Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

Each answer shows the steps, then the **result**.

2.1

- any two of: can we afford it (cash/gearing)?; how will it affect profit and return?; what is the payback/risk?; how will it affect liquidity? (1 + 1)

2.2

- the proportion of a firm's long-term capital that comes from borrowing rather than from owners (2 for a clear definition; 1 for a partial idea)

2.3

- any one of: the market and competition; staff morale and skills; the firm's objectives; ethics or the environment (2 for a developed point; 1 for a basic one)

3.1

- *[3]* **AO1** 1 — give a reason (it measures cost, profit, return and risk objectively). **AO2** up to 2 — develop it, e.g. comparing the NPV of two projects shows which adds more value
- managers choose the better one
- resources are used well (2 developed / 1 limited)

3.2

- *[8]* For **each** of two factors: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *gearing/affordability*: a heavily borrowed firm
- high interest risk
- it may delay or fund the project with equity instead. *Return (NPV/ARR)*: a project with a positive NPV
- adds value over its life
- worth investing in if cash allows. Maximum 4 per factor, 8 total

3.3

- *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **For:** financial data is objective, measures cost, return and risk, and underpins affordability. **Against:** numbers use estimates and past data, and ignore the market, competition, staff and ethics; a profitable-looking plan can still fail for non-money reasons. Judgement: financial data is essential but rarely sufficient alone — the best decisions weigh it against market and human factors and the firm's objectives; its importance depends on the type of decision