



A-Level Business Studies Question and Answers 2020/2021

Contents

People in the Workplace (Questions)	3
People in the Workplace (Answers)	4
Budgeting, Costing and Investment (Questions).....	6
Budgeting, Costing and Investment (Answers)	7
Business Objectives and Strategy (Questions).....	8
Business Objectives and Strategy (Answers)	9
Business Organisation (Questions)	11
Business Organisation (Answers).....	12
Company Accounts (Questions)	14
Company Accounts (Answers)	17
External Environment (Questions)	20
External Environment (Answers).....	21
Management, Leadership, Motivation and Communication (Questions).....	23
Management, Leadership, Motivation and Communication (Answers)	25
Marketing (Questions)	28
Marketing (Answers)	29
Marketing Planning (Questions)	30
Marketing Planning (Answers).....	31
Production Control (Questions)	33
Production Control (Answers).....	34
Production Decision Making (Questions).....	36
Production Decision Making (Answers)	38
Ratio Analysis (Questions).....	41
Ratio Analysis (Answers)	42

These notes cover the main areas of this subject. Please check the specific areas you need with your exam board. They are provided "as is" and S-cool do not guaranteed the suitability, accuracy or completeness of this content and S-cool will not be liable for any losses you may incur as a result of your use or non-use of this content. By using these notes, you are accepting the standard terms and conditions of S-cool, as stated in the s-cool website (www.s-cool.co.uk)

People in the Workplace (Questions)

1. Study the information and answer the questions below on workforce characteristics of the UK and France.

	UK	FRANCE
Percentage of total labour force who are part-time workers (1992)	23.5	12.7
Percentage of part-time workers holding trade union membership (1990)	39.1	9.8
Percentage of part-time workers on temporary contracts of less than one year (1991)	18.6	15.7
Percentage of total labour force holding temporary contracts (1991)	5.3	10.2
Percentage of companies who have increased the use of weekend working (1990-91)	19.0	17.0
Percentage of companies who have increased the use of shift working (1990-91)	21.0	29.0
Percentage of companies who have increased the use of part-time work (1990-91)	30.0	23.0

- a) What is meant by the term flexible workforce?
- b) Compare the flexibility of the labour markets of France and the UK.
- c) What are the main advantages of flexible working to the employer and the worker?
- d) How, if at all, is it possible to improve flexibility of the workforce to benefit the whole economy?

(Marks available: 20)

2. a) Why might a change in working practices and rewards imposed on the workforce by the employer be a source of conflict between employer and employee?

b) What is the role of trade unions in resolving conflict?

(Marks available: 10)

People in the Workplace (Answers)

Answer outline and marking scheme for question: 1

Give yourself marks for mentioning any of the points below:

a) 'The flexible workforce' refers to those workers who are multiskilled or those workers whose hours are changed according to the demand of the employer.

(5 marks)

b) The UK would appear to have a more flexible workforce as shown for example by the percentage of part-time workers of the total labour force, a higher percentage of temporary contracts of less than one year. France has a higher proportion of companies who have increased their use of shift working.

(5 marks)

c) The employer can meet peaks in demand they have lower add on costs on pensions and insurance. They can use the temporary contract as a form of long term recruitment.

The employee can work hours to suit their needs, gain work experience, can be a stepping stone to a permanent job.

(5 marks)

d) Flexibility of the workforce depends to the extent that restrictions or barriers within the labour market have been reduced or eradicated. For example the reduction of demarcation lines and the increased use of Japanese working methods such as cell production can improve productivity and reduce labour turnover.

The increased flexibility of the employed may have caused higher employment or made it difficult for those unemployed to obtain jobs. Output per person may have increased at the expense of unemployment and the waste of this resource. Some types of flexibility such as part-time work might have held wage costs down enabling UK firms to become more competitive.

(5 marks)

(Marks available: 20)

Answer outline and marking scheme for question: 2

Give yourself marks for mentioning any of the points below:

a) Resistance to change is usually applicable to any form of change. Depends on communication beforehand, the amount of training given. Rewards might mean Differentials are eroded and new reward system might be seen as inequitable.

(5 marks)

b) Represent members in disciplinary matters with the employer, are often consulted by employers prior to changes in workforce being made and their agreement sought, negotiate with employers on terms and general conditions for employees, abide by rulings of conciliation and arbitration bodies.

(5 marks)

(Marks available: 10)

Budgeting, Costing and Investment (Questions)

1. a) What is meant by Net Present Value in relation to investment appraisal?

b) The following are net cash flows from three projects, A, B and C, which have an initial investment of £40,000:

Project	A	B	C
Net cash flow at end of year	£	£	£
Year			
1	8000	16000	10000
2	16000	24000	15000
3	24000	20000	25000
4	16000	8000	12000
5	10000	2000	10000

Using investment appraisal methods with which you are familiar, state which of the projects above you would recommend.

