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

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.

1(a)(i)	**Identify <u>one</u> quality an entrepreneur needs for success.** **Indicative content** Identification of a quality ✓ may include: • Ambitious / inner drive • Risk taker • Confident • Inquisitive • Adaptability / flexible • Resilience / persistence / determination • Innovative / creative • Communication • Leadership • Decision making • Builds trust If more than one answer is given, only mark the first, reading from top left to bottom right. Accept all valid responses.

1(a)(ii)	**Explain the term *working capital*.**

AO1 Knowledge and understanding **1 mark**	**AO2 Application** **2 marks**
	2 marks Developed application of **one** relevant point to a business context.
1 mark Knowledge of **one** relevant point is used to answer the question.	**1 mark** Limited application of **one** relevant point to a business context.
0 marks No creditable response.	**0 marks** No creditable response.

Indicative content

AO1 Knowledge and understanding
Knowledge of working capital will include (max 1 mark):
- Current assets minus current liabilities
- Money / cash / funds / finance (to run the business)
- Ability to run the business
- Day-to-day / general operations / current / short-term / immediate / trading

1(a)(ii)	**AO2 Application**

Limited application applies knowledge of working capital to a business context.
Developed application + applies knowledge of working capital to a business context.
- Examples of short-term financial commitments, e.g. stock, salaries, utilities, suppliers, debts, financial obligations, bills etc.
- Reference to current ratio and/or acid test ratio (ideals of 2:1 or 1:1)
- Benefit of maintaining sufficient working capital, e.g. survival, avoid liquidation
- Ways to improve working capital, e.g. use of a bank overdraft
- Managing trade receivables, e.g. stopping/reducing trade credit to customers, debt factoring
- Managing trade payables, e.g. taking/prolonging trade credit from suppliers
- Example from a business concept

Accept all valid responses.

Exemplar and annotations	**Mark**	**Rationale**
The ability to pay short-term financial obligations such as high interest on bank loans and avoid liquidation	3	An answer which starts with the knowledge and then applies it to SF (case mentions high-interest bank loans). Avoid liquidation (survival) is the second application.
Cash needed to fund the day-to-day operations such as paying staff salaries .	3	Again, knowledge first, followed by application to business operations (day to day) and includes an example (salaries).
Current assets minus current liabilities to measure the ability to pay day-to-day bills	2	Knowledge and explanation for one application mark.
It is a measure of the cash needed to operate .	1	Not a perfect definition, but enough to award the knowledge mark. No attempt to apply.
The capital the business needs to work	0	No knowledge of working capital. Tautological.

1(b)(i)	**Refer to Table 1.1. Calculate the profit variance for SF in 2024. State whether the variance is favourable or adverse.**

Indicative content

Profit variance = actual profit–budgeted profit (1 mark – formula only)

Profit variance = 250 000–2 000 000 (1 mark – use of correct figures in formula)

Profit variance = ($) 1 750 000 adverse variance (1 mark – correct answer (must include adverse))

Answer = ($) **1 750 000 adverse variance / 1.75 m adverse variance** (3 marks – correct answer no working or $ needed) must include adverse

OFR applies

1(b)(i)	**Exemplar and annotations**

Marks		
3 marks	Correct answer (3) **($)1 750 000 <u>adverse</u> or ($)1.75 m <u>adverse</u>**	**Working and $ and m do not matter**. **Ignore + or -** • **Must be three** ✓ to denote the three marks.
2 marks	**EITHER** • Correct formula AND • Correct identification of figures **OR** • An incorrect answer with one mistake allowing OFR for final stage. Must have the correct variance stated for the answer given. **OR** • A correct variance (1.75 m) with no adverse (or incorrectly states favourable)	To award two marks, there must be • Two ✓ and a ✗ **OR** • One ✓ , one ✗ and one
1 mark	**One** of the following: • Correct formula • Correct identification of figures in an incorrect formula	To award one mark, there must be: • One ✓ and two ✗
0 marks	No creditable content.	To award zero marks, there must be • One ✗

Question	Answer
1(b)(ii)	**Explain <u>one</u> drawback to SF of using budgets.**

AO1 Knowledge and understanding 1 mark	AO2 Application 2 marks
	2 marks Developed application of **one** relevant point to a business context.
1 mark Knowledge of **one** relevant point is used to answer the question.	**1 mark** Limited application of **one** relevant point to a business context.
0 marks No creditable response.	**0 marks** No creditable response.

