



Rewarding Learning

ADVANCED
General Certificate of Education
2015

Business Studies

Assessment Unit A2 1
assessing
Making Business Decisions

MV18

[AT211]

MONDAY 18 MAY, MORNING

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.

Study the information below and answer the questions that follow.

Reachit Ltd

Reachit Ltd is a long established, family owned company which manufactures a range of aluminium ladders and stepladders. These are sold directly to firms within the construction industry and also to domestic customers through DIY stores. Reachit Ltd currently employs 64 workers and is located in purpose built facilities near Omagh. The company's mission statement, "Striving to reach new heights in everything we do", is prominently displayed to stakeholders throughout the factory.

Reachit Ltd, like many other businesses dependent upon the construction industry, struggled to survive and prevent job losses during the recent recession. Nonetheless, the company made a Net Profit last year of £1.4 million, a good indication perhaps, that the worst is over. Unfortunately, this apparent upturn has caused tension between members of the Board of Directors, concerning which strategy the company should follow in the year ahead.

Strategic options

Helen Bolt, the Marketing Director, recently completed a Boston Matrix analysis of the firm's portfolio of products. She identified a recently introduced stepladder model, the Flexi 2.4m, as being a Problem Child*. Its innovative design enables it to be angled and set up in a number of different positions. This is particularly suitable for indoor decorating work. Helen is convinced that Reachit Ltd should now seize the opportunity and invest heavily in the production and marketing of the Flexi 2.4m, in order to achieve market growth.

The Operations Director, Paul Smyth, investigated specialised machinery which might be suitable for mass producing the Flexi 2.4m. He found two possible options, the Energo 100 and the Dynamo ZX. Consequently, he carried out an investment appraisal on each machine in order to determine which one, if any, should be purchased. Results of his analysis are shown in **Table 1** below.

Table 1: Energo 100 and Dynamo ZX Machines – Investment Appraisal Data

Model	Cost	Payback period	Average Rate of Return
Energo 100	£600,000	6 years	18%
Dynamo ZX	£300,000	3 years	12%

Paul was excited by the prospect of getting a new state-of-the-art production machine although he realised a considerable amount of staff training would be required in order to get the best out of the new technology.

However, not all of the members of the Board were convinced by Helen's analysis. At the last monthly planning meeting there was a heated debate about the value of the Boston Matrix as a decision making tool within Reachit Ltd.

*** Problem Child products are also known as Question Marks within the Boston Matrix analysis.**

Caution

Ever conscious of the mood of the major shareholders, Gavin Banks, the Finance Director, spoke out against a growth strategy. He argued that Reachit Ltd needed to increase rewards for shareholders following recent hard times and that it was better to aim for short term profit maximisation in order to do so. Gavin proposed cutting back on all non-essential expenditure in order to reduce costs and also, to reduce the product range of the business. He produced recent accounting ratios which, he claimed, backed up his arguments. These are shown in **Table 2** below.

Table 2: Accounting ratios relating to Reachit Ltd

Ratio	2014	2013
Gross Profit Margin	25%	20%
Net Profit Margin	10%	2%
Current Ratio	1.4 : 1	1.9 : 1
ROCE	9.2%	3.3%
Gearing Ratio	51%	37%
Return on Equity	5%	1.5%

Gavin also criticised the Payback investment appraisal method used by Paul. Other Board members were reluctant to make a quick decision on the matter and wished to raise the issue for discussion at the next meeting. Helen Bolt was dismayed. She recognised the need to act fast in order to stay ahead of the competition.

Candidates must answer **all** questions.

- 1 Explain **two** benefits to Reachit Ltd of having a mission statement. [4 marks]

- 2 Analyse **two** possible objectives that the employees of Reachit Ltd might have. [6 marks]

- 3 Evaluate Payback as a method of investment appraisal for an organisation such as Reachit Ltd. [15 marks]

- 4 Evaluate the usefulness of the Boston Matrix as a decision making tool within an organisation such as Reachit Ltd. [15 marks]

- 5 Evaluate profit maximisation as a business objective for Reachit Ltd. [20 marks]

- 6 Evaluate the financial performance of Reachit Ltd using the information given in the case study. [20 marks]

THIS IS THE END OF THE QUESTION PAPER

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