5(a)	**Analyse two benefits to a business of using an internal source of finance for business growth.** **Indicative content** Responses may include: **AO1 Knowledge and understanding – 1 mark for each identified benefit** • May be readily and speedily available • Will not increase business debt - gearing ratio unaffected • Will not need repayment planning • Will not require interest payments - low cost • Will not lose any control over the business • **AO2 Application 1 mark for application/explanation of each identified benefit** • A business will avoid lengthy and costly applications for external finance • Allows a business to focus on core competencies • Avoids possible external interference of the business. • Shareholders cannot influence business decisions **AO3 Analysis – 2 marks for DEVELOPED analysis of each identified benefit** **– 1 mark for LIMITED analysis of each identified benefit** The benefits of using internal sources of finance may include: • Internal sources may mean lower costs of finance – the avoidance of loan, overdraft, credit card interest/fees. • No interference by external investors, meaning owners can focus on original objectives • No delay in acquiring the finance – waiting for approval could mean loss of business opportunities – no wait for credit reports – supports quick decisions. • No requirement for collateral when using internal resources – simplified finance acquisition. • Business avoids taking on any further legal obligations associated with external sources of finance – another indicator of internal control and independence. Accept all valid responses.
5(b)	**'The main reason why many small businesses fail is that they do not understand the difference between cash and profit'. Evaluate this view.** **Indicative content** Responses may include: **AO1 Knowledge and understanding – 2 marks for DEVELOPED understanding L2 K and 1 mark for LIMITED understanding – L1 K- put ticks in body of script and annotate in left hand margin.** • Cash flows in and out of an operating business in a certain period of time - the life blood of an organisation • Profit is revenue less all the expenses of a business in a certain period of time • Business failure – reasons for this **AO2 Application – 2 marks for DEVELOPED application L2 APP – 1 mark for LIMITED application L1 APP – put ticks in body of script and annotate in left hand margin.** • Produce goods and services on a relatively small scale – often sole proprietorships, partnerships or family businesses. • High rate of small business failure in the early years of operation. • likely to have very limited resources (capital, cash, and personnel) • Inexperienced management/poor decision-making over a variety of areas – marketing, operations, finance – lack of competency • May lack resources to match efficiency of larger competitors …. no cash for operations or growth – no economies of scale • May have very small customer base – insufficient revenue • Often have inadequate business plans • Often do not see short term cash management and long-term profit maximisation as priorities • Microfinance may be available

5(b)	**AO3 Analysis – 2 marks for DEVELOPED analysis L2 AN and 1 mark for LIMITED analysis L1 AN – put ticks in body of script and annotate in left hand margin.** • Failure to see that cash is not profit, and profit not cash means that businesses may be profitable but lack adequate cash flow. • A business may make a profit over the period of a year but report a shortage of cash in the accounts, resulting in an inability to pay taxes on the profit made – leading to failure (forced into administration by a government). • A business that generates profit while being cash negative may well not survive – a business that generates a lot of cash flow while remaining unprofitable may well survive – businesses need cash all the time and they can survive, even if they lack profit in the short term. • Profit is a necessity for business growth over the long term, but cash is necessary for company survival in the short term. • May well pursue profits in the short term in an effort to generate cash and neglect a focus on working capital • The cash flow of a business provides a good indicator of its financial health – the cash flow of a business is tied to its core operations and activities and requires an effective cash management policy to ensure that there is always sufficient cash available to pay core and regular expenses, such as employee remuneration and materials/supplies.

5(b)	**AO4 Evaluation- up to 6 marks for evaluation – EVAL** **USE THE FOLLOWING TABLE:**

Developed/Supported judgement in context	L3 EVAL	6 marks
Developed/Reasonable evaluative comments in context	L3 EVAL	5 marks
Developed/Supported judgement without context	L2 EVAL	4 marks
Developed/Reasonable evaluative comments without context	L2 EVAL	3 marks
Limited supported judgement	L1 EVAL	2 marks
An attempt to balance the arguments/Weak attempt at evaluative comments	L1 EVAL	1 mark

- Any judgements/conclusions/critical comment may be made at any point in the essay and not just in a concluding section.
- A judgement is made that a primary reason for small business failure is a lack of cash or working capital – caused by an inability to distinguish between cash and profit – a judgement supported by reasoned argument.
- A judgement is made that while a lack of cash is a fundamental reason for small business failure, it is not the only reason – there are many possible reasons.
- Some of the reasons adjudged to be significant, such as poor management and lack of an effective business plan, may actually lead to poor cash flow management.
- Other reasons for small business failure suggested in an evaluative section could include such factors as a flawed business model, inadequate start-up capital, unsuccessful marketing, poor market research and a poor business strategy.

