

# A2 UNIT 1 STUDENT GUIDE

CCEA

## Business Studies

Strategic decision making

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# Content Guidance

## ■ Business objectives

### Mission statement

A **mission statement** is a short summary of the 'core purpose, focus and aims for trading profitably' that a business may have. The statement includes a brief description of what the business does and its key **business objectives**.

Table 1 is a sample of mission statements from the world's largest companies.

Table 1 Sample mission statements

Company	Mission statement
Coca-Cola	Our mission is: To refresh the world in mind, body and spirit To inspire moments of optimism and happiness through our brands and actions To create value and make a difference
Nestlé	Our mission of 'Good Food, Good Life' is to provide consumers with the best tasting, most nutritious choices in a wide range of food and beverage categories and eating occasions, from morning to night.
Google	To organise the world's information and make it universally accessible and useful.
Amazon	To be the Earth's most customer-centric company where the customer can find and discover anything they might want to buy online.

### Mission statement

Communicates the aim of a business to key stakeholders including employees, customers and management.

### Business objectives

Goals a business wishes to achieve. These may change over time depending on the company's fortunes, e.g. in a period of recession, from growth to survival if sales revenues or market share are in decline.

### How a business might use a mission statement

A business may use the mission statement to provide focus, direction and inspiration to its employees while simultaneously advising customers what to expect from it. The mission statement also attempts to differentiate the business from its competitors.

A business may use a mission statement as follows:

- To communicate to stakeholders the key business objective, e.g. Amazon makes a link to customers as a stakeholder group
- To create a link between business activities and key stakeholders to ensure pursuit of a common purpose, e.g. Google's ability to provide information that is universally accessible
- To inform employees of the business's aim(s), e.g. Google's desire to 'organise the world's information and make it universally accessible and useful'

A business can use its mission statement to great effect, such as providing inspiration to stakeholders, motivating staff and creating a perception of customer orientation. However, Richard Branson (a high-profile British entrepreneur) believes that 'most mission statements are full of blah truisms and are anything but inspirational'. Mission statements may be seen as generic and can be applied to many different businesses, with managers paying only lip service to the mission statement in reality.

### Knowledge check 1

Explain one way in which a business such as IKEA might use a mission statement.

## Relationship between mission statements and business objectives

In addition to a mission statement, a business may have stated aims and objectives, which include survival, **growth**, profitability and other **non-financial objectives**. Some businesses seek to link their mission statements with their objectives.

Figure 1 summarises key relationships between the mission and objectives of a business organisation.

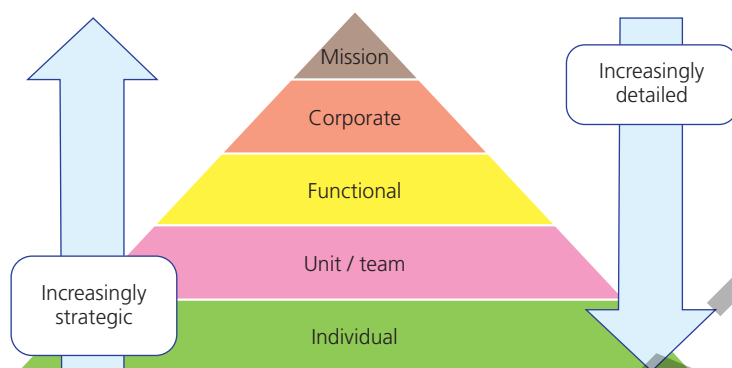


Figure 1 The hierarchy of business objectives and links with the mission statement

It is imperative that a business links its mission statement with its business objective(s). Effective business objectives typically employ the SMART acronym, summarised in Table 2.

