Candidate Name	Centre Number	Candidate Number

WJEC CBAC

A LEVEL BUSINESS

COMPONENT 2

Business Analysis and Strategy

eduqas

2 hours

2ND YEAR LINEAR – BENCHMARK MOCK EXAM
JAN 2017

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Answer all the questions in the spaces provided.

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.

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.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

Qu	Marks
1	6
2	11
3	14
4	17
5	12
	60/67 = 90% Grade A*

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

1. Flavors Ltd makes fruit-flavoured drinks. Each year Mark Hoskins, the company accountant, constructs a budget. Details of part of last year's budget are given in the table below as well as the figures for the actual outcomes.

	Budgeted	Actual	Variance
Sales Revenue	£240 000	£265 000	(i)
Cost of Sales	£98 000	£72 000	(ii)

Calculate the values of the variances stating whether the variances are adverse or favourable and in each case explain one possible reason for the variance. [6]

240,000 -
(i) 265,000 = -25,000 = £25,000 favourable

A possible reason for a higher sales revenue then expected could be due to an increase in marketing for the ~~fruit~~ drinks leading to an increase in demand. Through the marketing the company could have gained customers from a competitor

6

(ii) 98,000 - 72,000 = £26,000 favourable
The lower cost of sales then budgetted
~~THIS~~ could be due to a reduction in the raw materials used by the manufactor to produce the fruit drinks. This could be due to the company getting the suppliers to do them a deal or cheaper through bulk buying have achieved backward vertical integration.

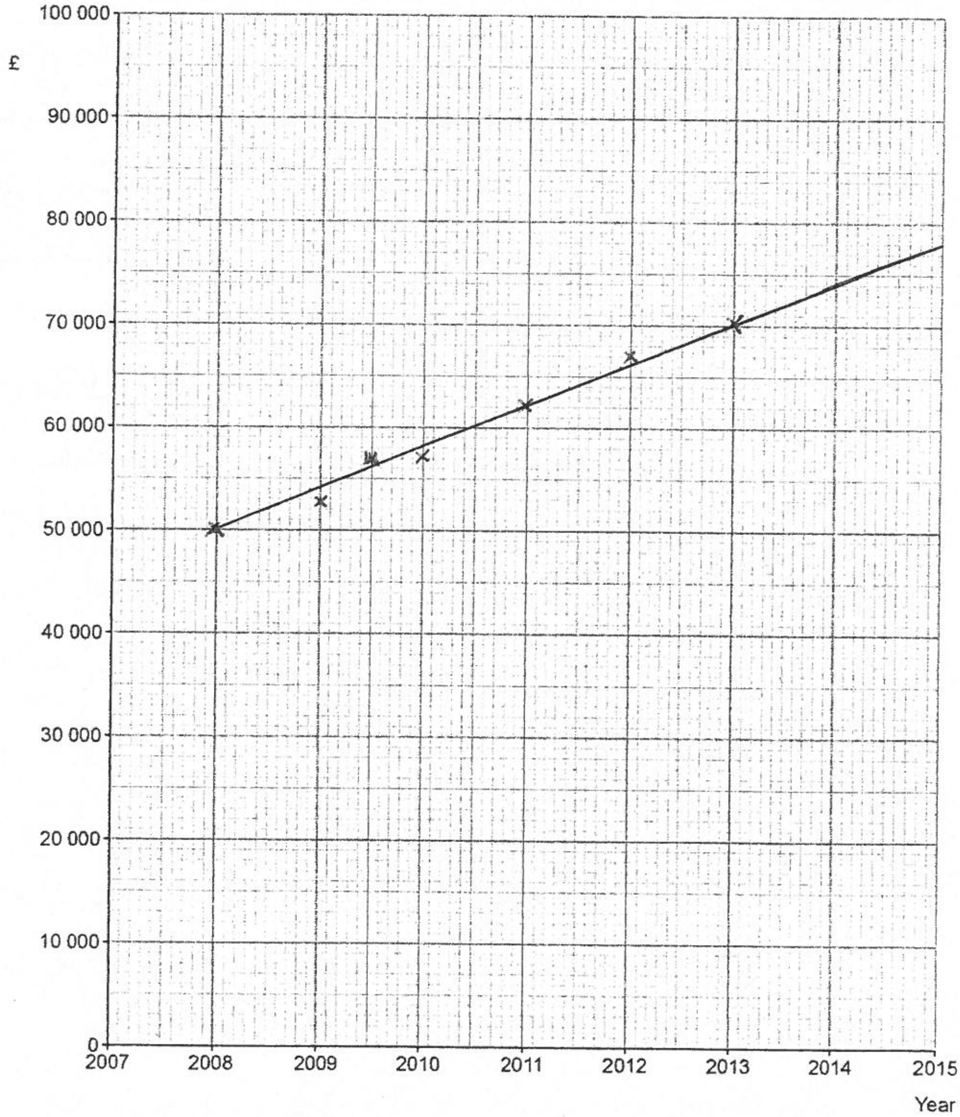
2. Top Dog Ltd manufactures garments for dogs. £ SIGNS.

