3(a)

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	(10)	(10)
1	0.5	(9.5)
2	1.5	(8)
3	3	(5)
4	4	(1)
5	4	3

Payback is 4 years 3 months OR 4.25 years (2) Units required for full marks (Years/months)
Common error
5 years 3 months (1 mark if with evidence of appropriate working e.g. attempt at cumulative cashflow)

3(b)

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)

3(c)

Evaluate which location KTJ should choose for its new factory.

Level	AO1 Knowledge and understanding 2 marks	AO2 Application 2 marks	AO3 Analysis 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 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 application** of relevant point(s) to the business context.	**2 marks Developed analysis** that identifies connections between causes, impacts and/or consequences.	**3–4 marks** **Developed evaluation** • A developed judgement/conclusion is made. • Developed evaluative comments which balance some key 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** of relevant point(s) to the business context.	**1 mark** **Limited analysis** that identifies connections between causes, impacts and/or consequences.	**1–2 marks** **Limited evaluation** • A judgement/conclusion is made with limited supporting comment/evidence. • An attempt is made to balance the arguments.
0	**0 marks** No creditable response.	**0 marks** No creditable response.	**0 marks** No creditable response.	**0 marks** No creditable response.

3(c)

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
- Shorter payback.
- Higher ARR.
- Capital cost.
- Revenue expenditure required.
- Quality of infrastructure.
- Access to labour and utilities.
- Political/legal environment.
- Quantitative and qualitative factors.

AO2 Application
Limited application, APP *applies knowledge to KTJ once. Developed application,* APP APP *applies knowledge to KTJ twice.*
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
- 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.

3(c)

AO3 Analysis
Limited analysis AN *– candidate shows one link in the chain of analysis.*
Developed analysis L2 AN *– 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 AN this will result in higher sales of juices L2 AN
- KTJ juices are a premium product so will be relatively expensive AN so juices may be less affordable in country C
- leading to lower sales L2 AN
- Seaport in country D will facilitate exports of KTJ's juice resulting in higher sales AN and may therefore increase profit L2 AN
- Reliable infrastructure in D could reduce delays and protect brand image resulting in higher sales AN .
- Lower fixed costs in C could improve cash flow reducing risk of liquidity problems for KTJ AN
- Economies of scale in D may reduce per-unit costs and therefore increase profit AN .

AO4 Evaluation
Limited evaluation EVAL *– limited supported judgement and/or a weak attempt at evaluative comment. Developed evaluation* L2 EVAL *– supported judgement and/or reasonable evaluative comment.*
Developed evaluation in context L3 EVAL *– 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:
  - 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.
  - 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
  - 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.