5(a)

Analyse <u>two</u> 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.

2(a)(i)	**Identify one recruitment method.** **Indicative content** Identification of a method may include: • job advertisements • employment agencies • online recruitment • internal / external recruitment • job description • person specification • headhunting • advertising media for recruitment, e.g. newspapers, websites, word of mouth, internal noticeboard, intranet Do not allow selection methods, e.g. curriculum vitae, résumé, application forms, interviews, references, testing, assessment centres. *If more than one answer is given, only mark the first, reading from top left to bottom right.* Accept all valid responses.
2(a)(ii)	**Explain the term cash flow.**

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.

AO1 Knowledge and understanding
Knowledge of cash flow may include:
- The sum of cash payments into a business less the sum of cash payments out of a business
- Inflows and outflows
- Into and out of the business
- Receipts and payments
- Money / notes / coins / funds / finance

2(a)(ii)

AO2 Application
Limited application applies knowledge of cashflow to a business context.
Developed application - applies knowledge of cashflow to a business context.
- Who the cash flow is from / to, e.g. customers, suppliers, lenders
- Liquidity / solvency
- Working capital
- Prediction / forecast
- Opening / closing balance
- Different to profit
- Benefits of producing a cash flow forecast, e.g. take preventative action
- Uses of a cash flow forecast, e.g. predict shortfalls, apply for finance, business plans
- Examples of what cash may be used for, e.g. bills, staff wages, electricity, pay debts
- Example from a business context

Accept all valid responses.

Exemplar and annotations	Mark	Rationale
Cash in and out - measures the business's ability to pay debts and the solvency of the business.	3	The answer shows knowledge by the reference to cash in and out. There is an explanation of how it measures the ability to pay debts which is developed by the reference to solvency.
Money into and out of the business - It measures the liquidity of the business.	2	Two marks. The first for knowledge and the second mark for application to liquidity.
The flow of cash receipts and payments –	1	A reasonable definition
The flow of cash -	0	Tautological

2(b)(i)	**Refer to Fig 2.1. Calculate the percentage of PD's customers with positive feedback** Formula to calculate percentage: Positive Respondents = $\frac{\text{Positive feedback}}{\text{Total feedback}} \times 100$ (1 mark – formula only) Positive Respondents = $\frac{80+40}{800} \times 100$ (1 mark – use of correct figures) Positive Respondents = 15 (%) (1 mark – correct answer (no % necessary) Answer = 15 (%) (3 marks – correct answer (no working or % necessary)

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

Marks	**Answer**	**Rationale**
3 marks	Correct answer **15%**	**Working and % do not matter**. **Must be three** ✓ to denote the three marks. Correct rounding must be applied.
2 marks	**Both** of the following: • Correct calculation of total respondents (800) • Correct calculation of positive respondents (120) **OR** • An incorrect answer with one mistake allowing OFR for final stage. **OR** • A correct answer from an inverted formula (6.67 – OFR)	To award two marks, there must be • Two ✓ and a ✗ **OR** • One ✓ , one ✗ and one
1 mark	**One** of the following: • Correct formula • Correct calculation of total respondents (800) • Correct calculation of positive respondents (120)	To award one mark, there must be: • One ✓ and two ✗
0 marks	No creditable content.	To award zero marks, there must be • One ✗

2(b)(ii)	**Refer to Fig. 2.1 and other information. Explain one reason why this data collected for PD may not be reliable.**

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 one reason for data not being reliabl (max 1 mark), including:
- Human error
- Lack of data standards
- Incomplete / outdated data
- Poor questionnaire design / poorly written questions / question construction
- Incorrect sampling
- Data collection issues
- Low response rates

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2(b)(ii)

AO2 Application
Explanation of one reason for data not being reliabl (max 1 mark), including:
- Human error–untrained employees enter the data incorrectly / different teams with inconsistent methods
- Lack of data standards–no rules of formatting / classifying data
- Incomplete / outdated data–data no longer reflects current opinions
- Poor questionnaire design / poorly written questions–leading questions / confusion
- Incorrect sampling–sample doesn't represent target customers
- Data collection issues–timing
- Low response rates–bias / length of questionnaire

Context applied to **PD** (max 1 mark), including:
- Mass market
- Market dominated by a few well-known brands
- Total market value is $5.3bn
- 17% share of market
- Pablo became Marketing Director in 2022
- Launched promotional campaign based on trending music on social media
- Used social media influencers
- Poor online feedback
- Sales volume decreased by 20% in a week and continued to fall
- Excess inventory in warehouses
- Drop in PD's share price
- Negative impact on cashflow
- Questionnaire completed by previous PD customers
- Data from Fig. 2.1
- 800 respondents

2(b)(ii)

Exemplar and annotations	**Mark**	**Rationale**
Low response rates may lead to biased data affecting decisions to repair the damage to PD's brand .	3	Low response rates , with further explanation to how it may affect the data The third mark is for reference to the context .
An incorrect sample size of 800 customers .	2	Knowledge of a use and applied to the number of customers who completed the questionnaire.
Problems collecting the data	1	Knowledge of a reason with no application
The data will be inaccurate, incomplete and misleading .	0	No reason why the data collected may not be reliable. This answer is a description of unreliable data and does not answer the question

Accept all valid responses.

