



ADVANCED
General Certificate of Education
2017

Business Studies

Assessment Unit A2 1

assessing

Making Business Decisions

[AT211]

MONDAY 12 JUNE, AFTERNOON

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 (a) Calculate the Current Ratio for Oilco plc for financial period ended 31 March 2017.

$$\begin{aligned} \text{Current ratio} &= \text{current assets/current liabilities} \\ &= \text{£24 m/£8 m} \\ &= 3:1 \end{aligned} \quad [2]$$

Marking: [1] for stating workings (£24 m/£8 m) correctly/[1] for £3.1 m [2]

- (b) With reference to Oilco plc, explain **one** possible reason for the change in the Current Ratio in the period 2016 to 2017.

Increase in current assets, e.g. increased cash flows within the business, generated as a result of increased sales revenues – current assets have increased in Oilco plc to £24 m from £10 m.

Reduction of current liabilities - Repayment of current liabilities, e.g. trade payables/creditors – current liabilities have fallen to £8 m from £15 m.

Marking: [1] for stating correct reason (AO1); [1] for correct application to Oilco plc (AO2). [2]

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- 2 Analyse the current position of Oilco plc using any **two** elements of the PESTEL analysis.

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MARKS**Political:**

- government might impact revenues due to impact of taxation on oil revenues, making it less economic; this might deter future Oilco plc business operations, hinder expansion;
- government would support employment of 800 staff in the company and locally; this might facilitate Oilco plc growth;

Economic:

- Oilco plc state that lower costs of onshore oil exploration make it economically viable to explore for oil, which improves profits;

Social:

- Oilco plc employs 800 staff thus is a major employer thus meets CSR obligations by providing employment locally;
- it has CSR responsibilities in terms of avoiding environmental pollution; pressure groups cite issue with location of oil well close to local reservoir serving local populations in Belfast/Carrickfergus areas, which is important to the company to maintain positive CSR image;

Technological:

- Oilco plc suggest that £3m funding required for oil exploration would be invested in new technology to minimise environmental pollution, and maximise oil production;
- Oilco plc investments must maximise returns and employ latest technology in order to survive in energy industry, thus increasing costs;

Legal:

- Oilco plc must comply with local laws, e.g. planning regulations as part of licence; this is likely to increase costs;
- Oilco plc must comply with employment laws when employing 800 staff; this is likely to increase costs;

Environmental:

- Oilco plc are proposing to invest in risky projects, which have environmental pollution impacts – such risks must be minimised.

	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 limited knowledge and understanding.	[1] for limited application.	[1] for limited analysis.
Level 0	[0] for no knowledge and understanding.	[0] for no application.	[0] for no analysis.

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- 3 Discuss the usefulness of the Payback method of investment appraisal to a business such as Oilco plc.

Advantages of using the payback method include:

- Carrickfergus project payback is under 3 years, therefore accepted and should proceed, whereas Larne project payback is longer than target payback and should not proceed;
- It is simple and fairly easy method of investment appraisal for non-accountants to understand – Oilco plc managers work on the assumption of a project lifespan of three years;
- Payback method helps management identify project targets and facilitates comparison of actual performance to target payback period, in the case of Oilco plc, this is three years;
- It also recognises that cash received early in the asset life cycle is preferable to cash received later – this appears to be the case in Oilco plc as per data provided in Figure 1;
- easy to calculate;
- allows different projects to be compared.

Disadvantages of using the payback method include:

- May lead to incorrect decision – although Larne project may be rejected as it exceeds the target payback by 2 months, it appears viable otherwise;
- All future predictions carry an element of risk – this applies to Oilco plc – the future revenues streams of each project are in subject to probabilities and these are not reflected in this method;
- It does not take into account the time value of money – Oilco plc management focus on a 3 year target project lifespan;
- It does not consider any cash flows that take place after the payback period – whilst these are unknown in Oilco plc, these may be significant;
- Arbitrary payback period
- Ignores qualitative information
- Hard to compare different capital outlays

Final Judgement:

This method identifies the project with the quickest payback (i.e. Carrickfergus) – the project with the shortest risk period, which may be useful given the risky nature of oil exploration, however doesn't consider time value of money – limited in usefulness.

Candidates are expected to evaluate throughout their answers and state final judgement.

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	A01 Knowledge and Understanding [3]	A02 Application [3]	A03 Analysis [3]	A04 Evaluation [6]
Level 3	[3] for excellent knowledge and understanding.	[3] for excellent application.	[3] for excellent analysis.	[5]–[6] for excellent 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 limited 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.

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4 Evaluate **three stakeholder** objectives which may conflict with the business objectives of Oilco plc.