Indicative content

AO1 Knowledge and understanding
Knowledge of a drawback of budgets (max. 1 mark), including:
- Only as good as the figures used
- Do not take into account actual market conditions / external factors
- Ignores qualitative factors
- Can be manipulated to show desired rather than realistic outcomes / bias
- Time consuming to research / predict data
- Can hinder flexibility / innovation
- Less accurate in unstable times / long-term predictions
- Risk of internal conflict / managers competing for resources

1(b)(ii)

AO2 Application
Explanation of a drawback of budgets (max 1 mark), including:
- Only as good as the figures used–inaccurate data may lead to poor decision making
- Do not take into account actual market conditions–competitiveness
- Ignores qualitative factors–such as new managers/leaders/competitors
- Can be manipulated to show desired rather than realistic outcomes – biased
- Time consuming to research / predict data–opportunity cost of lost time which could be spent on more profitable tasks
- Can hinder flexibility–missed opportunities to increase market share / differentiate
- Less accurate in unstable times / long-term predictions–more suited to the short-term
- Risk of internal conflict / managers competing for resources–hindering teamworking

Context applied to SF (max 1 mark), including:
- Private limited company
- Capital intensive business
- Bob is majority shareholder of SF
- Used internal (organic) growth
- The use of high interest loans to cover initial cashflow problems
- Rents fields from farmers
- Cost of maintenance team / 7 engineers salaries
- Data from Table 1.1
- Can increase revenue by using batteries to store electricity generated by solar panels
- Can sell electricity at peak times for premium prices
- Needs investment into battery technology
- Bob wants to retain control of SF
- Cost of renting new farmland and purchasing solar panels increased significantly in 2024
- ZB is a multinational battery manufacturer
- ZB wants to start a joint venture with SF
- ZB will insist that SF uses ZB batteries in all future solar farms if joint venture goes ahead

Accept all valid responses.

1(b)(ii)

Exemplar and annotations	Mark	Rationale
A drawback is that the use of a budget is only as good as the figures used , which could lead to inappropriate decision regarding SF's five solar farms .	3	Accurate of data is a reasonable drawback, explained in the specific context of SF by using data from the context.
Budgeted figures are less accurate in the long-term , as conditions are more likely to change which could affect SF's plans to form a joint venture .	3	Reduction in accuracy over the long term which could affect the business's plans . This answer is then applied to SF for three marks in total.
Future opportunities may be missed as budgets may hinder flexibility such as using batteries to store electricity .	3	Although the appears first, it cannot be awarded until the has been found. However, there is obvious , so you can go back and award the .
The budget ignores qualitative factors such as new competitors who may affect future sales .	2	Ignoring qualitative factors is . The answer includes a relevant example which is used to explain the drawback , but only one mark as no application to SF's context.
It is time consuming to forecast data to produce the budget .	1	Time consuming is a relevant drawback for , but it hasn't been explained.
SF has taken out high-interest bank loans to cover initial cash flow problems and so needs to use budgets .	0	Although there is some relevant context, there is no knowledge of a drawback to SF of using budgets, so no marks can be awarded.

1(c)

Analyse <u>two</u> limitations to SF of operating as a capital-intensive business.

Level	AO1 Knowledge and understanding 2 marks	AO2 Application 2 marks	AO3 Analysis 4 marks
2			**3–4 marks** **Developed analysis** • Developed analysis that identifies connections between causes, impacts and/or consequences of **two** points. • Developed analysis that identifies connections between causes, impacts and/or consequences of **one** point.
1	**1–2 marks** • Knowledge of **two** relevant points is used to answer the question. • Knowledge of **one** relevant point is used to answer the question.	**1–2 marks** • Application of **two** relevant points to a business context. • Application of **one** relevant point to a business context.	**1–2 marks** **Limited analysis** • Limited analysis that identifies connections between causes, impacts and/or consequences of **two** points. • Limited analysis that identifies connections between causes, impacts and/or consequences of **one** point.
0	**0 marks** No creditable response.	**0 marks** No creditable response.	**0 marks** No creditable response.

