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

- $80\,000 - 45\,000$
- = $\$\mathbf{35\,000}$

2.2

- it shows whether the business makes a **profit** (1)
- a profitable business is more likely to be able to **repay** the loan and interest (1)
- trends over several years show whether profit is **stable** or falling, so the risk to the bank (1)

3.1

B

3.2

(a)

- the **income** a business receives from **selling** its goods or services; price × quantity sold

(b)

- $270 - 195$
- = $\$\mathbf{75\,000}$

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

- **raise prices** of games and consoles, if customers accept
- **cut cost of sales**: buy in bulk or find cheaper suppliers
- sell more **high-margin** items such as accessories

(d) two reasons, each explained using the data (K, App, An each):

- **cost of sales** rose by a third (360 to 480) while revenue rose by a quarter (600 to 750), so gross profit grew only from 240 to 270
- **expenses** rose by 45 (rent, wages for the second shop)
- the new shop may still be building customers, so its costs came before its sales

(e) retain: (An)

- **internal** finance, no interest; pays for the second shop's growth or a third shop; builds a cushion for slow months

pay out: (An)

- rewards the owners for their **risk**; they may need income; but less money for growth; profit already fell from 90 to 75

decision: (Ev) for example, retain most of the profit, because profit has fallen while the new shop is still growing; paying it out now would leave the business short of finance just when it is expanding.

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.