Table 2 SMART objectives relating to Nestlé

Objective	Example
<b>Specific</b>	An objective must state clearly what is to be achieved. For example, one of Nestlé's objectives is to reduce the sugar used in their product range by 5% by 2020. This means that by 2020, 18,000 tonnes of sugar will be removed from the product range in Europe.
<b>Measurable</b>	The business can measure current performance against a stated objective. For example, Nestlé reportedly uses 1.7 million tonnes of single-use plastics per year across 98% of its product range. The company has pledged to reduce this quantity to zero across its product range by 2025.
<b>Achievable</b>	The objective must be achievable. For example, Nestlé's board of directors has agreed to reduce sugar content with reference to sales/production data.
<b>Realistic</b>	An objective must be achieved through the use of business resources. For example, Nestlé can reduce consumption of plastic packaging through a simple redesign of product packaging or increased use of paper-based materials.
<b>Time specific</b>	A deadline must be stated by which time the objective must be achieved. For example, Nestlé is aiming to reduce the sugar content of its product range by the end of 2020.

A business can achieve its objectives through the implementation of key strategies and plans, all of which should be aligned with the mission statement.

**Growth** Achieved in a number of ways, including organically (using internal sources of finance and reserves) or through takeover of another business.

**Non-financial objectives** Relate to corporate social responsibility, and employee and customer satisfaction.

### Objectives

A **business objective** is a commercial goal that a business wants to achieve and which management believes is crucial to the organisation's success. An objective can be short or long term in nature. All business organisations have at least the following business objectives.

#### Survival

Survival is where the business aims to ensure continuity of existence or ability to trade in the future. Examples include House of Fraser Limited (taken over by Mike Ashley, a business entrepreneur) and Wrightbus Limited (taken over by Mr J. Bamford a British-based industrialist).

Survival is necessary in the context of two situations:

- 1 A business has not experienced significant growth in profitability.
- 2 A business has experienced a loss of sales/market share.

However, survival may be difficult to achieve if the product range is obsolete or competition is intense in an industry.

#### Growth

In order to secure growth, a business must be able to not only survive current trading conditions but take advantage of opportunities to grow the business.

Growth is achievable if:

- internal economies of scale are achievable, which typically reduce cost per unit, since there is a greater volume of activity (e.g. sales/production levels)
- an increase in market share is achieved, which may arise from increased levels of sales quantities and/or premium pricing of product

However, growth may not be achieved if customers prefer to consume alternative products. For example, Coca-Cola faces competition from rivals such as Pepsi Cola and/or suppliers of natural/mineral water.

#### Profitability

In order to ensure the profitability of the business, management must take advantage of opportunities to grow the business and exceed current levels of profitability. For example, Tesco plc reported profits of £1.2 billion and £1.9 billion in 2018 and 2019 respectively. The implementation of a cost reduction strategy ensures costs are at their minimum levels relative to sales levels reported per store, which in turn yields increased profitability. However, the pursuit of increased levels of profitability can lead to customer loss if they perceive they are not getting value for money.

#### Non-financial objectives

A business or charitable organisation may have non-financial objectives, which are varied. For example, it was recently reported that Nestlé used 1.7 million tonnes of plastic in its product packaging. Nestlé is aiming to reduce the use of single-use plastics across its product range by 100% by 2025. This can be achieved through redesign of product packaging and/or use of alternative packaging materials such as cardboard. This would enhance the company's environmental performance. A drawback is it might increase costs for the company, resulting in an increase in unit cost.

#### Exam tip

Examinations at this level require an in-depth analysis and evaluation of key business issues within the context of the stimulus material. You can demonstrate these skills through your answers.

## Factors influencing business objectives

### Internal

- **Products and services:** must be relevant and meet current and future needs of customers in order to maintain current market share, e.g. car manufacturers regularly update their models. For example, the Nissan Leaf+ vehicle can be driven up to 385 km (239 miles) without having to recharge the battery.
- **Financial:** the business must ensure it can achieve break-even position at least, or take steps to ensure revenues exceed costs. A business with a lower cost base can invest in order to create a superior product range and excellent customer service. A significant advantage can be gained from a lower cost base. The capacity to generate profits is of paramount importance and contributes towards the business's profitability. For example, Tesco stocks 'own label' branded products alongside other branded products in its stores. This allows it to keep costs to a minimum and gain maximum customer exposure since the shelf-space is already present in the shops to do so, and at very little additional cost to the business, e.g. fixtures/fittings, distribution costs.

