



GCE A LEVEL MARKING SCHEME

SUMMER 2019

**A LEVEL
BUSINESS - COMPONENT 2
A510U20-1**

INTRODUCTION

This marking scheme was used by WJEC for the 2019 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of business concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

EDUQAS A LEVEL BUSINESS - COMPONENT 2

SUMMER 2019 MARK SCHEME

1 (a)	Outline the meaning of the term fixed assets (non-current assets).	[2]
	<p>AO1 – 2 marks</p> <p>Award 1 mark for limited definition.</p> <p>Award 2 marks for detailed definition.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • Assets expected to be retained in the business for more than a year/long term (1), and are used to produce the output of the business. (1) • These are assets that are not easy to quickly turn into cash. (1) • These are assets that are not bought for resale. (1) • Assets that contribute towards generating profit. (1) • Can be offered as security for any future loans. (1) 	

1 (b)	Using the information provided, calculate the working capital for Gifts Galore Ltd.	[2]
	<p>AO1 – 1 mark</p> <p>Award 1 mark for correct formula</p> <p>AO2 – 1 mark</p> <p>Award 1 mark for correct calculation</p> <p>(If correct answer, award 2 marks)</p> <p>Total current assets = £387 000 Total current liabilities = £351 500 CA – CL = £35 500</p> <p>If correct answer with no £ sign, award 1 mark</p>	

1 (c)	With reference to the balance sheet extract, assess the level of working capital for Gifts Galore Ltd.			[6]
Band	AO2	AO3	AO4	
	2 marks	2 marks	2 marks	
2	<p>2 marks</p> <p>Good application to Gifts Galore Ltd.</p> <p>There is clear and direct reference to the data.</p> <p>Information in the data is used in development.</p>	<p>2 marks</p> <p>Good analysis of the level of working capital for Gifts Galore Ltd.</p> <p>The learner develops their argument with supporting analysis from the data.</p>	<p>2 marks</p> <p>Good evaluation of the level of working capital of Gifts Galore Ltd.</p> <p>The learner makes applied judgement relevant to the data.</p> <p>The answer may contain a brief overall conclusion.</p>	
1	<p>1 mark</p> <p>Limited application to Gifts Galore Ltd.</p> <p>The learner response is mainly theoretical with limited use of the data.</p>	<p>1 mark</p> <p>Limited analysis of the level of working capital for Gifts Galore Ltd.</p> <p>Superficial or generic discussion of the level of working capital.</p>	<p>1 mark</p> <p>Limited evaluation of the level of working capital for Gifts Galore Ltd.</p> <p>The evaluation is one sided.</p>	
0	<p>0 marks</p> <p>No application to the context.</p>	<p>0 marks</p> <p>No analysis of the level of working capital.</p>	<p>0 marks</p> <p>No judgements made of the level of working capital.</p>	

Indicative content:

Gifts Galore Ltd have a positive level of working capital, and so should be able to pay for any day-to-day expenses like wages and salaries, which to some extent shows a good level of liquidity.

However, they do have a large number of trade payables, and as most of their assets are in the form of stock which is an illiquid asset, then they may struggle to pay for their day-to-day expenses, especially if trade receivables are slow at paying.

They do not have any cash in the bank, and a large overdraft, which could be a worry.

As they have recently started selling in bulk to high street retailers and offering trade credit, it is likely that the debtors figure is going to increase, so they need to make sure they are efficiently chasing invoices.

Overall, whilst it initially appears to be a good level of working capital as it is positive, there may be other issues here which could worry Gifts Galore Ltd.

OFR applies.

