

# Script Marks Report

A LEVEL COMP 2 Grade A

Component A510U20-1 - BUSINESS COMPONENT  
2  
Series 19E  
Candidate Name  
Candidate Number  
Centre Number 64395  
Total Mark 61

Item	Mark	Annotated Comments
1a	1	
1b	2	
1c	5	
2a	2	
2b	3	
2c	9	
3a	3	
3b	5	
4a	2	
4b	2	
4c	3	
4d	4	
5a	4	
5b	7	
6	9	
<b>Total Mark</b>	<b>61</b>	

Surname	Centre Number	Candidate Number
Other Names	64395	



**GCE A LEVEL**

A510U20-1



**BUSINESS – A level component 2  
Business Analysis and Strategy**

MONDAY, 3 JUNE 2019 – AFTERNOON

2 hours 15 minutes

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

**ADDITIONAL MATERIALS**

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.

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.



JUN19A510U20101

Current assets  
- current  
100

Answer all the questions in the spaces provided.

1. Gifts Galore Ltd is a manufacturer of gift cards for different occasions. Until recently, its main customer base consisted of a number of small independent retail shops. However, following a difficult trading period, Gifts Galore Ltd have tried to seek additional custom from larger retailers, such as WH Smith, but these customers tend to insist on trade credit from their suppliers.

The Managing Director of the business, Ruth Meredith, is analysing the business's financial accounts to consider the current position. Below is an extract from the balance sheet:

Balance sheet extract for Gifts Galore Ltd: 1st May 2019

	£
<b>Fixed assets (non-current assets)</b>	
Premises	500 000
Vehicles	48 000
Machinery	60 000
<b>Current assets</b>	
Stock	322 000
Trade receivables (debtors)	65 000
Cash	0
<b>Current liabilities</b>	
Trade payables (creditors)	287 000
Overdraft	64 500

- (a) Outline the meaning of the term *fixed assets (non-current assets)*. [2]

1a : 1

Fixed assets are assets which are not liquid. These assets can't be easily turned into cash, i.e. ~~vehicles~~ selling ~~machinery~~ is not same.



(b) Using the information provided, calculate the working capital for Gifts Galore Ltd. [2]

$$(322,000 + 65,000) - (287,000 + 64,500)$$

$$= \text{£}35,500$$

(c) With reference to the balance sheet extract, assess the level of working capital for Gifts Galore Ltd. [6]

1c: 5

Gifts Galore have a positive level of working capital which is good. This means that debtors can be paid and to supplier relationships will not be damaged. The cash flow is strong. The level is £35,500.

However, 'EO' of Gifts Galores current assets are in cash form. This means that the business is not as liquid as it could be. Selling stock to pay debts is unreliable as it depends on external demand and takes time to achieve. Gifts Galore may run into cash flow problems if payments are needed urgently, i.e. suppliers payment deadlines. Gifts Galore should improve cash flow immediately i.e. by rationalisation.

AS10U201  
03

10







2. Jaguar Land Rover is a manufacturer of motor vehicles. As part of its **corporate strategy**, its main focus is on *'the innovation, design and creativity that our customers love'*.

Jaguar Land Rover has identified several trends in the market that are influencing the car industry, including:

1. Stricter regulations around the fuel efficiency and the safety features of cars.
2. New regulations, which limit the level of fuel emissions from cars in cities.
3. Consumers are demanding better technology within their cars, such as broadband connections.
4. Consumers are changing their use of cars, such as the increased trend of car sharing.
5. Consumers are looking for different ways to purchase their cars, and the increased use of the internet to help this.

Source: [http://annualreport2016.jaguarlandrover.com/assets/jaguar-land-rover-annual-report-2016\\_strategic-report.pdf](http://annualreport2016.jaguarlandrover.com/assets/jaguar-land-rover-annual-report-2016_strategic-report.pdf)

- (a) Define what is meant by *corporate strategy*. [2]

2a : 2

Corporate strategy is the way in which the business plans to meet its objectives. These are typically long term plans.

- (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]

2b : 3

Jaguar Land Rover (JLR) could respond to the regulations regarding fuel emissions by developing a range of electric cars which emit less harmful gases. This would support its **best focus** on innovation.