Accept all valid responses.

6(a)	**Analyse <u>two</u> uses of cost information for a business.** **Indicative content** Responses may include: **AO1 Knowledge and understanding** **1 mark for identifying ONE use (K)** • provides vital information for effective decision-making- such as cash flow management • cost information can be used to monitor business performance - identifying which products are most profitable • can be used to reduce costs - take out high-cost centres • role in selecting price strategy - cost based pricing • calculating profits • constructing break-even • setting budgets • financial reporting • choosing suitable location • choosing appropriate method of production
6(a)	**AO2 Application** **1 mark for application of ONE use (APP)** • decision-making – start-up; expand; cost reduction • measurement of performance – profit / loss; comparisons • setting prices - cost plus pricing, contribution pricing • whether to accept special orders – additional cost of order • supports review of how areas of business contribute to overall business performance • may be used as evidence to support business rationalisation **AO3 Analysis - up to 2 marks for analysis of each use** **2 marks for DEVELOPED analysis of each use (L2 AN)** **1 mark for LIMITED analysis of each use (L1 AN)** • decision-making – can produce break even, budgets, cashflow forecasts, variances accurately and make informed decisions • measurement of performance – knowing revenue minus total costs (fixed and variable) means profit or loss can be calculated • identify cost centres – allocate costs to different departments / products and monitor • comparing costs with previous years, predictions, competitors or different parts of the business is vital to assess and improve performance – more profitable / competitive • cutting costs increases profits as long as revenue stays the same • prices must cover all costs of the business to make a profit • special orders – contribution of one product Accept all valid responses.

6(b)

'A large bank loan is the most appropriate source of finance for the expansion of a furniture retailer.'

Evaluate this view.

Indicative content

Responses may include:

AO1 Knowledge and understanding - 2 marks for DEVELOPED knowledge and understanding (L2 K)
1 mark for LIMITED knowledge & understanding (L1 K)

- sources of finance – internal and / or external – retained profit; share capital; debentures; venture capital; bank overdraft; leasing; hire purchase; bank loan; mortgage; debt factoring; trade credit; crowd funding; government grant
- types of expansion - buying new premises / extending current premises; employing more staff; increasing product range; buying outlets in different areas
- furniture manufacture – type of retailer – mass market or bespoke selling physically or online and / or online

AO2 Application - 2 marks for DEVELOPED application (L2 APP) - 1 mark for LIMITED application (L1 APP)

- furniture retailers – a range from high end to self-assembly
- furniture retailer needs a show room to exhibit the furniture
- sofas, beds, tables, and chairs, home décor items
- Ikea, Lazy Boy, DFS, John Lewis, Furniture World, Furniture Village – accept local examples

AO3 Analysis - 2 marks for DEVELOPED analysis (L2 AN) - 1 mark for LIMITED analysis (L1 AN)

- strengths and weaknesses of relevant sources of finance – availability, interest payments, amount required, short or long term, investor confidence, loss of control, input of new ideas,
- consideration of internal and / or external finance, long term and / or short term
- some types of finance may not be available / suitable / enough for expansion – crowdfunding, venture capital, micro-finance, overdraft, debt-factoring, trade credit
- consideration of different types of expansion and what finance method may be appropriate e.g. mortgage for buildings or land, leasing or hire purchase for buying new tills, shelving (is a retailer, not a manufacturer), becoming a plc for large scale expansion of an already recognised business

6(b)

AO4 Evaluation – Up to 6 marks for EVALUATION - USE THE FOLLOWING TABLE:

Developed / Supported judgement in context	L3 EVAL	**6 marks**
Developed / Reasonable evaluative comments in context	L3 EVAL	**5 marks**
Developed / Supported judgement without context	L2 EVAL	**4 marks**
Developed / Reasonable evaluative comments without context	L2 EVAL	**3 marks**
Limited supported judgement	L1 EVAL	**2 marks**
An attempt to balance the arguments / Weak attempt at evaluative comments	L1 EVAL	**1 mark**

A judgement / conclusion is made as to whether a large bank loan is the most appropriate source of finance for the expansion of a furniture retailer.
These judgements / conclusions may be made at any point in the essay, not only in a concluding section.
Appropriateness of finance may depend on:
- the type / extent of expansion being undertaken
- size and type of business ownership
- the amount of retained earnings, non-current liabilities, need to retain control of the business and make decisions, interest rate levels and stability, opinions of current shareholders
- government grant may only be possible if expansion benefits the area and / or meets governments objectives and criteria.
- could be more appropriate to use a variety of sources to finance the full amount, rather than just a large bank loan

Accept all valid responses.

NOTE: The marks for 5(b) and 6(b) are recorded in the following way. The marks are entered in the mark input column on the right-hand side of the screen

The K marks are entered in the 5b / 6b AO1 box
The APP marks are entered in the 5b / 6b AO2 box
The AN marks are entered in the 5b / 6b AO3 box
The EVAL marks are entered in the 5b / 6b AO4 box

6(a)

Analyse <u>two</u> advantages to a business of using sale and leaseback of non-current assets as a source of finance.

There are 8 marks in total for Q6(a)
4 marks for each of the two advantages of using sale and leaseback of non-current assets as a source of finance.

These 4 marks consist of

1 mark for K

1 mark for APP

2 marks for AN

Indicative content

Responses may include:

AO1 Knowledge and understanding

1 K mark for identifying **one** advantage

- May unlock more funds than conventional sources of finance
- Provides a quick cash injection
- Avoids borrowing costs
- Helps to avoid/reduce debt
- Get cash but still retain full use of asset
- No maintenance costs
- Good option for a business in difficulty
- May support expansion/growth

When lease ends payments end and there is an opportunity to immediately acquire latest advanced equipment – no assets to dispose of.

6(a)

AO2 Application

1 mark for APP of the chosen advantage

- Sale and leaseback allows a business to free up capital that has been invested in an asset and to use the monies raised in more profitable and immediate uses – an alternative form of finance
- Capital raised can be used in more profitable and immediate ways
- Provides an alternative form of finance
- Gives more flexibility for financial needs
- For example if a bakery decides to sell and lease back its oven the leasing company will take over the repair and maintenance costs

AO3 Analysis

2 marks for **developed** analysis of the chosen **advantage** L2 AN

1 mark for **limited** analysis of the chosen **advantage** L1 AN

- It converts non-current assets into capital without the need to lose control of the asset – and so provide capital to purchase additional assets – in the case of a manufacturer the sale and leaseback of a building could supply finance to purchase the latest cutting-edge machines.
- It avoids costs traditionally associated with conventional debt financing – for real estate transactions costs such as valuation and bank fees are avoided – sale-leaseback arrangements may well offer more flexible lease terms than a traditional lease, mortgage, or bank loan agreement. The lessee and lessor can set their own lease lengths and lower interest payments.
- A business may have the opportunity to list the leased asset as an operating expense rather than a liability on the balance sheet – having fewer liabilities gives a business more eligibility to increase borrowings.
- It can reduce risk to a business – owning freehold property, for example, comes with its own risks, such as property price fluctuations – new/struggling businesses may want to avoid such price fluctuation.
- It increases liquidity – the injection of cash can be used to find new ventures and/or pay off outstanding debts and so improve the debt-to-equity ratio of the business.

Accept all valid responses.

6(b)

'The use of budgets is the most effective way to monitor the performance of a hotel'.

Evaluate this view.