Give reason for your answer.

(Marks available: 10)

Budgeting, Costing and Investment (Answers)

Answer outline and marking scheme for question: 1

Give yourself marks for mentioning any of the points below:

a) Net present value is the present value of future income from an investment project, less the cost.

(5 marks)

b) Payback method. B is fastest.

Return on investment. A is best.

NPV. B is best

B is the best choice.

(5 marks)

(Marks available: 10)

Business Objectives and Strategy (Questions)

1.

a) Why is it important for a business to specify its objectives?

b) Explain, with examples, why differing stakeholder and organisational objectives might cause problems for managers.

(Marks available: 10)

2.

Explain, with examples, what is meant by the stakeholders in a company.

Is it in the interests of all stakeholders that a company should try to maximise its profits?

(Marks available: 20)

Business Objectives and Strategy (Answers)

Answer outline and marking scheme for question: 1

Give yourself marks for mentioning any of the points below:

a) Focus for all employees, measure by which to judge the performance of the business, informs strategic planning.

(5 marks)

b) Conflict, e.g. local community objective - clean environment, company objective - profit (cost cutting creates pollution).

Decision making: e.g. Shareholders may demand high dividends, but management seek to invest profits for long term.

(5 marks)

(Marks available: 10)

Answer outline and marking scheme for question: 2

Stakeholders are those persons who hold a stake in the company; they include shareholders, banks, the local community, customers, employees, government - if the American definition of "anyone who may be affected by the actions of the corporation" is adopted, even competitors.

(max 12)

A candidate might wish to refine the question and write of "long term" profits and then argue, with Milton Friedman, that the objective of the company is to increase shareholder wealth.

Many will argue that the company has a duty to other stakeholders. Johnson and Johnson, for example, put the customer first, then the employees and the shareholders last. Green issues may be mentioned.

(max 12)

Excellent A clear and concise explanation of the stakeholder concept and a well sustained argument for or against the maximising of profits.

Competent An informed account of the stakeholder concept and a reasoned argument for or against maximising profits.

Adequate A knowledge of what is meant by stakeholders and some reasons for or against maximising profits.

Weak A limited knowledge of what is meant by stakeholders and ill-connected comments for or against maximising profits.

(Marks available: 20)

Business Organisation (Questions)

1.

a) What is meant by "tall" and "flat" organisational structures?

b) Why have many organisations moved away from tall to flat organisational structures?

(Marks available: 10)

2.

a) What services do banks offer to small businesses?

b) How might the purpose of a loan influence the period over which it is borrowed?

(Marks available: 10)

3.

a) What is the difference between organic growth and growth through acquisition?

b) Is growth necessarily good for a firm?

(Marks available: 20)

Business Organisation (Answers)

Answer outline and marking scheme for question: 1

Give yourself marks for mentioning any of the points below:

a) Tall structures refer to hierarchical organisations with many layers of management/levels of responsibility.

Flat structures have very few levels of responsibility.

(5 marks)

b) Tall organisation structures have become less popular due to moves towards leaner organisations, teamwork ethos, increased customer focus and the ability to respond quickly to external changes and customer demands.

(5 marks)

(Marks available: 10)

Answer outline and marking scheme for question: 2

Give yourself marks for mentioning any of the points below:

a) Banks offer a range of services to small business, lend money and offer advice.

The extent of the help will depend on a number of factors such as the financial standing of the company, i.e. the length of time it has been trading, sales turnover.

If it is a new company, the small business may find difficulty in raising finance through banks, they may have to pay higher rates of interest, and the banks may be less flexible if the business deviates from its business plan.

(5 marks)

b) Considerations should include; what the finance is to be used for, for example, current or fixed assets. Will the purchase be obsolete before the loan is paid back?

(5 marks)

(Marks available: 10)

Answer outline and marking scheme for question: 3

Give yourself marks for mentioning any of the points below:

a) Organic growth is growth through increased sales, resulting in capital investment, perhaps in new plant.

Growth through acquisition (Hanson is a good example) occurs through takeovers of other businesses, so that there is no growth in the industry as a whole, simply a concentration among fewer and larger, financial groups.

(max 10 marks)

b) The second question can be answered in several ways. A candidate might note that a firm may change its character as it grows: A family firm may find that growth entails bringing in outsiders and relinquishing some family control.

Overtrading might be discussed: a firm can overextend its borrowing and find itself starved of working capital (more firms go bust in the upturn following a recession than during the recession itself).

(max 10 marks)

(Marks available: 20)

Company Accounts (Questions)

1. Companies A and B operate in the same market. Study the information which has been extracted from the accounts of these companies for the year ending 31 December 1997.

