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

- the money a business has available for its day-to-day needs, found as current assets minus current liabilities (2 for a clear definition; 1 for a partial idea)

2.2

- \$60,000 – \$45,000 = \$15,000 (2; award 1 for a correct method with the wrong figure)

2.3

- capital expenditure is money spent on fixed assets that last a long time (machines, buildings); revenue expenditure is money spent on day-to-day running (wages, rent, materials) (2 for a clear difference; 1 for a partial idea)

3.1

- *[3]* **AO1** 1 — give a reason (sells on credit and customers have not paid; bought too much stock or assets; overtrading). **AO2** up to 2 — develop it, e.g. goods are sold but customers pay 60 days later
- the firm has profit on paper but no cash now
- it cannot pay wages (2 developed / 1 limited)

3.2

- *[8]* For **each** of two reasons: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *pay bills*: enough working capital
- the firm pays suppliers and wages on time
- it keeps trading and its reputation. *Avoid failure*: too little working capital
- it cannot meet short-term debts
- it may be forced to close even if profitable. Maximum 4 per reason, 8 total

3.3

- *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **For** holding cash: it pays bills, covers emergencies and avoids failure. **Against:** idle cash earns nothing and could be invested in stock, assets or marketing that raise profit. Judgement: a firm needs *enough* cash to stay safe, but too much is wasted — good working-capital management means a sensible balance, not "as much as possible"; the right level depends on how steady its cash flow is