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

- profit kept in the business (not paid out to owners) and used to finance the firm (2 for a clear definition; 1 for a partial idea)

2.2

- any two of: share capital; bank loan; debenture; overdraft; leasing; hire purchase; trade credit; venture capital; crowdfunding (1 + 1)

2.3

- a loan is a fixed sum borrowed and repaid with interest over a set time; an overdraft lets the bank account go below zero for a short time, for smaller, short-term needs (2 for a clear difference; 1 for a partial idea)

3.1

- *[3]* **AO1** 1 — name a benefit (no interest; no loss of control; no repayment date). **AO2** up to 2 — develop it, e.g. retained profit costs no interest
- cheaper than a loan
- more of the return stays in the business (2 developed / 1 limited)

3.2

- *[8]* For **each** of two factors: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *purpose/term*: a long-term asset
- financed by long-term finance
- repayments matched to the income the asset earns. *Cost*: a high-interest source
- raises costs
- lowers profit, so a cheaper source is better if available. Maximum 4 per factor, 8 total

3.3

- *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **Loan:** keeps ownership and control, interest is tax-deductible — but it must be repaid with interest and needs collateral, raising risk. **Shares:** no repayment and no interest — but ownership and control are diluted, dividends are expected, and an Ltd can only sell shares privately. Judgement: a stable firm confident of repaying may prefer a loan to keep control; one wanting to avoid fixed repayments may prefer shares — it depends on its existing debt, profits and the owners' wish to keep control