Limitation 1 in the left-hand side column, Limitation 2 in the right-hand side column

1(c)	**Indicative content** **AO1 Knowledge and understanding** Knowledge of limitations of investing into capital intensive operations (max K s), including: • High cost / expensive • Cost of financing • High maintenance costs • The need for skilled workers for maintenance • Need to train workers to use / maintain the capital equipment • The quick pace of technological change • Obsolescence of equipment • Reliance on machines that might break-down • Reduced employee motivation due to repetitive work • Lack of flexibility **AO2 Application** Max one APP for application in the first limitation and max on APP for application in the second limitation Application of the limitation of investing into capital intensive operations for SF (max APP s), including: • Private limited company • Bob is majority shareholder of SF • Used internal (organic) growth • The use of high interest loans to cover initial cashflow problems • Rents fields from farmers • Cost of maintenance team / 7 engineers salaries • Data from Table 1.1 • Can increase revenue by using batteries to store electricity generated by solar panels • Can sell electricity at peak times for premium prices • Needs investment into battery technology • Bob wants to retain control of SF • Cost of renting new farmland and purchasing solar panels increased significantly in 2024 • ZB is a multinational battery manufacturer • ZB wants to start a joint venture with SF • ZB will insist that SF uses ZB batteries in all future solar farms if joint venture goes ahead

1(c)	**AO3 Analysis** Limited analysis AN – candidate shows one link in the chain of analysis. Developed analysis DEV candidate shows two or more links in the chain of analysis or a two-sided analysis. **Limitations** • High fixed costs–[the 25% increase in solar panels] may require unplanned sources of possibly expensive finance–may reduce capital for future investment • Cost of financing the equipment–high interest payments will increase expenses–reducing profits • High maintenance costs–increase cash outflows–threaten liquidity/survival • Need for skilled maintenance staff–[7 engineers] may require above average wages to travel across country X–add to fixed costs and reduce profitability • Solar panels may be inefficient in 10 years compared to newest products–higher costs of operation in comparison to competition – make SF less competitive • Need to train workers to use the machinery / capital equipment–cost of training–reduced profits • The quick pace of technological change–need to purchase upgraded machinery to maintain competitiveness–high cost • Obsolescence of equipment–competitors may have newer equipment giving them a competitive advantage–reduced market share • Reliance on machines that might break down–disruption / delays to production–dissatisfied customers • Reduced employee motivation due to repetitive work–reducing efficiency–reducing profitability • Lack of flexibility–production stopped whilst machines are reset to produce different products–inefficiency Accept all valid responses. **Exemplar and annotations**

AO1 Knowledge	AO2 Application	AO3 Analysis
The high costs of initial investment K -	Which could hinder Bob's wish to retain control APP -	As decisions will need to be shared as part of the joint venture AN – but it is a way of generating the additional finance needed DEV –
Obsolescence of fixed assets K –	Which could lead to profit reducing to below $0.25 m -	May lead to increased costs each year to update the fixed assets – and make SF less profitable –

1(d) **Evaluate whether a joint venture is the most appropriate way for SF to grow.**