Profit and loss account	Company A £m	Company B £m
Turnover	9900	26400
Cost of goods sold	5500	11550
Expenses		
Selling	550	5525
Administration	825	2475
Other	330	550
Balance Sheet		
Fixed assets	7700	11000
Current assets	4700	7325
Current liabilities	2200	3850

a) What items would you expect to be included in?

(i) current assets:

(ii) current liabilities?

b) Calculate gross and net profit ratios and return on capital for companies A and B.

c) Compare briefly the results of these two companies.

d) What other factors should a potential investor need to take into account when considering whether to invest into these companies.

(Marks available: 20)

2. a) Explain why a business person would compile a cash flow forecast?

b) How might such accounting information be used by the creditors of a company?

(Marks available: 10)

3. Look at the data below and answer the questions which follow.

Mr and Mrs Roberts own a small hotel in the Lake District. They run the hotel and employ labour from the local town. They are considering expanding the business by increasing the number of bedrooms.

Night Stop Hotel			
<i>Balance Sheet as at 31st December 1995</i>			
	£	£	£
Fixed Assets			
Leasehold Premises	72 000		
<i>less</i> Depreciation	(6 000)	66 000	
	7 000		
Furniture	7 000		
<i>less</i> Depreciation	(700)	6 300	
	4 500		
Fixtures and Fittings	4 500		
<i>less</i> Depreciation	(450)	4 050	76 350
Current Assets			
Food and drinks stocks	8 500		
Debtors	9 500		
Cash at bank	5 400		
Cash in hand	250		23 650
			100 000
			100 000
Financed by			
	£	£	£
Capital	80 000		
Retained Profit	16 000		
	96 000		
<i>less</i> Drawings	(8 500)		87 500
Current Liabilities			
Trade Creditors			12 500
			100 000
			100 000

What is meant by?

a) (i) Fixed assets; Leasehold premises;

(ii) Current assets?

b) comment on the Liquidity position of the company.

c) Mr and Mrs Roberts are considering expanding the business by increasing the number of bedrooms. What factors would they have to take into account if they had the opportunity to receive a cash injection from an investor?

d) what factors, other than those shown in the balance sheet, should a potential investor take into account?

(Marks available: 20)

Company Accounts (Answers)

Answer outline and marking scheme for question: 1

Give yourself marks for mentioning any of the points below:

a) (i) Stock, debtors.

(ii) Trade creditors, bank overdraft.

(5 marks)

b) GP = 44.4% and 56.25%

NP = 27.2% and 25%

Return on capital = 26.4% and 45.35%

(5 marks)

c) GP is higher for A compared with B, with A having a better NP. From the information from the accounts A seems more efficient in its selling and administration.

Return on capital is higher in B therefore there is a better return for investors. More information required to make other judgments, for example the length of time operating.

(5 marks)

d) The structure and competition in the market.

What is happening in the market and the economy as a whole?

What other investment opportunities there are.

Further information required from the accounts could include the working capital ratio and the liquidity situation.

Perhaps the structure of the debtors and the creditors.

(5 marks)

(Marks available: 20)

Answer outline and marking scheme for question: 2

Give yourself marks for mentioning any of the points below:

a) A cash flow forecast is a financial statement which shows all expected receipts and expenses of a business over a future time period which shows the expected cash balances at the end of each month.

(5 marks)

b) It shows the cash position of the firm month by month, and will show when it may or may not need to borrow money. Stake holders who may be interested will be those considering lending funds to the firm, such as banks.

(5 marks)

(Marks available: 10)

Answer outline and marking scheme for question: 3

Give yourself marks for mentioning any of the points below:

a) (i) Fixed assets owned by the company which are not part of trading stock and do not vary as output changes.

Leasehold premises are where the user of the premises does not own the property outright. Uses the premises for a fixed term, making a payment to the leaser.

(ii) Current assets are items owned by the organisation. The value of these items changes on a regular basis, e.g. food and drink.

(5 marks)

b) Ratios current:

$$\frac{23650}{12500} = 1.9$$

$$\text{Liquidity} = \frac{23650 - 8500}{12500} = 1.2$$

The company is solvent, but perhaps too much stock.

(5 marks)

c) Mr Roberts. What form would the investment take, cash injection, loan, share of the business.

If loan, what would the repayment be?

If share of the business, what percentage of the company, how much involvement in the running of the company.

(5 marks)

d) What is the past financial record of the company?

Is there a market for the increase in the service offered?

Seasonal business, will there be a problem with cash flow?

How is the organisation run?

(5 marks)

(Marks available: 20)

External Environment (Questions)

1. "British sugar, Tate and Lyle which together hold more than 90 per cent of the British sugar market and two sugar distribution companies are likely to be fined by the European Commission for running a price fixing cartel."

(The Guardian - 4th October 1998)

- a) What is the justification for action of this kind by the European Commission?
- b) Outline other measures which might be taken to encourage competition.
- c) Explain how small firms are able to exist alongside multinationals producing similar goods.
- d) Why do most small firms remain firm?