2(c)	**Analyse <u>two</u> possible costs to PD of holding inventory.**

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.

First cost in the left-hand side column, second cost in the right-hand side column

2(c)

Indicative content

AO1 Knowledge and understanding
Knowledge of possible costs of holding inventory (max s), may include:
- Opportunity cost of holding stock
- Impact on working capital
- Labour cost
- Storage costs
- Risk of wastage / damage
- Depreciation
- Insurance

AO2 Application
Application of cost to PD , including:
- Mass market
- Market dominated by a few well-known brands
- Total market value is $5.3bn
- 17% share of market
- Pablo became Marketing Director in 2022
- Launched promotional campaign based on trending music on social media
- Used social media influencers
- Poor online feedback
- Sales volume decreased by 20% in a week and continued to fall
- Excess inventory in warehouses
- Drop in PD's share price
- Negative impact on cashflow
- Data from Fig. 2.1
- 800 respondents

AO3 Analysis
Limited analysis of cost of holding inventory – candidate shows one link in the chain of analysis.
Developed analysis of cost of holding inventory candidate shows two or more links in the chain of analysis or a two-sided analysis.

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2(c)

Analysis may include:
- Opportunity cost of holding stock–space used to store stock could be used for production reducing potential output–lower revenue
- Impact on working capital–money / cash will be tied up in the stock–cannot pay suppliers
- Labour cost–reduced profit–lower shareholder dividends
- Increase storage costs–reduction in profit margins–reduction in share price
- Increase risk of wastage–spend time disposing of the waste–inefficiency
- Depreciation–reduces profits to reinvest–less future growth
- Insurance–increased expenses–reduced working capital

Accept all valid responses.

Exemplar and annotations

	AO1 Knowledge	AO2 Application	AO3 Analysis
Exemplar for one cost of holding inventory ***Annotations for the first cost should be placed in the left-hand margin.***	Insurance .	To reduce risk of disruption to operations to maintain PD's 17% market share .	Insurance will compensate PD if an incident destroys stock so it can maintain sales - satisfying customers .
Exemplar of a second cost of holding inventory ***Annotations for the second cost should be placed in the right-hand margin.***	Risk of wastage	Of the unsold mass market fizzy drinks .	Could lead to a reduction in profit and future expansion .

2(d)	**Evaluate the importance of branding to the future success of PD.**

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.

2(d)	**0**	**0 marks** No creditable response.	**0 marks** No creditable response.	**0 marks** No creditable response.	**0 marks** No creditable response.

Indicative content

AO1 Knowledge and understanding

Knowledge of branding (max 2 K s), including:

- Creating a distinct identity / image
- Brand values
- A company's name and logo, visual design, slogan, jingle
- Making consumers feel good about supporting a company and establishing an emotional connection.
- Differentiates from competitors
- Influence purchasing decisions
- Customers identify with business / brand
- Brand personality
- Build trust / relationships

2(d)

AO2 Application

Application of branding to PD APP , including:

- Mass market
- Market dominated by a few well-known brands
- Total market value is $5.3 bn
- 17% share of market
- Pablo became Marketing Director in 2022
- Launched promotional campaign based on trending music on social media
- Used social media influencers
- Poor online feedback
- Sales volume decreased by 20% in a week and continued to fall
- Excess inventory in warehouses
- Drop in PD's share price
- Negative impact on cashflow
- Data from Fig. 2.1
- 800 respondents
- Need to repair damaged PD brand from promotional campaign

AO3 Analysis

Limited analysis of the importance of branding to PD AN – candidate shows one link in the chain of analysis.

Developed analysis of the importance of branding to PD DEV – candidate shows two or more links in the chain of analysis.

- Create distinct identity/image – maintaining customer base and repeat sales/loyalty–long term profitability
- Name and logo conjure brand values–can attract/deter new customers–increase/decrease market share
- Customers buy the brand regardless of quality–repeat customers–increased market share
- Differentiates from competitors–attracts customers–increased market dominance
- Influence purchasing decisions–increase revenue–increased profits
- Customers identify with business / brand–building brand loyalty–long-term profitability
- Brand personality–helps to differentiate and create a USP–customers pay a higher price
- Build trust / relationships–increased reputation–increased market share

2(d)

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 .

- The external impacts that affect the future brand image, e.g. new competitors or social trends
- The relative importance of other elements of the marketing mix
- Other factors that affect future success, e.g. financial management, competition, social trends
- An evaluation on whether branding is important to PD's future success.

Accept all valid responses.

Exemplars for awarding evaluation

L1 EVAL (limited supporting evidence)	**L2 E (developed supporting evidence)**	**L3 EE (developed supporting evidence with context)**
Branding is important to support PD's future success.	Branding is important to support PD's future success. Branding helps customer recognise PD's drinks amongst competing brands.	Branding is important to support PD's future success. Branding helps customer recognise PD's drinks amongst competing brands and therefore maintain a 17% share of the market.
Branding is not important to the future success of PD.	Branding is not important to the future success of PD. The taste of the drink is more important because customers will not buy a drink that they dislike the taste of, even if attractively branded.	Branding is not important to the future success of PD. The taste of the drink is more important because customers will not buy a drink that they dislike the taste of, even if attractively branded in the mass market.

5(a)

Analyse two 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