### External

- **Technologies and standards:** refers to the ability of a business to access/employ modern technology in order to meet customer needs and survive competitive trends — which may be largely dictated by competitors or stakeholders outside of the business. For example, the Nissan Leaf+ is now fitted with a navigation system which can be updated using a smartphone app that allows customers to keep up-to-date with changing environmental conditions.
- **Location:** refers to the physical location of business operations and therefore accessibility to market and customer base. For example, a business might be the sole provider of natural drinking water in the county, based on the location of the well. Alternatively, the business might find the business model must incorporate the use of online trading activities, which in turn may reduce costs and increase revenues. For example, Irish Salt Mining and Exploration Limited (ISME) is the sole supplier of natural salt in Northern Ireland, based on the location of the salt mine. This allows it to reduce production costs, as the mine is located at the salt deposit located underground.
- **Economic issues:** refers to issues outside the business's control that are likely to impact performance and therefore the achievement of business objectives, such as 'Brexit', factors that influence international trade, external threats facing the business and issues in the domestic economy such as the levels of interest rates, exchange rate fluctuations and/or imposition of government taxes. For example, in 2020, it was reported that the airline Flybe paid more Air Passenger Duty (APD) tax (totalling £100 million) to the UK government than any other UK-based airline, which was a contributory factor in the collapse of the business, since Flybe was a UK-based airline using UK-based air routes, which in turn generated higher tax rates compared with those for other airlines.

## Short-term and long-term objectives

A business may classify its objectives in terms of short-term and/or long-term objectives. It is important that the two support each other.

### Short-term objectives

Short-term objectives are typically achievable within a period of 1 year — consistent with the operational plan of a business. Examples of such objectives include: increase market share by 3%; reduce labour turnover in the business by 1%; increase net profit by £1,000 in the next 12 months.

### Long-term objectives

Long-term objectives are typically achievable within a 2–5-year period — consistent with the strategic plan of a business. Examples of such objectives include: completion of a £10 million investment programme in new factory machinery over a 5-year period; increase market share by 5%; introduce a new product to the market over the next 5 years.

### Conflict between business objectives

There are times when short-term objectives may conflict with long-term objectives. Management must ensure the two sets of objectives are consistent with each other in order to minimise conflict.

Examples of conflict between short-term and long-term business objectives are summarised in Table 3. Managers must ensure any differences between the various objectives are minimised.

Table 3 Potential for conflict between business objectives

Objective 1	Objective 2	Conflict between the objectives	Process
<b>Growth:</b> increase market share (long term)	<b>Profit:</b> maximise profit margins (short term)	In order to achieve the growth objective, the business needs to launch new products. In order to launch new products there are large costs involved in marketing and promotion. The new products therefore sell with a lower profit margin due to the higher costs involved in their production. This conflicts with the profit objective. The company could maximise profit margins by selling only products the market is already familiar with, requiring relatively low promotion and marketing spend. This, however, would not help the company to grow market share.	The company carefully evaluates the impact of each objective when considering whether or not to launch a new product.
<b>Reduce the amount of pollution generated:</b> reduce waste (non-financial objective, long term)	<b>Profit:</b> improve margins (short term)	In order to achieve the non-financial objective, the business needs to reduce the amount of pollution it generates, therefore helping to reduce harm to the environment. However, this increases costs significantly, meaning the product range sells at a lower profit margin. This conflicts with the profit objective. The company can improve profit margins by recycling materials and promoting its corporate social responsibilities, which might allow it to increase sales prices. This, however, would not help the company to increase market share in the short term.	The company carefully evaluates the impact on each objective when considering whether or not to impose a price increase on customers.





Objective 1	Objective 2	Conflict between the objectives	Process
<b>Profit:</b> maximised profit margins (short term)	<b>Survival:</b> ensure continuity of the business (long term)	<p>A local bus company is in financial difficulties. The board of directors suggests the sale of a profitable subsidiary company to a venture capitalist, in order to raise additional funds. In order to survive and fulfil customer orders, the parent company needs the additional funds to complete current production levels. This means that the company no longer has the security of a profitable subsidiary, which increases financial risk and conflicts with the profit objective.</p> <p>The company could improve profit margins by investing in innovation (to improve product appeal to customers) and promotional activities (to increase customer orders in future).</p>	The company carefully evaluates the impact on each objective when considering the best way to ensure survival.

