Surname	Centre Number	Candidate Number
First name(s)		2

GCE A LEVEL

S23-1510U30-1

1510U30-1

TUESDAY, 23 MAY 2023 – MORNING

BUSINESS – A2 unit 3
Business Analysis and Strategy

2 hours 15 minutes

For Examiner's use only		
Question	**Maximum Mark**	**Mark Awarded**
1.	**10**	
2.	**18**	
3.	**8**	
4.	**17**	
5.	**10**	
6.	**17**	
Total	**80**	

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ADDITIONAL MATERIALS

A calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen. Do not use gel pen or correction fluid.

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. If you run out of space, use the additional page(s) at the back of the booklet, taking care to number the question(s) correctly.

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. Matthew Jones owns and manages a small chain of fish and chip takeaway shops in North Wales. In 2019, he opened a new fish and chip restaurant called Tasty Plaice, providing meals for up to 100 seated customers. Matthew employs an experienced manager to run the restaurant but Matthew takes full responsibility for setting the annual budget for the restaurant, with no input from the manager. Matthew expects all budget variances to be favourable.

Matthew has recently been studying last year's budget for Tasty Plaice, as shown in the table below.

	Budgeted	**Actual**	**Variance**
Sales revenue	100 000	92 900	?
Cost of sales	40 000	38 350	1650 (F)
Marketing	4000	4000	0
Other expenses	30 000	26 200	?
Profit	26 000	24 350	?

The manager of Tasty Plaice has expressed concerns about the lack of flexibility in the expenditure budget set for marketing. He explained that with increasing competition from a new fast-food outlet and another fish and chip shop spending large sums of money on marketing activities, it is becoming difficult to attract customers to the restaurant.

(a) State what is meant by a budget variance. [1]

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(b) Calculate the budget variances for the sales revenue, other expenses, and profit. State whether, in each case, the variance is favourable or adverse. [3]

(i) Sales revenue

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(ii) Other expenses

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(iii) Profit

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(c) Discuss the usefulness of budget variance analysis to Tasty Plaice. [6]

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Additional space for Question **1**(c) only

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2. The Walk-in Wardrobe Ltd is a chain of small independent clothes shops based across Wales. The following figures have been extracted from The Walk-in Wardrobe Ltd's balance sheet for the year ending 31 December 2022.

Figure 1 – Extract from The Walk-in Wardrobe Ltd's balance sheet

	2022 £000's	**2021** £000's
Fixed assets	1230	1170
Total current assets	522	510
Total current liabilities	386	444
Total long-term liabilities	?	646
Shareholder funds	1160	1020
Capital employed	2096	?

(a) (i) Outline what is meant by capital employed. [2]

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(ii) Calculate the capital employed for 2021. [1]

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(iii) Calculate the total long-term liabilities for 2022. [1]

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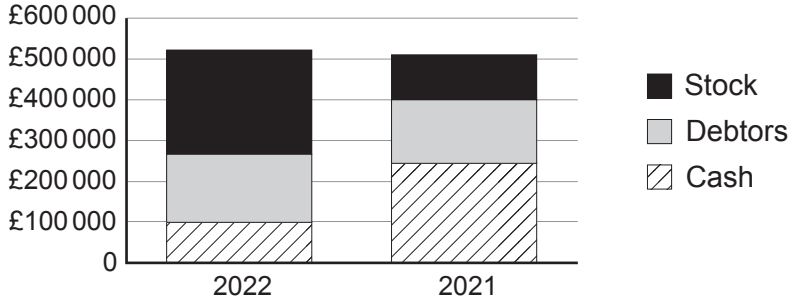
(b) The following figures have been extracted from The Walk-in Wardrobe Ltd's financial report for the year ending December 2022.

Figure 2 – Financial ratios for The Walk-in Wardrobe Ltd

	2022	2021
Current ratio	?	1.15:1
Acid test ratio	0.69:1	0.91:1
Gearing ratio	44.66%	?

