



**GCE AS/A LEVEL**

2510U20-1



**BUSINESS – AS unit 2**  
**Business Functions**

FRIDAY, 25 MAY 2018 – AFTERNOON

2 hours

2510U201  
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### **ADDITIONAL MATERIALS**

In addition to this examination paper, you will need:

- a WJEC pink 16-page answer booklet, which has been specifically designed for this examination paper. No other style of answer booklet should be used.
- a calculator.

### **INSTRUCTIONS TO CANDIDATES**

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

Answer **all** questions.

Write your answers in the separate answer booklet provided following the instructions on the front of the answer booklet.

Use both sides of the paper. Write only within the white areas of the booklet.

Write the question number in the two boxes in the left hand margin at the start of each answer, e.g. 

1	1
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Leave at least two line spaces between each answer.

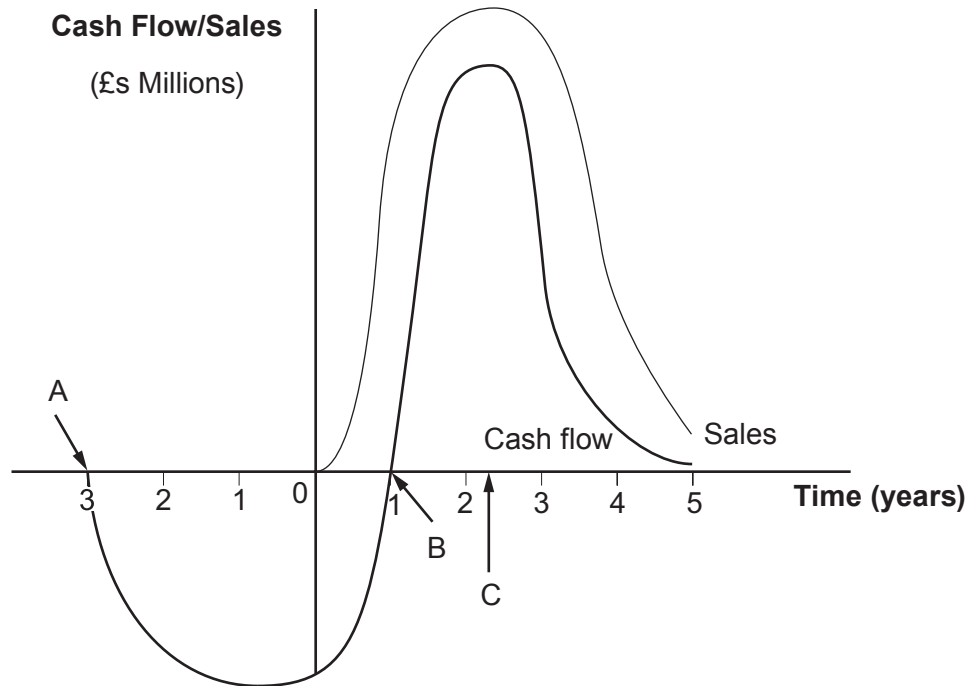
### **INFORMATION FOR CANDIDATES**

The number of marks is given in brackets at the end of each question or part-question.

You are reminded of the need for good English and orderly, clear presentation in your answers.

Answer all the questions.

1. The diagram below shows the product life cycle for the Xerxes Smart Phone.

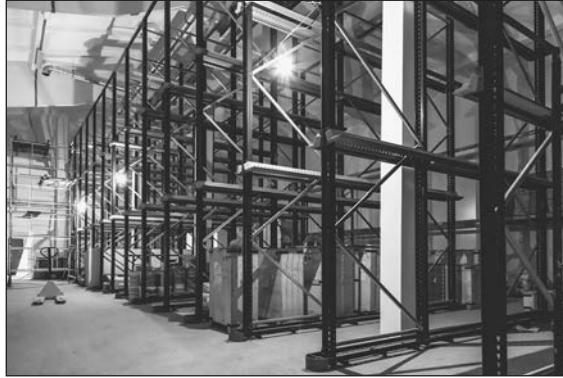


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 With reference to the product life cycle for the Xerxes Smart Phone, explain the relationship between the product life cycle and cash flow over the following ranges:
- (i) A – B [3]
- (ii) B – C [3]
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 Evaluate the usefulness of product life cycles to a business. [8]

## 2. Stock Issues at Kelly's Garden Centres



Jane Kelly, owner of a chain of twenty one garden centre outlets across Wales and the South West, has recently sacked her Senior Purchasing Manager, Oliver Stones. This followed complaints from the managers of her garden centres that they were persistently out of stock of key items and the cost of the goods coming into their outlets had risen by over 10% over the last six months. This was in addition to a phone call she had received from a greatly valued supplier complaining that his staff found Oliver rude and unreasonable when negotiating with them. Having visited the central warehouse and seen the alarming situation for herself, she acted swiftly.

