



Rewarding Learning

ADVANCED
General Certificate of Education
2015

Business Studies

Assessment Unit A2 1

assessing

Making Business Decisions

[AT211]

MONDAY 18 MAY, 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 **two** benefits to Reachit 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.

The company mission statement is a clear reminder, throughout the factory, of what is expected from employees. The language used in the Reachit Ltd mission statement should motivate them to give their best. The mission statement is prominently displayed for the benefit of shareholders.

The mission statement should also signal to customers about the high standards within Reachit Ltd and therefore help to increase sales (improve communications).

[4]

AVAILABLE
MARKS

4

2 Analyse **two** possible objectives that the employees of Reachit Ltd might have.

	AO1 Knowledge [2]	AO2 Application [2]	AO3 Analysis [2]
Level 2	[2] Good knowledge and understanding.	[2] Good application.	[2] Good analysis.
Level 1	[1] Some knowledge and understanding.	[1] Some application.	[1] Some analysis.
Level 0	[0] No knowledge and understanding.	[0] No application.	[0] No analysis.

Focus is on objectives of employees.

Employees within Reachit Ltd are likely to have a range of different objectives.

These might include;

- Job security
- Higher wages
- Longer holidays
- Good working conditions
- Safe working environment
- Good career progression

Candidates should analyse any two of these in the context of Reachit Ltd. [6]

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6

- 3 Evaluate Payback as a method of investment appraisal for an organisation such as Reachit Ltd.

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	AO1 Knowledge [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] Excellent knowledge and understanding.	[3] Excellent application.	[3] Excellent analysis.	[5]–[6] Excellent evaluation.
Level 2	[2] Good knowledge and understanding.	[2] Good application.	[2] Good analysis.	[3]–[4] Good evaluation.
Level 1	[1] Some knowledge and understanding.	[1] Some application.	[1] Some analysis.	[1]–[2] Some evaluation.
Level 0	[0] No knowledge and understanding.	[0] No application.	[0] No analysis.	[0] No evaluation.

Advantages of using the payback method of investment appraisal within Reachit Ltd might include;

- Easy to understand method that gives a clear result. Management should buy the Dynamo ZX as it pays for itself in three years, compared to six for the Energo 100.
- Places emphasis on immediate cash flows which minimises risk for Reachit Ltd.
- Can be used on a single investment project or to compare different projects, as in this case.
- Appropriate for Reachit Ltd at the moment as recession has caused uncertainty in the market.

Disadvantages of using the payback method of investment appraisal within Reachit Ltd might include;

- Gives different result from the Average rate of Return method as payback ignores returns made after the payback period.
- Does not consider the time value of money as the Net Present Value method does.
- Difficult for Reachit Ltd to accurately compare machines which cost different amounts.
- Does not give managers in Reachit Ltd any guidance about what a satisfactory payback cut off point should be.

Candidates should consider both the advantages and disadvantages of using the payback method of investment appraisal within Reachit Ltd and come to a final judgement.

Candidates are expected to evaluate throughout their answers.

[15]

15

- 4 Evaluate the usefulness of the Boston Matrix as a decision making tool within an organisation such as Reachit Ltd.

	AO1 Knowledge [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] Excellent knowledge and understanding.	[3] Excellent application.	[3] Excellent analysis.	[5]–[6] Excellent evaluation.
Level 2	[2] Good knowledge and understanding.	[2] Good application.	[2] Good analysis.	[3]–[4] Good evaluation.
Level 1	[1] Some knowledge and understanding.	[1] Some application.	[1] Some analysis.	[1]–[2] Some evaluation.
Level 0	[0] No knowledge and understanding.	[0] No application.	[0] No analysis.	[0] No evaluation.

Advantages of using the Boston Matrix as a decision making tool within Reachit Ltd might include;

- Can allow managers within Reachit Ltd to see the balance of products within each quadrant so that an overall balance can be maintained.
- Can help with decisions about introducing new products or, as in this case, whether to invest heavily in the Flexi 2.4m.
- Can assist managers in making decisions about which products to withdraw from the market.
- Managers can track how competitors are doing in the ladder market against Reachit Ltd.
- Allows managers to see the future cash flow implications of the firm's product portfolio.
- Visual technique makes understanding easier.

Disadvantages of using the Boston Matrix as a decision making tool within Reachit Ltd might include;

- Requires considerable amount of resources and expertise within Reachit Ltd to carry out analysis.
- Difficult to get the timing of decisions right in practice.
- Ignores qualitative data such as the demotivating effect on employees of having to undertake further training in order to operate the new machine.
- Can be difficult to place each product on the grid accurately.