2 (a)	Define what is meant by corporate strategy. [2]
	<p>AO1 – 2 marks</p> <p>Award 1 mark for limited definition (likely to be one of the points below).</p> <p>Award 2 marks for detailed definition (likely to include more than one of the points below).</p> <p>Indicative content:</p> <p>Corporate strategy is concerned with the strategic decisions a business makes that affect the entire business. (1)</p> <p>At the corporate level, strategy is concerned with setting plans for overall financial performance, proposed mergers or acquisitions, long term human resource planning and the allocation of resources to different business divisions. (1)</p> <p>Decided upon by senior management/leaders. (1)</p> <p>Decisions on how to achieve a business’s mission/vision/aims/objectives. (1)</p> <p>A medium to long-term plan. (1)</p>

2 (b)	Explain how Jaguar Land Rover could respond to any two of the changing market trends identified above, in order to achieve its corporate strategy. [4]	
Band	AO2	AO3
	2 marks	2 marks
2	<p>2 marks</p> <p>Good application to JLR.</p> <p>There is clear and direct reference to the data.</p> <p>The response refers back to the corporate strategy identified.</p> <p>Information in the data is used in development.</p>	<p>2 marks</p> <p>Good analysis of the impact of the market trends on the strategy for JLR.</p> <p>The learner shows full development of the strategic direction that JLR may take.</p>
1	<p>1 mark</p> <p>Limited application to JLR.</p> <p>The learner response is mainly theoretical with limited use of the data.</p>	<p>1 mark</p> <p>Limited analysis of the impact on the corporate strategy for JLR.</p> <p>Superficial or generic discussion of how JLR might respond to the trends.</p>
0	<p>0 marks</p> <p>No application to the context.</p>	<p>0 marks</p> <p>No analysis of the impact on the corporate strategy.</p>

Indicative content:

By identifying the trends of the market, JLR can develop a strategy based on these trends to stay ahead of the market.

AO2

Candidates may refer to any of the identified trends and suggest an idea/course of action in which they could develop their business to stay ahead of the trends, such as investing in online website developments for the purchase of new cars, the development of new models focussing on safety features and emissions, or maybe developing technology to help with car sharing such as apps to put people in contact with each other.

AO3

There are various ways in which JLR can respond strategically to the trends identified. Elements such as Ansoff's Matrix or mergers and acquisitions may inform this.

2 (c) To what extent do you think that outsourcing some of its operations is beneficial for Jaguar Land Rover? [10]				
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	2 marks	4 marks
3				<p>4 marks</p> <p>An excellent, critical and detailed evaluation of the use of outsourcing for JLR.</p> <p>The evaluation is well balanced and will focus on the key issues.</p> <p>Relevant judgements are made with qualifying statements used to build an argument.</p> <p>A holistic evaluation may be offered with an overall conclusion.</p>
2	<p>2 marks</p> <p>Good understanding of outsourcing.</p> <p>Detailed understanding is shown throughout the answer.</p>	<p>2 marks</p> <p>Good application to JLR.</p> <p>There is clear and direct reference to the data and/or the context.</p> <p>Information in the data is used in development.</p>	<p>2 marks</p> <p>Good analysis of outsourcing.</p> <p>The learner clearly explains the advantages and/or disadvantages of outsourcing.</p>	<p>2-3 marks</p> <p>Good evaluation of the use of outsourcing.</p> <p>The learner makes partial judgements, with some attempt to support their evaluation.</p> <p>The answer may contain a brief conclusion.</p>
1	<p>1 mark</p> <p>Limited understanding of outsourcing shown.</p> <p>Understanding is superficial.</p>	<p>1 mark</p> <p>Limited application to JLR.</p> <p>The learner response is mainly theoretical with limited use of the data.</p>	<p>1 mark</p> <p>Limited analysis of the use of outsourcing.</p> <p>The learner briefly states/explains the advantages and/or disadvantages.</p>	<p>1 mark</p> <p>Limited evaluation of the use outsourcing.</p> <p>Unsupported judgements are made.</p>
0	<p>0 marks</p> <p>No understanding of outsourcing.</p>	<p>0 marks</p> <p>No application to JLR.</p>	<p>0 marks</p> <p>No analysis of the arguments for and against outsourcing.</p>	<p>0 marks</p> <p>No evaluation of the use of outsourcing.</p>

Indicative content:

Outsourcing occurs when outside suppliers are involved in activities that could be undertaken internally by a business. These suppliers are not directly employed by the business.

Relevant examples of items that can be outsourced including: phone enquiries; production of components; producing finished products; recruitment etc.

