

CONFERENCE VERSION – 08/06/2023

CONFIDENTIAL



GCE A LEVEL MARKING SCHEME

SUMMER 2023

**A LEVEL
BUSINESS – UNIT 3
1510U30-1**

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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.

GCE A LEVEL BUSINESS - UNIT 3

SUMMER 2023 MARK SCHEME

1 (a)	State what is meant by a budget variance.	Total
	<p>AO1: 1 mark</p> <p>Award 1 mark for correct knowledge</p> <p>Indicative content:</p> <p>A budget variance is the difference between the budgeted or baseline amount of expense or revenue, and the actual amount.</p> <p>The difference between actual and budgeted/predicted figures/amount.</p> <p>An unplanned change from the budgeted/predicted figures/amount.</p>	1
(b)	<p>Calculate the budget variances for the sales revenue, other expenses and profit. State whether in each case the variance is favourable or adverse.</p>	
	<p>AO2: 3 marks</p> <p>Award 1 mark for each correct answer</p> <p>Sales revenue = £100 000 - £92 900 = £7 100(A) Other expenses = £30 000 - £26 200 = £3 800(F) Profit = £26 000 - £24 350 = £1 650 (A)</p> <p>Award 0 marks for correct answers with no (F) or (Favourable) / (A) or (Adverse)</p>	3

(c)	Discuss the usefulness of budget variance analysis to Tasty Plaice. [6]		
Band	AO2	AO3	AO4
	2 marks	2 marks	2 marks
2	<p>2 marks</p> <p>Good application to Tasty Plaice.</p> <p>There is direct and clear reference to the data</p>	<p>2 marks</p> <p>Good analysis of both the advantage(s) and disadvantage(s) of budgeting.</p> <p>The candidate develops their explanation of the advantage(s) and disadvantage(s) of budgeting.</p>	<p>2 marks</p> <p>Good evaluation of the use of budgeting.</p> <p>The evaluation is balanced and includes the key issues.</p> <p>Judgements made to support the evidence.</p>
1	<p>1 mark</p> <p>Limited application to Tasty Plaice</p> <p>The candidate response is mainly theoretical with limited reference to the data</p>	<p>1 mark</p> <p>Limited analysis of the advantage(s) and/or disadvantage(s) of budgeting.</p> <p>Superficial or generic explanation of the usefulness of budgeting.</p>	<p>1 mark</p> <p>Limited evaluation of the use of budgeting.</p> <p>The evaluation may be unbalanced with unsupported judgements.</p>
0	<p>0 marks</p> <p>No application to the data</p>	<p>0 marks</p> <p>No explanation attempted.</p>	<p>0 marks</p> <p>No evaluation.</p>

Indicative content:

Advantages of using budgets:

- Improved financial control. Part of the budgeting process is the monitoring of expenditure and revenues. Any variances need to be explained and reacted to; for example sales revenue is adverse therefore strategies can be introduced to increase sales. (credit any other use of figures)
 - Budgeting ensures, or should ensure, that limited resources are used effectively. The budgeting process allocates resources to where they are most likely to help achieve the restaurants objectives.
 - Budgeting can motivate managers. When managers at all levels are involved in the budgeting process they will have a commitment to ensuring that budgets are met.
 - Budgeting can improve communication systems within the organisation. The budgeting process itself will involve communication both up and down the hierarchy. This will help to establish formal methods of communication, which can be used for purposes other than setting and administering budgets.
- Used by investors to assess potential investment/return on investment.

Disadvantages of using budgets:

- The restaurant manager is excluded from the budgeting process therefore s/he may not be committed to the budgets and may feel demotivated. This could be the reason why the sales revenue variance is adverse.
- The budget may be inflexible, therefore the restaurant manager may not be able to react to changes in the market or other conditions may not be met by appropriate changes in the budget. For example, new competitors have entered the market and the marketing budget may not allow for a response to this. Therefore, sales are likely to be lost.
- An effective budget can only be based on good quality information.

Credit any other valid point.

