



GCE A LEVEL

1510U30-1

MONDAY, 3 JUNE 2019 – AFTERNOON

BUSINESS – A2 unit 3

Business Analysis and Strategy

2 hours 15 minutes plus your additional time allowance

Surname _____

Other Names _____

Centre Number _____

Candidate Number 2 _____

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	10	
2.	8	
3.	12	
4.	14	
5.	10	
6.	16	
7.	10	
Total	80	

ADDITIONAL MATERIALS

A calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink, black ball-point pen or your usual method.

Write your name, centre number and candidate number in the spaces provided on the front cover.

Answer ALL questions.

Write your answers in the spaces provided in this booklet. If you run out of space, use the continuation pages 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.

Answer ALL the questions in the spaces provided.

1. The glass recycling company, GlassWaste Ltd, has been trading for 3 years and has limited financial resources. Recently the company bought a new machine to crush glass and separate fibre and other waste from the glass. The machine cost the company £16 000. It has an estimated residual value of £4 800 and an expected life of eight years. The chief accountant, Cameron Rees, has decided to depreciate the value of the machine using the straight-line method.

(a) Calculate the value of the machine after five years. (Show your workings.) [4]

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3. TESCO'S £3.7BN TAKEOVER OF BOOKER GIVEN GREEN LIGHT

In 2017, Tesco's £3.7bn takeover of wholesaler group Booker was given the go-ahead by the Competition and Markets Authority despite rivals warning the deal could drive them out of business. Tesco has 3 200 UK stores.

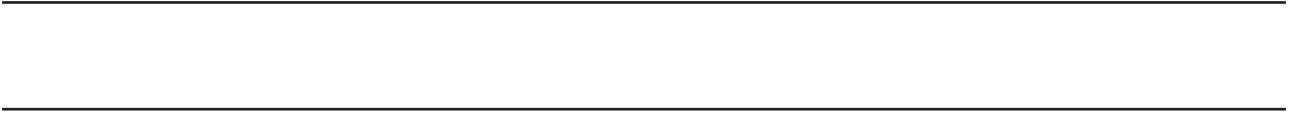
Booker supplies 117 000 independent retailers, including 5 500 Premier, Londis, Budgens and Family Shopper retail stores as well as restaurants and pub chains such as Wagamamas. The deal will create a retail and wholesale giant with a turnover approaching £60 billion.

Tesco welcomed the latest development and said the deal was expected to complete in early 2018. "This merger has always been about growth, and will bring benefits for independent retailers, caterers, small businesses, suppliers, consumers, and colleagues," said the retailer. When the acquisition of Booker was announced, Tesco boss Dave Lewis said the combined group would be able to reduce its running costs by £200m a year but some think that the figure could be as much as £500m. There are mixed feelings about the deal due to the possibility of rationalisation and the synergies created, impacting upon stakeholders.

The deal has not been welcomed by all Tesco's shareholders. Two of its biggest shareholders came out against the deal, urging Dave Lewis to focus on turning around the existing chain through organic growth. In recent years, Tesco has been hit by growing competition from discount chains and an accounting scandal. In a statement, those two shareholders said they remained opposed to the Booker deal: "We believe that Tesco is paying too high a price for Booker, making it very hard to create value for Tesco shareholders."

Despite concerns, what is clear is that the combined Tesco and Booker deal would enable a "rapid market share grab" in the £85 billion out-of-home food market. This should be sufficient to make Tesco one of the fastest growing food retailers in the UK for many years to come.

Adapted from: <https://.com/business/2017/nov/14/tescos-37bn-takeover-of-booker-given-green-light>



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	2017 £million	2016 £million
FIXED (NON-CURRENT) ASSETS	61	67
CURRENT ASSETS		
Stock	2 043	1 903
Debtors	35	36
Cash and Bank	62	135
TOTAL CURRENT ASSETS	2 140	2 074
CURRENT LIABILITIES		
Bank Overdrafts and Loans	45	44
Creditors	585	631
Other	36	30
TOTAL CURRENT LIABILITIES	666	705
TOTAL LONG TERM LIABILITIES	300	395
NET ASSETS	1 235	1 041
SHAREHOLDER CAPITAL	1 235	1 041

4. Redrow plc is a construction business based in Flintshire that specialises in building houses in areas across the UK. The financial directors have used the profit and loss account (income statement) and balance sheet to measure financial performance. Net profit in 2016 was £250 million, with a return on capital employed of 17.41%. In 2016, the acid test ratio was 0.24:1. In 2017, the net profit had risen to £253 million.

