



ADVANCED
General Certificate of Education
2014

Business Studies

Assessment Unit A2 1

assessing

Making Business Decisions

[AT211]

MV18

MONDAY 19 MAY, AFTERNOON

TIME

2 hours, plus your additional time allowance.

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 at the end of each question 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 in allocating the available examination time.

Study the information below and answer the questions that follow.

WMD plc

Wind Machine Developments (WMD) plc, based in Enniskillen, Co Fermanagh, is a manufacturer of components for the wind turbine industry. The business was originally set up as a private limited company (WMD Ltd) by two engineering graduates, Wallace Montgomery and Michael Devine, to supply the growing wind energy industry in the UK and Ireland. Its mission statement states that it seeks to achieve “growth through teamwork”. Having built up a reputation for quality and innovation, the business secured a number of contracts from leading international manufacturers of wind turbines. It converted to a public limited company in 2010.

The company employs 1 200 staff at its manufacturing plant in Enniskillen and is one of the area’s largest employers. A further 12 workers are employed at its offices in Belfast and Dublin. Financial data taken from the company’s published accounts is contained in **Table 1**.

Table 1: Financial Data

	2012	2013
	£ m	£ m
Sales Revenue	12.50	18.50
Net Profit before Tax	0.45	0.50
Non-Current Assets	12.00	14.00
Current Assets	0.30	0.45
Total Assets	12.30	14.45
Non-Current Liabilities	7.30	7.70
Current Liabilities	0.20	0.30

Reports in the media have begun to suggest that the “honeymoon period” for wind energy is over. Leading environmentalist David Bellamy has been quoted as saying that “Wind farms do not work. They are a blot on the landscape”.

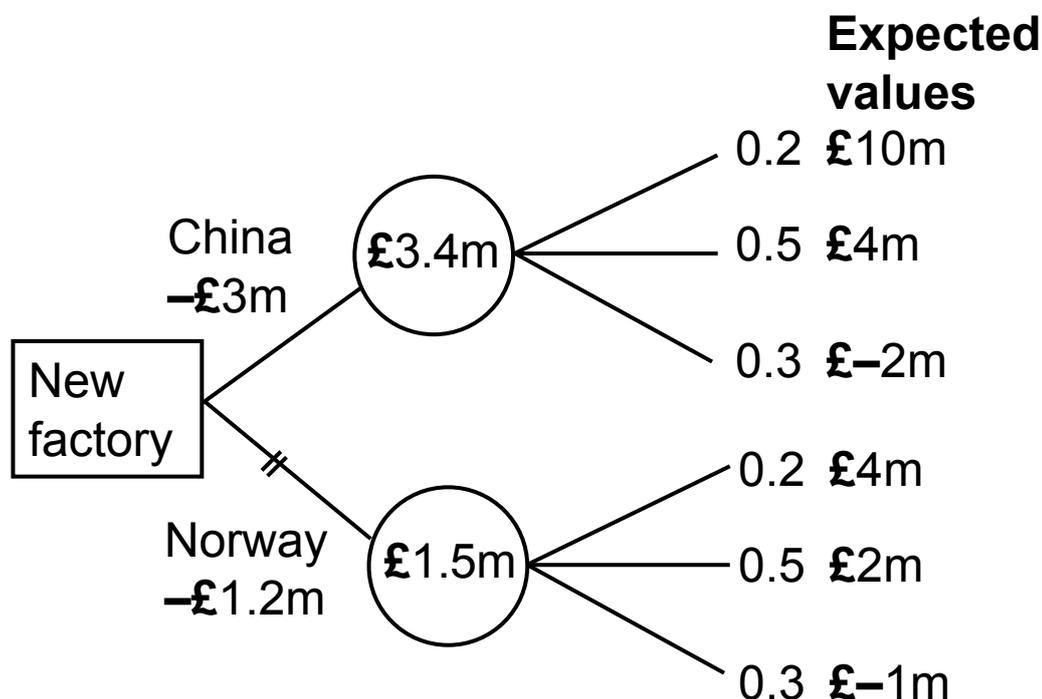
However, the Irish Wind Energy Association reported that “As of July 2012, 14.8% of Irish electricity is being generated from renewable sources, up from 5% in 1990. Wind is the main source of renewable energy production”.

These conflicting viewpoints were discussed at the last monthly meeting of the Board of Directors of WMD plc. A subcommittee was formed to research the issues facing the company and to report back at the next meeting.

WMD plc currently supplies components to wind turbine manufacturers in Britain, Ireland, China, Japan, Norway, Sweden and the USA. The Board of Directors is also considering locating a factory outside Northern Ireland in order to exploit growth markets. China and Norway are possible alternative locations for such a factory. It has been suggested that WMD plc should use the Net Present Value (NPV) method of investment appraisal when deciding between alternative investment options.

The decision tree outlined below in **Figure 1** was presented by International Development Manager, Gayle Forrest. A final decision was put back until the next Board meeting.

Figure 1. Decision Tree relating to alternative factory locations



In his 2013 Annual Report, WMD plc Chairman Wallace Montgomery praised the company's continued growth over the past three years and stressed the need for WMD plc to continually invest and explore new markets. "The wind energy market is still in relative infancy and we are focused on being at the forefront of new technologies in order to serve the needs of all our stakeholders."

He stated that it was a source of pride for all those involved in WMD plc that it is widely perceived as a socially responsible business, but that some groups had legitimate concerns and the company should be aware of these.

Candidates must answer **all** questions.

- 1 (a) Calculate the Net Profit Margin for WMD plc for 2013. [2 marks]

(b) Explain the importance of Net Profit Margin to WMD plc. [2 marks]
- 2 Analyse how stakeholder objectives might conflict with the business objectives of WMD plc. [6 marks]
- 3 Discuss the usefulness of published accounts to a business such as WMD plc. [15 marks]
- 4 Evaluate Net Present Value as a method of investment appraisal within a business such as WMD plc. [15 marks]
- 5 Evaluate decision trees as a tool for decision-making in WMD plc. [20 marks]
- 6 Evaluate the usefulness of a mission statement to a business such as WMD plc. [20 marks]

$$\text{Net Profit Margin} = \frac{\text{Net Profit before Tax}}{\text{Sales Revenue}} \times 100\%$$

first proof 6/3/14 JB

SOURCES

Adapted from www.journallive.co.uk/north-east-news/todays-news/2011/10/26/david-bellamy

Adapted from wikipedia.org/wiki/Wind_power_in_the_Republic_of_Ireland

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