Solutions

Marking: **K** knowledge, **App** application to the case, **An** analysis (a developed chain of reasoning), **Ev** evaluation (a justified judgement); calculations earn **M1** for the method and **A1** for the answer.

Each answer shows the steps, then the **result**.

2.1

any two: **retained profit**; **sale of assets**; owner's savings (sole trader); reducing inventory

2.2

- the need is **short-term**: cash comes in once customers pay (1)
- an overdraft is **flexible**: the shop borrows only what it needs, when it needs it (1)
- interest is paid only on the amount overdrawn, so it is cheaper than a loan for a short gap (1)

3.1

B

3.2

(a)

- buying goods from **suppliers** now and **paying later**, usually within 30 to 90 days

(b)

- $50\,000 \times 0.08 \times 5$
- = **$20 000**

(c) two sources, each outlined (K + App each):

- **leasing** or **hire purchase** of the kitchen equipment: pay in instalments
- **taking a partner**: new capital, but shared profit
- **government grant** for small businesses
- **microfinance** or a loan from family

(d) two factors, each explained (K, App, An each):

- **cost**: $20,000 interest is a large addition to the $50,000
- **existing debt**: the $15,000 loan may make the bank cautious and adds repayments
- **amount and time**: a long-term asset suits long-term finance
- **control**: as a sole trader, Kira cannot sell shares, and a partner would share control

(e) bank loan: (An)

- certain and quick; Kira keeps full **control**; but $20,000 interest; repayments every month on top of the existing loan; risk to her personal assets (unlimited liability)

crowdfunding: (An)

- no interest; free meals cost little to provide; builds **publicity** and loyal customers; but may not raise the full amount; takes time; the restaurant must give away many meals

decision: (Ev) for example, use $10,000 of savings plus crowdfunding for part, and borrow less from the bank, because a busy restaurant with loyal customers suits crowdfunding, and borrowing less reduces interest and risk.

Level 3 (5–6): a justified decision for this business, weighing both sides. Level 2 (3–4): points explained and applied. Level 1 (1–2): points identified.