The table opposite is an extract from the balance sheet of Redrow plc.

Source: <http://investors.redrowplc.co.uk/key-financial-information/balance-sheet>

- (a) Calculate the acid test ratio for 2017.
(Show your workings.) [3]

**4(b) Calculate the return on capital employed for 2017.
(Show your workings.) [3]**

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5. HS2 COST AND BENEFIT DEBATE NOT OVER

The government insists the £56 billion proposal for the HS2 high-speed rail link between London and Birmingham, and eventually beyond to Manchester and Leeds, will bring between £41.4 billion and £46.9 billion of economic benefits over a period of six decades, ranging from ticket sales income to reduced congestion on the roads and the creation of hundreds of jobs. But there are also plenty of people who have challenged the government's assumptions and calculations.

Many who live along the proposed route are naturally opposed to the project. One major reason is obviously the prospect of years of disruptive construction work, followed by up to 28 trains an hour travelling past their homes and villages at speeds of up to 250mph. Historic buildings are at risk of damage or demolition, remaining residents will face noise pollution and some will even lose their homes. The Wildlife Trusts say both phases directly affect nature reserves and wildlife sites which could destroy butterfly, bat and bird habitat.

Fed up of being portrayed as Nimbys ("Not in my back yard"), the locals along the proposed railway line have tended to focus less on the impact on their own rural lifestyles. The Campaign to Protect Rural England, has expressed doubts about the

government's carbon forecasts for HS2. However, the main arguments relate to the economic assumptions behind the government's analysis of the costs and economic benefits. The Institute of Economic Affairs (IEA), which is arguably the most vocal think tank opposed to HS2, predicts that costs will be greater while the economic benefits will be lower than the government has forecast.

The IEA insists that the overall costs would be higher for a number of reasons. These range from compensation costs for disruption during the construction work being paid to train season ticket holders, to major expenses arising from a resulting need to expand and upgrade train stations and transport links to and from stations.

Overall revenue from ticket sales are unlikely to exceed £27.2 billion. The Taxpayers' Alliance, another vocal opponent of the project, claims that "the business case is based on a 27% over inflation rise in fares" and calculates that "if that does not take place revenue is likely to be at least £10 billion lower".

Finally, places further away from the line, like Wales, aren't expected to see any economic benefits and could lose jobs as a result.

Adapted from: <http://www.bbc.co.uk/news/mobile/business-16467903>

6. **Nigel Morgan is the Managing Director of NM Plastics Ltd, a manufacturer and supplier of products ranging from kitchen and bathroom appliances to outdoor storage cabinets and even large playground items for children. He is considering two capital investment options:**
- A new injection moulding machine that would cost the business £60 000 and would allow the business to mass produce. The machine currently used for moulding the plastic products produces work of high quality but it is prone to breaking-down. The new injection moulding machine would not cause any job losses; however, the person who operates it would require training.**
 - A new grinding machine to recycle surplus materials or damaged items that would allow the business to re-use materials. The grinding machine would cost £20 000 and the new machine would replace the jobs of two operatives.**

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

INJECTION MOULDING MACHINE	
	NET CASH FLOW
YEAR 1	£10 000
YEAR 2	£15 000
YEAR 3	£20 000
YEAR 4	£25 000
YEAR 5	£30 000

GRINDING MACHINE	
	NET CASH FLOW
YEAR 1	£5 000
YEAR 2	£8 000
YEAR 3	£10 000
YEAR 4	£12 000
YEAR 5	£15 000

In order to calculate the return on his investments, Nigel Morgan 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

6(b) On the basis of your calculations, advise Nigel Morgan as to which machine to buy. [2]

7. **WH Smith plc is one of the UK's leading retailers. Its mission statement is "to be Britain's most popular high street stationer, bookseller and newsagent". Some of the objectives for the business are taken from its strategic priorities and initiatives which include:**
- Delivering sustainable profit growth and cash generation**
 - Cost efficiency**
 - Utilising its assets**
 - Making the most of business partnerships to enhance its customer offer e.g. 116 Post Offices within their stores and Krispy Kreme and Costa Coffee Express machines in retail outlets in various motorway service stations.**

Adapted from: WH Smith plc Annual Report 2017

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END OF PAPER