The company's sales revenue for the last eight years is given in the table below.

Year	2007	2008	2009	2010	2011	2012	2013	2014
Sales revenue	£48 000	£52 000	£50 000	£57 000	£64 000	£65 000	£72 000	£73 000
		50,000	53,000	57,000	62,000	67,000	70,000	

(a) Calculate a three-year moving average of the company's sales revenue, writing your answers in the spaces in the table above. [3]

(b) Plot your results on the graph below and draw in a line of best fit. [2]



(c) Use the line of best fit to predict the sales revenue for 2015. [1]

£78,000

(d) Assess the usefulness of this prediction to the company. [6]

This predicted sales revenue is helpful as it allows the company to gain insight into wether they need to obtain finance in a form of a loan. It is also useful because it will allow the business to be able to budget for costs and set prices on this. However, the estimated sales revenue could be incorrect as it fails to take into consideration economic conditions such as a recession which would reduce demand for garments for dogs. luxuries? Furthermore, the prediction could be considered not useful as it fails to consider changes in trends, this is extremely important for the business as it is not a necessity so will be heavily impacted by trends. AO4 However, it is useful because although only based on an estimate it still gives the business an estimate on likely revenue to be expected in the future. However, it is very risky to rely on this prediction, allowing it to determine budgets set and finance needing to be obtained.

AO3 3
AO4 3
6

Therefore, although useful to give the company an estimate if they continue as they are currently. The business also needs to consider other methods to gain insight into trends and external factors, thru taking part in qualitative methods like surveys.

Well done.

3. C.G. Harris Ltd makes components for the car industry. This year (2015) the company made a gross profit of £86 240 on sales of £720 000; its expenses were £74 120. The company's balance sheet recorded a bank loan of £140 000 and shareholders' capital of £60 000.

For the previous year (2014) Jack Lloyd, the company accountant, worked out the following four financial ratios:
Gross profit margin = 15.6% (on sales of £700 000)
Net profit margin = 4.2%
Return on capital employed (ROCE) = 9.4%
Gearing = 50%

Using ratio analysis, calculate the four financial ratios for 2015. Analyse and evaluate the financial performance of the business over these two years. [14]

gross profit margin $= \frac{\text{gross profit}}{\text{sales Rev}} \times 100$ ✓

$\frac{86240}{720,000} \times 100 = 11.97\%$

AO1 3
AO2 3
AO3 3
AO4 5
14

net profit = 86240 − 74120 = 12120

N.P.M $= \frac{12120}{720,000} \times 100 = 1.68\%$ ✓

capital E = LTL + SHC

140,000 + 60,000 = £200,000

ROCE $= \frac{\text{net profit}}{\text{capital E}} \times 100$ ✓

ROCE $= \frac{12120}{200,000} \times 100 = 6.06\%$

Gearing $= \frac{\text{LTL}}{\text{CE}} \times 100$

$= \frac{140,000}{200,000} \times 100 = 70\%$ ✓

GPM

In 2015 the businesses GPM has fallen by 3.63%, although a small amount this is significant for the company as the GPM ~~was~~ is very low, even in 2014.

despite increasing sales by £20,000 the GPM has fallen, suggesting that the business has not efficiently managed their cost of sales such as raw materials. the business seriously needs to increase GPM in order to not go bankrupt in the near future.
NO. Not an issue directly linked to profits. More of a cash issue.

NPM

The businesses NPM has decreased by 2.52%, again although only a small reduction this is significant for G. Harris. Although in the car industry it is expected to have high cost of sales, the ~~car~~ sales revenue should is also be high from the purchase of the car. It is. And it rose. This suggest? that the business could be wasting materials or not effectively managing the production process. The business needs to improve NPM as it has an impact on the ROCE as well. NO. This would be an analysis of GPM not NPM. NPM → expense mgmt + GPM starting point

ROCE

The business ROCE has fallen by 3.34%, which could be ~~as~~ a result of the increase bank loan of £140,000 Good. however as the company has experienced a fall in net profit Good this would have impacted it as well. Due to the ROCE of this company, shareholders are unlikely to invest in the business as it only 8% above saving rate, making it a risky investment, and existing shareholders are likely to be concerned about recieving dividends from their shakes.

4. Jane Lancaster is the Managing Director of JHL (Printing) Ltd which specialises in printing educational books. At the moment she is considering purchasing a new printing press that would cost the business £70 000 and a new binding machine that would cost £34 000. The printing press would replace the jobs of two operatives but the new binding machine would not cause any job losses; however, the person who operates it would require training.