(Marks available: 20)

2. a) Why, at a time of impending recession, is there often a call for a reduction in interest rates?

b) How might a downturn in economic activity affect a business?

(Marks available: 10)

3. a) Explain briefly why governments might need to intervene in the market economy, what intervention methods could be used?

b) How might a bus service run by a local authority differ from one operated by a private company?

(Marks available: 10)

External Environment (Answers)

Answer outline and marking scheme for question: 1

Give yourself marks for mentioning any of the points below:

a) To encourage competition in markets and to punish those companies who seek to reduce consumer choice.

(5 marks)

b) Government assistance for new businesses. Reduce restrictive practices to allow free entry into the marketplace. Investigate industries with few producers which make huge profits.

(5 marks)

c) Niche markets, market too small for multinational to invest in, local market.

(5 marks)

d) Owner desire control over business, lack of finance to invest, small demand, lack of knowledge.

(5 marks)

(Marks available: 20)

Answer outline and marking scheme for question: 2

Give yourself marks for mentioning any of the points below:

a) Interest rates can be reduced at the time of a recession to attempt to stimulate the economy.

Firms will find it cheaper to invest in new machinery and equipment, exports are encouraged and imports discouraged.

Consumers may buy more credit as it is cheaper; mortgages are also less expensive, giving consumers more discretionary income.

(5 marks)

b) A downturn in economic activity will affect a business as less demand for a product may be experienced. This may result in a cash flow problem.

Any change in demand for a firm's product depends on the product itself, electricity would not be greatly affected by a downturn in economic activity.

(5 marks)

(Marks available: 10)

Answer outline and marking scheme for question: 3

Give yourself marks for mentioning any of the points below:

a) Governments may need to intervene in the market economy in order to provide public and merit goods.

Government watchdogs oversee privatised companies to prevent exploitation of the customers.

(5 marks)

b) A bus service run by a local authority may operate profitable and non-profitable routes and use cross subsidisation.

The private company will tend to operate on more profitable urban routes and regulate their service to customer demand.

The objective of the local authority is to provide a service, not necessarily to seek a profit to satisfy shareholders.

(5 marks)

(Marks available: 10)

Management, Leadership, Motivation and Communication (Questions)

1.

- a) What are the advantages and disadvantages of performance related pay?
- b) Other than through performance related pay systems how can managers motivate their sales force?

(Marks available: 10)

2.

- a) What qualities should a good leader possess?
- b) Explain, using examples, why leaders vary their leadership style in different circumstances

(Marks available: 10)

3.

- a) Describe two ways in which employees can be empowered.
- b) Give two advantages of empowerment from the point of view of:
 - (i) The organisation
 - (ii) The employee.

(Marks available: 10)

4.

- a) How may the roles of a manager and a leader differ in business?
- b) Explain briefly in what situations a manager might adopt different management styles.

(Marks available: 10)

5.

- a)** What are the advantages to an organisation of encouraging teamwork?
- b)** How do reward packages, such as pensions and share option schemes, help motivate the work force?

(Marks available: 10)

Management, Leadership, Motivation and Communication (Answers)

Answer outline and marking scheme for question: 1

Give yourself marks for mentioning any of the points below:

a) PRP advantages: creates incentive. If targets are clearly set, then sales person has clear objectives. Targets can be set for each individual sales person.

Disadvantages: Unrealistic targets without looking at the market place. Other motivating factors may be missed out.

(5 marks)

b) Group incentives, holidays, fringe benefits, job satisfaction and working as a team.

(5 marks)

(Marks available: 10)

Answer outline and marking scheme for question: 2

Give yourself marks for mentioning any of the points below:

a) The qualities of a good leader include having a clear vision and direction, being able to communicate, and being able to motivate people towards achieving organisational objectives.

(5 marks)

b) To suit their style and situation. For example, directive: suitable for instructing workers for structured tasks.

Paternalistic: suitable for dealing with new, inexperienced or young workers.

Constitutional: suitable for resolving conflict or areas of uncertainty.

Participative: suitable for qualified, specialist and experienced workers.

(5 marks)

(Marks available: 10)

Answer outline and marking scheme for question: 3

Give yourself marks for mentioning any of the points below:

a) Refers to devolving responsibility down to the lowest levels within an organisation.

The power to make decisions is given to those who previously acted on orders from more senior staff.

(5 marks)

b) (i) Saves management time, lower staff costs, employees are aware of business needs, able to respond quickly to market changes.

(ii) More interesting work, more responsibility, autonomy over work, sign of employers trust.

(5 marks)

(Marks available: 10)

Answer outline and marking scheme for question: 4

Give yourself marks for mentioning any of the points below:

a) A leader normally sets objectives.

A manager organises resources to achieve the objectives.

(5 marks)

b) Depends on situation, time, and the decision to be made.