Advantages of outsourcing:

- Significantly reduced staffing costs
- Well-trained staff provided by the outsourcing company will reduce HRM costs such as recruitment and training
- Existing workload and stress levels reduced, which is very important if a business is operating near full capacity
- Less investment risk. Instead of investing in new production facilities, lets the outside supplier take the risk of investing
- Capital needs to be reduced – because there is less investment, there is less need to raise finance
- Lower costs increase profits giving more capital for R&D, so speeding up the development of new products – especially important for JLR as lots of new technology
- Ability to use a specialist business who may be able to produce at a higher quality or more efficiently. Allows the business to specialise/concentrate on other areas. Link to the demisting of windows.

Disadvantages of outsourcing:

- Potential of poor customer service, with the potential for communication to be made difficult.
- Existing employees may feel demotivated if they feel their job is at risk.
- Quality cannot be guaranteed.
- More difficult to implement JIT systems.
- Longer communication.

Possible themes for evaluation:

- It allows the specialisation and the advanced scientific research to take place. As there are hundreds of car parts, some can be produced by specialists, giving the customer an overall better outcome.
- However, JLR are large enough and likely to have the funds to research/produce themselves which would help ensure quality (very important to this brand).
- Depends on how well JLR choose and monitor their producers to maintain quality.
- Particularly useful in a market in which trends and technology are rapidly developing.

Credit any other valid point.

3 (a)	<p>Calculate the total contribution that would be made if Playtime Cuddles Ltd decided to accept the order for the modified teddy bears. (Show your workings.) [3]</p>
	<p>AO1 – 1 mark</p> <p>Award 1 Mark for correct formula.</p> <p>Formulae:</p> <ul style="list-style-type: none"> - Contribution per unit x Number of items sold (1) - Contribution per unit = Selling price – VC per unit. <p>AO2 – 2 marks</p> <p>Award 1 mark for each correct calculation.</p> <p>Calculations:</p> <p>Contribution per unit = £13.50 - £7.00 = £6.50 (1) Total contribution = £6.50 x 600 = £3 900 (1)</p> <p>(OFR applies)</p> <p>Correct answer with no sign, award 2 marks.</p>

3 (b)	Discuss and then advise Khadijah whether or not to accept the additional order for the modified teddy bears.			[6]
Band	AO2	AO3	AO4	
	2 marks	2 marks	2 marks	
2	<p>2 marks</p> <p>Good application to Playtime Cuddles Ltd.</p> <p>There is clear and direct reference to the data.</p> <p>Information in the data is used in development.</p>	<p>2 marks</p> <p>Good analysis of the impact of contribution and other factors affecting the decision.</p> <p>The learner develops their argument with supporting analysis from the data.</p>	<p>2 marks</p> <p>Good evaluation of the decision on whether to accept the order.</p> <p>The learner makes applied judgement relevant to the data.</p> <p>The answer should contain a brief overall conclusion.</p>	
1	<p>1 mark</p> <p>Limited application to Playtime Cuddles Ltd.</p> <p>The learner response is mainly theoretical with limited use of the data.</p>	<p>1 mark</p> <p>Limited analysis of the contribution and/or other factors affecting the decision.</p> <p>Superficial or generic discussion of the factors affecting the decision.</p>	<p>1 mark</p> <p>Limited evaluation of the decision on whether to accept the order.</p> <p>The evaluation is one sided and includes general comments that are limited in their justification.</p>	
0	<p>0 marks</p> <p>No application to the context.</p>	<p>0 marks</p> <p>No analysis of the factors affecting the decision.</p>	<p>0 marks</p> <p>No judgements made of whether to accept the order.</p>	

Indicative content:

On a quantitative basis, it would be advisable for Khadijah to accept the special order because it makes a positive contribution of £3900. This money would go towards covering her fixed costs, or to her profits if her fixed costs are already covered.