JLR could adapt to the customer trend of car sharing by developing a people carrier style car or a minivan. This would increase customer satisfaction as their demands are being met. It is indicated the strategy is customer based "that our customers love", thus achieving the strategy.



Like many other car manufacturers, Jaguar Land Rover assembles its cars in its own factories but it outsources many of its operations to other businesses such as:

- DHL manage the logistics of its just-in-time system.
- Pilkington's Glass carry out research into new glass technology, and provide hi-tech windscreens.
- External companies carry out IT helpdesk services.

(c) To what extent do you think that outsourcing some of its operations is beneficial for Jaguar Land Rover? [10]

Outsourcing is where a business contracts external businesses to complete a task for the business. ~~to meet high demand.~~ Jaguar JLR outsource the logistical management of its just-in-time system to DHL, DHL are ~~specialists~~ specialists in logistics meaning they will be very effective at the job. As DHL will provide a high quality logistical management of its just-in-time system, stock control will be more effective. Greater, more precise stock control means that less cash will be tied up in working capital ~~which helps~~ i.e. work-in-progress cars, therefore cash flow will improve, benefitting JLR as 'cash is king' and necessary for operations to function. However outsourcing this work may be more expensive than managing logistics internally as DHL will need to make a profit, therefore ~~the~~ outsourcing could damage the company profits.

JLR outsource its IT helpdesk services. By outsourcing these services they don't need to invest in telecommunications departments, software, staff and facilities. By outsourcing they don't need





He spend lots of money on this & so cash flow improves as gradual payments will be made. The IT firms may specialise in customer service therefore customer relations will

16

3. Playtime Cuddles Ltd is a manufacturer of cuddly toys for children and produces a range of products including teddy bears and accessories for decorating the bears. The Managing Director, Khadijah, is considering the options for growth including developing new ranges of toys. Alternatively, Playtime Cuddles Ltd could look to expand into a new market, possibly on an international level.

Recently, one of its largest customers approached Playtime Cuddles Ltd, a large chain of nurseries called Fairies, who buy the teddy bears in bulk. Fairies have asked for a teddy bear that is slightly adapted from the original design by adding its own nursery logo.

The original teddy bears were sold at £12 per unit, with a manufacturing cost per unit of £6.50. Khadijah estimated that the product alterations would cost an extra 50p per unit to manufacture. Fairies had offered to pay £13.50 each for the modified bears. Fairies are requesting 600 units of the modified bear.

- (a) 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]

3a : 3

$$13.50 - 7. = 6$$

$$6 \times 600 = \text{£}3600$$



- (b) Discuss and then advise Khadijah whether or not to accept the additional order for the modified teddy bears. [6]

Financially, Khadijah should accept the additional order as the total contribution is positive £3600, this would help the business break even and make profit potentially.

Playtime Cuddles Ltd may not have the spare capacity to produce an extra 600 units which would compell Khadijah to decline the offer.

Accepting the offer from Fairies would improve customer relations and therefore increase the number of repeat sales from this business which is key to its long term success.

However, Fairies is one of its existing customers and Khadijah is looking to sell to a new

(continued)





4. Stylish Comfort sells reclining and massaging armchairs and are currently operating over 25 stores across major cities of the UK. The business employs almost 200 employees. The management team are expecting the market to continue to grow in the future, but they are worried about new competition entering the market.

Their sales figures and three-point moving average figures are shown below.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Sales revenue (£000's)	372	370	350	420	460	(ii)	531	520	542	570
Three-point moving average (£000's)		364	(i)	410	467	504	524	531	544	

- (a) Calculate the percentage change in sales revenue between 2017 and 2018. [2]

4a : 2

$$\frac{570 - 542}{542} = 5.2\%$$

- (b) Complete the table by calculating the missing figures for: [2]

