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 difference between cash inflows and cash outflows over a period (2 for a clear definition; 1 for a partial idea)

2.2

- net cash flow = \$20,000 − \$23,000 = −\$3,000; closing = \$4,000 + (−\$3,000) = \$1,000 (2; award 1 for a correct method with the wrong figure)

2.3

- any two of: too many sales on credit; holding too much stock; buying too many assets at once; overtrading (1 + 1)

3.1

- *[3]* **AO1** 1 — name a benefit (spots a shortage early; helps arrange finance; supports planning). **AO2** up to 2 — develop it, e.g. a forecast shows a shortage two months ahead
- the firm arranges an overdraft in time
- it avoids running out of cash (2 developed / 1 limited)

3.2

- *[8]* For **each** of two ways: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *faster customer payment*: offer a discount for early payment
- cash comes in sooner
- the gap is covered. *Longer trade credit*: agree to pay suppliers later
- cash stays in the business longer
- the shortage is eased. Maximum 4 per way, 8 total

3.3

- *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. Compare options: an **overdraft** is fast and flexible but has high interest; **chasing debtors** brings in owed cash but may annoy customers; **cutting stock** frees cash but risks stock-outs; **delaying suppliers** helps but can harm relationships. Judgement: the best choice depends on the size and length of the shortage — a short gap suits an overdraft, while a deeper problem needs better working-capital management, not just borrowing