### Summary

After studying this topic you should be able to:

- analyse and evaluate the relationship between mission statements, aims and organisational objectives, including survival, growth, profitability and non-financial objectives
- analyse and evaluate how businesses use mission statements
- analyse and evaluate the internal and external factors influencing business objectives
- analyse and evaluate the use of short-term and long-term objectives by a business
- analyse and evaluate when business objectives may conflict

# ■ Organisational culture

## Culture

Culture refers to the attitudes, beliefs and values prevalent in a business that influence the way it operates on a daily basis. It is commonly interpreted as 'the way we do things around here', from the internal perspective of a business organisation. In other words, it can refer to the 'personality' of an organisation, the beliefs its employees share and the procedures determining the ways in which people behave and solve business problems within the organisation.

In order to ensure success in achieving business objectives, a business must formalise links between organisational culture, business policies and procedures, and its stated objectives. Some examples of organisational culture include the following:

- Oxfam: the charity's objective is to overcome poverty and reduce suffering of individuals affected by drought, political strife and other natural disasters. A key aspect of culture is staff and volunteers are committed to overcoming poverty, by focusing on innovation (in the use of resources and processes), collaboration (between various charities to implement the best methods of providing support to victims) and being more cost-effective in the provision of help (by ensuring a larger number of people receive help from the resources available by recycling donated items where possible). This results in a more positive impact on culture, since collaboration produces a democratic approach to leadership, ensures active participation from all staff and volunteers, and encourages initiative at all levels in order to achieve positive outcomes.
- IKEA: the company's objectives are the creation of a better home life for customers and profitability. A key aspect of culture is all staff members are treated as professionals and engage in teamwork to ensure creation of quality products. A participative approach is employed whereby staff members are encouraged to make decisions as opposed to taking direction from senior colleagues. This results in products that are innovative and have broader appeal to customers, which in turn should yield additional profits for the company.

## Importance of culture to a business

Culture within a business, for example business policies, processes, reward systems, and staff/manager behaviours, is of prime importance, as it ultimately affects how the business performs.

Adopting a positive business culture is important, as it:

- attracts highly skilled and qualified staff to the business
- ensures the right staff are appointed, i.e. they are likely to fit with organisational norms and objectives
- improves business performance since all staff are likely to work towards achieving business objectives

A business must ensure all employees and managers have an understanding of key aspects of the organisation's culture and the ways in which they impact their role and/or discipline. Table 4 gives examples of both strong and weak culture.

Table 4 Evidence of both strong and weak culture

Evidence of strong culture	Evidence of weak culture
Staff members have a good understanding of business norms and behaviour, e.g. IKEA's staff members treat customers fairly and provide assistance.	Staff members have little understanding of business norms and behaviours, e.g. staff in a taxi business may not appreciate the importance of good timekeeping.
Staff members behave consistently with business values, e.g. IKEA's objective is to help its customers.	Staff members have little understanding of business values, e.g. staff in a taxi business may overcharge customers on a regular basis.
Lack of formal policies and procedures to encourage creativity, e.g. evidence that staff members are engaged in innovation/research & development (R&D).	Formal policies exist in all functional areas, e.g. the complaints procedure may exist to enable customers to make a complaint about the service received.

**Knowledge check 2**

Explain one way in which culture is important to a business such as Asda Stores Limited.

## Cultural issues related to key functional business areas

Culture is prevalent in all functional areas of the business. Table 5 provides examples of cultural issues in business contexts.

