

4. Edgar Wallis Ltd is a transport company with a small fleet of five lorries and a warehouse on an industrial estate on the border between England and Wales. The company specialises in collecting goods from manufacturers and delivering them to its customers, mostly major retail businesses, throughout Wales and the Midlands.

The increase in the sale of goods over the internet in recent years has opened up a new market for the company. Instead of delivering in bulk to stores, more and more of its business involves delivering goods directly to the homes of customers.

In order to satisfy this new demand, the company ideally needs both to upgrade its warehouse and to purchase another lorry. By upgrading the warehouse it will be able to respond more quickly to customer demands, keeping one section for trade customers and the other section for home deliveries. At the moment, some deliveries are late because they have not been loaded onto the correct lorry.

By having an extra lorry, the company will be able to make more home deliveries and cover a wider area. This should enable it to gain new customers. Also, by upgrading its fleet of lorries the company will make savings on fuel costs.

Unfortunately, in the current economic climate, the company's bank is unwilling to lend it sufficient money this financial year to pay for both the warehouse upgrade and the new lorry. A decision has to be made as to which of these two options to select.

Bill Winston, the company accountant, has looked into the problem and has come up with the following information.

Purchasing a new lorry

Initial cost = £45 000

Table 1

Year	Estimated Annual Return (£s)
1	15 000
2	15 000
3	20 000
4	20 000
5	25 000

Upgrading the warehouse

Initial cost = £40 000

Table 2

Year	Estimated Annual Return (£s)
1	20 000
2	20 000
3	15 000
4	10 000
5	10 000

The discount rate used by Edgar Wallis Ltd is 5%, as shown in the table below.

Table 3

Year	Present Value of £1 at 5%
1	£0.95
2	£0.90
3	£0.86
4	£0.82
5	£0.78

Using the payback and net present value methods of investment appraisal, **and** the other information provided, advise the company as to whether it should buy a new lorry or upgrade the warehouse.

[12]

SECTION B

Answer one of the following questions.

5. "An effective marketing strategy is more important to a business than the motivation of its employees." Discuss. [20]
6. To what extent do you agree that the best way to understand the performance of a business is to analyse its financial accounts? [20]
7. Assess the view that globalisation poses more threats to the majority of UK businesses than opportunities. [20]