For example: a logistics manager of a transport company will tend to direct his drivers. He may adopt a different style when managing office staff.

(5 marks)

(Marks available: 10)

Answer outline and marking scheme for question: 5

Give yourself marks for mentioning any of the points below:

a) Greater range of skills, knowledge to solve problems.

Increase in employee morale.

Problems across the organisation can be solved more easily.

Team ideas more creative than individual.

(5 marks)

b) Reference to motivational theory required. Pension may depend on the age of person. Share option depends on size offered, compare between chief executive and a shop floor worker.

(5 marks)

(Marks available: 10)

Marketing (Questions)

- 1. a)** Why do well established companies, such as Coca Cola and McDonalds advertise?
- b)** Briefly outline a media mix which might be suitable as part of the promotion policy for a school or college

(Marks available: 10)

- 2. a)** Why do marketing managers use the official socio-economic classification of the population i.e. A,B,C1,C2,D and E.

(5 marks)

- b)** Two new socio-economic groupings have been identified which make up 15 per cent of UK households. They are defined as:

'Silkies are single ladies on high income defined as £25,000 a year or more with kids up to 15 years old. They are classically time-poor, money rich, and have an expensive lifestyle with childcare and associated costs.

Slinkies are also on high income. There are no kids. Slinkies are clever, ambitious and status conscious.'

(Source: Financial Times)

How might such new groupings affect marketing strategy?

(5 marks)

(Marks available: 10)

Marketing (Answers)

Answer outline and marking scheme for question: 1

Give yourself marks for mentioning any of the points below:

a) Coca Cola and McDonalds advertise in order to retain brand loyalty and re-buy, maintain market share, update the brand image in order to attract young customers.

(5 marks)

b) The media mix is the combination of media for publicity purposes. Schools and colleges may use local press, cinema and local radio advertising, their own publications, open evenings, feeder school visits, internet. Local and national TV is expensive and reaches too wide an audience.

(5 marks)

(Marks available: 10)

Answer outline and marking scheme for question: 2

a) To enable segmentation of the market, so that the marketing is more effective in that marketing is targeted at a specific audience.

(5 marks)

b) New groupings mean that the marketing strategy of price, product place and promotion will have to be changed to meet the changing market.

(5 marks)

(Marks available: 10)

Marketing Planning (Questions)

1. a) Define price elasticity of demand and explain why some products are price-elastic and other products are price-inelastic.

b) Outline the factors which may influence an organisation's pricing policy.

(Marks available: 10)

2. a) What is meant by a random sample?

b) A marketing manager's experience has been that between 10% and 20% of women purchase a new brand of cosmetics within one month of its introduction.

She wishes to estimate, by sampling, the percentage of women who will purchase a particular new Brand X, within one month of its introduction.

How large a random sample should be taken if she wants the estimate to be at 95% confidence level?

(Marks available: 10)

3. a) What is the product offered by a lottery firm such as Camelot?

b) How might a lottery firm optimise its marketing mix?

(Marks available: 20)

Marketing Planning (Answers)

Answer outline and marking scheme for question: 1

Give yourself marks for mentioning any of the points below:

a) Price elasticity of demand is the sensitivity of quantity demanded to changes in price.

Price elasticity depends upon the characteristics of the product.

Availability of substitutes, proportion of income spent on the good are factors which with determine the degree of price elasticity.

(5 marks)

b) The factors which may influence the organisations pricing policy:

Whether the product is new.

The competitiveness of the market.

The ability to discriminate between different groups of consumers.

(5 marks)

(Marks available: 10)

Answer outline and marking scheme for question: 2

Give yourself marks for mentioning any of the points below:

a) Random sample, everyone is likely to be chosen.

b)

$$\pm 1.96 \sqrt{\frac{0.2 \times 0.8}{n}} = \pm 0.2$$

$$n = \left(\frac{1.96 \times 0.4}{0.02} \right)^2$$

= 1600 approx.

(Marks available: 10)

Answer outline and marking scheme for question: 3

Give yourself marks for mentioning any of the points below:

(a) "A lottery ticket" is the straightforward answer, but a thoughtful candidate may mention some of the characteristics associated with the product:

The excitement at the possibility of winning.

The pleasure of staking a small sum linked with numbers of special significance to oneself.

The feeling of being party to a syndicate which buys several tickets each week.

(Max 10 marks)

(b) Candidates might do well to comment on the four headings of product, price, promotion and place. Camelot have done well to have a midweek draw and to have set the ticket price at £1, a sum which most people will "invest" without discomfort and to make tickets available in a multitude of shops so nobody has to go far to buy one.

Camelot has been fortunate to have free publicity in the televised draw and winner notification on the news.

