Surname	Centre Number	Candidate Number
First name(s)		2

GCE A LEVEL

A510U20-1

S23-A510U20-1

WEDNESDAY, 7 JUNE 2023 – MORNING

BUSINESS – A level component 2
Business Analysis and Strategy

2 hours 15 minutes

For Examiner's use only		
Question	**Maximum Mark**	**Mark Awarded**
1.	**9**	
2.	**16**	
3.	**15**	
4.	**18**	
5.	**12**	
6.	**10**	
Total	**80**	

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ADDITIONAL MATERIALS

In addition to this paper you may require a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen. Do not use gel pen or correction fluid.
You may use a pencil for graphs and diagrams only.
Write your name, centre number and candidate number in the spaces at the top of this page.
Answer **all** questions.
Write your answers in the spaces provided in this booklet. Additional space is provided for some questions within the booklet (if required).
If further space is required for any question, you should use the additional page(s) at the end of this booklet. The question number(s) should be clearly shown.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.
You are reminded of the necessity for good English and orderly presentation in your answers.

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Answer **all** the questions in the spaces provided.

1. Step Out Ltd is a shoe retailer that sells a wide range of footwear for adults and children. Its outlets are mainly located on retail parks. To help grow the business, it is considering purchasing a high street footwear retailer called Wellingtons Ltd. Even though Wellingtons Ltd sells a wide range of footwear, it specialises in wellington boots.

(a) Identify the type of integration Step Out Ltd is considering. [1]

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(b) Explain the advantages and disadvantages of this type of integration to Step Out Ltd. [8]

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Additional space for Question **1**(b) only.

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2. Production Parts PLC is a manufacturing business and is considering investing in one of the following two machines to work on its production line. These machines will enable it to implement more rigorous quality checks. Currently, it cannot afford to purchase both and so it has been advised to conduct investment appraisal to help it decide which would be the best option.

To help evaluate its options, Production Parts PLC will use Average Rate of Return (ARR) calculations and the payback period of both machines. The information is as follows:

	Machine A	**Machine B**
Initial purchase price	£200 000	£350 000

Expected Net Cash Flows		
	Machine A	**Machine B**
Year 1	£20 000	£35 000
Year 2	£40 000	£75 000
Year 3	£65 000	£100 000
Year 4	£90 000	£140 000
Year 5	£80 000	£150 000
Year 6	£70 000	£165 000

(a) Explain **one** advantage and **one** disadvantage of using Average Rate of Return (ARR) as a method of investment appraisal. [4]

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(b) Calculate the Average Rate of Return (ARR) for both machines. [4]

(c) Calculate the payback period for both machines. You must express your answers in years and months. [2]

(d) Advise Production Parts PLC which is the best option for investment based on the **quantitative** information you have. [6]

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Additional space for Question **2**(d) only.

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3. Harshika has recently taken over as managing director of her family's business. The business has been producing a range of industrial fridge units for pubs and restaurants, including a drinks display cabinet, for over thirty years. The fridges have lots of components and require a mixture of both highly skilled staff and specialised machinery to manufacture.

The business's best-selling product is a refrigerated drinks cabinet. The table below gives information on this product:

Selling price	£593
Variable cost per unit	£210
Fixed cost per unit	£100
Annual sales volume	360 units

Harshika believes that the market is likely to grow in the near future and is expecting the closure of one of her major competitors. To take advantage of the situation and the likely increase in demand, Harshika is trying to decide whether to increase capacity or to outsource some of the production. The current capacity utilisation of the business is 96%.

(a) Calculate the annual total contribution for the refrigerated drinks cabinets. [3]

(b) Define the term outsourcing. [2]

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(c) Discuss whether Harshika's business should increase its capacity or outsource its production. [10]

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Additional space for Question **3**(c) only.

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09

4. Jumping Jacks Ltd is a manufacturer of trampolines for sale to trampoline parks and circuses whilst also supplying national retailers such as Argos. It has been trading for twenty years, during which time the sales levels have fluctuated, but are forecasted to increase in the next year.