4b : 2

- (i) Three-point moving average for 2011

$$\frac{370 + 350 + 420}{3} = 380$$

£380,000

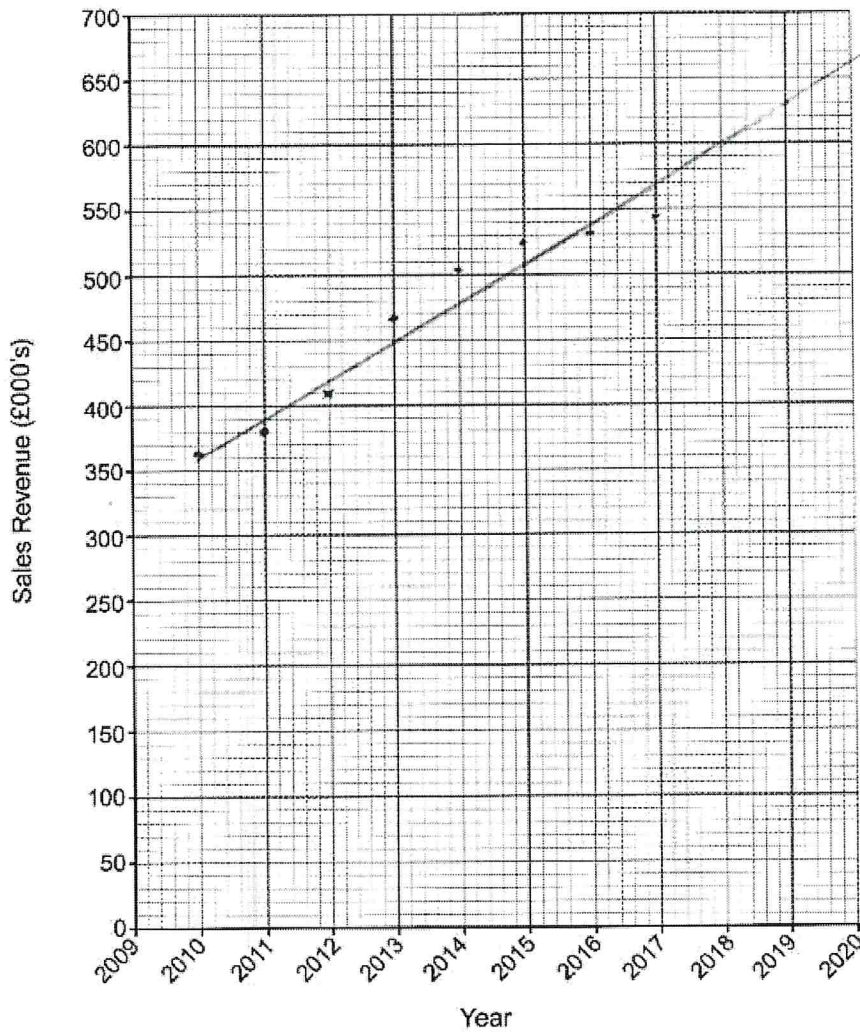
- (ii) Sales revenue for 2014

~~$$\frac{370 + 370 + 420}{3} = 387$$~~

£521,000



(c) Plot the three point moving averages on the graph provided and use a line of best fit to predict the sales revenue for 2019. [3]

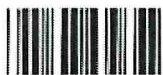


Prediction for the 2019 sales revenue E630,000

(d) To what extent are quantitative sales forecasting methods more useful to Stylish Comfort than qualitative forecasting techniques? [8]

4d : 4

Quantitative methods such as <sup>time-series</sup> analysis is useful to Stylish Comfort as it uses previous data and trends to predict future trends. This helps give an accurate estimation.



which can then be used to create budgets and use to attract investors.

However past trends can predict future trends completely as taste is volatile.

Intuition is a risky yet fast way of forecasting sales. This saves time ~~and~~ meaning the business won't suffer from paralysis by analysis. However it can be costly.

The delphi method uses a panel of experts, recycling data to create a focused assessment of likely trends, this ~~the~~ use of qualitative feedback can help recognise or previously unconsidered trends and problems, the use of experts means ~~the~~ predictions can be made which quantitative data ~~would~~ <sup>won't</sup> suggest.

AO1 2

AO3 2

15





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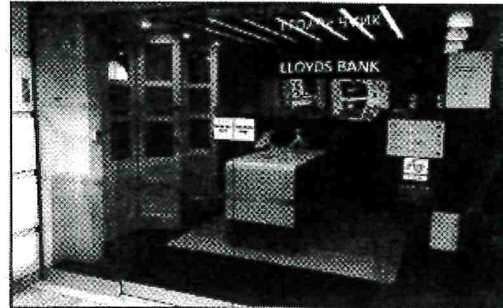


### 5. Lloyds Bank PLC to reduce hundreds of branches in size

Lloyds Bank PLC has announced plans to reduce hundreds of its branches in size, in some cases completely removing the traditional service desks.