Figure 3 – Current assets for The Walk-in Wardrobe Ltd



(i) Calculate the current ratio for The Walk-in Wardrobe Ltd for 2022. [2]

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(ii) Calculate the gearing ratio for The Walk-in Wardrobe Ltd for 2021. [2]

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(c) With reference to the data and your calculations, evaluate the financial performance of The Walk-in Wardrobe Ltd between 2021 and 2022. [10]

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3. Reports suggest that the United Kingdom is now the second-largest outsourcing market in the world. Businesses can outsource operations such as production or customer services.

Evaluate the arguments for and against outsourcing operations. [8]

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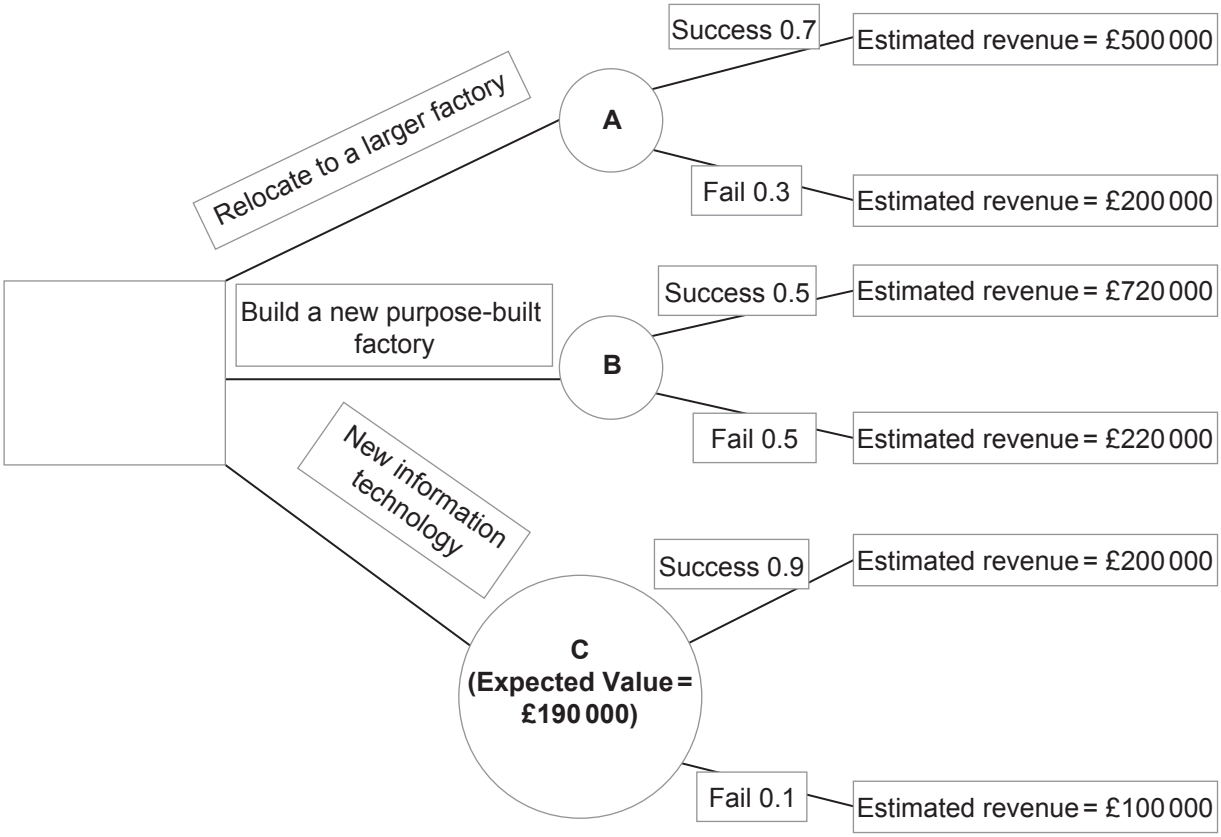
4. GFK Windows Ltd is a business that produces, sells and installs double glazing windows, doors and conservatories. The business was established in 1990, it is owned by three shareholders and the company has grown from having a workforce of 6 to now employing 80 people who work different shift patterns. The factory and sales showroom is based on a small industrial estate in Port Talbot, in South Wales.

