4(a)	**Explain <u>two</u> cash inflows and <u>two</u> cash outflows that are likely to be included in CR's cash flow forecast for its first year of trading.** Award 1 mark for each cash inflow/outflow (max 2 inflows/2 max outflows). Award a maximum of 1 additional mark for **each** cash inflow/outflow **which must be applied to this context.** Relevant cash inflows: • Cash sales – from the sale of rugs • Credit sales – if trade credit is given to wholesalers • Money borrowed from external source – as Charly is to take out a bank loan for \$20 000 • Money invested by owner – \$10 000 will be put in by Charly to start up the business Relevant cash outflows: • Wages – to the 4 or 8 employees • Rent – of the new factory • Electricity/power – \$200 or \$400 depending on the location chosen • Interest payments – to the bank for an overdraft if taken out (or for the bank loan of £20 000) • Raw materials For example: Cash from the sale of products (1) in this case it will be from the sale of rugs (app). **Application** might include: rugs; bank loan for \$20 000; sell through wholesalers / sell online / sell through own shops; own investment of \$10 000; luxury product; forecast demand is 20 rugs per week; interest rates increase from 4% to 7%; figures from Appendix 2; new factory.

4(b)	**Using Appendix 3 and other information, consider the effects on CR of the decrease in taxes and the increase in interest rates in country P. Which change is likely to have the greatest effect on CR's profit in its first year? Justify your answer.**

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of **both** changes. Well-justified conclusion. Candidates discussing both changes in detail, in context and with a well-justified conclusion, including why the alternative change is 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 at least **one** change. Judgement with some justification/some evaluation of choices made. Candidates discussing both changes in detail and applying them 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 changes with little/no explanation. Simple judgement with limited justification/limited evaluation of choices made. Candidates outlining both changes in context should be rewarded with the top marks in the band.	1–4
0	No creditable response.	0

<table>
<tr><td rowspan="2">4(b)</td><td colspan="2">Relevant points might include:</td></tr>
<tr><td>Decrease in taxes</td><td>Reduction in tax on people’s income by 5% – leading to higher income available for spending by consumers – may lead to more spending by consumers on luxury rugs – increasing CR’s sales and revenue
A decrease in tax on profits by 2% may leave more for investment at the end of the first year – more retained profit and more investment into the new factory in its second year
Decrease in tax on spending – may lead to price of rugs being lower – decrease prices in shops – increases demand and sales
May reduce grants to businesses – if a decrease in government spending because of lower tax revenue</td></tr>
<tr><td></td><td>Increase in interest rates</td><td>Increase the interest costs of the new bank loan – Charly may be less likely to invest in the rug making factory – may buy less new equipment – higher interest rates increase expenses
Increases the cost if overdraft needed – increases interest payments – higher costs is likely to result in a lower profit
May reduce the available income consumers can spend – if they have a mortgage or loan to repay – higher repayments – may decrease demand for rugs
Decreased demand for luxury rugs – as increase in interest rates may lead to lower economic growth in country P – leading to higher unemployment and lower incomes for consumers – lower revenue for CR</td></tr>
</table>

4(b)	<table><tr><td>Conclusion</td><td>Justification could include: - A decrease in taxes will have the biggest effect on CR’s profit as consumers will have more income after tax to spend. Therefore, revenue from the sale of rugs may increase, and if costs do not also increase, then profit will increase. The increase in interest rates will only affect CR’s profit if the bank loan of $20 000 is definitely taken out. - An increase in interest rates will have the biggest effect on CR’s profit as lower taxes may not affect demand for luxury rugs because only high-income people will purchase luxury rugs. An increase in interest rates may discourage Charly from building a larger factory and she may choose to start-up on a smaller scale at location A. This will lower the output from the factory and is likely to decrease future profit from the lower sales of rugs. </td></tr></table>