However, there are qualitative factors that Khadijah should consider such as:

- Capacity – although Khadijah has expressed a desire to expand, to do so she would need to expand her capacity. It depends whether the additional 600 units ordered from Fairies would exceed her existing capacity.
- Labour demands – would Khadijah need to pay for extra workers? As it is a manufacturing business and on a fairly large scale, it is likely that the production is fairly capital intensive and so may not have a huge impact.
- Existing customers – Fairies is already an existing customer of hers and to encourage loyalty it would be wise to accept the order. This is also good as they have agreed to pay a higher price for the modified bears.
- Future orders – is this going to delay her international expansion plans?
- Product adjustment – as it is slightly modified, machinery may need to be adapted and there may be some need for additional training.

Overall, it is worth accepting the order as it makes a positive contribution and maintains a relationship with an existing customer. The additional contribution/profit could then be used to finance the growth that Khadijah seeks.

Q4		Total																		
4 (a)	<p>Calculate the percentage change in sales revenue between 2017 and 2018.</p> <p>AO2 – 2 marks</p> <p>Difference: $570 - 542 = 28$</p> $\frac{\text{Difference}}{\text{Original}} \times 100 = \frac{28}{542} \times 100 \text{ (1)}$ $= 5.17\% \text{ (1)}$ <p>Answer should be to 2 decimal places, but will accept 5.2%, 5.166%, 5.16605%</p> <p>Do not accept 5%, 5.16% or 6%.</p>	2																		
4 (b)	<p>Complete the table by calculating the missing figures for (i) and (ii)</p> <p>AO2 – 2 marks</p> <p>Award 1 mark for each correctly calculated figure.</p> <p>(i) 380 or 380 000 (ii) 521 or 521 000</p>	2																		
4 (c)	<p>Plot the three point moving averages on the graph provided and use a line of best fit to predict the sales revenue for 2019.</p> <p>AO2 – 3 marks</p> <p>Award 1 mark for plotting the results Award 1 mark for drawing the line of best fit Award 1 mark for correctly predicting the sales revenue.</p> <div data-bbox="347 1317 1177 1877" data-label="Figure"> <table border="1"> <caption>Data points from the graph</caption> <thead> <tr> <th>Year</th> <th>Average Sales Revenue (£000's)</th> </tr> </thead> <tbody> <tr><td>2010</td><td>360</td></tr> <tr><td>2011</td><td>380</td></tr> <tr><td>2012</td><td>410</td></tr> <tr><td>2013</td><td>470</td></tr> <tr><td>2014</td><td>500</td></tr> <tr><td>2015</td><td>520</td></tr> <tr><td>2016</td><td>530</td></tr> <tr><td>2017</td><td>540</td></tr> </tbody> </table> </div> <p>Answer: £605 000</p> <p>Allow anywhere in the range of £580 000 - £630 000 for the revenue prediction.</p>	Year	Average Sales Revenue (£000's)	2010	360	2011	380	2012	410	2013	470	2014	500	2015	520	2016	530	2017	540	3
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2016	530																			
2017	540																			

4 (d)	To what extent are quantitative sales forecasting methods more useful to Stylish Comfort than qualitative forecasting techniques? [8]			
Band	AO1	AO2	AO3	AO4
	2 marks	1 mark	2 marks	3 marks
3				<p>3 marks</p> <p>Excellent evaluation given of the overall usefulness.</p> <p>The evaluation is well balanced and will focus on the key issues.</p> <p>Clear reference is given to the context to support judgement.</p> <p>An overall judgement will be made.</p>
2	<p>2 marks</p> <p>Good knowledge shown of both quantitative and qualitative forecasting techniques.</p> <p>Specialist vocabulary is used.</p>		<p>2 marks</p> <p>Good analysis shown of the usefulness and/or problems of quantitative and qualitative forecasting techniques.</p> <p>Arguments are well developed and explained, with logical chains of reasoning.</p>	<p>2 marks</p> <p>Good evaluation of the overall usefulness of sales forecasting.</p> <p>Advantages and disadvantages of various methods are weighed up against each other.</p> <p>An overall conclusion is likely to be given.</p>
1	<p>1 mark</p> <p>Limited knowledge shown of quantitative and/or qualitative forecasting techniques.</p>	<p>1 mark</p> <p>Candidate makes some reference to the data, the forecasting and/or the context.</p>	<p>1 mark</p> <p>Limited analysis shown of the usefulness and/or problems of the forecasting tools.</p> <p>Arguments are briefly explained.</p>	<p>1 mark</p> <p>Limited evaluation as to the usefulness of sales forecasting.</p> <p>The answers may be unbalanced.</p> <p>The learner makes partial judgements with some attempt to support their evaluation.</p>
0	<p>0 marks</p> <p>No knowledge shown of quantitative or qualitative forecasting techniques.</p>	<p>0 marks</p> <p>No application made to the context.</p>	<p>0 marks</p> <p>No analysis of the usefulness of forecasting to the company.</p>	<p>0 marks</p> <p>No evaluation of the issues involved.</p>

