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:	
	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.