

4(a)	Explain <u>one</u> effect on PF of the increase in each of the <u>two</u> taxes outlined in Appendix 2. • Tax on people's income • Tax on profit made by businesses Award 1 mark for each effect (max 2). Award a maximum of 3 additional marks for each explanation of the effect of the increase in each tax – one of which must be applied to this context. Relevant effects of the increase in tax on people's income might include: • Consumers will have less income to spend – may reduce demand for products – leads to lower sales and revenue • Little effect on sales of non-luxury products – as consumers may still make purchases of lower priced goods – so output remains at a similar level • If seen as a lower priced alternative product – then may even see sales increase – as customers switch from higher priced competing products • Employees may ask for a wage increase to return their take home pay to what it was before the increase in tax level – if successful then wage costs will increase • Employees may not be as motivated as now lower pay after tax – may reduce output/efficiency Relevant effects of the increase in tax on profit made by businesses might include: • May leave less profit to be retained for future investment in the business – reduces investment in the business – may become less competitive in the future leading to lower sales • Owner will be left with less profit to be received in dividends – less incentive to carry on with the risks of owning a business • Discourages existing/new shareholders from investing in the business – so will have to look for other ways to obtain funds For example: Consumers will have less income available to spend (1) as the increase in tax will reduce their take-home pay (1) may reduce demand for PF's shoes (app) which will lead to lower sales and revenue (1). Application could include: rubber shoes; natural rubber raw material; build a new factory; 20 workers; paid a weekly wage; selling in a mass market; bank loan for new factory; sister wants to invest in the business; \$100 000; 2% rise tax on incomes; 4% rise in tax on profits; information from Appendix 3.
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4(b)

Using Appendix 3 and other information, consider PF's financial position in 2025 and forecast financial position in 2026. Do you think Philip's sister should invest in PF? Justify your answer using suitable calculations.

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of the both statements. Well-justified recommendation. Candidates discussing both statements in detail, in context and with a well-justified recommendation, including whether or not Philip's sister should invest in PF, 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 statement. Judgement with some justification/some evaluation of choice made. Candidates discussing at least one statement in detail and applying it to the case should be rewarded with the top marks in theband.	5–8
1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the statements with little/no explanation. Simple judgement with limited justification/limited evaluation of choice made. Candidates outlining both statements in context should be rewarded with the top marks in the band.	1–4
0	No creditable response.	0

4(b)	Relevant points might include: <table border="1"> <tr> <td data-bbox="368 185 651 459">Basic points might include:</td><td data-bbox="651 185 1385 459"> - The non-current assets are forecast to increase by \$500 000 - Inventories are forecast to increase by \$20 000 - Long-term bank loans are forecast to increase by \$460 000 - The amount of retained profit is forecast to increase by \$40 000 to \$100 000 in 2026 </td></tr> <tr> <td data-bbox="368 459 651 1249">More developed points might include:</td><td data-bbox="651 459 1385 1249"> - The current ratio for 2025 is 1.25 - The current ratio forecast for 2026 is 1.2 - The acid test ratio for 2025 is 1 - The acid test ratio forecast for 2026 is 0.6 - The current ratio for 2025 could be considered low and is better to be nearer 2 which would show that the business is able to pay its short-term debts and has sufficient liquidity - The current ratio forecast for 2026 is lower than for 2025 and is a cause for concern as to why it has fallen. This may mean that the business will have expanded too quickly and may have cash flow problems in the future - The low acid test ratio for 2026 suggests that the business is likely to have liquidity problems after the new factory is built - The expansion appears to have been forecast to be mainly funded by a large bank loan of \$460 000 – this may cause problems in the future as the interest repayments of this loan will result in a large increase in expenses – possibly reducing profitability in the future </td></tr> <tr> <td data-bbox="368 1249 651 1821">Recommendation</td><td data-bbox="651 1249 1385 1821"> Justification might include: - Philip's sister should invest in PF as the non-current assets are forecast to increase by nearly double and the building of the new factory is predicted to be financed mainly by a bank loan. The bank will be confident of a successful expansion of PF, or it will not grant such a big loan. This should help reassure Philip's sister that the investment will provide good returns in the future. - Philip's sister should not invest in PF as the forecast statement of financial position suggests that there may be significant liquidity problems producing shoes in the future with an expected fall in the current ratio of 0.05 and an expected fall in the acid test ratio of 0.4. </td></tr> </table>	Basic points might include:	- The non-current assets are forecast to increase by \$500 000 - Inventories are forecast to increase by \$20 000 - Long-term bank loans are forecast to increase by \$460 000 - The amount of retained profit is forecast to increase by \$40 000 to \$100 000 in 2026	More developed points might include:	- The current ratio for 2025 is 1.25 - The current ratio forecast for 2026 is 1.2 - The acid test ratio for 2025 is 1 - The acid test ratio forecast for 2026 is 0.6 - The current ratio for 2025 could be considered low and is better to be nearer 2 which would show that the business is able to pay its short-term debts and has sufficient liquidity - The current ratio forecast for 2026 is lower than for 2025 and is a cause for concern as to why it has fallen. This may mean that the business will have expanded too quickly and may have cash flow problems in the future - The low acid test ratio for 2026 suggests that the business is likely to have liquidity problems after the new factory is built - The expansion appears to have been forecast to be mainly funded by a large bank loan of \$460 000 – this may cause problems in the future as the interest repayments of this loan will result in a large increase in expenses – possibly reducing profitability in the future	Recommendation	Justification might include: - Philip's sister should invest in PF as the non-current assets are forecast to increase by nearly double and the building of the new factory is predicted to be financed mainly by a bank loan. The bank will be confident of a successful expansion of PF, or it will not grant such a big loan. This should help reassure Philip's sister that the investment will provide good returns in the future. - Philip's sister should not invest in PF as the forecast statement of financial position suggests that there may be significant liquidity problems producing shoes in the future with an expected fall in the current ratio of 0.05 and an expected fall in the acid test ratio of 0.4.
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