



Rewarding Learning

ADVANCED
General Certificate of Education
January 2014

Business Studies

Assessment Unit A2 1

assessing

Making Business Decisions

[AT211]

WEDNESDAY 15 JANUARY, MORNING

**MARK
SCHEME**

General Marking Instructions

Introduction

Mark schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of students in schools and colleges.

The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes, therefore, are regarded as part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

- 1 Explain what is meant by stakeholder objectives using an example from the case study to illustrate your answer.

	AO1 Knowledge and Understanding [2]	AO2 Application [2]
Level 2	[2] for good knowledge and understanding	[2] for good application
Level 1	[1] for some knowledge and understanding	[1] for some application
Level 0	[0] for no knowledge and understanding	[0] for no application

- Stakeholder objectives are the goals, priorities and aims of different groups that have an interest in Grandstandings Ltd.
- Owners of Grandstandings Ltd Ltd may have the objective of increasing profits, increasing value of shares, growth of the business, etc.
- Employees of Grandstandings Ltd Ltd may have the objective of obtaining a good wage or salary, good working conditions, job security, good career prospects, etc.
- Suppliers to Grandstandings Ltd Ltd may have the objective of regular (possibly increasing) orders, prompt payment for goods and good communication.
- Other stakeholders of Grandstandings Ltd Ltd include government, managers, customers, local community, etc.
- Health and safety inspectors need to be reassured that Grandstandings Ltd follow procedures precisely. [4]

AVAILABLE
MARKS

4

- 2 Analyse the benefits of decision trees as a tool for decision-making in Grandstandings Ltd.

	AO1 Knowledge and Understanding [2]	AO2 Application [2]	AO3 Analysis [2]
Level 2	[2] for good knowledge and understanding	[2] for good application	[2] for good analysis
Level 1	[1] for some knowledge and understanding	[1] for some application	[1] for limited analysis
Level 0	[0] for no knowledge and understanding	[0] for no application	[0] for no analysis

- A decision tree outlines the various options that may be considered by Grandstandings Ltd.
- A decision tree may make the situation easier for managers in Grandstandings Ltd to visualise and possibly show courses of action not previously considered.
- Decision trees require numerical values to be placed against each possible option or outcome. This may help managers and decision-makers in Grandstandings Ltd to quantify the consequences of decisions and compare them in money terms.
- May reduce bias in decision-making. [6]

AVAILABLE MARKS

6

3 Discuss growth as an appropriate objective for Grandstandings Ltd.

	AO1 Knowledge and Understanding [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] for excellent knowledge and understanding	[3] for excellent application	[3] for excellent analysis	[5]–[6] for sound evaluation/ mature judgement
Level 2	[2] for good knowledge and understanding	[2] for good application	[2] for good analysis	[3]–[4] for good evaluation
Level 1	[1] for some knowledge and understanding	[1] for limited application	[1] for limited analysis	[1]–[2] for limited evaluation
Level 0	[0] for no knowledge and understanding	[0] for no application	[0] for no analysis	[0] for no evaluation

Advantages

- Growth may be an appropriate objective for Grandstandings as it tries to establish its business in the industry.
- Growth may be an appropriate objective as it enables a focus on gaining market share and prospecting new markets.
- Growth may be an appropriate objective as it may encourage an innovative approach to new products and services that Grandstandings could provide.
- May be able to exploit economies of scale.

Disadvantages

- Growth may not be an appropriate objective for Grandstandings as it may risk the business overstressing itself in an uncertain market.
- Survival may be a more appropriate objective for Grandstandings Ltd as the risk of failure is acknowledged to be highest in the early years of a new enterprise.
- Focusing on growth may risk retaliation from competitors of Grandstandings Ltd who may cut prices in order to retain their own market share.
- May require re-investment of profits at expense of shareholders.

Candidates are expected to discuss the advantages and disadvantages of growth as an objective for Grandstandings Ltd and to reach a Final Judgement.

Candidates are expected to evaluate throughout their answer. [15]

**AVAILABLE
MARKS**

15

- 4 Discuss the advantages and disadvantages of using Average Rate of Return (ARR) as a method of investment appraisal for a business such as Grandstandings Ltd.

AVAILABLE
MARKS

	AO1 Knowledge and Understanding [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] for excellent knowledge and understanding	[3] for excellent application	[3] for excellent analysis	[5]–[6] for sound evaluation/ mature judgement
Level 2	[2] for good knowledge and understanding	[2] for good application	[2] for good analysis	[3]–[4] for good evaluation
Level 1	[1] for some knowledge and understanding	[1] for some application	[1] for limited analysis	[1]–[2] for limited evaluation
Level 0	[0] for no demonstration of knowledge and understanding	[0] for no application	[0] for no analysis	[0] for no evaluation

Advantages

- The ARR method shows very clearly to managers in Grandstandings Ltd the profitability of an investment project. A percentage figure is shown which makes it easy to understand.
- The overall rate of return for the project may enable easy comparison with other projects and can be easily understood by managers in Grandstandings Ltd.
- The ARR method takes all figures into consideration unlike. e.g. Payback which only considers cashflows up to the date that the project pays for itself.

