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General Certificate of Education  
2017

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## Business Studies

Assessment Unit A2 1  
*assessing*  
Making Business Decisions

MV18

[AT211]

MONDAY 12 JUNE, AFTERNOON

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### 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.

## Oilco plc

Oilco plc, based in Carrickfergus, Co. Antrim is an oil and gas exploration company. The business was originally established as a private limited company in 1995, however, it continued to grow and in 2015 converted to a public limited company.

The company employs 800 staff across a number of sites in Ireland and the United Kingdom, exploring for oil and gas both on land and offshore. One such project which the management team are currently investigating includes the construction of a gas storage facility located in an area adjacent to Larne Harbour (Co. Antrim), in which the company is proposing to invest £1.2m.

Financial data taken from the company's published accounts is contained in **Table 1**.

**Table 1: Oilco plc – Financial Data**

Financial year ended 31st March	2016	2017
Sales Revenues	£100 m	£150 m
Net (Loss)/Profit	–£10 m	£10 m
Current Assets	£10 m	£24 m
Current Liabilities	£15 m	£8 m
Accounting Ratios:		
Net Profit Margin	–10%	6.7%
Current Ratio	0.67:1	
Return on Capital Employed (R.O.C.E.)	–6.4%	6.02%

The losses reported in respect of the financial year 2016 were due to adverse trading conditions in the global oil and gas markets.

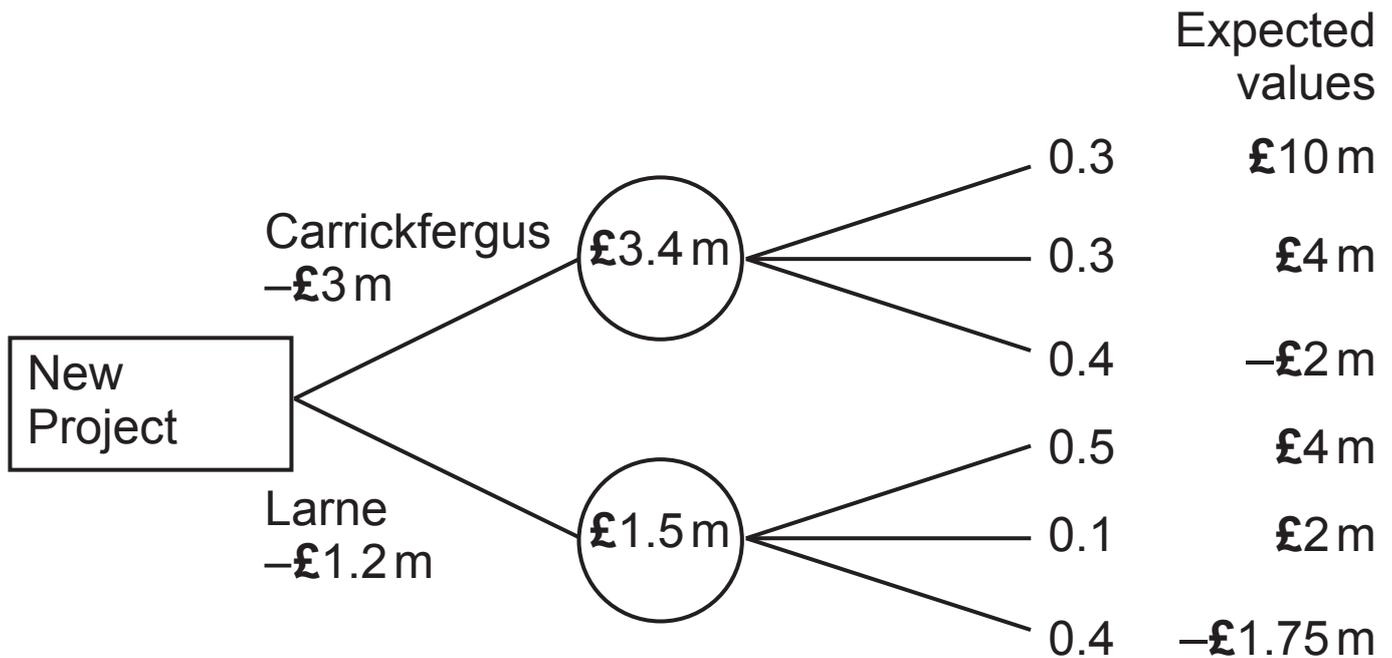
During March 2017, Oilco plc reported that it was considering a second project exploring for oil in the Carrickfergus area. The Managing Director, Bill Derv, stated that:

“The lower costs of onshore operations mean that onshore oil exploration projects are expected to remain profitable at lower oil prices, if they were to persist. It is actively pursuing a number of options to secure £3m of funding to allow it to proceed”. In addition, the Board of Directors are strongly recommending the reinvestment of £10m profit into new labour saving technology to improve future efficiency.

Environmental pressure groups have pointed out that the site of the oil well near Carrickfergus is located adjacent to a major water reservoir which in turn supplies nearly 2000 streets with water, in both the Greater Belfast and Carrickfergus areas. In addition, such pressure groups suggest that the oil well is located within a scenic forest park and environmentally sensitive area which currently houses wildlife and rare plant species. Local residents and environmental pressure groups are concerned about water contamination, noise pollution and environmental damage.

The management team are reviewing the company's two exploration projects. The Operations Manager, Olive Risk, circulated a draft decision tree (Fig. 1 below) to the Board of Directors earlier today:

**Fig. 1: Decision Tree relating to Oilco plc Exploration Activities**



At the recent Annual General Meeting of shareholders, the Managing Director, Bill Derv, cited the growth in company revenues and profitability in the last financial period as proof of the management team's commitment to invest and develop new markets.

The expected payback period for each project is as follows:

- Carrickfergus: 2 years 6 months
- Larne: 3 years 2 months

He stated that the use of payback as a method of investment appraisal appeared to be appropriate, given the volatile nature of the industry and the need for management to recoup monies invested within a project lifespan of three years.

Mr Derv pointed out that the management team is aware of the concerns of key stakeholder groups and that these would be addressed through the implementation of its Business Plan.

Candidates must answer **all** questions.

- 1 (a) Calculate the Current Ratio for Oilco plc for the financial period ended 31 March 2017. [2 marks]  
  
(b) With reference to Oilco plc, explain **one** possible reason for the change in the Current Ratio in the period 2016 to 2017. [2 marks]
- 2 Analyse the current position of Oilco plc using any **two** elements of the PESTEL analysis. [6 marks]
- 3 Discuss the usefulness of the Payback method of investment appraisal to a business such as Oilco plc. [15 marks]
- 4 Evaluate **three stakeholder** objectives which may conflict with the business objectives of Oilco plc. [15 marks]
- 5 Evaluate decision trees as a tool for decision making in Oilco plc, using **Fig. 1**, and relevant case study information. [20 marks]
- 6 Evaluate the usefulness of published accounts to the **shareholders** of Oilco plc. [20 marks]

Useful Formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

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**THIS IS THE END OF THE QUESTION PAPER**

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