The existing printing presses produce work of high quality and are fairly reliable but the existing binding machine sometimes misses stitches and is prone to break down.

The following table represents the return that Jane expects the new machines to bring to the business over the next five years.

	Printing Press Net Cash Flow	Binding Machine Net Cash Flow
Year 1	£15 000	£11 000
Year 2	£20 000	£14 000
Year 3	£30 000	£18 000
Year 4	£30 000	£22 000
Year 5	£45 000	£20 000

CCF

	PP	BM
year 0	(70,000)	(34,000)
	(55,000)	(23,000)
	(35,000)	(9,000)
	(5,000)	9,000
	£25,000	31,000
	70,000	51,000

In order to calculate the return on her investments Jane uses a discount rate of 5% as shown in the table below.

Year	Discount rate of 5%
1	0.95
2	0.90
3	0.86
4	0.82
5	0.78

PP	BM
14250	10450
18000	12600
25800	15480
24600	18040
35100	15600
117750	
÷5 = £23,550	

(i) Calculate the payback period for both machines in years and months. [2]

printing press =
3 years and 2 months to pay back initial investment
$\frac{5,000}{(30,000 \div 12)} = 2$

Binding machine
2 years and 6 months to payback initial investment
$\frac{9,000}{(18,000 \div 12)} = 6$

2

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

ARR = X100

printing press = $\frac{70000}{5}$ = $\frac{14000}{70,000}$ = 0.2%

X100

2 Binding machine = $\frac{51,000}{5}$ = $\frac{10200}{34000}$ = 0.3%

(iii) Calculate the Net Present Value (NPV) for both machines. [6]

printing press = net cash f = 117,750 - 70,000

= £47,750

5 Binding machine = 72,170 - 51000

= £21,170 OFR

Do the calculation in the space provided.

(iv) On the basis of your calculations advise Jane as to which machine to buy. [4]

The payback calculation suggests that the binding machine would payback quicker, meaning the company would then be making profit. However, as Jane is considering investments both with relatively high initial costs we can assume they do not face problems with working capital. There is very little difference between the ARR, meaning that profits achieved in comparison to initial cost are similar. The NPV suggests the printing machine has a NPV of £26,580 higher. However, shouldnt rely on NPV as they have different initial costs.

AO3 1
AO4 2
3

overall decision

(v) Analyse the qualitative factors that Jane should take into account before making her final decision. [8]

• impact on staff - motivation - maslow - job security
• quality • reliability • how fast

Jane should consider the quality of the books achieved by both machines. As she is producing educational books the quality will need to be consistently high in order to ensure her books are sold over ones produced by the competition. Through looking at her current machines, the printing press provides the best quality and is also reliable. Jane will also need to consider the impact of her purchase on existing staff. Purchasing the printing press will lead to two workers becoming redundant, this could have an impact on motivation as other staff may become worried about the security of their jobs. Although the binding machine will lead to a need for training which can be costly it could motivate the workforce.

AO1 2
AO3 3
5

well done.

5. It is no exaggeration to say that if you were to go into any house in Britain you would find products produced by Unilever plc. But it's not just in Britain that the company's brands are sold. On any given day 2 billion consumers worldwide use a Unilever product. Unilever has over 14 products with annual sales of over €1 billion including Magnum ice cream. The company's brands include the following:

Bovril, Bertolli, Radox, Stork, Peperami, I can't believe it's not Butter!, Carte D'Or, Dove, Domestos, Lipton, Wall's, Pot Noodle, BRUT, Cif, Sure, Simple, Comfort, Viennetta, Cornetto, SlimFast, Pond's, Colman's, Persil, VO5, Maille, Impulse, Ben & Jerry's, Vaseline, Flora, TRESemme, Lynx, Marmite, Timotei, Brylcreem, Elmlea, PG Tips, Hellmann's, Lyons, Knorr and Surf.

Unilever plc employs over 173 000 people and operates in 190 countries. Its annual sales in 2012 totalled over £40 billion. The table below shows where the sales took place and the sales growth in each market.

Market	Turnover	Sales Growth
Europe	£11 bn	0.8%
The Americas	£14 bn	7.9%
The rest of the world	£16 bn	10.6%

Unilever plc's vision or purpose is to make sustainable living commonplace. It says:

"We work to create a better future every day, with brands and services that help people feel good, look good and get more out of life.

