

Monday 14 January 2013 – Afternoon

A2 GCE APPLIED BUSINESS

F248/01 Strategic Decision-Making

Candidates answer on the Question Paper.

OCR supplied materials:

- Clean copy Case Study

Other materials required:

- A calculator may be used

Duration: 2 hours



Candidate forename		Candidate surname	
Centre number		Candidate number	

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. Additional paper may be used if necessary but you must clearly show your candidate number, centre number and question number(s).
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- Your Quality of Written Communication will be assessed in questions marked with an asterisk (*).
- The total number of marks for this paper is **100**.
- This document consists of **20** pages. Any blank pages are indicated.



A calculator may
be used for this
paper

2

- 1 (a) Outline **two** differences between a business objective and a business aim.

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[4]

- (b) State **two** benefits to a business of setting business objectives.

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[2]

- (c) Explain why good cash-flow management is essential to *Creacon Developments plc (CD plc)*.

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(d) Explain **three** ways in which a business could improve its cash-flow.

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[6]

4

2 In an attempt to analyse *CD plc's* current situation, the Finance Manager has calculated the following:

- fixed costs of £46 million for the year;
- variable cost of £110 000 per home;
- average selling price of £130 000 per home.

(a) Calculate the number of homes *CD plc* needs to sell in order to break-even this year.

Show your workings:

Break-even level = homes

[2]

(b) Explain how a rise in the interest rate *CD plc* pays on its loans will affect the company's break-even level.

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 [2]

(c) Explain **one** way in which an increase in national unemployment rates is likely to affect *CD plc's* ability to reach its break-even level.

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 [2]

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- (d) Describe **three** weaknesses of break-even analysis as a financial planning tool for businesses such as *CD plc*.

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[6]

- 3 The labour turnover rate amongst workers in *CD plc*'s building division is high. This will be of particular concern to *CD plc* if it decides to take Option 1 (Amalgamate).

Workforce Data	2012
Total number employed in building division	180
Labour turnover rate in building division	15%

- (a) What is meant by the term 'internal stakeholder'?

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..... [2]

- (b) Calculate how many workers left *CD plc*'s building division in 2012.

Show your workings:

Building division workers leaving in 2012 =

[2]

- (c) Explain **one** problem for *CD plc* of having a high rate of labour turnover in its building division.

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7

- (d) Explain **two** ways in which *CD plc* might be able to lower the rate of labour turnover in its building division.

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[4]