It has already announced plans to close 400 of its branches around the UK, with 9 000 job losses.

The new "micro branches" will be staffed by just two people, who will help customers to use machines, including pay-in devices.



Lloyds said the reason was a significant change in customer behaviour, which has seen more transactions move online. The micro format will use as little as 1 000 square feet of space, as they felt a lot of empty unused space was intimidating for customers.

There will be no counters in the new micro branches. Instead, the staff will be mobile and will carry tablet computers to help customers. There will be video links for customers to talk to mortgage advisers, but for complex transactions, they will have to visit a bigger branch.

As part of the changes, Lloyds will also open up to 20 much larger branches containing specialist services and staff.

(Adapted from) Source: [www.bbc.co.uk/news](http://www.bbc.co.uk/news) 3rd April 2017

- (a) Explain the role that information technology has played in Lloyds Bank PLC's decision to launch micro branches. [6]

5a : 4

Information technology has allowed information to be stored on tablets. The use of tablets has reduced the need for a desk in the store, meaning staff can be more mobile, allowing Lloyds to downsize some stores to a 'micro branch'.

Information technology has allowed pay-in devices to be developed. Having pay-in devices reduces ~~the~~ the need ~~for~~ for staff as information can be processed through the machine directly from the customer. A lack in the need for staff has allowed Lloyds Bank to make 9,000 job cuts ~~as~~ and launch the micro stores.

A01-2



12

A02 1

A03 1

- (b) Evaluate the impact of Lloyds Bank PLC's decision to rationalise on the business and its stakeholders. [12]

Rationalisation is the cutting of costs through re-organisation of a business. Lloyds Bank ~~has~~ <sup>will</sup> rationalise by closing down 600 ~~are~~ branches, ~~down~~ reducing hundreds in size. By reducing the size ~~of~~ and number of branches, that Lloyds will pay less rent each month. Reducing rent costs will improve both cash flow and profits. Owners will benefit from higher share values and dividends if profits rise, yet Lloyds could choose to reinvest profits rather than share them, reinvestment into training would benefit employees so it could be argued that rationalisation will benefit Lloyds. ~~However~~  
~~rather~~

On the other hand, rationalisation may be damaging to Lloyds. Job losses and drastic changes such as this will ~~of~~ attract media attention, evidently in BBC's article on April 3rd 2017. If Lloyds is associated with job cuts in the media, ~~or~~ the image of





the bank will worsen. Loyalty is important especially in the banking industry as trust is demanded required from customers. If the image was to worsen, the sales could fall therefore threatening the survival of the business. If the business fails, further job losses will be forced negatively affecting employees. Owners will see share values plummet which is undesirable. The local communities would also struggle with increased unemployment, although the ~~the~~ impact will be limited as an individual ~~bank~~ branch is not a large provider of jobs in an area.

~~If Lloyds was to re~~

The rationalisation of Lloyds could lead to a fall in motivation. As workers are made redundant, employees that remain may be less satisfied at work, as there is

(continued)



6. Taylors Slate Mine has been established in Cumbria since 1885, and has been mining for slate at three separate sites ever since. Taylors Slate Mine is considering two options to develop its business, but can currently only afford one of them.

**Option 1 – Buying new mining equipment**

The option is to invest in a new piece of mining equipment for each site, which should allow output to increase by up to 20%. The machinery will cost the business £250 000 in total, but six fewer employees would be needed.

**Option 2 – Cafe and gift shop**

Based on the ever-increasing tourism trade in Cumbria, focussing on hiking and other outdoor activities, Joe Taylor – the Managing Director – is keen to develop a cafe and gift shop at one of the mine sites. He also believes he could sell some of the slate products as gifts to tourists. He estimates that the project would require an investment of £150 000 to develop the site.

The table below shows the annual net cash flow that Taylors could expect from both of the investment options over the next 5 years.