Our first priority is to our consumers – then customers, employees, suppliers and communities. When we fulfil our responsibilities to them, we believe that our shareholders will be rewarded".

creates brand loyalty → repeat customers

Source: www.unilever.co.uk

(a) Explain why brands are essential to the success of Unilever plc. [6]

AO1 2
AO2 1
AO3 2
5

Brands are essential to unilever's success as customers are able to become loyal to a brand. This often results in repeat purchases from customers, resulting in an increase in sales revenue. AO3 Brands are key to their success as it enables the company to increase price in comparison to competitors and consumers are still likely to buy their branded products. This results in the business becoming more AO3 profitable even if number of sales doesn't significantly increase as consumers are happy to pay more for the brand. ~~Data unused.~~

+ back p9

(b) What is the Ansoff matrix and how might it be useful to Unilever plc in achieving sales growth? [8]

product →

↓ market	existing	new
existing	market penetration	product development
new	market development	diversification

The Ansoff's matrix shows a company how to grow in regards to their products and markets, allowing for strategies to be formed.

Market penetration

Market penetration could be useful to Unilever through achieving sales growth of their existing product range within their existing market. Unilever already have many of the top brands in their product portfolio, however could gain sales from their competitors through a pricing strategy or when sales fall. The company could also increase the extent of consumption of goods. Although not achievable of certain products like Domestos, through introducing a marketing strategy they could increase consumption of food like pot noodle which will increase sales growth.

vague. How?

How? Aggressive advertising perhaps?

3.

Gearing -

The businesses gearing has increased by 20% as a result of acquiring a bank loan of £140,000. The business is now reaching being heavily geared which will mean if they need to gain finance it will become increasing difficult as gearing % increases. Furthermore, although being highly geared is acceptable for a company expanding due to the current financial position it is evident the company has high debt which they will find increasing difficult to manage and they are in a slow market.

Overall, the company needs to be concerned in all areas of their financial position. The business must look to increase GPM and NPM so that they are able to cover some of their long term liabilities as seeking investor or bank support is unlikely to be achieved as the business is already so highly geared. Furthermore, to ensure they retain Shareholder support they need to improve their ROCE which is also linked to net profit to keep the SH capital

Very Good.

+ iv) As a result of the calculations Jane should buy the printing press as although not paying back as quickly as the binding machine the NPV is higher and the printing press is more reliable.

OK

i) Jane should also consider which investment will result in the highest productivity. The current BM is often causing mistakes, which is a waste of time and means it has to be redone. This would suggest Jane needs to buy a new BM to ~~avoid~~ reduce wasted time and one should also consider the lifetime of her investment although they will affect her quantitatively it will impact staff who are likely to need retraining, and productivity. one should consider all these quanlitative factors (qualitative) before making her decision to ensure it will be benefical both financially and for her staff and product.

) Brands are also important as they are easier to market and then sell on then unbranded products as they are often more widely known. This leads to an increase in market presence and less marketing needs to be done if the product already has a brand. furthermore, it is also easier to gain finance if the business is producing and selling branded products as investors are more likely to support a brand. this allows for branded products and their companies to expand, as shown by unilever now in 190 countries. OK Good.

plan

) useful

existing prod, existing M

MP → could gain sales of competitors / other spreads - marmite

increase consumption of prod - food e.g pot noodle

↳ through marketing

existing prod, new M

MD →

arket development

his could be useful to achieve sales growth through selling an existing product in a new market. This strategy has already been highly success as the ompany already operates in 190 different countries. The company ould focus on increasing their sales growth in Europe which currently has the lowest turnover of £11bn. This ill increase sales growth and should not have huge osts involved.? To further penetrate an existing market with xisting products is still market penetration.

roduct development

e company could achieve sales growth through ntroducing a new product into an already existing arket. This should be success for the company as hey already operate in many markets in ~~the~~ different untries. The company just needs to find similar roducts or a need for a new product within existing ustomers. Through looking at the companies current roduct portfolio it is evident to see the strategy has een successful based on similar products such s ~~Radox~~ Lynx, Dove and Sure all ~~being~~ deodorant hygiene related products that consumers use daily

iversification -

his could be achieved through introducing new products to some extent into new markets. This has already been achieved by nilever as shown through their wide range of products that are unrelated, from food like Pot noodle to leaning products like Cif. However, ~~the~~ the company could focus n achieving diversification through moving into the branded clothing ndustry, this would increase sales growth. Through iversification the company could then provide products n the majority of markets, leaving them ~~brand~~ company of choice

[illegible]

verall, in order to focus on achieving sales Growth
varket penetration would be the strategy in the short
erm to increase consumption of product. The
ompany may find it more difficult to achieve
varket development as they already operate in 190
and product development as they have such a long portfolio.
untries. In the long term diversification will be
the best way for unilever to achieve sales growth
with new products in markets outside of where they
Contradiction
perate today. Not an AO4 question. We are not asked to
decide what the best strategy would be for Unilever.

AO1 3
AO2 2
AO3 2

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