2 (a) (i)	Outline what is meant by capital employed.	Total
	<p>AO1: 2 marks</p> <p>Award 1 mark for basic statement. Understanding may be superficial. Award 2 marks for more detailed correct statement. Good understanding shown.</p> <p>Indicative content:</p> <p>Capital employed refers to the money invested into the business – it includes the shareholder funds and capital received from long term liabilities.</p> <p>Award 1 mark for correct formula e.g. shareholder funds + long term liabilities.</p>	2
(a) (ii)	Calculate the capital employed for 2021.	
	<p>AO2: 1 mark</p> <p>Award 1 mark for correct answer.</p> <p>£646 + £1 020 = £1 666 000 or 1 666</p>	1
(a) (iii)	Calculate the total long-term liabilities for 2022.	
	<p>AO2: 1 mark</p> <p>Award 1 mark for correct answer.</p> <p>£2 096 000 - £1 160 000 = £936 000 or 936</p>	1
(b) (i)	Calculate the current ratio for The Walk in Wardrobe Ltd for 2022.	
	<p>AO1: 1 mark</p> <p>Award 1 mark for correct formula.</p> <p>The current ratio = current assets/current liabilities</p> <p>AO2: 1 mark</p> <p>Award 1 mark for correct answer</p> <p>The current ratio for 2022 = £522 000/£386 000 = 1.35 : 1</p> <p>Award 1 mark for correct answer but not expressed as :1.</p> <p>Award 2 marks if only the correct answer is provided.</p>	2

(b) (ii)	Calculate the gearing ratio for The Walk in Wardrobe Ltd for 2021.	
	<p>AO1: 1 mark</p> <p>Award 1 mark for correct formula.</p> <p>Gearing = Long term liabilities/Shareholder funds + Long term liabilities x 100 (Capital Employed)</p> <p>AO2: 1 mark</p> <p>Award 1 mark for correct answer</p> <p>The gearing for 2021 = £646 000/£1 666 000 x 100 = 38.78%</p> <p>Award 1 mark for correct answer but not expressed as a %</p> <p>Award 2 marks if only the correct answer is provided.</p>	2

(c)	With reference to the data and your calculations, evaluate the financial performance of The Walk in Wardrobe Ltd between 2021 and 2022. [10]		
Band	AO2	AO3	AO4
	4 marks	2 marks	4 marks
3	<p>4 marks</p> <p>Excellent application to the quantitative data and calculations.</p> <p>The candidate clearly refers to the data and calculations.</p>		<p>4 marks</p> <p>Excellent evaluation of the quantitative data and calculations.</p> <p>The evaluation is fully balanced and includes most of the key issues.</p> <p>The learner makes judgements to support their evaluation.</p>
2	<p>3 marks</p> <p>Good application to the quantitative data and/or calculations.</p> <p>The candidate refers to the ratios and makes some attempt to apply knowledge from theory.</p>	<p>2 marks</p> <p>Good analysis of the impact of the data and/or calculations on The Walk in Wardrobe Ltd.</p> <p>The candidate makes a number of points and develops with an explanation.</p>	<p>3 marks</p> <p>A good evaluation of the quantitative data and/or calculations.</p> <p>The evaluation will include some of the key issues.</p> <p>The learner makes judgements, which are partially supported by evidence.</p>
1	<p>1–2 marks</p> <p>Limited application to the quantitative data and/or calculations.</p> <p>The response is mainly theoretical.</p>	<p>1 mark</p> <p>Limited analysis of the impact of the data and/or the calculations on the Walk in Wardrobe Ltd.</p> <p>The analysis is likely to be superficial and points are underdeveloped.</p>	<p>1–2 marks</p> <p>A limited evaluation of the quantitative data and/or calculations.</p> <p>Statements may be brief.</p> <p>Unsupported judgements are made.</p> <p>Brief or no advice is given.</p>
0	<p>0 marks</p> <p>No application to the data.</p>	<p>0 marks</p> <p>No explanation attempted.</p>	<p>0 marks</p> <p>No evaluation.</p>

(Without the use of data from calculations in 2bi and 2bii – MAX 8)

(Use OFR if calculations are incorrect but analysis and evaluation is accurate)

Indicative content:

- The current ratio was poor in 2021 at 1.15:1, which is well below the recommended level of at least 1.5:1. This would cause some concern with issues possible in accessing trade credit agreements from suppliers, which may hinder cash flow. **However**, it has improved to 1.35:1 which whilst still below the recommended level, suppliers and other creditors would see that the business is on the right path and that they can cover short term debts.

