



Rewarding Learning

ADVANCED
General Certificate of Education
2013

Business Studies

Assessment Unit A2 1

assessing

Making Business Decisions

[AT211]

MONDAY 20 MAY, AFTERNOON



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.

Dodds Kitchens

Dodds Kitchens is a family business owned by Gerry Dodds and his wife Rachel, based in Strabane, employing ten full-time staff. The firm has been making and fitting kitchens for five years. Initially the business had been quite successful especially during the years of the housing boom and the number of staff increased as a result.

However, recession resulted in a reduction in both the size of the market and profit margins and Dodds Kitchens experienced a downturn in customer orders. This has forced Gerry and Rachel to consider their future options.

In preparation for their monthly business meeting, Gerry and Rachel have asked their accountant to provide an Income Statement and Statement of Financial Position for 2011 and 2012. A summary of these is shown in **Table 1** below.

Table 1: Financial information relating to Dodds Kitchens

	2012	2011
	£	£
Sales Revenue	450 000	500 000
Gross Profit	45 000	100 000
Net Profit/(Loss)	(22 500)	5 000
Non-current Assets	150 000	180 000
Current Assets	44 000	42 000
Total Assets	194 000	222 000
Owners' Capital	149 000	175 000
Current Liabilities	45 000	47 000
Total Equity and Liabilities	194 000	222 000

Last month Rachel visited the National Franchise Exhibition and was surprised at the large number of exhibitors and the variety of industries represented. She spoke to the Business Development Manager of Barkers plc, which she knew to be the leading kitchen company in Britain and was interested to learn that it was keen to recruit franchisees. The projected figures supplied by Barkers plc for the Northern Ireland market seemed very impressive. Rachel has since been doing some research into different kitchen franchises. Barkers plc has performed more successfully than many other kitchen companies.

Rachel and Gerry have decided to investigate the possibility of becoming a franchisee of Barkers plc as a way of securing the business and the jobs of their workforce.

The literature from Barkers plc showed that they require potential franchisees to provide them with a business plan. Successful applicants also have to pay an initial fee of £50,000 plus annual royalties. For their part, Barkers plc provide ongoing training and support, state-of-the-art design technology, national advertising, high quality kitchen appliances and units, continuing innovation and a viable exclusive territory for each franchisee.

Gerry and Rachel compared their financial figures from previous years and some trends were highlighted as shown in **Table 2** below.

Table 2: Key accounting ratios for Dodds Kitchens

Ratio	2012	2011
Gross Profit Margin	10%	20%
Net Profit Margin	(5%)	1%
Current Ratio	0.98:1	0.89:1
ROCE	(15.1%)	2.9%

Gerry has also summarised the following cash flow data (see **Table 3**) with a view to helping them decide whether taking up the franchise would be a good investment. The cash inflow figures refer to projected sales as a result of the proposed franchise arrangement. The cash outflow figures refer to projected franchise costs and include wages and administration costs.

Table 3: Cash Flow Data

Year	Cash Outflow (£)	Cash Inflow (£)	Annual Net Cashflow (£)	Cumulative Cashflow (£)
0	(50 000)	0	(50 000)	(50 000)
1	(30 000)	80 000	50 000	0
2	(145 000)	900 000	755 000	755 000
3	(150 000)	1 000 000	850 000	1 605 000

Gerry and Rachel are considering using Payback as a method of investment appraisal to help them decide whether to proceed with the franchise.

Source: J McCafferty - CCEA

Candidates must answer **all** questions.

- 1 Explain the purpose of an Income Statement with reference to Dodds Kitchens. [4]
- 2 Analyse the use of short-term objectives by a business such as Dodds Kitchens. [6]
- 3 Discuss the benefits and limitations of the Payback method of investment appraisal to a business such as Dodds Kitchens. [15]
- 4 Evaluate **three** possible objectives of Gerry and Rachel if they decide to undertake a franchise with Barkers plc. [15]
- 5 Evaluate the usefulness of ratio analysis to an organisation such as Dodds Kitchens. [20]
- 6 Evaluate how a Business Plan could assist Gerry and Rachel with their plans for the business. [20]

THIS IS THE END OF THE QUESTION PAPER