Disadvantages

- The timing of payments is not taken into account in the ARR method. Unlike the Payback method, income or savings made by Grandstandings Ltd in the early years is given the same value as that taken in later years.
- Unlike the NPV method, the time value of money is not taken into account. Payments in later years are not discounted to reflect their lesser money value in today's terms.
- Compared to the Payback method, the ARR method is more complicated to calculate and may not be familiar to managers in Grandstandings Ltd.

Candidates are expected to discuss the advantages and disadvantages of ARR as a method of investment appraisal for Grandstandings Ltd and to reach a Final Judgement.

Candidates are expected to evaluate throughout their answer. [15]

15

- 5 Evaluate the usefulness of contingency planning to a business such as Grandstandings Ltd.

	AO1 Knowledge and Understanding [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3]–[4] for excellent knowledge and understanding	[4]–[5] for excellent application	[4]–[5] for excellent analysis	[5]–[6] for sound evaluation of the arguments and forms a mature final judgement. QWC is excellent.
Level 2	[2] for good knowledge and understanding	[2]–[3] for good application	[2]–[3] for good analysis	[3]–[4] for good evaluation of the arguments presented. QWC is good.
Level 1	[1] for some knowledge and understanding	[1] for limited application	[1] for limited analysis	[1]–[2] for limited evaluation of the arguments presented. QWC is limited.
Level 0	[0] for no knowledge and understanding	[0] for no application	[0] for no analysis	[0] for no evaluation of the arguments presented. QWC is poor.

Usefulness

- Contingency planning enables Grandstandings Ltd to consider what to do if plans do not turn out as expected;
- Grandstandings Ltd will be more prepared to think about alternative strategies by implementing contingency planning;
- Staff in Grandstandings Ltd can be trained to expect the unexpected and to take a more flexible approach to planning;
- Contingency planning may reduce the potential cost to Grandstandings Ltd of an unforeseen event because the business will have a ‘fall-back’ position to resort to.

Limitations

- Contingency planning may be time-consuming and costly for Grandstandings Ltd. Possible crises have to be identified and solutions considered and costed.
- Staff in Grandstandings Ltd may have to be trained and practice exercises may have to be conducted by Grandstandings Ltd to familiarise staff with how a crisis may be dealt with.
- Most potential crises are either too trivial or too unlikely to be worth considering and therefore not worth Grandstandings Ltd’s management time and money required.

Candidates are expected to evaluate the usefulness and limitations of contingency planning to a business such as Grandstandings Ltd and to reach a Final Judgement.

Candidates are expected to evaluate throughout their answer. [20]

AVAILABLE
MARKS

20

- 6 Evaluate the financial performance of Grandstandings Ltd using the data given in Table 1.

	AO1 Knowledge and Understanding [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3]–[4] for excellent knowledge and understanding	[4]–[5] for excellent application	[4]–[5] for excellent analysis	[5]–[6] for sound evaluation of the arguments and forms a mature final judgement. QWC is excellent.
Level 2	[2] for good knowledge and understanding	[2]–[3] for good application	[2]–[3] for good analysis	[3]–[4] for good evaluation of the arguments presented. QWC is good.
Level 1	[1] for some knowledge and understanding	[1]–[2] for some application	[1] for limited analysis	[1]–[2] for limited evaluation of the arguments presented. QWC is limited.
Level 0	[0] for no knowledge and understanding	[0] for no application	[0] for no analysis	[0] for no evaluation of the arguments presented. QWC is poor.

Indicators of good financial performance

- Sales Revenue has increased from £2.5m to £4m; an increase of 60%;
- Net profit has increased from £0.9m in 2012 to £1.5m in 2013; an increase of 67%;
- Net Profit Margin has gone up from 36% in 2012 to 37.5% in 2013;
- Current Ratio has fallen from what might be considered a somewhat wasteful 2.5:1 to a more realistic 1.2:1;
- ROCE has increased from 19.6% to 25%

Indicators of poor financial performance

- Net Profit Margin has only improved slightly (from 36% to 37.5%) despite a 67% increase in Net Profit which may indicate that costs need to be monitored more closely;
- Current Ratio is more realistic at 1.2:1, but would not need to fall by the same amount next year;
- Gearing has grown from a very safe 5% to a still very healthy 25% but may indicate more reliance on external funding and if interest rates increase would be more risky for Grandstandings Ltd.
- Capital Employed has risen from £4.6m to £6m, an increase of 30% from 2012 to 2013 and this may be partly due to more injection of external funding to support growth.

Candidates are expected to evaluate the positive and negative indicators of the financial performance of Grandstandings Ltd using the information given in Table 1 Financial Data and to reach a Final Judgement.

AVAILABLE
MARKS

Candidates are expected to evaluate throughout their answer.

Candidates may conclude that Grandstandings Ltd is performing well from the information given in the financial accounts, but that the figures indicate that growth must be managed carefully. [20]

Total

AVAILABLE MARKS
20
80