- The acid test ratio causes greater concern. It is clear that current assets have gone up and current liabilities have fallen. However, due to the retailer holding large quantities of stock as seen in figure 3, the acid test ratio has got significantly worse in 2022. It is clear that if stock goes unsold, the shareholders of the Walk in Wardrobe Ltd would have a problem paying creditors such as suppliers.
- The gearing is good at around 40% which is the ideal level according to many theorists. Therefore, it is evident that capital is being borrowed to be invested in the growth of the business which is clear from the case study, with stores across Wales. If interest rates were to rise a medium sized enterprise such as the Walk in Wardrobe Ltd could suffer from increased with a high gearing. Therefore, being around 40% is good and provides lower risk for the shareholders of the business.
- Both long term liabilities and shareholder funds have increased quite significantly. This could be a positive sign that the shareholders are using capital to invest in expansion by possibly opening more stores across Wales. This is also backed up by the increase in fixed assets, suggesting more building and equipment may have been purchased.
- Overall, the business is in a relatively strong financial position with a good current ratio and gearing as well as signs of growth with increases in fixed assets, long term liabilities and shareholder fund. However, it is slightly worrying that there is a very low acid test ratio which may cause problems in the future in terms of liquidity.

3	Evaluate the arguments for and against outsourcing operations.			[8]
Band	AO1	AO3	AO4	
	2 marks	2 marks	4 marks	
3			<p>4 marks</p> <p>Excellent evaluation of both the advantages and disadvantages of outsourcing.</p> <p>The evaluation is fully balanced and includes most of the key issues for advantages and disadvantages.</p> <p>The candidate makes judgements to support their evaluation.</p>	
2	<p>2 marks</p> <p>Good knowledge and understanding of outsourcing.</p> <p>Good knowledge of the advantage(s) and disadvantage(s) of outsourcing.</p>	<p>2 marks</p> <p>Good analysis of the advantage(s) and/or disadvantage(s) of outsourcing.</p> <p>The candidate develops their explanation of the advantage(s) and/or disadvantage(s) of outsourcing.</p>	<p>3 marks</p> <p>Good evaluation of the advantage(s) and/or disadvantage(s) of outsourcing</p> <p>The evaluation is balanced and will include some of the key issues for the advantage(s) and disadvantage(s).</p> <p>The candidate makes partial judgements, with some attempt to support their evaluation.</p>	
1	<p>1 mark</p> <p>Limited knowledge and understanding of outsourcing.</p> <p>Limited knowledge of the advantage(s) and/or disadvantage(s) of outsourcing.</p>	<p>1 mark</p> <p>Limited analysis of the advantage(s) and/or disadvantage(s) of outsourcing.</p> <p>Superficial or generic explanation of the advantage(s) and/or disadvantage(s) of outsourcing.</p>	<p>1-2 mark</p> <p>Limited evaluation of the advantage(s) and/or disadvantage(s) of outsourcing.</p> <p>Unsupported judgements.</p>	
0	<p>0 marks</p> <p>No knowledge and understanding of outsourcing.</p>	<p>0 marks</p> <p>No explanation attempted.</p>	<p>0 marks</p> <p>No evaluation.</p>	

Indicative content:

Outsourcing occurs when outside suppliers are involved in activities that could be undertaken internally by a business.

Advantages include

- Significantly reduced staffing costs – well trained staff provided by the outsourcing company will reduce HRM costs such as recruitment and training
- Lower costs increase profits giving more capital for research and development, so speeding the development of new products.
- Less investment risk – instead of investing in new production facilities, the outside supplier can take the risk of investing
- Capital needs reduced – because there is less investment, there is less need to raise finance
- Existing workload and stress levels reduced, this is very important if a business is operating near or at full capacity.