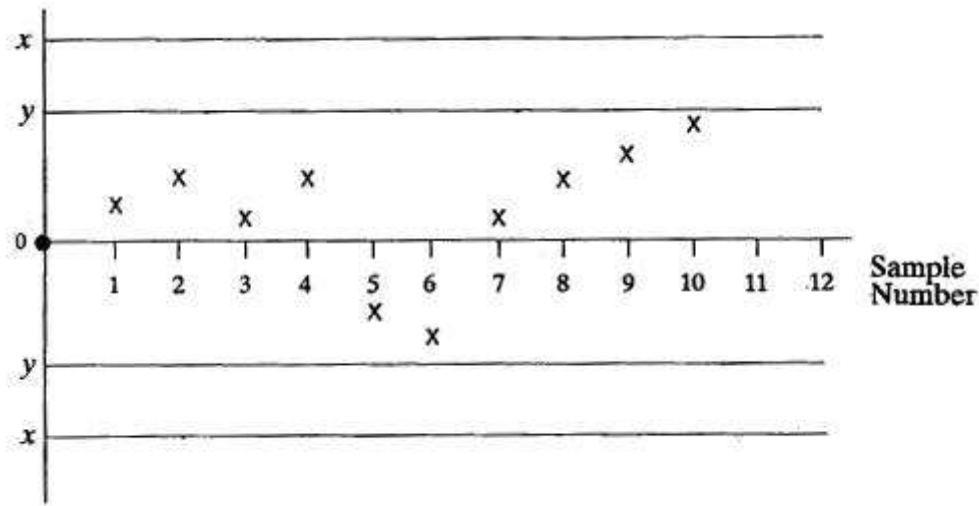
Camelot has done well to emphasise the proportion of receipts that goes to charitable causes and the relatively low proportion that goes to administration: punters may feel they have a small chance of winning, but they are not throwing their money away.

(Max 10 marks)

(Marks available: 20)

Production Control (Questions)

1. A graph representing a statistical process control chart for the production of gnomes.



- What are the functions of lines x and y shown in the control chart and how are they set?
- What recommendation would you make if you saw the results shown in the chart?
- How are control limits likely to be affected by the size of the sample taken and the variability of the production process?
- Explain whether or not ideas of TQM have had an effect on statistical quality control techniques?

(Marks available: 20)

2. 'Kaizen' is defined as continual improvement involving a commitment from everyone in the company.

- How might kaizen improve customer satisfaction?
- Does kaizen eliminate the need for market research?

(Marks available: 10)

Production Control (Answers)

Answer outline and marking scheme for question: 1

Give yourself marks for mentioning any of the points below:

a) Upper and lower action and warning limits.

Standard Deviation (usually)

$$y = 2$$

and

$$x = * 3$$

(5 marks)

b) Alarm bells would start to ring. There is an upward trend away from the base.

(5 marks)

c) The larger the sample size the more accurate the outcome.

The more consistent the production run, again the more accurate the outcome, for example identifying problems.

(5 marks)

d) TQM is a concept which involves all workers within an organisation.

TQM is more concerned with continuous improvement in all company processes whereas statistical control of quality is concerned with control of processes and their resulting outcomes.

(5 marks)

(Marks available: 20)

Answer outline and marking scheme for question: 2

Give yourself marks for mentioning any of the points below:

a) Kaizen is continuous improvement and product quality should therefore be continually improving. Through the removal of defects and waste, cost should be reduced and therefore prices may fall. Customers get high quality, low price goods.

(5 marks)

b) No. Market research is required to identify customer needs and the situation in the competitive marketplace. Market research enhances kaizen.

