3(a)	**Explain <u>four</u> sources of external finance a business could use**. Award 1 mark for each source of external finance (max 4). Award a maximum of 1 additional mark for **each** explanation of thesource of external finance. There are no application marks for this question. Sources of external finance might include: • Bank loans • Bank overdraft • Grants (or subsidies) from government • Sale of shares • Hire purchase • Leasing • Trade credit • Micro-finance • Crowdfunding • Mortgage For example: Bank loan (1) is a fixed sum of money borrowed for a set-period of time / repaid in monthly instalments (1).

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3(b) **Consider why the profitability and liquidity ratios for her restaurant will be important to Jemi. Which is likely to be the most important for the success of Jemi's restaurant? Justify your answer.**
- **Profitability ratios**
- **Liquidity ratios**

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of both profitability and liquidity. Well-justified conclusion. Candidates discussing both profitability and liquidity in detail, in context and with a well-justified conclusion, including why the alternative was rejected, should be rewarded with the top marks in the band.	9–12
2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of either profitability or liquidity. Judgement with some justification/some evaluation of choice made. Candidates discussing profitability and/or liquidity in detail and applying it to the case should be rewarded with the top marks in the band.	5–8
1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the profitability and liquidity with little/no explanation. Simple judgement with limited justification/limited evaluation of choice made. Candidates outlining profitability and liquidity in context should be rewarded with the top marks in the band.	1–4
0	No creditable response	0

3(b)	Relevant points could include:

Profitability ratios	• Shows the measure of profit made for the value of sales achieved – profit is just a measure of amount made from sales – but profitability can show the amount of profit made on each **meal** sold • Can use gross profit margin which can show if the business is keeping its cost of **ingredients** under control or if Jemi needs to manage her cost of sales more carefully • Can use profit margin to show whether the **restaurant business** is keeping expenses under control • Can be used to compare with other businesses – to see why there are differences • Compare with different years to see if the business will be operating more or less profitably – how well costs are being managed over time • Can be used to compare the profit relative to the capital of **$50 000 to buy the franchise** invested in the business using the measure of ROCE – is an indicator for Jemi whether the business is worth investing in or not
Liquidity ratios	• Shows the ability of the **restaurant** to pay back its short-term debts – if these debts cannot be paid back then the business may be illiquid and may have to cease trading • Measured using the current ratio to show the amount of current assets to current liabilities – ratio should be about 1.5 to 2 to be at a satisfactory level so the business has up to twice as many current assets to current liabilities and can comfortably pay its short-term debts such as to **suppliers of ingredients** • Can also be measured using the acid test ratio to show an ability of a business to pay its short-term debts not including inventory – a measure around or just below 1 is a satisfactory level that shows that a business should be able to pay its short-term debts even if it cannot quickly turn inventories into cash • It can be used to indicate whether the business needs to hold less inventory if it has a low acid test ratio then it may be holding too much inventory • It can also be used if Jemi needs to borrow as banks can assess the risk of lending to the **vegan restaurant** and whether it is likely to repay the loan / whether to grant the loan

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3(b)	

Conclusion	Justification might include: • Profitability will be most important as it will tell Jemi if she is getting a good return for her investment in the **vegan restaurant** business. If the return is low, then she may be better saving her money in the bank where there will be less risk of losing it all. As long as she manages her cash flow forecast carefully then liquidity should not be a problem and will be less important. • Liquidity will be most important as if the business is not liquid then Jemi will not be able to pay her debts and trade payables will force her to close the **restaurant** and sell the assets to repay the debts owed.