Disadvantages include:

- Potential of poor customer service (call centre related), with communication made difficult because of cultural differences
- Quality of production/product cannot be guaranteed – quality control systems are now in the hands of producers who may be thousands of miles away. Even if quality is maintained, it may be more difficult to keep up with improvements in quality from competitor companies
- Supply chain issues
- Existing employees may feel demotivated if they believe their jobs are at risk, especially if previous redundancies resulted from outsourcing. This demotivation can increase staff turnover and reduce productivity
- More difficult to implement JIT systems
- Breakdown in communication in the production chain. It is often difficult for functional departments to talk to each other when they are in the same building. Speedy and effective communication becomes much more difficult when the person you need to talk to is on another continent and speaks a different language.
- Loss of security of data – there have been cases where customer data has been made available to external organisations from subcontracting businesses.
- Impact on reputation if jobs are lost.
- Ethical issues relating to outsourcing e.g. poor labour conditions, impact on local communities.
- Credit any other valid point.

4 (a)	Calculate the profitability of options A and B.	Total
	<p>AO2: 4 marks</p> <p>Award 1 mark for each of the following:</p> <p>$A = 0.7 \times 500\,000 = 350\,000 + 0.3 \times 200\,000 = 60\,000$ (1)</p> <p>$= £410\,000 - £75\,000 = £335\,000$ (1)</p> <p>$B = 0.5 \times 720\,000 = 360\,000 + 0.5 \times 220\,000 = 110\,000$ (1)</p> <p>$= £470\,000 - £140\,000 = £330\,000$ (1)</p> <p>(Award 3 marks for correct answer without the £ sign). (Use OFR if the first part of the calculation is incorrect BUT accurately applied the formula for calculating the profitability)</p>	4

(b)	With reference to the data and your calculations, evaluate the usefulness of decision tree analysis to GFK Windows Ltd.			[7]
Band	AO2	AO3	AO4	
	3 marks	2 marks	2 marks	
3	<p>3 marks</p> <p>Excellent application to the data.</p> <p>The candidate accurately uses the data in both the benefit(s) and drawback(s) of using decision trees.</p>			
2	<p>2 marks</p> <p>Good application to the data.</p> <p>The candidate uses the data with some accuracy in the benefit(s) and/or drawback(s) of using decision trees.</p>	<p>2 marks</p> <p>Good analysis of the usefulness of decision trees.</p> <p>The candidate develops their explanation of the benefit(s) and/or drawback(s) of decision trees.</p>	<p>2 marks</p> <p>Good evaluation of the usefulness of decision trees.</p> <p>A balanced argument is provided.</p> <p>The candidate makes good judgements in their responses.</p>	
1	<p>1 mark</p> <p>Limited application to the data.</p> <p>There is limited use of the data.</p>	<p>1 mark</p> <p>Limited analysis of the usefulness of decision trees.</p> <p>Superficial or generic explanation of the benefit(s) and/or drawback(s) of decision trees.</p>	<p>1 mark</p> <p>Limited evaluation of the usefulness of decision trees.</p> <p>Unsupported judgements are made.</p>	
0	<p>0 marks</p> <p>No application.</p>	<p>0 marks</p> <p>No analysis.</p>	<p>0 marks</p> <p>No evaluation.</p>	

Indicative content:

Positive arguments:

- Visual aid to help make an informed choice.
- Decision trees allow a direct comparison between activities and so can be helpful in considering the most suitable course of action. On the basis of the calculations it is quite clear that option B, with a return of £470 000, gives the best return in relation to revenue, followed by option A £410 000 and lastly option 3 with a return of £190 000. In terms of profitability, option A is the best option – with a profit of £335 000 when compared to option B £330 000 and option C £150 000.
- Activities which require a sizable financial investment may require some justification before a decision is made. The decision tree may help in securing funds for such an investment e.g. the £140,000 required for option B. Therefore, it could be necessary when convincing investors or budget holders of the best assumed course of action.