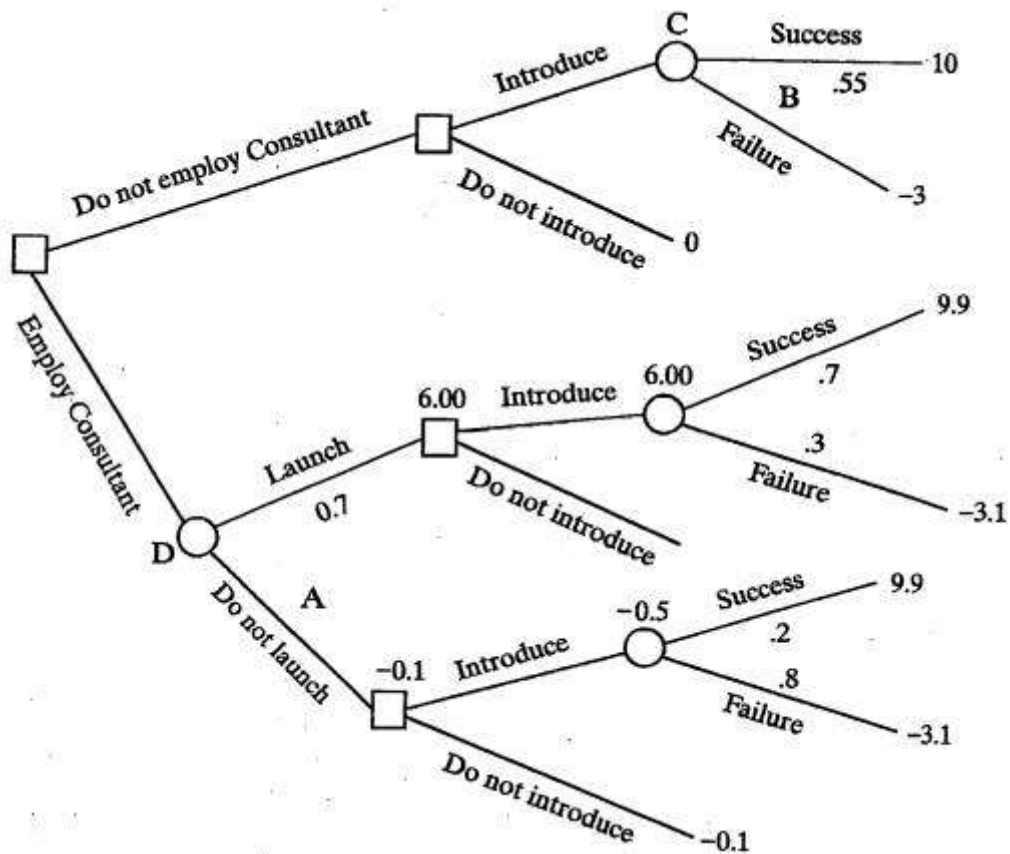
(5 marks)

(Marks available: 10)

Production Decision Making (Questions)

1. The decision tree below represents the problem faced by a manager considering the introduction of a new product. Cash flows are shown in £million and probabilities are marked.

The manager could employ a firm of consultants to give advice on either "launch" or "do not launch". The cost of employing the consultants is £100,000.



- a) (i) Calculate the probabilities A and B.
(ii) Calculate the expected values (cash flows) at C and D.
- b) Advise the manager whether she should employ the firm of consultants.

(Marks available: 10)

2. a) State briefly the key production decisions a business must make to supply its market.
b) How might the objectives of the production department conflict with the objectives of the marketing department?

(Marks available: 10)

3. The owner of a shopping centre plans to extend the centre by building new shopping units and finding tenants for them. He has listed the jobs to be done and the time each job will take.

Job	Description	Immediate Predecessor	Time required (in weeks)
A	Prepare architectural drawings	–	6
B	Identify potential new tenants	–	5
C	Prepare prospectus for tenants	A	3
D	Select contractor	A	4
E	Prepare building permits	A	1
F	Obtain approval for building permits	E	4
G	Construct new shopping units	D, F	16
H	Conform contracts with tenants	B, C	10
I	Have tenants move in	G, H	3

a) Draw a critical path diagram. Identify the critical path and state the total time required to complete the whole project.

b) If the time required for job F could be reduced by 2 weeks, what would be the effect on the time required for the project and what would be the new critical path?

(Marks available: 10)

4.

a) How may the roles of a manager and a leader differ in business?

b) Explain briefly in what situations a manager might adopt different management styles.

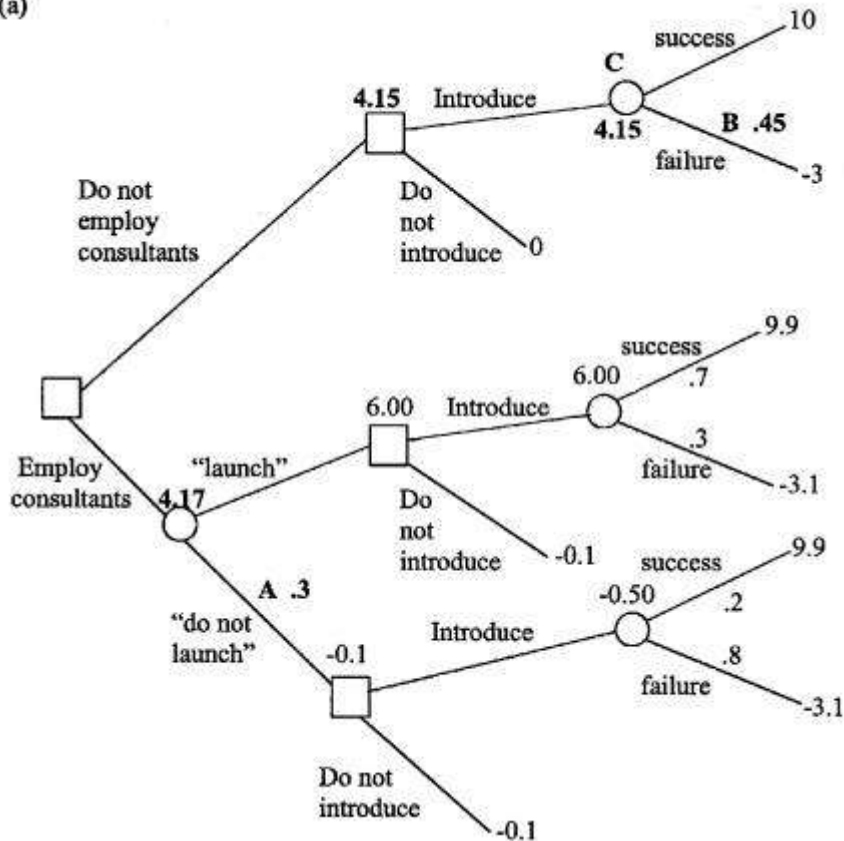
(Marks available: 10)

