5(a)

Analyse <u>two</u> benefits to a business of using break-even analysis.

There are 8 marks in total for **Q5(a)**
4 marks for each of the two benefits given.

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 mark for K identifying **one** benefit of using break-even analysis.

- Provides crucial insights for business decisions
- Provides information for a range of important business decisions
- Shows whether a product is worth selling or too risky- such as new products, pricing, costs and production levels
- Shows the amount of revenue a business will make at different levels of output
- Assists in evaluating investment plans/decisions
- Helps to analyse costs
- Calculations are quick/easy
- Helps set pricing strategy
- Supports setting targets

5(a)

AO2 Application

1 mark for APP of a **one** benefit.

- The use of break-even analysis in a business -indicates production volume required to cover costs/make profits
- Allows informed decisions to be made on: Pricing
- Cost management
- Production levels
- Overall business strategy
- Relatively easy to calculate and understand – great for quick estimates.
- Used to assist managers in decision making – location, equipment, projects.
- The break-even analysis can be used in business plans to support loan applications
- Really useful when launching new products or entering new markets

AO3 Analysis

2 marks for **developed** AN of **one** benefit

1 mark for **limited** AN of **one** benefit

- Break-even analysis can give a business an idea of whether the product is likely to be successful by analysing the costs involved and likely revenues.
- The level of output for a desired level of profit can be determined
- A break-even chart indicates the margin of safety. If the margin of safety is too low the business might reconsider its product(s)
- Break even analysis can be used to assist managers when making important decisions such as location decisions, whether to buy new equipment, or invest in a project – so reduces the risk to the business.
- A business might see that if a certain level of profit is to be achieved, costs might have to be reduced to make it possible
- A change in price might also be indicated. If the desired profit is not achieved, then the price of the product might have to be increased.

Accept all valid responses.

The AN marks are recorded in the 5(a) AO3 box

5(b)

Evaluate whether cash flow forecasting is the most important activity for the success of a fashion clothing manufacturer

There are 12 marks for **Q5(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

- Cash flow forecasting-the process of obtaining an estimate/forecast of a business's future cash position – anticipated payments and receivables in a given period of time
- Clothing manufacturers convert raw materials into finished garments
- Success may be measured in terms of quality of clothing, customer satisfaction, level of clothes purchased, reputation established, health of financial position, level of profit, amount of time in business.

5(b)

AO2 Application/Context

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

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

- Success of a fashion clothing manufacturer very much concerned with following/creating the latest trends, fashions/fads in clothing, keeping pace with the latest fashion house changes in a range of different clothing items.
- Fashion clothing manufacturers produce a variety of clothes such as trousers, skirts, dresses, jumpers, T-shirts. casual wear, evening wear, summer ware etc
- Use different materials-cotton, wool, leather
- Creativity/innovation in clothing design work

AO3 Analysis

2 marks for **developed** analysis L2 AN

1 mark for **limited** analysis L1 AN

- A CFF can provide an early warning system for a business – future shortfalls in cash balances – allows a business to take informed business decisions, such as overdraft provision or short-term loan
- If a business runs out of cash, it may face insolvency. A CFF can indicate the correct time to take action.
- CFF enables a business to track expected cash movements over a period of time in the future – provides a degree of certainty in possible turbulent times – allows well planned decisions to be made
- CFF is a strategic tool for a new business – gives information for development of plans for survival and growth
- A cash flow forecast may be useful for external stakeholders – such as banks, may want to look at CFF at regular intervals in order to support a business plan.

5(b)	**AO4 Evaluation** **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

A judgement/conclusion is made as to the importance of cash flow forecasting for the success of a new restaurant. Such judgements/conclusions may be made at any point in the essay, not only in a concluding section.

- A judgement is made as to whether activities other than CFF could/should be considered as important or more important in affecting a new clothing manufacturer's ability to succeed.
- A judgement is made as to what is meant by success and when to take the measure
- Alternative measures of success are judged to be – perception of the quality of the clothes – brand image – desirability of clothes – strength/weakness of the economy – ability to react to changes in trends – retailer/supplier relationships
- A judgement is made regarding the significance of cash control and CFF for a new clothing manufacturer in relation to other factors.
- Is CFF as important as market research or monitoring trends and fashions in clothing?

Accept all valid responses.

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

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