Negative arguments:

- Probabilities and estimated values are difficult to estimate. Therefore, it is usually the case that the decision tree shows the best assumed quantitative response. This may differ from the reality once the activity is carried out. For example external factors should be considered such as market conditions, access to funding, legal factors such as planning laws (these external factors could all be applied to GFK).
- The decision tree can oversimplify the decision and focus too much on the financial outcome. For example, the impact on human resources and the local community when relocating should be considered amongst other things.
- Data manipulated/bias from management to support a specific option. For example, shareholder 1 may have more power and could influence the decision towards relocating.
- The decision tree is only as accurate as the information it is based upon. However, some information is better than none when making financial investments therefore it is of use but should not be considered a guarantee of financial return.
- Other decision-making models should be used e.g. investment appraisals, cost benefit analysis, CPA e.g. to calculate the payback period or ARR or NPV.

Credit any other valid point

(c)	With the use of examples, explain the role played by information technology in the decision-making of a business. [6]	
Band	AO1	AO3
	3 marks	3 marks
3	<p>3 marks</p> <p>Excellent knowledge and understanding of the role played by information technology in business decision making.</p> <p>The learner provides at least two examples of information technology that may be used in business decision making and describes how they may be used to support decision making.</p>	<p>3 marks</p> <p>Excellent analysis of the role played by information technology in business decision making.</p> <p>Points are developed with a detailed explanation of how information technology will support decision making.</p>
2	<p>2 marks</p> <p>Good knowledge and understanding of the role played by information technology in business decision making.</p> <p>The learner provides at least one example of information technology that may be used in business decision making and describes how it may be used to support decision making OR a few examples are provided with a brief description of how they are used to support decision making.</p>	<p>2 marks</p> <p>Good analysis of the role played by information technology in business decision making.</p> <p>There is an attempt to develop the points made with an explanation of how information technology will support decision making.</p>
1	<p>1 mark</p> <p>Limited knowledge and understanding of the role played by information technology in business decision making.</p> <p>The learner may provide example(s) of information technology that may be used in business decision making.</p>	<p>1 mark</p> <p>Limited analysis of the role played by information technology in business decision making.</p> <p>The response is brief with limited development and explanation of the points made.</p>
0	<p>0 marks</p> <p>No knowledge and understanding.</p>	<p>0 marks</p> <p>No analysis attempted.</p>

Indicative content:

- Computer technology can be used by businesses to make many day-to-day decisions – decisions on when to order new stock, how to manage deliveries, or on staffing levels can be calculated and implemented by IT systems – information systems can collect inputs from a number of sources, organise the data then distribute the data to make the most efficient decisions. **For example IT systems can monitor sales in supermarkets through Electronic Point of Sale (EPOS) systems**, take in forecast future sales and weather data, and from this determine levels of production, rota staff shifts and arrange delivery schedules.
- **Management information systems (MIS)** provide managers with information to make tactical and strategic decisions – MIS continuously collects and processes data and makes it available for managers to use in their decision-making.

- Smart IT systems look to improve decision-making through the use of internal and external data. Decision-making models such as decision trees and critical path analysis can be carried out by computer models which save time and help accuracy.
- Data processing technology helps businesses deal with huge quantities of information in a quick and efficient way and speed up decision-making. Expert systems and **artificial intelligence** allow computers to imitate human thinking which considers reasoning to give evidence-based conclusions.
- The internet is almost entirely staffed by computers – analysis of browsing and purchasing habits is used to determine search results and what is seen on screen – **cookies** allow retail websites to present choices that are most likely to meet a browser's needs. **Data base marketing is based on data-mining**, searching through patterns in gathered customer information and using these buying behaviours to create directed advertising – all automatic. **For example loyalty cards.**
- **Financial information systems** allow the analysis of financial and accounting data – these systems can produce reports on cash flow and income statements and will support the financial management of the business – features of financial information systems include collecting and storing all payments and receivables, monitoring income and expenditure and balance sheets, keeping all records up to date, highlighting any deviation from budgets and reducing paperwork.
- Generic points about **removing bias from manual surveys/questionnaires/decision making tools** and/or the **ability to organise large amounts of data quickly and accurately** to help make decisions.

Credit any other valid point.

