



Rewarding Learning

ADVANCED
General Certificate of Education
2016

Business Studies

Assessment Unit A2 1

assessing

Making Business Decisions

[AT211]

THURSDAY 19 MAY, 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 Explain what is meant by contingency planning using an example from the Case Study to illustrate your answer.

AVAILABLE MARKS	
	4

	AO1 Knowledge and Understanding [2]	AO2 Application [2]
Level 2	[2] Good knowledge and understanding.	[2] Good application.
Level 1	[1] Some knowledge and understanding.	[1] Some application.
Level 0	[0] No knowledge and understanding.	[0] No application.

Contingency planning is planning in advance on how to deal with a crisis that may happen in the future.

- RoeBotix plc prides itself of having strategies in place to deal with unexpected events such as delays in the supply chain or a sudden change in demand.
- Contingency planning is carried out to enable a business such as RoeBotix plc to consider what to do in advance if events do not turn out as expected, e.g. if suppliers are late with an important order.
- Contingency planning is carried out to reduce the potential cost to a business such as RoeBotix plc of an unforeseen event because the business will have a 'fall-back' position to resort to.
- Contingency planning requires businesses such as RoeBotix plc to consider alternative strategies in advance, e.g. if demand for a component suddenly falls, RoeBotix plc may have a contingency plan to adapt the component for use in a different market. [4]

- 2 With reference to **Table 1**, analyse the financial performance of RoeBotix plc using **(i)** Current Ratio and **(ii)** Net Profit Margin.

AVAILABLE
MARKS

	AO1 Knowledge and Understanding [2]	AO2 Application [2]	AO3 Analysis [2]
Level 2	[2] Good knowledge and understanding.	[2] Good application.	[2] Good analysis.
Level 1	[1] Limited knowledge and understanding.	[1] Limited application.	[1] Limited analysis.
Level 0	[0] No knowledge and understanding.	[0] No application.	[0] No analysis.

(i)

	2015	2016
Current Ratio	= £16m/£10m	= £20m/£15m
	= 1.6:1	= 1.33:1

The Current Ratio shows that the Current Assets of RoeBotix plc, while still exceeding its Current Liabilities have left the business slightly less liquid in 2016 than in 2015, 1.6:1 to 1.33:1 — due to a greater increase in current liabilities compared to current assets.

(ii)

	2015	2016
Net Profit Margin	= £9m ÷ £25m × 100	= £15m ÷ £37m × 100
	= 36%	= 41%

The Net Profit Margin shows that the profitability of RoeBotix plc has improved from an already healthy level in 2015 to an even healthier level in 2016, 36% to 41% — due to increased margins or lower costs. [6]

6

- 3 Evaluate the use of Net Present Value as a method of investment appraisal by the Management Team of RoeBotix plc.

AVAILABLE
MARKS

	AO1 Knowledge and Understanding [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] Excellent knowledge and understanding.	[3] Excellent application.	[3] Excellent analysis.	[5]–[6] Sound evaluation/ mature judgement.
Level 2	[2] Good knowledge and understanding.	[2] Good application.	[2] Good analysis.	[3]–[4] Good evaluation.
Level 1	[1] Limited knowledge and understanding.	[1] Limited application.	[1] Limited analysis.	[1]–[2] Limited evaluation.
Level 0	[0] No knowledge and understanding.	[0] No application.	[0] No analysis.	[0] No evaluation.

Advantages of NPV

- NPV takes the timing of cash flows into account meaning that more value is placed on earlier cash flows. Businesses such as RoeBotix plc will benefit as they can see when, during the lifetime of the project, cash flows will occur.
- NPV considers all cash flows and not just up to the moment when the project pays for itself. This will benefit RoeBotix plc as many capital projects are intended to last much longer than the Payback period.
- NPV is also known as the Discounted Cash Flow method (DCF) and this discounting of future cash flows into present day values makes NPV the most realistic of the investment appraisal methods.
- Businesses such as RoeBotix plc can see in today's terms how much an investment will return.
- While the calculations for NPV may be difficult to compute, once portrayed in a table it is easy for decision-makers to understand. This will benefit RoeBotix plc as it can be seen immediately how much a project will be worth.

Disadvantages of NPV

- NPV requires relatively difficult calculations to be completed. This may be off-putting for some businesses that do not have the management expertise to calculate NPV.
- The discount factor to be used in NPV can be subjective and may be manipulated to favour one project over another. This may result in a business such as RoeBotix plc choosing the wrong investment project.
- The discount factor chosen may have been realistic at the time the decision was made but may become completely unrealistic during the lifetime of the

project. For example, the discount factor of 10% may not reflect economic conditions in a few years time. This may result in a decision made by a business such as RoeBotix plc yielding a different return than expected.

- Does not consider qualitative information.

Candidates are expected to evaluate the advantages and disadvantages of Net Present Value as a method of investment appraisal to a business such as RoeBotix plc and to reach a Final Judgement.

Candidates are expected to evaluate throughout their answers.

[15]

AVAILABLE
MARKS

15

- 4 Evaluate the usefulness of published accounts to the stakeholders of RoeBotix plc.

AVAILABLE
MARKS

	AO1 Knowledge and Understanding [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] Excellent knowledge and understanding.	[3] Excellent application.	[3] Excellent analysis.	[5]–[6] Sound evaluation/ mature judgement.
Level 2	[2] Good knowledge and understanding.	[2] Good application.	[2] Good analysis.	[3]–[4] Good evaluation.
Level 1	[1] Limited knowledge and understanding.	[1] Limited application.	[1] Limited analysis.	[1]–[2] Limited evaluation.
Level 0	[0] No knowledge and understanding.	[0] No application.	[0] No analysis.	[0] No evaluation.