There are 12 marks for **Q6(b)**

2 marks for K

2 marks for APP

2 marks for AN

6 marks for EVAL

Indicative content

Responses may include:

AO1 Knowledge and understanding

2 marks for **developed** knowledge and understanding L2 K

1 mark for **limited** knowledge and understanding L1 K

- Budget is a quantitative expression of a plan of action over a specific period of time – it predicts revenues and expenditures – may include cash flows, revenues, liabilities, planned scale volume and other costs.
- Budgets need to provide controls and restraints – an analytical tool to reveal actual financial performance – return on assets with planned performance.
- Budgets are tools of financial management and control – set out specific expectations of results and so provide a standard to be used for performance evaluation.
- Business performance generally refers to making best use of resources to achieve corporate objectives, which may be economic or social, measured by a number of metrics – Key Performance Indicators (KPIs) such as profitability, productivity, market share, customer satisfaction.

6(b)

AO2 Application

2 marks for **developed** application/context L2 APP

1 mark for **limited** application/context L1 APP

- Hospitality sector businesses, such as hotels, focus on providing accommodation, food, and conference planning – profit maximisation is the fundamental goal, which requires resource allocation and management to be properly planned and controlled.
- Hotels, as with other commercial businesses, seek a return on assets and have specific performance targets, such as revenue per available room, average occupancy rate, profit/loss on food offers. Financial performance measures are used to reveal the extent to which 'bottom line' targets are met but they also act as essential support methods to ensure that qualitative objectives, such as sustained customer satisfaction, are achieved.

AO3 Analysis

2 marks for **developed** analysis L2 AN

1 mark for **limited** analysis L1 AN

Budgets provide ways to monitor and control business performance in the following way:

- Budgets provide a set of financial targets related to specific objectives agreed in order to achieve corporate business goals – provide a framework and a discipline to those working in the business and a standard of assessment relating to those targets.
- Budgets provide the discipline to ensure resources are allocated as agreed and provide indicates when analysed of variation/deviations – evidence of which provides effective evidence of the extent to which business performance is acceptable or needs amendment or adjustment.
- Budgets provide a structured plan which can lead to better decision-making and goal achievement – provides financial stability and guidelines essential for assessing business performance – budgets provide a set of strategic plans of action which check and control decisions.
- Budgets provide a basis for the evaluation of goals and policies – which can lead to further decisions on spending – budgetary tracking of progress is a measure of monitoring and controlling of performance.
- Budgets are systematic and organised – providing appropriate management information the continuing performance of business sectors – a systematic and organised set of financial measures to assess the effectiveness of the plans and actions of the business.

6(b)

- Budgets provide a business the ability share its operational process and budgetary process with important shareholders such as a governing body – board of directors – provide status updates on performance to investors.

AO4 Evaluation: Up to 6 marks for evaluation:

Developed/Supported judgement in context	L3 EVAL	6 marks
Developed/Reasonable evaluative comments in context	L3 EVAL	5 marks
Developed/Supported judgement without context	L2 EVAL	4 marks
Developed/Reasonable evaluative comments without context	L2 EVAL	3 marks
Limited supported judgement	L1 EVAL	2 marks
An attempt to balance the arguments/Weak attempt at evaluative comments	L1 EVAL	1 mark

- Judgements/conclusions/critical comments may be made at any point in an essay, not just in a concluding section.
- Judgement may be made that while budgets have the potential to provide an effective way to monitor and control the performance of a business it does depend on the rigour and robustness of the budgets used – data may be defective; assumptions and targets may be unrealistic.
- It might be concluded that budgets are only one of a range of financial performance measures, such as value chain analysis, benchmarking and cost optimisation and should be seen as part of a package of accounting techniques and their importance assessed as such.
- A judgement might be made that in order to capture the full picture of hotel performance the reliance on quantitative financial measures such as budgets could be misleading – traditional performance measures such as budgets taken in isolation may provide misleading signals.
- It might be concluded that organisations today need more holistic performance measures to give a more representative impression of an hotel's performance – e.g., is the hotel providing service excellence – does it embrace innovation – does it take health and safety seriously (Covid 19 challenges).

6(b)

- It might be concluded that the use of budgets and resulting financial metrics, while important, does not necessarily provide the most effective way to monitor and control hotel performance – a more balanced scorecard approach is more appropriate for organisation and hotels today.

Accept all valid responses.