Limitations

- can be difficult to determine the appropriate discount rate to be used in the project
- is difficult to accurately forecast the annual cash flows throughout the project lifespan
- qualitative data not considered.

Final Judgement

While NPV is considered to be the more superior method of investment appraisal compared to other methods its success is reliant on the accuracy of data used. [15]

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

	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 Envir-Coaches Ltd. of having an alternative objective.	[4]–[5] Candidate makes excellent application of Envir-Coaches Ltd. having an alternative objective.	[4]–[5] Excellent analysis of Envir-Coaches Ltd. having an alternative objective.	[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 good knowledge and understanding of Envir-Coaches Ltd. having an alternative objective.	[2]–[3] Candidate shows good application of Envir-Coaches Ltd. having an alternative objective.	[2]–[3] Candidate provides good analysis of Envir-Coaches Ltd. having an alternative objective.	[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 knowledge and understanding of Envir-Coaches Ltd. having an alternative objective.	[1] Candidate attempts to make some application of Envir-Coaches Ltd. having an alternative objective.	[1] Candidate provides limited analysis of Envir-Coaches Ltd. having an alternative objective.	[1]–[2] Candidate provides limited evaluation of the arguments presented. QWC is limited.
Level 0	[0] Candidate shows no understanding of Envir-Coaches Ltd. having an alternative objective.	[0] Candidate makes no attempt at application of Envir-Coaches Ltd. having an alternative objective.	[0] Candidate provides no analysis of Envir-Coaches Ltd. having an alternative objective.	[0] Candidate gives no evaluation of the arguments presented. QWC is poor.

Examples of alternative objectives could be Survival, Caring for the Environment or Growth.

Benefits to Envir-Coaches Ltd. of having a “green” objective:

- there is growing evidence that consumers are attracted to firms with environmentally friendly policies
- can be used to promote the business in its mission statement
- the business will be seen as a “responsible and caring organisation” and could lead to more investment
- can give the firm a competitive edge
- highlights the need to focus on carbon footprint and the impact on the world
- the firm may qualify for grants for solar power/energy saving techniques, etc.
- viewed as an ethical business so will attract high quality employees.

Limitations of having a “green” objective

- research and development costs are significant – perhaps this money could have been spent on other things to improve the efficiency of the business
- going “green” can lead to higher prices for consumers, e.g. waste management/“green” production methods can be more expensive
- time is required to conduct an environmental audit and draw up an environmental policy
- there is no guarantee that it will attract customers.

Final Judgement

It is possible to conclude that having a “green” objective would be beneficial to the business and may attract additional customers/investors. However, the economic situation may require the business to reduce costs in order to survive so John and Trevor may have to abandon their “green” objective in the short term.

Benefits of having a growth objective

- a growth strategy might secure the future prospects of the business
- having a growth strategy can enhance the firm’s competitive position in the market
- a growth strategy can minimise the chance 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.

Drawbacks

- a growth strategy can lead to diseconomies of scale – marks may be awarded for reference to a specific diseconomy of scale
- a growth strategy can fail if it takes place too quickly
- growth may not be possible especially in the current economic climate.

Final Judgement

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

Benefits of a survival objective

- it is important that management focus on keeping the business operating in the foreseeable future
- shareholders may welcome a more cautious approach as they have invested money
- the recession has had a drastic effect on UK orders. Production will be curtailed so tough decisions have to be made regarding employees, i.e. working hours/redundancy
- investment plans may have to be postponed indefinitely until recovery is established. If the firm goes ahead with the investment a loan is likely to be secured on the assets of the business. Should the economic situation get worse the bank may pressurise them to sell the company to recover the money. It is unlikely, however, that the firm could raise the finance for the necessary research of the setting up of a production plant overseas
- the recession is world wide so it would be difficult to guarantee long term security elsewhere.

Drawback of a survival objective

- rather than settle for survival in existing markets, management could concentrate all its efforts in markets abroad where they are already successful. They could consider an overseas investment in plant. Envir-Coaches Ltd. has an excellent reputation for quality and innovation
- the firm may miss out on new opportunities if they are not prepared to investigate further markets abroad.

Final Judgement

The evidence suggests that management should consider survival as an appropriate objective particularly as their UK market is in trouble. As they currently export only 25% of their coaches a lot more research is required to increase this.

Allow other acceptable objectives, such as

- better quality
- become plc
- corporate image.

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

	AO1 Knowledge and Understanding [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3]–[4] Candidate demonstrates mature knowledge and understanding of the terms shareholder and published accounts.	[4]–[5] Candidate makes excellent application of the terms.	[4]–[5] Excellent analysis of the usefulness of published accounts.	[5]–[6] Candidate gives a sound evaluation of the arguments presented and forms a mature final judgement. QWC is excellent.
Level 2	[2] Candidate demonstrates a good understanding of the terms shareholder and published accounts.	[2]–[3] Candidate makes good application of the terms.	[2]–[3] Good analysis of the benefits and limitations of published accounts.	[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 shareholder and published accounts.	[1] Candidate attempts to make some application of the terms.	[1] Limited analysis of the usefulness of published accounts.	[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 of published accounts.	[0] Candidate gives no evaluation of the arguments presented. QWC is poor.

Shareholders are the owners of Envir-Coaches 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 Envir-Coaches 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 may contain information about the firm's gearing so the shareholders can assess the level of risk involved. For example, £200,000 investment in the solar energy system
- can help identify trends
- 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.

Negative:

- the accounts concentrate mainly on quantitative issues affecting Envir-Coaches 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
- the shareholder's ability to interpret or understand the financial data may be very limited and so informed decisions cannot be made
- window dressing
- out-of-date data.

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.

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Total

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NB Valid alternatives provided by the candidates are accepted.

Candidates are expected to evaluate throughout.