



Rewarding Learning

ADVANCED
General Certificate of Education
2014

Business Studies

Assessment Unit A2 1

assessing

Making Business Decisions

[AT211]

MONDAY 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 (a) Calculate the Net Profit Margin for WMD plc in 2013.

[2]

	AO1 Knowledge and Understanding [2]	AO2 Application [2]
Level 2	[2] for good knowledge and understanding	[2] for good application
Level 1	[1] for some knowledge and understanding	[1] for some application
Level 0	[0] for no knowledge and understanding	[0] for no application

$$\begin{aligned}\text{Net Profit Margin} &= \frac{\text{Net Profit before Tax}}{\text{Sales Revenue}} \times 100 \\ &= \frac{\text{£0.5m}}{\text{£18.5m}} \times 100 \\ &= 2.7\%\end{aligned}$$

(b) Explain the importance of Net Profit Margin to WMD plc.

[2]

- Net Profit Margin is important because it compares the percentage profit i.e. return, made by the business relative to the amount of sales revenue.
- It has the advantage of relating profit to the size of the business (in terms of sales revenue).
- Enables comparison to previous years or with similar businesses.
- Indicates how well the business controls its costs compared to previous years.
- If it is above industry standard this may attract potential investors or encourage existing shareholders to stay with WMD plc.

AVAILABLE
MARKS

4

2 Analyse how stakeholder objectives might conflict with the business objectives of WMD plc. [6]

AVAILABLE
MARKS

	AO1 Knowledge and Understanding [2]	AO2 Application [2]	AO3 Analysis [2]
Level 2	[2] for good knowledge and understanding	[2] for good application	[2] for good analysis
Level 1	[1] for some knowledge and understanding	[1] for limited application	[1] for limited analysis
Level 0	[0] for no knowledge and understanding	[0] for no application	[0] for no analysis

- The business may have an objective of re-investing profits in order to consolidate for future growth, whereas shareholders of WMD plc may expect to benefit through increasing dividends;
- Employees may expect to be rewarded for being vital members of the team through higher wages, whereas the business may have an objective of becoming 'leaner and meaner';
- The community of Enniskillen may wish to see increasing employment opportunities because of the success of WMD plc, whereas the business may wish to base more of its manufacturing overseas where labour costs may be lower.
- Customers or suppliers may wish to tie the company to exclusive contracts whereas WMD plc may wish to explore possibilities with other suppliers/ customers.
- Government may expect to gain increasing amounts of corporation tax from the growth of WMD plc, whereas the business may wish to avoid paying large amounts of tax through tax-efficient investments.

For full marks 2 stakeholders must be identified in each case of conflict, e.g. owners v staff/WMD plc v environmental pressure group.

6

3 Discuss the usefulness of published accounts to a business such as WMD plc.

[15]

AVAILABLE MARKS

	AO1 Knowledge and Understanding [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] for excellent knowledge and understanding	[3] for excellent application	[3] for excellent analysis	[5]-[6] for sound evaluation/ mature judgement
Level 2	[2] for good knowledge and understanding	[2] for good application	[2] for good analysis	[3]-[4] for good evaluation
Level 1	[1] for some knowledge and understanding	[1] for limited application	[1] for limited analysis	[1]-[2] for limited evaluation
Level 0	[0] for no knowledge and understanding	[0] for no application	[0] for no analysis	[0] for no evaluation

Usefulness of published accounts:

- WMD plc may use the information 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.
- WMD plc may utilise the published accounts to evaluate how well management has carried out its stewardship function.
- WMD plc may use the accounts to compare performance with that of previous years or with that of its competitors.
- WMD plc may use the information in the published accounts to showcase good performance and its ability to meet interest payments on prospective loans.
- WMD plc may use published accounts to attract potential investors.

Limitations of published accounts:

- Published accounts concentrate on quantitative issues affecting WMD plc and may therefore be of limited use in assessing overall performance of the business.
- It may be difficult to compare the performance of WMD plc with that of its rivals as each company may adopt differing accounting policies when preparing financial statements.
- Published accounts are generally not available until months after the end of the accounting year and may therefore often be lacking in relevancy.

Candidates are expected to evaluate the usefulness and limitations of published accounts to a business such as WMD plc and to reach a Final Judgement.

Stakeholders acceptable but must be linked back to the business.

Candidates are expected to evaluate throughout their answer.

15

4 Evaluate Net Present Value as a method of investment appraisal within a business such as WMD plc.

[15]

AVAILABLE
MARKS

	AO1 Knowledge and Understanding [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] for excellent knowledge and understanding	[3] for excellent application	[3] for excellent analysis	[5]-[6] for sound evaluation/ mature judgement
Level 2	[2] for good knowledge and understanding	[2] for good application	[2] for good analysis	[3]-[4] for good evaluation
Level 1	[1] for some knowledge and understanding	[1] for some application	[1] for limited analysis	[1]-[2] for limited evaluation
Level 0	[0] for no demonstration of knowledge and understanding	[0] for no application	[0] for no analysis	[0] for 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 WMD plc will benefit as they can see when, during the lifetime of the project, cash flows will occur.
- NPV considers all the cash flows and not just up to the moment when the project pays for itself. This will benefit WMD plc as many capital projects are intended to last much longer than the Payback period.
- NPV is also known as the Discounted Cash Flow (DCF) method and this discounting of future cash flows into present day values makes NPV the most realistic of the investment appraisal methods.
- Businesses such as WMD plc can see in today's terms how much an investment will return.
- While the calculations required for NPV may be difficult to compute but once portrayed in a table, it is easy for decision-makers to understand. This will benefit WMD plc as decision-makers can see immediately how much a project will be worth.