5	Using SWOT analysis, evaluate the strategic position of Unilever.			[10]
Band	A02	A03	A04	
	4 marks	3 marks	3 marks	
3	<p>4 marks</p> <p>Excellent application to the strategic position of Unilever.</p> <p>The candidate makes excellent use of the data.</p>	<p>3 marks</p> <p>Excellent use of SWOT in analysing the strategic position of Unilever.</p> <p>At least 3 factors of SWOT are analysed and the analysis is balanced and detailed.</p> <p>Well-reasoned developments that show a clear understanding of SWOT analysis.</p> <p>The analysis draws on the data.</p>	<p>3 marks</p> <p>An excellent critical SWOT analysis that evaluates the strategic position of Unilever.</p> <p>A well-balanced evaluation of at least 3 elements of SWOT analysis.</p> <p>Clear reference to the case study and context to support the judgement.</p> <p>Relevant judgements are made with qualifying statements used to build an argument.</p> <p>A holistic evaluation may be offered.</p>	
2	<p>3 marks</p> <p>Good application to the strategic position of Unilever.</p> <p>The candidate makes good use of the data.</p>	<p>2 marks</p> <p>Good use of SWOT in analysing the strategic position of Unilever.</p> <p>The candidate attempts to analyse the SWOT factors.</p> <p>The candidate attempts to develop their explanation of the SWOT factors in context.</p> <p>The analysis may be unbalanced.</p>	<p>2 marks</p> <p>Good use of SWOT analysis to evaluate the strategic position of Unilever.</p> <p>SWOT factors will be evaluated, though the evaluation may be unbalanced.</p> <p>Partial judgements are made with some attempt to support the evaluation.</p> <p>The answer may contain a brief holistic evaluation</p>	
1	<p>1–2 marks</p> <p>Limited application to the strategic position of Unilever.</p> <p>The candidate response is mainly theoretical with the limited use of the data.</p>	<p>1 mark</p> <p>Limited use of SWOT in analysing the strategic position of Unilever.</p> <p>The analysis may only refer to 1 or 2 SWOT factors.</p> <p>The analysis is superficial and undeveloped.</p>	<p>1 mark</p> <p>Limited use of SWOT to evaluate the strategic position of Unilever.</p> <p>Unsupported judgements are made.</p> <p>Statements may be brief or not fully developed.</p> <p>The evaluation may focus on 1 or 2 SWOT factors.</p>	
0	<p>0 marks</p> <p>No application to the data.</p>	<p>0 marks</p> <p>No analysis attempted.</p>	<p>0 marks</p> <p>No evaluation.</p>	

Indicative content:

- A strength of Unilever is that they are the **market leader** in the consumer goods business **with under 50% market** and it owns some of the **strongest brands such as Ben & Jerry's and Dove**. Therefore the company will benefit from brand recognition and customer loyalty. This has helped maintain customers for repeat purchases.
- A second strength is that fact that the company **operates and sells goods all over the worlds**. Selling in international markets widens the market and helps the company to attract customers to increase turnover but also spread risk.
- A final strength is that the company **benefits from economies of scale** because they operate on such a large scale. This helps them to reduce costs and is therefore helping the company to be competitive in a highly competitive industry e.g. charging lower prices.
- A weakness of Unilever is the **lack of diversity in the product range**. Products can **easily be imitated by manufacturers and supermarkets**. Supermarket brands are often offered at lower prices which is taking customers away from Unilever. A weakness is the lack of direct contact with consumers/customers/general public.
- An opportunity for Unilever is the **growing market for health-conscious customers and environmentally friendly cosmetics**. Therefore, the company could promote certain goods such as Lipton Ice Tea to different market segments to implement a market development strategy to increase sales. The company could also use the R&D processes to develop new products to meet the needs and wants of the customers within these markets.
An opportunity for vertical integration forwards and backwards.
- Unilever may face threats. Firstly, despite growing sales in many global markets there are **emerging markets in which they are seeing sales turnover fall**. This may cause some concern to shareholders who have invested heavily into targeting these markets.
- Also, **inflation is a threat** and is causing prices to rise and with a **high degree of competition**, this may impact on the market share of Unilever. As can be seen, **Unilever's market share as fallen by 3.9% since 2012**.

Overall, Unilever seems to be relatively secure in its main market because despite market share falling since 2012, they are still the market leader and have considerable market share suggesting that they have monopoly power. As long as Unilever continue to innovate and perhaps diversify, it is likely that they will continue to be a success.