Over the past two years, the three shareholders have found it difficult to make decisions, with conflict slowing down the decision-making process. For example:

- Shareholder 1 (Option A) wants to relocate to a larger factory and sales showroom on a different industrial estate in Bridgend (15 miles from the current location) at a cost of £75 000.
- Shareholder 2 (Option B) would prefer to stay in Port Talbot but build a purpose-built factory and sales showroom at a cost of £140 000.
- Shareholder 3 (Option C) believes that there is no need to expand and would prefer to invest £40 000 into information technology to aid both day-to-day and strategic decision-making. Profit is calculated to be £150 000 for Option C.

The decision tree diagram below illustrates the decisions to be made, the probability of success and failure and the estimated revenue from each probable outcome:



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(a) Calculate the profitability of options A and B. [4]

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(b) With reference to the data and your calculations, evaluate the usefulness of decision tree analysis to GFK Windows Ltd. [7]

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(c) With the use of examples, explain the role played by information technology in the decision-making of a business. [6]

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5. Unilever is a leading consumer goods business that has some of the strongest brands in the consumer goods industry. In 2012, Unilever had 53.7% market share of the global grocery market. In 2020 its market share had fallen to 49.6%. Unilever makes and sells around 400 brands in more than 190 countries. Some of its leading brands are shown in the image below:

Unilever invests heavily in its product development processes. Its wide product portfolio has also been developed through years of development, mergers and acquisitions. There is a growing trend amongst customers to purchase healthy products in the food and drinks market. In the health and beauty market there is also a growing trend for environmentally friendly products.

Unilever faces tough competition. Unilever's largest international competitors are Nestlé and Procter & Gamble. Other businesses are also developing products which are similar to those of Unilever. Large retailers such as Tesco and Asda are selling similar products under their own brand name at lower prices. It could be argued that Unilever has little influence on consumers as they have limited direct contact with customers. Some analysts would suggest that Unilever is in need of vertical integration.

Through years of international expansion, the company has increased its market presence on a global scale. Unilever is able to operate with economies of scale due to the scale of its operations. Unilever faces challenging market conditions, including rising raw material prices and currency devaluations. Despite this, Unilever's turnover has continued to grow, by 2.4% in 2020, driven by strong performances in India and other Asian markets. However, in some markets turnover fell, with particular slowdowns in places like Argentina and Brazil.

Using SWOT analysis, evaluate the strategic position of Unilever. [10]

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6. The shareholders of a large vehicle rental business are considering investing large sums of capital into one of two projects.

- Project 1 involves investing £80 000 into purchasing two new luxury vehicles to help attract customers with higher income levels.
- Project 2 involves investing £40 000 into providing financial motivators for the sales and marketing team.

The shareholders have decided to conduct an investment appraisal using both the payback method and average rate of return method. The tables below show the annual returns expected from each investment:

Project 1:
Purchasing two new luxury vehicles

Year	Annual Return (Cash Flow)
1	£18 000
2	£22 000
3	£26 000
4	£28 000
5	£26 000

Project 2:
Investing in financial motivators

Year	Annual Return (Cash Flow)
1	£16 000
2	£12 000
3	£10 000
4	£8000
5	£6000

(a) Outline what is meant by an investment appraisal. [2]

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(b) (i) Calculate the payback period for both **Project 1** and **Project 2**. [3]

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(ii) Calculate the average rate of return (ARR) for both **Project 1** and **Project 2**. [3]

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(iii) Identify the best option for the vehicle rental business based on: [2]

The payback period: .....

The average rate of return (ARR): .....

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(c) Evaluate the different investment appraisal methods a business could use. [7]

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END OF PAPER

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