Table 5 Examples of culture in functional areas of business

Functional area	Example	Analysis/evaluation of culture
Corporate administration	Visitor experience to the organisation	<b>Strong:</b> formal sign-in/pre-booked visits for security reasons or to avoid double-booking <b>Weak:</b> informal/ad-hoc basis implies lack of organisation
Corporate administration	Perceived physical appearance and organisation of workspace	<b>Strong:</b> little evidence of physical barriers between managers and staff through use of open plan/shared space, which encourages staff communication <b>Weak:</b> individual offices for managers may lead to lack of consultation/discussion with staff on key issues
Sales	Self-service checkouts	<b>Strong:</b> reduces queues at checkouts, improving customer experience <b>Weak:</b> loss of personal contact with customers
Human resources	Online technology for recruitment	<b>Strong:</b> forces applicants to develop key IT skills in order to be considered for roles in the organisation <b>Weak:</b> not all employees are IT literate, therefore highly specialised/experienced candidates may be eliminated even if they are the right candidate for the job
R&D	Innovation/research tasks	<b>Strong:</b> staff act with autonomy and in a professional manner to achieve R&D objectives <b>Weak:</b> staff only act under supervision, in a highly regulated environment and only with prior management approval
Finance/accounting	Financial	<b>Strong:</b> financial approval must be sought for all expenditure and budgets strictly adhered to <b>Weak:</b> lack of financial prudence and budgetary control results in overspending and profit loss

## Models of culture in a business

Handy

Handy classifies organisational culture into four types:

### 1 Task culture

Task culture focuses on the completion of specific tasks. Employees are organised into teams to complete different tasks. This can lead to high levels of motivation and

## Questions & Answers

Holistic marking levels for evaluative question 5 — 25-mark question

Level	Response	AO1 Knowledge and understanding	AO2 Application	AO3 Analysis	AO4 Evaluation	Marks
4	Excellent	Comprehensive, relevant, accurate depth and well selected range of knowledge and understanding of issues	Thorough application of relevant source material throughout, effectively applied	Highly appropriate, clear and logically developed analysis and logical chains of reasoning	Detailed evaluation with a balanced judgement, a clear focus throughout built on effective analysis and use of business language Excellent QWC	20–25
3	Good	Sound, relevant, accurate knowledge and understanding of issues	Sound application of relevant source material throughout	Focused, clear and logical, well developed analysis and reasoning	Appropriate evaluation, informed judgement built on sound analysis Good QWC	14–19
2	Satisfactory	Some knowledge and understanding relevant to stated question	Some application of relevant source material throughout	Some analysis and reasoning	Some stated evaluation that lacks balance from linked analysis Satisfactory QWC	8–13
1	Basic	Limited knowledge and understanding	Limited application of relevant source material and is mainly descriptive	Limited or no relevant analysis and reasoning, no development of the issues	Limited and unsupported evaluation from limited built analysis Basic QWC	1–7

1 Read the following extract and answer the questions that follow.

### Extract 1 River Foods Limited

River Foods Limited breeds and sells salmon products from a fishery located near the river Bann. The company's business objective is to ensure growth of the business. The marketing staff are aware that in order to achieve this objective the company must compete in global markets, therefore the product range must appeal to a variety of consumers. One such delicacy under consideration is sliced salmon mixed with a salad in 250g convenience packs, aimed at the consumer lunchtime market. If this product line continues unaltered, the marketing staff estimate that there is a 0.6 probability of annual sales falling to £40,000 and only a 0.40 probability that market share revenues might be maintained at the current level of £400,000.

The sliced salmon product range can be modified slightly by introducing a new flavour (piri-piri spice). The cost of adding new spices to the product range is estimated to total £100,000. The marketing staff need to decide on the amount of expenditure

required to fund marketing activities aimed at increasing consumer awareness in new and existing markets. The marketing staff are of the opinion that an internet-based advertising campaign would cost £20,000 and have a 0.20 probability of success, raising annual sales to £500,000. If the advertising campaign were to be unsuccessful, sales of the new flavour would likely be £200,000.

Alternatively, spending £100,000 to extensively advertise the new flavour, the marketing staff estimate that sales revenue would reach £1m if successful. Given the current strength of the brand, the marketing staff believe that there would be a 0.80 probability of this occurring, while failure of such an expensive advertising campaign is estimated to yield sales revenues amounting to £500,000.