Candidates should consider both the advantages and disadvantages of using the Boston Matrix as a decision making tool within Reachit Ltd and come to a final judgement.

Candidates are expected to evaluate throughout their answers.

[15]

AVAILABLE
MARKS

15

5 Evaluate profit maximisation as a business objective for Reachit Ltd.

	AO1 Knowledge [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3]–[4] Excellent knowledge and understanding.	[4]–[5] Excellent application.	[4]–[5] Excellent analysis.	[5]–[6] Excellent evaluation. QWC excellent.
Level 2	[2] Good knowledge and understanding.	[2]–[3] Good application.	[2]–[3] Good analysis.	[3]–[4] Good evaluation. QWC good.
Level 1	[1] Some knowledge and understanding.	[1] Some application.	[1] Some analysis.	[1]–[2] Some evaluation. QWC limited.
Level 0	[0] No knowledge and understanding.	[0] No application.	[0] No analysis.	[0] No evaluation.

Profit maximisation involves the reduction of costs and the maximisation of revenues within Reachit Ltd. It has been suggested that this is a more appropriate business objective than investing to achieve market growth.

Arguments in favour of a profit maximising strategy might include;

- Gives appropriate rewards to Reachit Ltd shareholders who have just come through the recession.
- Will help to make Reachit Ltd a lean and more efficient company.
- Will make it easier to attract more investment into the company in the longer term.
- Employees may benefit through profit sharing schemes.
- Reachit Ltd cannot afford the investment required for the new production machines.
- May make it easier to grow in a few years from now if profits put aside to cover expansion.

Arguments against a profit maximising strategy might include;

- Short term profits are at the expense of longer term ones if sufficient investment does not take place in Reachit Ltd.
- The Boston matrix analysis evidence suggests that now is the time to develop the Flexi 2.4m
- Investing at the end of the recession may give Reachit Ltd a competitive advantage.
- Continuing to cut back may de-motivate employees.
- Quality of products may suffer due to cost cutting.

Candidates should consider both the arguments for and against Reachit Ltd following a strategy of profit maximisation and come to a final judgement.

Candidates are expected to evaluate throughout their answers.

[20]

AVAILABLE
MARKS

20

- 6 Evaluate the financial performance of Reachit Ltd using the information given in the case study.

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	AO1 Knowledge [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3]–[4] Excellent knowledge and understanding.	[4]–[5] Excellent application.	[4]–[5] Excellent analysis.	[5]–[6] Excellent evaluation. QWC excellent.
Level 2	[2] Good knowledge and understanding.	[2]–[3] Good application.	[2]–[3] Good analysis.	[3]–[4] Good evaluation. QWC good.
Level 1	[1] Some knowledge and understanding.	[1] Some application.	[1] Some analysis.	[1]–[2] Some evaluation. QWC limited.
Level 0	[0] No knowledge and understanding.	[0] No application.	[0] No analysis.	[0] No evaluation.

The information in the case study can be used to draw some conclusions about the financial performance of Reachit Ltd.

Reachit Ltd appears to have performed well between 2013 and 2014 because;

- The profit in 2014 was £1.4m, coming out of a period of recession.
- The Gross Profit Margin went up from 20% to 25% indicating that Reachit Ltd continues to operate efficiently.
- The Net Profit Margin went up from 2% to 10% indicating that Reachit Ltd has been more successful in keeping expenses under control.
- The Return on Capital Employed has risen from 3.3% to 9.2% indicating that investors are getting a better return.
- The Return on Equity has increased from 1.5% to 5% indicating that shareholders have benefited from better dividends.

There may be some concern over the financial performance between 2013 and 2014 because;

- Although the Net Profit Margin has improved from 2% to 10%, there is still considerable room for improvement as the gap between this and the Gross Profit Margin is wide.
- The Current Ratio has worsened from 1.9:1 to 1.4:1, perhaps indicating that Reachit Ltd may be experiencing liquidity problems. The ratio is considerably below the recommended 2:1.
- The Return on Capital Employed has risen although the 9.2% has to be viewed in the context of the degree of risk involved in the business environment compared to interest on bank deposits.
- Although Return on Equity has increased, it has to be measured against the ROCE of 9.2% and the Return on Equity of other businesses.

- The Gearing ratio has increased significantly from 37% to 51%, indicating that Reachit Ltd may be exposed to risk if interest rates rise.

Candidates should consider the positive and negative aspects arising out of the financial ratios and reach a final judgement on Reachit Ltd's performance.

Candidates are expected to evaluate throughout their answers.

[20]

Total

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20

80