13-2A  
 $\frac{165}{5} = 33$   
 $\frac{265}{5} = 53$   
 $\frac{53}{250,000} = 21.2\%$   
 $\frac{110}{5} = 22$   
 $\frac{22}{150,000} = 14.6\%$

	New machinery net cash flow (£'s) 250,000	Cafe and gift shop net cash flow (£'s) 150,000	①	②
Year 1	30 000	10 000	(220,000)	(160)
Year 2	70 000	20 000	(150)	(120)
Year 3	100 000 3y6m	40 000	(50)	(30)
Year 4	100 000	80 000 4y	50	0
Year 5	115 000	110 000	65,000	110

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 cafe and gift shop. [12]

Investing in the New Machinery has a shorter payback period (3 years 6 months) than the Cafe and gift shop (4 years). This means that using payback, Taylors slate mine should invest in the machinery as it will pay itself off the cost of the investment in a shorter time, which is beneficial for shareholders as they see returns sooner and it helps with cash flow. However, there is only 6 months





between the two so the advantage of the ~~old~~ new machinery is not so great.

With respect to the Average Rate of Return, it is more desirable to invest in the cake and gift shop (14.67% ARA) than it is to invest in the new machinery (13.2% ARA). This shows the effectiveness of the investment in providing returns. The cake and gift shop will produce higher relative returns than the machine so there is ~~a profit~~ ~~more~~ higher profit to be gained from investing it. Most businesses are profit driven so this is why, to incentivise the company to chose the gift shop investment, however the margins are small and the total returns of investing in the machine ~~are~~ (£165,000) are greater than the cake and gift shop (£110,000) therefore it could be argued that the machine is more profitable in the long run so the firm should invest in the machine.

~~Alternativly~~ There are non-financial factors associated with this decision, if the firm decides to invest in the machine,

END OF PAPER (continued)

12





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Question number	Additional page, if required. Write the question number(s) in the left-hand margin.
2c)	<p>improve which is good for brand loyalty and repeat sales. However, there is a risk involved with outsourcing, especially with customer service based tasks, as it is not in JLR's control what quality of service is provided. Poor quality service could damage the brand image and reduce loyalty, threatening the survival of the <del>to</del> JLR as demand for their cars could fall.</p> <p>On the whole, I believe that outsourcing is beneficial to JLR as long as they are able to monitor the quality of service provided by the external providers.</p>

Exam on

AO1 2

AO2 2

AO3 2

AO4 3



Question number	Additional page, if required. Write the question number(s) in the left-hand margin.
3b)	<p>Market So accepting this order would go against her <del>growth</del> <del>state</del> desire to enter new markets.</p> <p style="text-align: right;">AO2 2    AO3 2    AO4 1</p> <p>I believe on the whole this is a good offer for Playtime Cuddles and that they should accept even if it means out sourcing some work.</p>

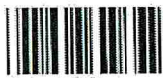
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Write the two digit question number *inside* the boxes next to the first line of your answer

Answer

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a loss of human interaction, which is suggested as a motivator of labour by Elton Mayo. As motivation falls, productivity will fall which increases the average cost of labour. An increase in the cost of labour relative to output is expensive to the business as they may be forced to hire more bank staff. A lack of productivity could be negative for managers as it reduces their likelihood of reaching revenue targets if their subordinates aren't working hard. This could be due to sales assistants being slow at attending to customers ~~and~~ awaiting help. A fall in motivation could mean customer service providers are less ~~enthusiastic~~ enthusiastic, this could reduce customer satisfaction.

On the whole, I believe that the costs outweigh the benefits of rationalisation in the short-term as the media controversy could damage sales, however in the long-run the business will be better equipped for success with less reliance on labour and a more efficient business model as the industry ~~transitions into~~ moves more towards online banking.

AO1 1

AO2 2

AO3 2

AO4 2





Write the two digit question number *inside* the boxes next to the first line of your answer

### Answer

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0 6

Six workers would be made unemployed. The redundancy of these employees would negatively affect these employees and the community through increased unemployment. This could cause backlash and damage the company image. A weak company image could hinder sales as demand will fall, thus potentially threatening the survival of the business. The business may also feel a moral pressure to ~~not~~ not let six workers go unemployed, therefore due to ~~quant~~ qualitative factors the business may benefit from opting for the case and gift shop.

On the whole I believe that ~~the~~ Taylors State Mines should invest in the new machinery due to its expected success in both its payback and long term returns. The business should offer reasonable redundancy packages to the six workers that are no longer needed to reduce backlash.

A03 1

A04 2