Indicative content:

Candidate may discuss the advantages and disadvantages of the forecasting they have just made. Points may include:

Advantages:

- Helps the business plan ahead.
- Helps financial planning, including cash flow management.
- Production planning to determine the right level of supplies are ordered and the production process is efficient to meet either higher or lower levels of production.
- HR planning – getting the right number and type of staff in the jobs that are needed.
- Useful in identifying seasonal variations.
- Reduces the risk of unexpected surprises.

Disadvantages:

- Not always easy to predict the future.
- Historical data is not always a good indication of what might happen in the future.
- No forecast can be correct 100% of the time.
- Less useful for long term forecasts.

Candidate may refer to qualitative forecasting techniques, and their relative merits and drawbacks, including:

- Delphi Technique
- Brainstorming (thought showers)/mind mapping
- Intuition
- Expert opinion.

Themes for evaluation:

- Whatever the business chooses, it is an extremely difficult process with no guarantee of success or a correct outcome.
- Quantitative forecasting is perhaps most accurate, although it relies on past trends continuing into the future.
- Other factors to consider when sales forecasting are: economic factors; changing consumer tastes and trends; changes in competition.
- Depends on the experience and confidence of the management team to be able to forecast accurately.
- Depends on the trends in the market, and the threat of new competition.

5 (a)	Explain the role that information technology has played in Lloyds Bank PLC's decision to launch micro branches.			[6]
Band	AO1	AO2	AO3	
	2 marks	2 marks	2 marks	
2	<p>2 marks</p> <p>Good knowledge of the role of information technology in decision making.</p> <p>The learner shows knowledge of the key ways that information technology can be used and how that would help make decisions.</p>	<p>2 marks</p> <p>Good application to the data, and there is direct and clear reference to Lloyds Bank.</p> <p>Data is used in the development of arguments.</p>	<p>2 marks</p> <p>Good analysis of the role of information technology in the decision making process.</p> <p>The learner will develop arguments making use of theory and the context.</p> <p>A clear chain of argument is present.</p>	
1	<p>1 mark</p> <p>Limited knowledge shown of the role of information technology in decision making.</p>	<p>1 mark</p> <p>Limited application to the context shown.</p> <p>The response is mainly theoretical with limited use of the data.</p>	<p>1 mark</p> <p>Limited analysis of the role that information technology plays on the decision.</p> <p>Superficial discussion of the role of information technology with limited development of arguments.</p>	
0	<p>0 marks</p> <p>No knowledge shown of the role of information technology.</p>	<p>0 marks</p> <p>No application shown to the context.</p>	<p>0 marks</p> <p>No analysis shown of how information technology would have impacted the decision.</p>	

Indicative content:

Information technology can be used by businesses to make many day-to-day decisions, such as when to order new stock, how to manage deliveries, or staffing levels.

IT may include:

- Management information systems
- Smart IT systems
- Data processing technology
- Use of the internet
- Financial information systems

As outlined in the text, more and more of the banking industry is moving online, and so this would have played a huge part of the decision to reduce the size of stores, as less and less people are choosing to bank in branches.

Upgrading to the use of more of these systems ultimately reduces costs in the long term such as floor space and staffing. Whilst the initial investment may be high, in the long term these efficiency savings should pay off.