Credit any other valid point.

6 (a)	Outline what is meant by an investment appraisal.	Total
	<p>AO1: 2 marks</p> <p>Award 1 mark for brief/limited outline Award 2 marks for detailed outline</p> <p>Indicative content:</p> <p>Investment appraisal is a technique used to evaluate planned investment by a business and measure its potential value to the business.</p>	2
(b) (i)	Calculate the payback period for both project 1 and project 2.	
	<p>AO1: 1 mark AO2: 2 marks</p> <p>Award 1 mark for correct formula AO1: 1 mark</p> $\frac{\text{Remaining Balance}}{\text{Monthly Cashflow}}$ <p>Award 1 mark for each correct answer AO2: 2 marks</p> <p>Project 1 = 3 years 6 months Project 2 = 3 years 3 months</p> <p>If correct answer only – award 3 marks</p>	3
(b) (ii)	Calculate the ARR for both project 1 and project 2.	
	<p>AO1: 1 mark AO2: 2 marks</p> <p>Award 1 mark for correct formula AO1: 1 mark</p> $\frac{\text{Average profit per annum} \times 100}{\text{Initial investment cost}} = \text{ARR} (\%)$ <p>Award 1 mark for each correct answer AO2: 2 marks</p> <p>Project 1 = $\frac{\pounds 40\,000/5}{\pounds 80\,000} \times 100$ = 10%</p> <p>Project 2 = $\frac{\pounds 12\,000/5}{\pounds 40\,000} \times 100$ = 6%</p> <p>If correct answer only – award 3 marks</p> <p>Award 2 marks for correct answer with no % sign</p> <p>Award 1 mark if project 1 is 30% and project 2 is 26%.</p>	3

(b) (iii)	Identify the best option for the vehicle rental business based on; the payback period and average rate of return.	Total
	AO2: 2 marks Award 1 mark for each correct answer Project 2 based on payback period. Project 1 based on ARR.	2

(c)	Evaluate the different investment appraisal methods a business could use. [7]		
Band	A01	A03	A04
	2 marks	2 marks	3 marks
3			<p>3 marks</p> <p>Excellent evaluation of the different methods of investment appraisal.</p> <p>Arguments are well balanced with reasoned judgements made.</p>
2	<p>2 marks</p> <p>Good knowledge of investment appraisals and the benefits and drawbacks of different methods.</p>	<p>2 marks</p> <p>Good analysis of the different methods of investment appraisal.</p> <p>The candidate develops their explanation of the advantage(s) and disadvantage(s).</p>	<p>2 marks</p> <p>Good evaluation of the different methods of investment appraisal.</p> <p>Arguments may be unbalanced balanced with some judgements made.</p>
1	<p>1 mark</p> <p>Limited understanding of methods of investment appraisal.</p>	<p>1 mark</p> <p>Limited analysis of a method of investment appraisal.</p> <p>Superficial or generic analysis of the advantage(s) and/or disadvantage(s).</p>	<p>1 mark</p> <p>Limited evaluation of one method of investment appraisal.</p> <p>Unsupported judgements are made.</p>
0	<p>0 marks</p> <p>No understanding.</p>	<p>0 marks</p> <p>No analysis.</p>	<p>0 marks</p> <p>No evaluation.</p>

Indicative content:

- Payback period is simple to use for the management of a business because they are easy to calculate and it will help with cash flow. **However**, it ignores cash flow over the life of the project and it ignores profitability.
- ARR examines profitability and shows all cash flows and it allows for comparisons with the cost of borrowing for investments. **However**, it ignores the timings of cash flow and fails to take account of inflation.
- A business may not have conducted the NPV which would account for the true value of money. Discounts can be changed to take into account changes in the economic and financial climate. **However**, it is difficult to calculate and discount factors could be incorrect which makes the NPV inaccurate. It is also difficult to set discount factors far into the future, the longer into the future you go the less reliable the discount factor.
- Comment on lack of qualitative data being used / Inaccurate data - cash flows are estimated which could be inaccurate.

Conclusions may centre on use of all three methods plus qualitative data to make a more informed decision.