Level	AO1 Knowledge and understanding 2 marks	AO2 Application 2 marks	AO3 Analysis 2 marks	AO4 Evaluation 6 marks
3				**5–6 marks** **Developed evaluation in context** • A developed judgement/conclusion is made in the business context. • Developed evaluative comments which balance some key arguments in the business context.
2	**2 marks** **Developed knowledge** of relevant key term(s) and/or factor(s) is used to answer the question.	**2 marks** **Developed application** of relevant point(s) to the business context.	**2 marks** **Developed analysis** that identifies connections between causes, impacts and/or consequences.	**3–4 marks** **Developed evaluation** • A developed judgement/conclusion is made. • Developed evaluative comments which balance some key arguments.
1	**1 mark** **Limited knowledge** of relevant key term(s) and/or factor(s) is used to answer the question.	**1 mark** **Limited application** of relevant point(s) to the business context.	**1 mark** **Limited analysis** that identifies connections between causes, impacts and/or consequences.	**1–2 marks** **Limited evaluation** • A judgement/conclusion is made with limited supporting comment/evidence. • An attempt is made to balance the arguments.
0	**0 marks** No creditable response.	**0 marks** No creditable response.	**0 marks** No creditable response.	**0 marks** No creditable response.

1(d)	**Indicative content** **AO1 Knowledge and understanding** Knowledge of joint ventures (max K s), may include: • Two (or more) parties • Work towards a shared task/objective • Maintain distinct identities • Can be equity or non-equity based • Shared profits/losses/responsibilities • Pool resources/skills/experience/capabilities **AO2 Application** Limited application APP applies knowledge of growth to SF once Developed application APP + APP applies knowledge of growth to SF twice. • Private limited company • Capital intensive business • Bob is majority shareholder of SF • Used internal (organic) growth • The use of high interest loans to cover initial cashflow problems • Rents fields from farmers • Cost of maintenance team / 7 engineers salaries • Data from Table 1.1 • Can increase revenue by using batteries to store electricity generated by solar panels • Can sell electricity at peak times for premium prices • Needs investment into battery technology • Bob wants to retain control of SF • Cost of renting new farmland and purchasing solar panels increased significantly in 2024 • ZB is a multinational battery manufacturer • ZB will insist that SF uses ZB batteries in all future solar farms if joint venture goes ahead

1(d)

AO3 Analysis
Limited analysis AN – candidate shows one link in the chain of analysis.
Developed analysis DEV – candidate shows two or more links in the chain of analysis.

Is appropriate
- Pool resources/skills/experience/capabilities–increased efficiency–improving overall profitability
- Fast growth–generates more finance–less risk/cost of borrowing / interest
- Maintain distinct identities–maintain brand/business name and reputation–support future growth

Is not appropriate
- Share profit/losses–lower profit than if worked on project alone–reduced funds for future growth
- Loss of control of operations–may have to change aims and objectives–affecting decision making
- Condition of joint venture if that SF uses ZB batteries–may not be the most appropriate type of battery–increase long term costs / decrease long term profit potential

AO4 Evaluation
Limited evaluation – an unsupported judgement and/or weak attempt at an evaluative comment EVAL
Developed evaluation–supported judgement and/or reasonable evaluative comment E
Developed evaluation in context–supported judgement in context and/or reasonable evaluative comment in context EE
- Relative importance of control–are other issues more important, e.g. market share, economies of scale, specific industry/technology experience, ability to source batteries by SF
- Choice depends on SF/Bob's long-term goals. Does he want to remain in sole control, does Bob want a partner to share the workload/risk.
- Comparison with other ways to grow, e.g. merger.
- The impact of external influences
- Choice of partner
- A judgement on whether a joint venture is the most appropriate way for SF to grow

Accept all valid responses.

1(d)

Exemplars for awarding evaluation

L1 EVAL **(limited supporting evidence)**	**L2** E **(developed supporting evidence)**	**L3** EE **(developed supporting evidence with context)**
A joint venture is the best way for SF to grow.	A joint venture is the best way for SF to grow. It will help Bob to quickly generate the extra capital needed to buy the battery technology.	A joint venture is the best way for SF to grow. It will help Bob to quickly generate the extra capital needed to buy the battery technology, and increase profitability by selling electricity at peak times for premium prices.
A joint venture is not the best way for SF to grow.	A joint venture is not the best way for SF to grow. Bob will lose the ability to make the key decisions.	A joint venture is not the best way for SF to grow. Bob will lose the ability to make the key decisions. Bob can retain control of SF as he wishes.

4

Analyse one 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/liquidity issues

4

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.