The marketing staff suggest that decision tree analysis might assist their marketing plans, as it will indicate the expected value of each decision and provide insight into the most feasible outcome.

**a** Using the case study information, explain the term 'business objective'.

4 marks

The 'explain' command word means you need to state a clear definition of the business term in the question and support the answer with reference to an example from the case study.

**Student A answer**

A business objective is a goal the business wishes to achieve. In this case, River Foods Limited's business objective is growth of the business **a**. One way in which growth is going to be achieved is the entry of the company into global markets with the introduction of a new 'piri-piri' flavour salmon product aimed at meeting consumer needs **b**.

**a** The student gives an accurate explanation of the term 'business objective' as related to River Foods Limited, which merits the award of 2 marks. **b** The student also states an example in detail using source material appropriately, which merits the award of 2 marks for application of knowledge.

**4/4 marks awarded**

**Student B answer**

A business objective is something the business seeks to achieve, e.g. growth in profits **a**. This can be achieved by selling the product in the global market **b**.

**a** The student gives a basic explanation of the term 'business objective', which merits the award of 1 mark. **b** This is supported with a limited reference to the sale of a product in the global market. However, the comments are generic, gaining 1 mark for application.

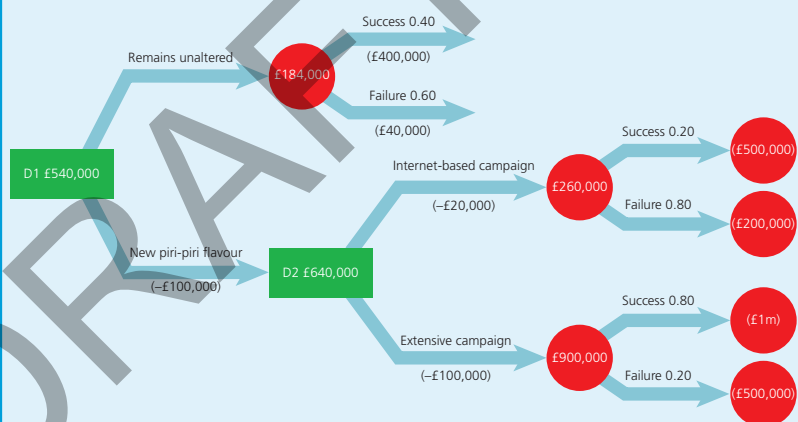
**2/4 marks awarded**

**b** Using the case study information, construct a decision tree summarising the best most cost-effective outcome for River Foods Limited. (You must show all your workings.)

6 marks

The 'construct' command word means you need to draw a decision tree to show all the relevant data, using established decision tree notation. You then need to calculate the most cost-effective outcome, showing your workings.

**Student A answer**



Student A's decision tree for River Foods Limited

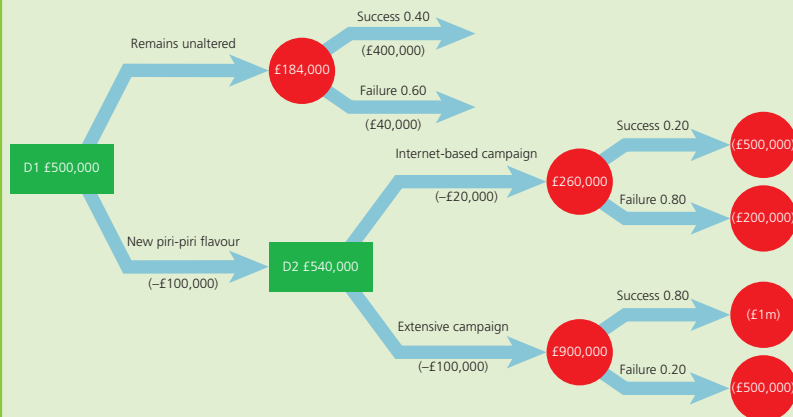
Note: the most cost-effective decision is to introduce the new flavour and advertise the product line extensively — this yields highest expected value.