Smart IT systems provide systems to model decision trees and critical path analysis, which may have been used in the process of deciding whether to reduce the size of the stores. Data processing technology allows information to be inputted and processed in a much faster way than a bank clerk could, and also reduces the likelihood of human error (extremely important in banking).

Overall, the micro branches would not be able to operate without the use of information technology, but the changes in these various forms of IT systems are likely to have played a large part in the decision to, and the process of rationalising the size of the stores.

5 (b)	Evaluate the impact of Lloyds Bank PLC's decision to rationalise on the business and its stakeholders. [12]			
Band	AO1	AO2	AO3	AO4
	2 marks	3 marks	3 marks	4 marks
3		<p>3 marks</p> <p>Excellent application to Lloyds Bank and the context.</p> <p>There is direct and consistent reference to the data, which is used in the development.</p>	<p>3 marks</p> <p>The analysis is detailed and logical, and considers the impact on the business and stakeholders.</p> <p>Candidate must consider the business and stakeholders.</p>	<p>4 marks</p> <p>Excellent evaluation of the impact on key stakeholders.</p> <p>The evaluation is well balanced and will focus on the key issues.</p> <p>Clear reference to the context is given to support judgement, and relevant judgements are made with qualifying statements used to build an argument.</p> <p>A holistic evaluation may be offered, and it is likely there is an overall conclusion.</p>
2	<p>2 marks</p> <p>Good knowledge of rationalisation.</p> <p>Understanding shown of the reasons why businesses chose to rationalise.</p>	<p>2 marks</p> <p>Good application to Lloyds Bank and/or the context.</p> <p>There are several references to the data, which is used in the development.</p>	<p>2 marks</p> <p>Good analysis shown of the impact on the business and/or its stakeholders.</p> <p>At least 2 stakeholders are considered.</p>	<p>2 – 3 marks</p> <p>Good evaluation of the impact on business and/or stakeholders.</p> <p>The learner makes partial judgements, with some attempt to support their evaluation.</p> <p>The answer may contain a brief conclusion.</p>
1	<p>1 mark</p> <p>Limited understanding of rationalisation.</p> <p>Understanding is superficial.</p>	<p>1 mark</p> <p>Limited application to Lloyds Bank.</p> <p>The learner response is mainly theoretical with limited use of the data.</p>	<p>1 mark</p> <p>Limited analysis of the impact of the decision.</p> <p>The learner briefly explains how different stakeholders will be affected by the decision.</p>	<p>1 mark</p> <p>Limited evaluation of the impact on the decision.</p> <p>Unsupported judgements are made.</p> <p>The answer may be one sided.</p>
0	<p>0 marks</p> <p>No knowledge of rationalisation.</p>	<p>0 marks</p> <p>No application to Lloyds Bank.</p>	<p>0 marks</p> <p>No analysis of the decision to rationalise.</p>	<p>0 marks</p> <p>No evaluation of the decision to rationalise.</p>

Indicative content:

Definition of rationalisation: The reorganisation of a business in order to increase its efficiency. This reorganisation normally leads to a reduction in business size, a change of policy or an alteration of strategy relating to particular products.

Discussion into the impact on various stakeholders, which could include:

- **The business itself:** Much more efficient use of floor space, which can be particularly expensive in city centres.
- **Customers:** Should in theory make the banking process easier and quicker if done by machines. But could equally put off some customers who prefer the more traditional style of banking over the counter.
- **Government:** Reduction of jobs, increase in unemployment. Investment in new technology, helps businesses to increase their efficiency which in the long run could increase GDP. New sections and larger centres give opportunities to entrepreneurs.
- **Suppliers:** New technology will require investment, but suppliers of the old paper-based systems may be negatively affected.
- **Local community:** Reduction of jobs. Reduction of high street occupancy.
- **Shareholders:** Cost of investment, especially in lots of new technology. But on the other hand, keeping up with competition who have already made similar changes. In the long term will increase efficiency and hopefully dividends.
- **Managers:** Increase in efficiency. Less shop floor management positions needed which could reduce promotion opportunities. But could also be positive if it creates the need for new training and higher skilled, autonomous members of staff.
- **Employees:** New branches are staffed by just 2 people, and are much more capital intensive, which is resulting in large job losses.