Production Decision Making (Answers)

Answer outline and marking scheme for question: 1

Give yourself marks for mentioning any of the points below:

(a)



A = 0.3

B = 0.45

C = 4.15

D = 4.17

b) Candidate argument and calculation to decide whether to employ consultants and take their advice.

(Marks available: 10)

Answer outline and marking scheme for question: 2

Give yourself marks for mentioning any of the points below:

a) Key production decisions a business must take to supply its market: what goods to produce, quantity of product to be supplied, variations of the product to be supplied, which markets to produce for, the nature of raw materials and its suppliers and the conversion of raw materials into the finished product.

b) The production department will wish to keep the volume of production steady so that incoming raw materials, workload and finished goods remain constant and predictable

The marketing department will wish to increase sales through promotional campaigns and will expect the production department to respond immediately to changes in levels of demand.

They will also expect the production department to accommodate changes in customer orders, to implement the production of newly developed products rapidly and easily.

(Marks available: 10)

Answer outline and marking scheme for question: 3

Give yourself marks for mentioning any of the points below:

a) PICTURE

Total time 30

CP A E F G I

b) Total time 29

CP A D G I

(Marks available: 10)

Answer outline and marking scheme for question: 4

Give yourself marks for mentioning any of the points below:

a) A leader normally sets objectives.

A manager organises resources to achieve the objectives.

(5 marks)

b) Depends on situation, time, and the decision to be made.

For example: a logistics manager of a transport company will tend to direct his drivers. He may adopt a different style when managing office staff.

(5 marks)

(Marks available: 10)

Ratio Analysis (Questions)

1. The data summarised in the table below show the performance of two firms A and B, over five years.

		YEARS				
		1	2	3	4	5
Gross profit margin %	Firm A	42	37	35	37	35
	Firm B	30	32	32	33	34
Net profit margin %	Firm A	16	13	12	12	10
	Firm B	10	11	11	12	12
Return on capital employed %	Firm A	14	13	12	12	11
	Firm B	9	10	10	11	11
Acid Test Ratio	Firm A	2.7	2.6	2.5	2.5	2.4
	Firm B	1.7	1.8	1.5	0.8	1.0

a) Using the information in the table explain the comparative attractiveness of the two firms to a potential investor.

b) Why is it important that potential investors should be aware of the ratio of ordinary share capital to other forms of long term finance, (known as the gearing ratio)?

c) Why might a company use various sources of finance?

d) Using examples, explain why it is important that potential investors should consider non-financial factors before making their investment decision.

(Marks available: 20)

Ratio Analysis (Answers)

Answer outline and marking scheme for question: 1

Give yourself marks for mentioning any of the points below:

a) It would appear that A's performance is deteriorating compared with B. This seems to be confirmed by the net profit as a percentage of capital employed. On this basis B would seem to be the better bet.

But with regards to liquidity it would seem that B is sailing close to the wind and may find itself with cash flow problems.

A seems to be more secure but has it got too much cash?

More information is needed to make a true assessment.

b) The gearing ratio shows the relationship between equity capital and interest bearing capital.

For example if the gearing ratio is less than 100 per cent a company is said to be low geared.

This means that the majority of long term funds comes from the owners of the company, usually implies that a company is not a risk taker and the potential for growth is higher.

c) Sources of funds can be internal or external. Internal sources are sources that the company has control over compared with external funding. There is the time period for borrowing and charges made that have to be taken into consideration.

Expenditure can be for revenue or capital expenditure.

Capital expenditure is on goods which can be used over a long time period such as machines and can be financed over a long time period.

Revenue expenditure is spent on items such as raw materials or labour. This will be consumed quickly. Trade credit is a source of funds used to purchase raw materials.

d) Examples other than financial help to give a fuller picture of the likely future performance of the company. For example it is important to look at the previous performance of the company to identify trends and compare them with what is happening in the market place.

For example if company sales are increasing in a shrinking market, this should send alarm bells to a potential investor. Why is the market shrinking?

The state of the economy might indicate the timing of investment, for example: is the economy entering a downturn or is the economy enjoying a boom?

(Marks available: 20)