The student constructs an accurate decision tree and undertakes all appropriate calculations, annotates the decision tree throughout and states the correct answer, being the most cost-effective decision for the management team of River Foods Limited. 1 mark is awarded for calculation and correctly stating the following figures: £900,000, £260,000, £184,000 and £640,000. The student continues to apply the methodology throughout and correctly calculates the most cost-effective decision as £540,000 for which 1 mark is awarded. The student also correctly states the correct decision to introduce the new flavour to the product line for which 1 mark is awarded.

**6/6 marks awarded**

## Questions & Answers

### Student B answer



Student B's decision tree for River Foods Limited

Note: the most cost-effective decision is to introduce the new flavour and advertise the product line extensively — this yields highest expected value.

The student constructs a mostly accurate decision tree and undertakes most of the appropriate calculations and annotates the decision tree throughout. However, they state an incorrect answer — they have failed to take into consideration the cost of adding the new piri-iri flavour to the product costing £100,000. 1 mark is awarded for calculation and correctly stating the following figures: £900,000, £260,000 and £184,000. The student incorrectly applies the methodology in part, by incorrectly considering the costs of an extensive advertising campaign and ignoring the cost of the new flavour, therefore decision (D2) is incorrect (£540,000) as is the final decision (D1), stated at £540,000, for which no marks are awarded. However, the student does correctly state the correct decision to introduce the new flavour to the product line for which 1 mark is awarded.

**4/6 marks awarded**

2 Read the following extract and answer the questions that follow.

### Extract 2 MIK ElecEng plc

MIK ElecEng plc is a manufacturing company that produces generators for the domestic new build market. One of its objectives is that shareholders must receive a minimum return of 20% per annum on their investment. This ensures existing shareholders are retained and attracts future shareholder investment if and when required.

Table 1 MIK ElecEng plc income statement for the year ended 31 December

	31 December 2019	31 December 2018
Sales revenue	6,578,000	6,101,000
Gross profit	4,573,000	4,305,000
Expenses	3,388,000	3,109,000
Net profit before finance charges	1,185,000	1,196,000
Finance charges	108,000	76,000
Net profit before taxation	1,077,000	1,120,000
Taxation	46,000	158,000
<b>Net profit after taxation</b>	<b>1,031,000</b>	<b>962,000</b>
Distribution of profits		
Ordinary dividends	900,000	900,000
Preference dividends	25,000	25,000
Retained profits	106,000	37,000
	<b>1,031,000</b>	<b>962,000</b>

Table 2 MIK ElecEng plc statement of financial position for the year ended 31 December

	31 December 2019	31 December 2018
Non-current assets	4,925,000	4,467,000
Current assets	1,831,000	1,120,000
<b>Total assets</b>	<b>6,756,000</b>	<b>5,587,000</b>
<b>Equity</b>		
4,500,000 paid up £1 ordinary share capital	4,500,000	4,500,000
250,000 10% £1 preference share capital	250,000	250,000
Retained profits	443,000	337,000
<b>Total equity</b>	<b>5,193,000</b>	<b>5,087,000</b>
Non-current liabilities	675,000	175,000
Current liabilities	888,000	625,000
Total liabilities	1,563,000	800,000
<b>Total equity and liabilities</b>	<b>6,756,000</b>	<b>5,887,000</b>

During the year ended 31 December 2019 the directors voted to replace equipment totalling £500,000 with a long-term bank loan with annual finance charges of approximately £30,000.

At the time a minority of directors opined that the £500,000 funding for the equipment should come from either the retained profits of £443,000 plus a loan of £57,000 or by reducing dividends to ordinary shareholders for the year ended 31 December 2020 by £500,000 to £400,000. The majority of directors voted for the bank loan so as not to interfere with either retained profits or the promised annual 20% shareholder dividend.

During 2020, MIK ElecEng plc employees demanded a pay increase based on the 2 years financial statements that declared £1 million profits for each of the two previous years. Since 2013, the directors have frozen annual employee wage increases as a means of cost cutting to increase the company's net profits. The employees have threatened action if their demands are not met.