- Oilco plc may have an objective of re-investing profits in order to consolidate for future growth – profits have increased to £10m from a financial loss of –£10m, whereas shareholders of Oilco plc may expect to benefit through increasing dividend levels; it is important that management of Oilco plc meet investor requirements hence the conflict;
- Oilco plc management team are considering investing in 2 projects, one costing £1.2m (Larne) and the other £3m (Carrickfergus), whereas shareholders would likely prefer a dividend payment – but management need to grow the business, so investment might be more important hence the conflict;
- Employees may be expected to be compensated for participating in Oilco plc's growth through job security or higher wages – 800 staff are employed, whereas the management team may be concentrating on cost reductions in order to grow the business; both goals are important hence the conflict;
- Local communities in Larne and Carrickfergus may wish to see increasing employment levels dependent on success of Oilco plc trading activities, however, do appear to object to the environmental pollution caused by the risky nature of the oil industry activities – employment creation is more important than pollution in this case, hence the conflict;
- Government may wish to gain increasing taxation revenues from Oilco plc oil exploration activities as the business grows, whereas the company may wish to avoid payment of taxation as it reduces profits – hence the conflict;
- Candidates are expected to evaluate throughout their answers and state final judgement.

	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 excellent 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 limited 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.

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- 5 Evaluate decision trees as a tool for decision making in Oilco plc, using Figure 1, and relevant case study information.

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Advantages may include:

- Construction of the decision tree (Figure 1) may show Oilco plc management team alternative courses of action (or projects) not previously considered, e.g. Larne project (£300 000 surplus) compared to Carrickfergus project (£400 000 surplus); which may be important in determining future profitability;
- Determination of expected values using probability estimates (See Figure 1) may tend to improve the accuracy of decisions taken by Oilco plc management team – important for the benefit of key stakeholder groups (£400 000 v £300 000 surplus for respective projects);
- Key members of the management team in Oilco plc may be forced to take account of the risks involved in alternative projects and consider their relative importance;
- As shown in Figure 1 decision tree, such tools are easy to construct and may provide an understanding of complex issues/decisions facing the management team of Oilco plc.

Disadvantages may include:

- Information used in the decision tree diagram (Figure 1) by Oilco plc's management team may be based on estimates and probabilities which are unrealistic – the significance is that this information may be inaccurate;
- Key decisions taken by the management team of Oilco plc should not only be based on quantities and probabilities alone – qualitative factors such as employee/customer/stakeholder attitudes/opinions should be taken into account;
- Members of Oilco plc's management team may manipulate the data in order to support a specific course of action (favourable) – this would alter the outcome and is of importance as it impacts future performance of Oilco plc;
- Changes in the economic environment facing Oilco plc may render obsolete a decision based on data in the decision tree.

Final judgement – candidates likely to suggest that decision trees are likely to be of use to the management team of Oilco plc.

Candidates are expected to evaluate throughout their answers and state a final judgement.

	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 excellent evaluation of the arguments presented, and states a mature 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 limited 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.

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6 Evaluate the usefulness of published accounts to the **shareholders** of Oilco plc.

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Usefulness of published accounts:

- Shareholders of Oilco plc may use the information to compare its performance against targets/previous financial periods – net losses amounted to –£1m in 2016, compared to £1m profit in 2017 – an improvement in performance which is important as it would entice shareholders to invest in the company;
- Shareholders of Oilco plc may use annual reports and financial statements to evaluate the extent to which the management team had carried out its stewardship function – this is important to retain investor confidence in the company;
- Shareholders of Oilco plc may use the published accounts to determine the value of their investment in the company – the accounts will reveal trends in profitability, investment and financial performance – typically revealed by the statement of financial position (balance sheet) asset values – this is important as it supports share values/prices and retains investor confidence;
- Shows returns that they will make;
- Tells when to buy/sell shares in Oilco plc.

Drawbacks of published accounts:

- The published accounts of Oilco plc focus on quantitative issues affecting the company and thus may be of limited use in assessing the overall performance of the business – thus limiting ability to make informed investment decisions;
- Shareholders may find it difficult to compare the performance of Oilco plc with that of its rivals as each company may adopt differing accounting policies when preparing the financial statements, which affects asset values and profitability – this is important as it distorts investors decision making in respect of investments;
- Oilco plc's published accounts are generally not available until at least 3 months after the financial year end, and thus out of date/lack relevance to investment decision making – may even be misleading thus distorting investment decision making;
- Can be window dressed.

Final judgement – published accounts are of limited use for example, in the context of investment decision making, as additional information is required to inform investment decisions.

Candidates are expected to evaluate throughout their answers and state a final judgement.

	AO1 Knowledge and Understanding [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]	AVAILABLE MARKS
Level 3	[3]–[4] for excellent knowledge and understanding.	[4]–[5] for excellent application.	[4]–[5] for excellent analysis.	[5]–[6] for excellent evaluation of the arguments presented, and states a mature 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 limited 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.	20
Total					80