Possible themes for overall evaluation:

Although rationalisation is supposed to result in increased efficiency, it can result in uncertainty, resistance from staff, loss of jobs and cause insecurity for employees. These schemes are often fought against, which can lead to industrial action.

Therefore, these schemes must be planned and well thought through. The objectives must be clear, as well as the means of achieving these objectives. For business like Lloyds Bank, it is essential that they keep up with the development of new technology and advancements in the way the market operates.

Q6 Using payback and ARR methods of investment appraisal, and any other information in the data, recommend to Taylors Slate Mine whether it should invest in the new machinery or the café and gift shop. **[12]**

AO2 – 6 marks

Payback

Award **1 mark** for each correct calculation of payback.

New machine	Cafe and gift shop
3 years 6 months [1] $\frac{50\,000}{100\,000} \times 12 = 6$	4 years [1]

If not labelled with years and months, 1 mark will be deducted.

ARR

New machine:

Total Return	=	£415 000	
Less initial cost	=	£250 000	
	=	£165 000	[1]

Net return per annum = £165 000/5 = £33 000
 Average rate of return = £33 000/£250 000 x100 = **13.2%** **[1]**

Cafe and Gift shop:

Total Return	=	£260 000	
Less initial cost	=	£150 000	
	=	£110 000	[1]

Net return per annum = £110 000/5 = £22 000
 Average rate of return = £22 000/£150 000 x100 = **14.67% or 14.7%** **[1]**

ARR must be expressed as a %. Deduct 1 mark if no %
 OFR applies

Band	AO3	AO4
	2 marks	4 marks
3		<p>4 marks</p> <p>Excellent evaluation and judgement of the two options.</p> <p>The evaluation is well balanced and in context to the position of the company.</p> <p>The candidate draws judgements based on the quantitative and qualitative issues affecting the decision.</p> <p>For top marks in this band, it is likely that an overall conclusion and judgement will be made.</p>
2	<p>2 marks</p> <p>A good and detailed analysis of the quantitative and qualitative issues regarding the two options and the impact the decision will have on the company.</p> <p>The key factors are clearly analysed.</p> <p>A developed response that makes good use of the data.</p>	<p>2-3 marks</p> <p>Good and well-reasoned evaluation of the key qualitative issues regarding the two options.</p> <p>Judgements are made that support the analysis.</p> <p>Evaluation is likely to include judgements on the impacts of the final decision on the company.</p>
1	<p>1 mark</p> <p>Limited and unsupported analysis of the issues regarding the 2 options.</p> <p>Undeveloped points are made with little or no reference to the data.</p>	<p>1 mark</p> <p>Limited evaluation of which is the best option.</p> <p>Supporting comments lack depth and minimal context.</p>
0	<p>0 marks</p> <p>No analysis given.</p>	<p>0 marks</p> <p>No evaluation given.</p>

Indicative content:

Quantitative arguments:

- On the basis of payback, the new machine is the better option as it pays back the initial investment cost sooner.
- On the basis of ARR, the café and gift shop is the best option as it generates the higher rate of return.
- The café and gift shop requires a smaller initial investment.

Qualitative arguments:

- Whilst the machine would create job losses, it is safe to assume the café and gift shop will require staff so this could be transferred. However, this depends on the skill of the staff and whether they could easily switch from one role to another.
- Café and gift shop will take advantage of the increasing tourism trend.
- Café and gift shop will allow the distribution network of the slate products to be expanded.
- Slate mine is more of a niche market than the café and gift shop so could be likely to face less competition.
- Mining is an industry that is now heavily industrialised and capital intensive so important to keep up with industry developments to ensure to remain competitive.

Possible themes for evaluation:

- Depends on the objectives of the firm and where they see their long-term strategy going – do they want to diversify into a new market to spread risk?
- Whilst the machine requires a higher initial cost, the café would give a greater return so depends on the current financial situation and what they can afford.