Usefulness of published accounts

- The management of RoeBotix plc may use the published accounts to compare its performance with that of previous years or with that of its competitors. Sales revenue has increased by £12m, an increase of 48%.
- Managers in RoeBotix plc may use the published accounts to compare its performance against set targets. The information may also assist with forward planning and to inform future decisions such as cost-cutting initiatives. Net profit target for 2015, based on 2014, may have been £13m.
- The directors of RoeBotix plc may use the published accounts to evaluate how well management has carried out its stewardship function.
- Employees in RoeBotix plc may use the information that Net Profit had increased from 36% in 2015 to 41% in 2016 to support claims for enhanced rewards.
- Suppliers to RoeBotix plc may use the information to help make decisions upon future contracts or credit terms.
- Can be used by banks to assess RoeBotix plc loan applications.

Limitations of published accounts

- Published accounts concentrate on quantitative issues affecting RoeBotix plc and may therefore be of limited use for stakeholders in assessing overall performance of the business.
- Competitors may find it difficult to compare the performance of RoeBotix plc with that of their own as each company may adopt different accounting policies when preparing financial statements.
- Published accounts are generally not available to stakeholders until months after the end of the accounting year and may therefore often be lacking in accuracy.

Candidates are expected to discuss the usefulness and limitations of published accounts to the stakeholders of RoeBotix plc and to reach a Final Judgement.

Candidates are expected to evaluate throughout their answers. [15]

AVAILABLE MARKS
15

5 Evaluate growth as a business objective for RoeBotix plc.

AVAILABLE
MARKS

	AO1 Knowledge [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3]–[4] Excellent knowledge and understanding.	[4]–[5] Excellent application.	[4]–[5] Excellent analysis.	[5]–[6] Excellent evaluation.
Level 2	[2] Good knowledge and understanding.	[2]–[3] Good application.	[2]–[3] Good analysis.	[3]–[4] Good evaluation.
Level 1	[1] Some knowledge and understanding.	[1] Some application.	[1] Some analysis.	[1]–[2] Some evaluation.
Level 0	[0] No knowledge and understanding.	[0] No application.	[0] No analysis.	[0] No evaluation.

Benefits to RoeBotix plc of having a growth objective:

- A growth objective will secure the continuance of RoeBotix plc, to a global company. RoeBotix plc is now supplying components and software services both domestically and internationally, NASA, Google etc.
- Can enhance its competitive advantage/edge in the marketplace. Specialist remote controlled camera equipment for the film industry in NI.
- Can minimise RoeBotix plc's chance of failure if it continues to produce new products and new markets, RoeBotix plc is looking to new markets such as remote controlled cameras for Golf Tournaments, show jumping, winter sports and motor racing. A growth objective can focus management on completing market analysis before embarking on a specific course of action. RoeBotix plc monitors markets which are experiencing growth and those that are in the decline stage.
- A growth objective could motivate all staff if successful as it will provide additional jobs and job security.
- Economies of scale – growth can achieve economies of scale, discounts, marketing and financial savings.
- Increased market share.
- Attracts investors.
- Improved corporate image.

Limitations to RoeBotix plc of having a growth objective:

- A growth strategy can fail if not properly researched. The new product, Roe Solus, used in solar powered drone aircraft, is being introduced into this fast growing market. This market although potentially lucrative has many threats especially the existing competitors.
- A growth strategy can be fatal if carried out during a recession.
- Diseconomies of scale can occur in a growth objective.
- Ignores other business objectives.
- Can attract regulation (e.g. CMA)

[20]

20

- 6 Evaluate how the use of a Business Plan can assist the growth of a business such as RoeBotix plc.

AVAILABLE
MARKS

	AO1 Knowledge [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3]–[4] Excellent knowledge and understanding.	[4]–[5] Excellent application.	[4]–[5] Excellent analysis.	[5]–[6] Excellent evaluation.
Level 2	[2] Good knowledge and understanding.	[2]–[3] Good application.	[2]–[3] Good analysis.	[3]–[4] Good evaluation.
Level 1	[1] Limited knowledge and understanding.	[1] Limited application.	[1] Some analysis.	[1]–[2] Some evaluation.
Level 0	[0] No knowledge and understanding.	[0] No application.	[0] No analysis.	[0] No evaluation.

Usefulness of Business Plans

- Business Plans will enable RoeBotix plc to investigate all aspects of their business, to think in depth about business plans in an analytical way.
- Market Research data can be used by RoeBotix plc to support sales forecasts.
- Business Plans will show all production requirements.
- Business Plans show the details of Finance required for future growth. Banks require detailed information prior to lending.
- Financial Forecasts showing the expected profits and Cash Flow.
- Assists RoeBotix plc in monitoring the actual progress against the plan, as to see if RoeBotix plc is performing as expected. Negative variances to the Business Plan allow RoeBotix plc to take corrective action.
- Used by RoeBotix plc to gain support from various stakeholders as to validity of its plan. Crucially will help RoeBotix plc decide whether to proceed and will inform investors whether to decide to invest.
- Used By RoeBotix plc management to show how the companies aims and objectives are met.
- Preparation of Business Plans will include all staff involvement which will motivate employees.
- Business Plans are an aid to decision making by RoeBotix plc in that it concentrates the mind of managers.

Limitations of Business Plans

- It is extremely time consuming to both draw up business plans and monitor them. Business Plans are not static and are constantly updated to take account of new information or unexpected changes that may occur.
- It is costly to prepare Business Plans as the Financial Statements require specific expertise and specialist knowledge.
- Business Plans are based on market research whose results can be flawed, assumptions, future trends and guestimates which can result in flawed projections within the Business Plan.

[20]

Total

**AVAILABLE
MARKS**

20

80