Disadvantages of NPV

- NPV requires more difficult calculations to be completed. This may be off-putting for smaller businesses that do not have the management expertise to calculate NPV.
- The discount factor to be used in NPV may be subjective and may be manipulated to favour one project over another. This may result in a business such as WMD 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. This may result in a decision made by a business such as WMD plc based on the discount factor to yield a different return than expected.

Candidates are expected to evaluate the advantages and disadvantages of Net Present Value as a method of investment appraisal to a business such as WMD

plc and to reach a Final Judgement.

Candidates are expected to evaluate throughout their answer.

**AVAILABLE
MARKS**

15

	AO1 Knowledge and Understanding [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3]-[4] for excellent knowledge and understanding	[4]-[5] for excellent application	[4]-[5] for excellent analysis	[5]-[6] for sound evaluation of the arguments and forms a mature final judgement. QWC is excellent.
Level 2	[2] for good knowledge and understanding	[2]-[3] for good application	[2]-[3] for good analysis	[3]-[4] for good evaluation of the arguments presented. QWC is good.
Level 1	[1] for some knowledge and understanding	[1] for some application	[1] for limited analysis	[1]-[2] for limited evaluation of the arguments presented. QWC is limited.
Level 0	[0] for no knowledge and understanding	[0] for no application	[0] for no analysis	[0] for no evaluation of the arguments presented. QWC is poor.

Advantages may include:

- Constructing the diagram (as in **Figure 1**) may show WMD plc possible courses of action not previously considered.
- Placing numerical values on probabilities and expected outcomes (see **Figure 1**) may tend to improve the quality of decisions made by WMD plc.
- Decision-makers in WMD plc may be forced to take account of the risks involved in alternative options and consider their relative importance.
- As shown in **Figure 1** decision trees are relatively easy to construct and may give an easily understood view of a complex issue that may be facing WMD plc.

Disadvantages may include:

- The information used by WMD plc in decision trees may be based on probabilities and ‘guesstimates’ and may not be accurate.
- Important decisions at WMD plc should not only be based on quantities and probabilities. Qualitative factors such as attitudes and opinions should also be taken into account.
- Decision-makers at WMD plc may manipulate the data in order to promote a particular course of action.
- Changes in the economic environment faced by WMD plc may render obsolete a decision based on data in a decision tree.

Candidates are expected to evaluate the advantages and disadvantages to WMD plc of using decision trees as a tool for decision-making and to reach a Final Judgement.

Candidates are expected to evaluate throughout their answer.

6 Evaluate the usefulness of a mission statement to a business such as WMD plc.

[20]

AVAILABLE MARKS

	AO1 Knowledge and Understanding [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3]-[4] for excellent knowledge and understanding	[4]-[5] for excellent application	[4]-[5] for excellent analysis	[5]-[6] for sound evaluation of the arguments and forms a mature final judgement. QWC is excellent.
Level 2	[2] for good knowledge and understanding	[2]-[3] for good application	[2]-[3] for good analysis	[3]-[4] for good evaluation of the arguments presented. QWC is good.
Level 1	[1] for some knowledge and understanding	[1]-[2] for some application	[1] for limited analysis	[1]-[2] for limited evaluation of the arguments presented. QWC is limited.
Level 0	[0] for no knowledge and understanding	[0] for no application	[0] for no analysis	[0] for no evaluation of the arguments presented. QWC is poor.

Advantages may include:

- A mission statement is useful in that it sets out clearly what an organisation such as WMD plc is trying to achieve. For example, WMD plc’s mission statement states that it seeks to achieve “growth through teamwork”.
- A mission statement may be motivational to the staff. For example, the mission statement of WMD plc shows clearly the importance of each member of staff as part of a team.
- A mission statement may help in decision-making by enabling options to be compared with or referred to the mission statement e.g. in WMD plc’s case the importance of growth.
- A mission statement can be effective in setting/changing organisational culture, e.g. WMD plc have built up a reputation for quality and innovation.
- A mission statement may provide assurances to potential customers of WMD plc regarding the company’s values and intentions.
- A mission statement may instil a sense of common purpose among stakeholders. In the case of WMD plc, it is operating in an eco-friendly industry and is trying to achieve “growth through teamwork”.

Disadvantages may include:

- A mission statement may sometimes be too vague and not quantifiable. For example, in the case of WMD plc no specific amount of “growth” is mentioned.
- Mission statements are often seen as a marketing ploy rather than meaningful statements of intent. For example WMD plc may be autocratic in its decision-making process rather than encouraging “teamwork”.
- Mission statements may be ignored by senior management causing workers in a business such as WMD plc to become cynical and demotivated.

- Drawing up a mission statement may be time consuming and may delay taking business decisions and result in WMD plc missing out on opportunities such as being first to exploit a new market.
- A mission statement may need to be reviewed periodically in order to ensure relevancy and this may require time and resources. For example, WMD plc's focus on "growth" may be inappropriate in a recessionary climate.

Candidates are expected to evaluate the advantages and disadvantages of a mission statement to a business such as WMD plc and to reach a Final Judgement.

Candidates are expected to evaluate throughout their answer.

Total

AVAILABLE MARKS
20
80

