



Rewarding Learning

ADVANCED
General Certificate of Education
2011

Business Studies

Assessment Unit A2 1

assessing

Making Business Decisions

[AT211]

MONDAY 16 MAY, AFTERNOON



TIME

2 hours.

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 down the right-hand side of pages 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.

Software Solutionz

Jim and Terry are both consultant software engineers and they set up a business partnership five years ago providing software design packages and technical support for organisations in Northern Ireland. Software Solutionz currently operates from a rented building on land owned by Jim’s father and it employs eight staff.

The business has grown steadily and the sales projections indicate that this growth can be sustained into the future. Its mission statement is as follows: “We pride ourselves on being an innovative organisation and strive to fulfill our customers highest expectations.” Software Solutionz has established an excellent reputation built on quality and competitive pricing and in 2008 it acquired its first quality award. More recently, the firm won a contract to supply software design packages and support to a subsidiary branch of its main customer based in Manchester. This significant step heralds the firm’s entry into the main UK market and provides opportunities for increasing market share.

In response to this turn of events Jim and Terry quickly realised that changes to the business were necessary to meet the new challenge. After serious discussion the partners have agreed that the only way forward is to expand the business.

The following alternatives have been drawn up for consideration:

- Option 1** Build an extension on the existing site costing £50 000
- Option 2** Invest in new design equipment to increase output costing £90 000
- Option 3** Move to a purpose-built unit in the business park costing £80 000

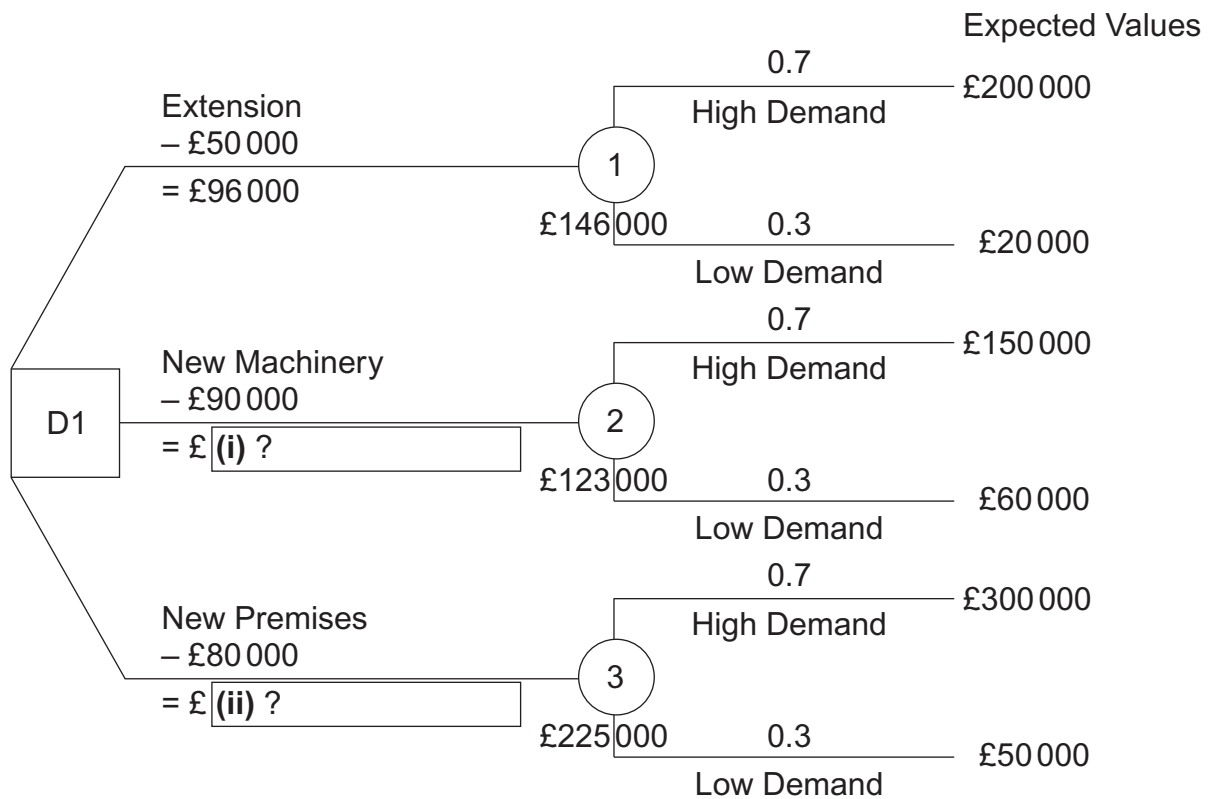
The partners estimate that there is a 0.7 chance of demand remaining high while a low demand is estimated to be 0.3. The expected returns are summarised in **Table 1** below:

Table 1

| Option | High Demand | Low Demand |
|--------|-------------|------------|
| 1 | £200 000 | £20 000 |
| 2 | £150 000 | £60 000 |
| 3 | £300 000 | £50 000 |

All of the above information has been summarised in the following decision tree (**Fig. 1**):

Fig. 1: Decision Tree



Furthermore, to finance the expansion, Jim proposes that they dissolve the partnership and form a private limited company. He argues that securing limited liability will attract investment from other family members thus reducing the need to borrow from the bank. Jim also estimates that they could raise £100 000 in equity (100 000 shares at £1 each) from the family, with potential earnings in the first year of £10 000. Terry isn't convinced and points out some of the drawbacks including loss of control and the legal requirement regarding annual accounts. Jim suggests that they take time to draw up a business plan before making a final decision.

Candidates must answer **all** questions.

- 1 With reference to the decision tree diagram (**Fig. 1**):
 - (a) Calculate the two values missing from the decision tree. [2]
 - (b) Explain the best possible option for Software Solutionz. [2]

- 2 Analyse the current position of Software Solutionz using any **two** elements of SWOT analysis. [7]

- 3 Evaluate the usefulness of a mission statement to an organisation such as Software Solutionz. [15]

- 4 Evaluate the benefits and limitations to an organisation such as Software Solutionz, of using ratio analysis to assess its performance. [15]

- 5 Evaluate how a Business Plan could assist Jim with his proposal for the future of the business. [19]

- 6 Evaluate decision trees as a tool for decision-making in a business such as Software Solutionz. [20]