Jane was furious and left her Human Resources Manager in no doubt that she held her largely to blame. 'I thought this appraisal system that you put in place last year was going to produce lots of benefits and would prevent this type of situation occurring. Why were you not aware of his poor performance? In my opinion peer assessment has not been effective at all. Clearly, Oliver has not been doing his job properly and profitability has suffered as a result'.

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- Analyse the importance of having an effective Purchasing Department at Kelly's Garden Centres. [6]
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- Describe **two** methods of appraisal, other than peer assessment, that the business might adopt. [4]
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- Explain the possible benefits of an appraisal system to a business and its employees. [6]

### 3. Sure Fit (Power Tools) plc faces up to becoming leaner



The latest profit and loss account (income statement) gave John Hanley, Managing Director of Sure Fit (Power Tools) plc, cause for concern. He had been recently appointed to the top job following twenty successful years in the UK car industry, where he gained a reputation for managing highly efficient production plants. The power tools industry was becoming increasingly competitive and Sure Fit (Power Tools) plc's profits had declined in each of the last three years.

Having reviewed the business for six months, his primary aim was to introduce **lean production** to the business and his first project was to set up a **just-in-time** manufacturing process on the factory floor – something which he had done on a number of previous occasions in the car industry.

Hanley was concerned with the **gross and net profit margins** when compared to the industry. Averages for the industry for the last three years were 50% (GPM) and 20% (NPM) respectively. In addition, it was clear to him that the 'expenses' incurred by the business were too high. Currently Sure Fit (Power Tools) plc operates fifteen sales outlets based on industrial estates located near large towns all over the UK. Whilst the sites are owned by the business, they are increasingly expensive to run, especially as local authorities are pushing up business rates every year. Over one hundred and fifty full and part-time staff are employed in these outlets.

At the next board meeting Hanley announced: 'I am proposing that we close all fifteen of our sales outlets and sell off the sites. The money raised can be used to develop our online presence and construct a state-of-the-art distribution centre here at our manufacturing base. This is an area where our major competitors are already well ahead of us. I also plan to propose to the shareholders that we do not make any dividend payments next financial year. The subsequent boost to retained profits can be used (along with the money raised from the sale of the retail outlets) to invest in the development of new product lines, an aspect of the business which has been badly neglected in recent years. This will mean we will not have to go seeking a further loan from the banks'.

The Human Resources Director, Len Joshua, was shocked. 'Hold on Mr. Hanley, we have had no discussion with the unions about these proposals. It will mean making over one hundred and fifty people redundant, some of whom have worked for us for a very long time. The unions will also want to know why none of the 130 managers we employ are not losing their jobs'.

Hanley responded sharply: 'Look Len, there is no room for sentimentality in a business that is going in the direction of this one. Yes, there will be redundancies but there will be new opportunities created in R&D, distribution and online marketing. You must adopt a more positive approach'.

**Table 1 – Profit and Loss Account Sure Fit (Power Tools) plc April 2017-March 2018**

	£000's
SALES TURNOVER	243 710
Cost of Sales	127 600
GROSS PROFIT	116 110
Operating Expenses (See Table 2)	84 500
OPERATING (NET) PROFIT	31 610
Corporation Tax	7 903
PROFITS AFTER TAX	23 707
Dividends (@75%)	17 780
RETAINED PROFIT	5 927

**Table 2 – Operating expenses of Sure Fit (Power Tools) plc April 2017-March 2018**

	£000's
Salaries (Management)	6 045
Salaries (Sales Staff/Admin)	12 065
Business Rates (Sales Outlets)	12 600
Marketing	?
Distribution Costs	31 760
Other Operating Expenses	13 140

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 Explain what is meant by the term *lean production*. [6]
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 Consider the benefits and drawbacks of setting up a just-in-time process of manufacturing for a business such as Sure Fit (Power Tools) plc. [8]
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 With the use of examples, outline the meaning of the term '*Cost of Sales*' for a manufacturing business such as Sure Fit (Power Tools) plc. [3]

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 Calculate the gross **and** net profit margin for Sure Fit (Power Tools) plc in 2017/2018. *(Show your workings to 2 decimal places)* [4]
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 Assess whether John Hanley should be concerned with the gross profit margin and the net profit margin of the business in 2017/2018. [8]
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 What percentage of Sure Fit (Power Tools) plc's 'expenses' are made up of marketing expenditure in 2017/2018? *(Show your workings to 2 decimal places.)* [2]
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 Calculate the average salary for managers employed by Sure Fit (Power Tools) plc. [1]
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 To what extent might the 'sale of assets' and 'retained profit' be preferable sources of finance for John Hanley's plans than taking out a bank loan? [6]
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 Consider the possible impact of the planned changes proposed by John Hanley on Sure Fit (Power Tools) plc's stakeholders. [12]

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