2(a)	**Define the term *liquidation*.** **Indicative content** Responses may include: **AO1 Knowledge and understanding** **CLEAR UNDERSTANDING (2 marks)** • process of selling off assets to repay debts/creditors (2) • selling assets to settle liabilities (2) • when a business ceases trading and its assets are sold for cash to pay suppliers and other creditors (2) Clear understanding of the term *liquidation* is worth 2 marks. This is indicated by 2 ticks ✓ ✓. **PARTIAL UNDERSTANDING (1 mark)** • selling assets (1) • dissolution of a business (1) **NOTE**: *do not accept bankruptcy.* Partial understanding of the term *liquidation* is worth 1 mark. This is indicated by 1 tick ✓. Accept all valid responses.
2(b)	**Explain <u>one</u> external source of finance for a business.** **Indicative content** Responses may include: **AO1 Knowledge and understanding** **1 mark for identifying ONE external source of finance for a business.** • bank loans • share capital • debentures • new partners • venture capital/private investment • bank overdrafts • leasing • hire purchase • mortgages • debt factoring • trade credit • micro-finance • crowd funding • government grant

A-Level Business: **w25 11**

2(b)

AO2 Application

2 marks for DEVELOPED application/explanation of ONE source of finance.
1 mark for LIMITED application/explanation of ONE source of finance.

- borrowing money from a bank and paying it back in instalments, including interest, over an agreed period of time
- raising money by selling a share of the business to investors who then have voting rights and receive a dividend
- a long-term loan with a fixed interest rate where investors do not have voting rights but do receive the interest payment
- allowing new partners to buy into the business, providing more money and expertise; will require a share of the profit
- investors provide a mix of loan and share capital to a business which has a high risk of failure; want a return of partial ownership and control plus dividend on profits
- short term finance allowing a business to borrow up to an agreed limit for as long as it wishes but interest must be paid
- renting non-current assets for an agreed period of time, without owning them
- buying non-current assets in instalments over an agreed period of time, owning the asset once the final payment is made
- long term loans for the purchase of land and buildings, with the land or building used as collateral (security)
- selling unpaid invoices to financial institutions to gain immediate cash; there is a fee to be paid for this service
- short term finance – interest free loan from suppliers, with agreement to pay for goods/services within agreed time period after receiving invoice
- transfer of money from high income earners (individuals/countries) to low-income earners to develop business activities
- collecting a small amount of money from a large number of supporters, which may be a donation or a loan
- money from government to support business activity which benefits the country – jobs, production, R and D, competitiveness

Accept all valid responses.

A-Level Business: **s25 11**

4

Analyse <u>one</u> way a business might fail as a consequence of lack of finance.

There are 5 marks for this question:

1 mark for K

2 marks for APP

2 marks for AN

Indicative content

Responses may include:

AO1 Knowledge and understanding

1 mark for K identifying **one** way a business might fail due to lack of finance

Inability to:
- sustain cashflows
- provide working capital
- build up reserves
- pay suppliers/variable costs
- invest
- obtain sources of finance
- maintain quality/innovation/research and development
- to recruit managers
- bankruptcy/insolvency/administration/liquidity issues

<table>
<tr>
<td>4</td>
<td>

AO2 Application

2 marks for **developed** APP of the chosen way identified

1 mark for **limited** APP of the chosen way given

- A lack of finance may undermine a business's capacity to survive at various times and in various situation
- Such as the inability to purchase essential equipment
- An inability to cover day-to-day expenses (paying wages and suppliers)
- An inability to build up reserves in times of recession
- An inability to support essential growth and expansion plans.

AO3 Analysis

2 marks for **developed** AN of the chosen way

1 mark for **limited** AN of the chosen way

- Insufficient start-up finance can lead to early business failure – significant capital investment is likely to be needed to provide an adequate infrastructure for survival, e.g. purchase of adequate equipment, hire of appropriate labour, initial launch expenditure and publicity material. Without sufficient finance, such an initial set of essential requirements will not be met, resulting in the likely collapse of a business.
- A business is likely to fail if it doesn't maintain adequate positive cash flows and sustain an adequate level of working capital. Poor financial management can lead to high inventory levels, an excessive number of debtors, and an inability to cover day-to-day activity expenses. If a business is unable to pay bills (especially suppliers) and pay employees, it will be unable to operate – businesses need to have several months of working capital in reserve as a buffer against delayed incoming payments.
- A business to be successful may need to continuously expand and grow – develop new products and expand into new markets. This growth and expansion requires funding and without an effective financial structure in place, businesses that are unable to expand are at risk of being left behind by competitors and eventually failing.
- Businesses need sufficient finance to respond to adverse economic conditions – unexpected recessions and depressions – the progress of any business is rarely linear – sufficient finance is needed for a business to survive challenging times – a lack of contingency finance can result in business failure.

Accept all valid responses.

</td>
</tr>
</table>