Past-paper walk-through

Location and scale ▪ 9.1

eXercise

Questions in this set

- 9609/32 N25 Q3 ▪ 22 marks

Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = "or words to that effect" – the wording need not match.

Question 3

9609/32 N25 ▪ Q3 ▪ 22 marks

3 **(a)** Using the data in Table 1.2, calculate the payback period of the country C location.

Question 3

(b) Using the data in Table 1.3, calculate the accounting rate of return (ARR) of the country D location.

Question 3

(c) Evaluate which location KTJ should choose for its new factory.

Solution 3

(a) Mark scheme

- Using the data in Table 1.2, calculate the payback of the country C location.
- Responses may include
- Payback is in the fifth year 1
- Year
- Net cashflow ($m)
- Cumulative
- Cashflow
- 0

Solution 3

- (10)
- (10)

Solution 3

(b) Mark scheme

- Using the data in Table 1.3, calculate the accounting rate of return (ARR) of the country D location.
- Responses may include
- ARR = Average profit / average investment × 100 1
- = 2.8 / 12 × 100 = 23.3% 2
- Answer of 23.3 or $23.3 (1 mark only)
- Using alternative ARR equation: 2.8 / 20 × 100 = 14% 1
- 2

Solution 3

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Solution 3

(c) Mark scheme

- Evaluate which location KTJ should choose for its new factory.
- Level
- AO1 Knowledge
- and understanding
- 2 marks
- AO2 Application
- 2 marks
- AO3 Analysis

Solution 3

- 2 marks
- AO4 Evaluation 6 marks
- 3
- 5–6 marks
- Developed evaluation in context
- ▪
- A developed judgement/conclusion
- is made in the business context.
- ▪
- Developed evaluative comments

Solution 3

- which balance some key
- arguments in the business context.
- 2
- 2 marks Developed
- knowledge of
- relevant key term(s)
- and/or factor(s) is
- used to answer the
- question.
- 2 marks Developed

Solution 3

- application of
- relevant point(s) to
- the business
- context.
- 2 marks
- Developed
- analysis that
- identifies
- connections
- between causes,

Solution 3

- impacts and/or
- consequences.
- 3–4 marks
- Developed evaluation
- ▪
- A developed judgement/conclusion
- is made.
- ▪
- Developed evaluative comments
- which balance some key

Solution 3

- arguments.
- 1
- 1 mark
- Limited knowledge
- of relevant key
- term(s) and/or
- factor(s) is used to
- answer the question.
- 1 mark
- Limited application

Solution 3

- of relevant point(s)
- to the business
- context.
- 1 mark
- Limited analysis
- that identifies
- connections
- between causes,
- impacts and/or
- consequences.

Solution 3

- 1–2 marks
- Limited evaluation
- ▪
- A judgement/conclusion is made
- with limited supporting
- comment/evidence.
- ▪
- An attempt is made to balance the
- arguments.
- 0

Solution 3

- 0 marks
- No creditable
- response.
- 0 marks
- No creditable
- response.
- 0 marks
- No creditable
- response.
- 0 marks

Solution 3

- No creditable response.
- 12
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- Responses may include:
- AO1 Knowledge and understanding
- Definition of payback / ARR / NPV (max 1 mark for definitions of any or all of these terms)
- Factors in the decision
- ▪

Solution 3

- Shorter payback.
- ▪
- Higher ARR.
- ▪
- Capital cost.
- ▪
- Revenue expenditure required.
- ▪
- Quality of infrastructure.
- ▪

Solution 3

- Access to labour and utilities.
- ▪
- Political/legal environment.
- ▪
- Quantitative and qualitative factors.
- AO2 Application
- Limited application,
- applies knowledge to KTJ once. Developed application,
- +
- applies knowledge to KTJ twice.

Solution 3

- Application is making use of relevant case information not just repeating it.
- Using data from Tables 1.1, 1.2 and 1.3
- Country D location is double the capital cost
- Country C has quicker payback by 9 months
- Country C has higher ARR by 1.7% points
- Country C may have lower wages

Solution 3

- ▪
- Easier to export from Country D
- ▪
- Bigger potential market in Country D
- ▪
- Competition between farmers in country C
- ▪
- Economies of scale in country D farming of fruit
- ▪
- Mission statement regarding sustainability and ethical relationships with farmers.

Solution 3

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- AO3 Analysis
- Limited analysis
- – candidate shows one link in the chain of analysis.
- Developed analysis
- – candidate shows two or more links in the chain of analysis or balance of argument.
- ▪
- Country D is a middle-income country and therefore households will have a higher income

Solution 3

- this will result in higher
- sales of juices
- ▪
- KTJ juices are a premium product so will be relatively expensive
- so juices may be less affordable in country C
- ▪
- leading to lower sales
- ▪
- Seaport in country D will facilitate exports of KTJ's juice resulting in higher sales
- and may therefore increase profit

Solution 3

- ▪
- Reliable infrastructure in D could reduce delays and protect brand image resulting in higher sales
- .
- ▪
- Lower fixed costs in C could improve cash flow reducing risk of liquidity problems for KTJ
- ▪
- Economies of scale in D may reduce per-unit costs and therefore increase profit
- .
- AO4 Evaluation

Solution 3

- Limited evaluation
- – limited supported judgement and/or a weak attempt at evaluative comment. Developed evaluation
- – supported judgement and/or reasonable evaluative comment.
- Developed evaluation in context
- – supported judgement in context and/or reasonable evaluative comment in context.
- ▪
- Supported judgement as to whether country C or D is better.
- ▪
- Factors that decision might depend on:

Solution 3

- –
- Ability of KTJ to raise finance for more expensive option.
- –
- Willingness to take risk – electricity supply in country C and additional capital cost in D
- –
- Fit with KTJ's CSR – small farms rather than large scale fruit production
- –
- Importance of profit. C is marginally more profitable that D.
- –

Solution 3

- Depends on KTJ's tolerance for operational risk versus willingness to commit higher capital expenditure
- –
- Country D offers greater stability and scalability but requires larger upfront investment
- –
- Country C better supports CSR positioning but may compromise operational reliability
- –
- A phased investment strategy could balance initial risk with future growth potential

Solution 3

- –
- Decision may be influenced by external factors such as currency movements, access to finance and market growth
- trends
- ▪
- Questioning whether Gudaf has the necessary experience / skill to conduct this investment appraisal.
- Accept all valid responses.
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