The Board of Directors is currently reviewing the corporate plan. They are considering expanding the business by increasing its production capacity. The operations director has suggested investing in a more capital-intensive production system that will increase the level of output. This investment should also reduce the number of trampolines returned due to errors made during production. Additionally, they are considering implementing a just-in-time system.

Below is an extract from Jumping Jacks Ltd's balance sheet.

	2022 £m	**2021 £m**
Non-current assets		
Vehicles	8	11
Machinery	14	17
Buildings	40	38
Total	**62**	**66**
Current assets		
Cash	32	26
Debtors (Trade Receivables)	37	33
Stock	18	12
Total	**87**	**71**
Current Liabilities		
Overdraft	19	8
Creditors (Trade Payables)	54	39
Total	**73**	**47**
Non-current liabilities		
Long-term loan	28	18
NET ASSETS	48	72
Financed by:		
Reserves	12	25
Retained Profit	20	29
Share Capital	16	18

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(a) Define what is meant by a corporate plan. [2]

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(b) Calculate the percentage change in the level of working capital between 2021 and 2022. [3]

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(c) Calculate the gearing ratio for 2021 and 2022. [3]

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(d) With reference to your answers for questions (b) and (c) and qualitative information, evaluate Jumping Jacks Ltd's expansion plan. [10]

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Additional space for Question **4**(d) only.

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5. Keith's Storage Ltd manufactures a wide range of storage products, including bedroom and living room furniture as well as industrial shelving for warehouses and factories. It sells its products for commercial and home use. Its sales and marketing team has recently secured several large new contracts.

Accurate sales forecasting is essential for the business to ensure it can meet demand and also avoid the cost of holding large items in stock. Until now, the business has used time series analysis methods such as moving averages and extrapolation as the primary methods of sales forecasting. Previous sales data can be seen in the table below:

Sales Data 2019 – 2022

Year	**2019**	**2020**	**2021**	**2022**
Actual Sales (£000s)	449	465	490	503

The sales and marketing team has noticed a growing variance between the forecasted sales and the actual sales. For example, in 2021 its forecasted sales had been £471 000. It is considering using the **Delphi method** as an alternative forecasting technique.

(a) Calculate the three-point moving averages for:

(i) 2020 [1]

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(ii) 2021 [1]

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(b) Evaluate Keith's Storage Ltd's decision to use the Delphi method as an alternative forecasting technique to time series analysis such as moving averages and extrapolation. [10]

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Additional space for Question **5**(b) only.

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6. Over several years, the UK Government has been investing in upgrading many of the country's motorways to smart motorways, which have more lanes and the ability to change speed limits at busy times, with the main purpose of reducing congestion on the busiest sections.

The government has so far spent £1.2bn on projects around the UK, and as part of the next phase has allocated a minimum of another £4.5bn to develop new sections of smart motorways, although this figure could rise to £7bn.

Highways England is a business which works with the government and is responsible for managing these projects. It has awarded 10-year contracts to six private sector businesses.

Highways England has stated that these projects should increase efficiencies and decrease costs as they will follow a standardised design with common elements across all projects managed by the six private sector businesses.

Despite reducing congestion, smart motorways have come under criticism. There are fears that variable speed limits are too complicated for drivers and that the removal of a hard shoulder makes it more dangerous for broken down vehicles.

During the upgrading process, which can often take several years to complete, the roadworks can mean the lanes are narrower and reduced speed limits are imposed which often cause delays and an increased number of accidents.

Evaluate the usefulness of cost benefit analysis to the UK Government when deciding on investing in the development of smart motorways. [10]

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Additional space for Question **6** only.

END OF PAPER

Question number	Additional page, if required. Write the question number(s) in the left-hand margin.

Examiner only

Turn over.

Question number	Additional page, if required. Write the question number(s) in the left-hand margin.

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