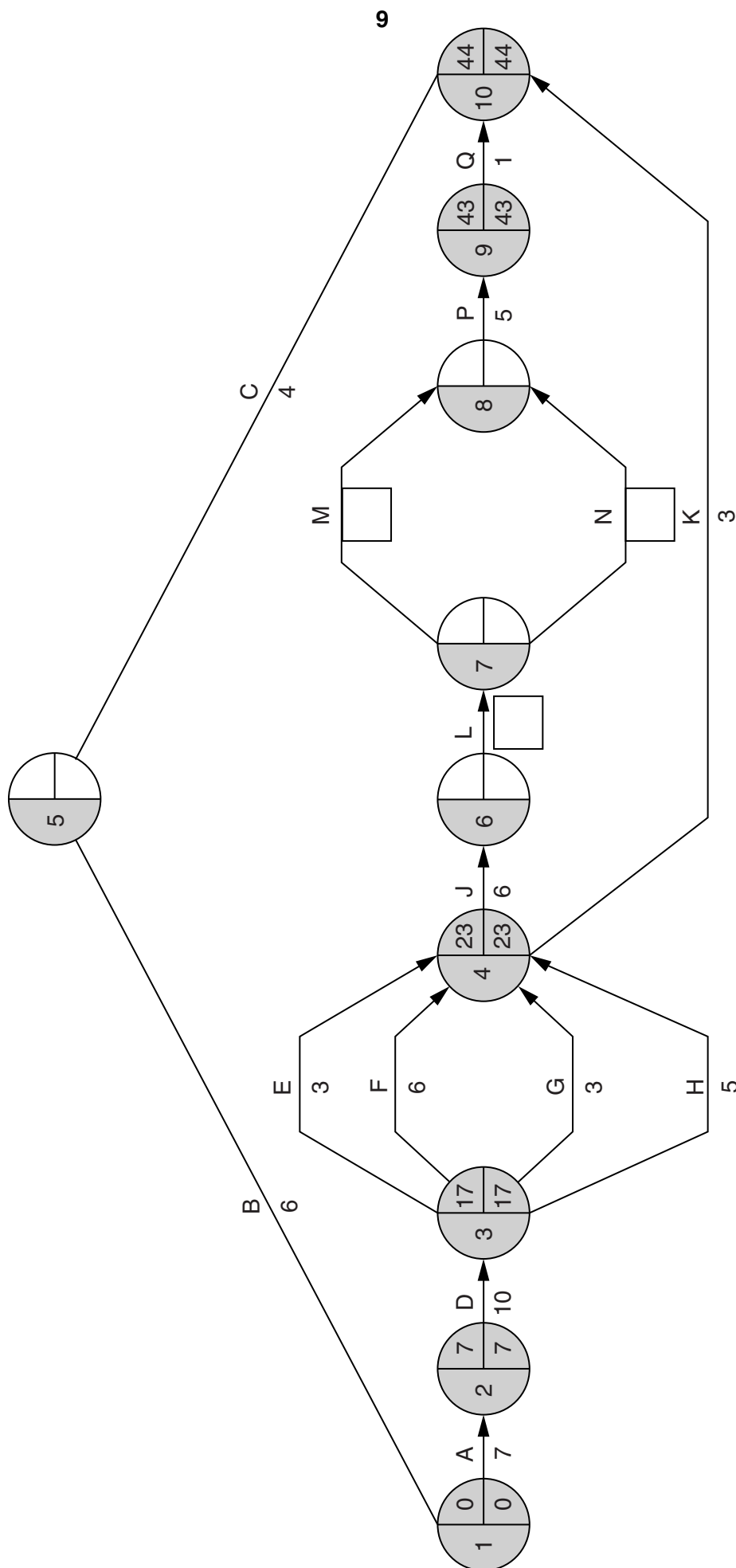
- 4 If CD p/c decides to take Option 2 (Downsize) it will shut down its building division and use external contractors to build its range of starter homes. The stages involved in building a typical starter home are given in **Table 1** below.

Table 1

Activity	Description	Duration (days)	Activity	Description	Duration (days)
A	Groundworks	7	J	Plastering	6
B	Landscaping	6	K	Exterior painting	3
C	Gardening	4	L	Fittings installation	5
D	Bricklaying	10	M	Electrical completion	2
E	Joinery/window installation	3	N	Plumbing completion	4
F	Initial electrical installation	6	P	Internal decoration	5
G	Initial plumbing installation	3	Q	Final inspection	1
H	Roofing	5	To avoid confusion, activities I and O have been omitted.		

- (a) Using the information in **Table 1** opposite, complete the critical path diagram below, by inserting the durations of activities L, M and N and the EST (earliest start times) and LFT (latest finish times) for nodes 5, 6, 7 and 8. Insert your answers in the unshaded nodes and boxes in the diagram below. [11]

Critical path diagram for building a typical starter home



- (b) Identify the sequence of activities on the critical path.

Sequence of activities on the critical path =

[1]

Turn over

- [illegible]

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- 5 The Finance Manager has estimated the likely net cash-flow for both of the options under consideration at *CD plc*. A discount rate of 15% is to be used when comparing the options.

Year	Discount Factor at 15%
0	1.00
1	0.87
2	0.76
3	0.66
4	0.57

- (a) Using the discount factors given above, complete the net present value table below, for **both options** under consideration at *CD plc*.

	Option 1 Amalgamate		Option 2 Downsize	
Year	Estimated Net Cash-flow	Present Value	Estimated Net Cash-flow	Present Value
0	(£4 000 000)	(£4 000 000)	(£1 200 000)	(£1 200 000)
1	£1 000 000		£300 000	
2	£2 000 000		£600 000	
3	£4 000 000		£800 000	
NPV	Option 1 =	£	Option 2 =	£

[4]

- (b) Explain **one advantage** to *CD plc* of using **net present value** rather than **payback** as an investment appraisal technique.

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13

- (c) Explain **one disadvantage** to *CD plc* of using **net present value** rather than **ARR (accounting (average) rate of return)** as an investment appraisal technique.

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[illegible]

[illegible]

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- 7 The Finance Manager believes that good contingency planning is more important to *CD plc's* survival than which of the options it chooses. Evaluate this opinion. [14]

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END OF QUESTION PAPER

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