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.

3(a)	**Define the term *break-even analysis*** **Indicative content** Responses may include: **AO1 Knowledge and understanding** **CLEAR UNDERSTANDING (2 marks)** • The point where total revenue equals total costs/or where a business makes neither a profit nor a loss (2) • Using cost and revenue data to determine the level of output that needs to be reached to start making a profit (2) • Uses cost and revenue data to determine the break-even level of output (2) • Uses cost and revenue data to calculate the margin of safety (2) Clear understanding of the term (or similar) is worth 2 marks. This is indicated by 2 ticks **PARTIAL UNDERSTANDING (1 mark)** • A way to calculate profitability/or decide on output (1) • Used to determine break-even point (1) • Allows calculation of margin of safety (1) Partial understanding of the term (or similar) is worth 1 mark. This is indicated by 1 tick Accept all valid responses

3(b)	**Explain <u>one</u> limitation for a business of break-even analysis.** **Indicative content** Responses may include: **AO1 Knowledge and understanding – 1 mark for identifying ONE limitation for a business of break-even analysis – put tick in body of script.** • Assumptions may well be unrealistic • May not be accurate • Can be time consuming – deflects a business away from core activities • External factors may undermine the calculations • Assumes all relationships are linear • Sales are unlikely to be the same as output • Variable costs do not always stay the same • Not all costs can be defined as fixed and variable • Most businesses sell more than one product **AO2 Application – 2 marks for DEVELOPED explanation of ONE limitation – put ticks in body of script.** **– 1 mark for LIMITED explanation of a limitation – put tick in body of script.** • Unrealistic assumptions – products are not sold at the same price at different levels of output, fixed costs do vary when output changes • The assumption that costs and revenue are always represented by straight lines is not realistic • Sales may not be the same as output – there may be some build-up of inventory or wasted output – the use of inventory is ignored • Variable costs may well change with output – as output rises the buying power of a business may allow buying of inputs at lower prices which reduces variable cost per unit

3(b)	• Semi- variable costs will make the technique much more complicated • With more than one product the break-even for the business becomes harder to calculate • Break-even charts are only accurate with narrow levels of output – a significant change in output level may result in fixed costs changing – scope of analysis is limited • It is more of a planning aid than a decision-making tool. Accept all valid responses.

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)

Define the term *incremental budgets.*

Indicative content

AO1 Knowledge and understanding

Clear understanding
- Incremental budgeting is a budgeting process that involves developing a budget by making adjustments/changes to an existing or previous budget (2)

Partial understanding
- Setting this year`s budget based on last year`s budget (1)

Accept all valid responses.

2(b)

Explain <u>one</u> advantage to a business of using variance analysis

There are 3 marks for this question**:**

1 mark for K

2 marks for APP

Indicative content

Responses may include:

AO1 Knowledge and understanding

1 mark K for identifying **one** advantage of using variance analysis

- Gives a business more control
- Clarifies accountability in a business
- Improves accuracy of budgets
- Improves financial decision making
- Identifies areas for improvement.
- Allows business to compare their estimated costs with their actual costs
- Allows planning
- Shows how to allocate resources
- More effective strategy

2(b)

AO2 Application

2 marks for **developed** APP of the advantage given

1 mark for **limited** APP of the advantage given

- Highlights areas of business needing attention
- Helps in assessing management performance
- Identifies potential problems early
- Helps to monitor financial performance
- Helps a business to budget more accurately in the future
- Helps managers to respond to adverse or favourable variances
- Identifies areas of over/under spending and spending not authorised
- May lead to improved business efficiency
- Helps to monitor success and failure
- Helps to identify areas of underperformance
- Helps strategic decisions/better planning
- Provides fast financial information

Accept all valid responses.