Cambridge Assessment International Education

Cambridge O Level

BUSINESS STUDIES **7115/12**

Paper 1 Short Answer/Data Response **May/June 2023**

MARK SCHEME

Maximum Mark: 80

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the May/June 2023 series for most Cambridge IGCSE, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

© UCLES 2023

PUBLISHED

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

© UCLES 2023

GENERIC MARKING PRINCIPLE 5: Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).
GENERIC MARKING PRINCIPLE 6: Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

© UCLES 2023

PUBLISHED

Social Science-Specific Marking Principles
(for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
b DO credit alternative answers/examples which are not written in the mark scheme if they are correct
c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

© UCLES 2023

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

© UCLES 2023

PUBLISHED

0450/7115/0986 Business Studies – Paper 1 Annotations

Annotation	Description	Use
Tick	Tick	Indicates a point which is relevant and rewardable.
X	Cross	Indicates a point which is inaccurate/irrelevant and not rewardable.
BOD	Benefit of doubt	Used when the benefit of the doubt is given in order to reward a response.
TV	Too vague	Used when parts of the answer are considered to be too vague.
REP	Repetition	Indicates where content has been repeated.
NAQ	Not answered question	Used when the answer or parts of the answer are not answering the question asked.
K	Knowledge	Indicates knowledge and understanding of the concepts and issues relating to the question.
APP	Application	Indicates appropriate reference to the information in the stem.
AN	Analysis	Indicates where the answer has demonstrated analysis.
EVAL	Evaluation	Indicates where the answer has demonstrated evaluation (part (e) questions only).
OFR	Own figure rule	If a mistake is made in a calculation, and the incorrect figure that results from the mistake is used for subsequent calculations.
SEEN	Noted but no credit given	Indicates that content has been recognised but not rewarded.

© UCLES 2023

Question	Answer	Marks	Notes
1(a)	**Identify <u>two</u> reasons why a business might offer training to its employees.** Award 1 mark per reason (max 2). Points might include: • To introduce a new process/new equipment • Improve efficiency/productivity • Increase output • Reduce mistakes/fewer errors/better quality goods or services • Improve employee skills • Increase knowledge • Improve motivation • Help reduce labour turnover • Decrease the chance of accidents • Familiarise new employees with business/other employees Other appropriate responses should also be credited.	**2**	Only award the first two responses given.
1(b)	**Calculate the following values using Fig. 1.1:** Award 1 mark for each correct answer. Break-even output: 500 (watches) [1] Break-even revenue: $60 000 OR 60 000 [1]	**2**	

Question	Answer	Marks	Notes
1(c)	**Outline <u>two</u> possible effects on FBW's break-even chart if the prices of its products are increased.** Award 1 mark for each relevant effect (max 2). Award 1 mark for each relevant reference to this business (max 2). Points might include: • Reduce/lower **break-even** output [k] below 500 units [app] • Increase the margin of safety [k] above 100 [app] • Increase contribution per unit [k] when using job production [app] • Increase revenue [k] from sale of its watches [app] • Reduce **break-even** revenue [k] • Increase profit margin [k] • Increase (potential) profit/reduce (potential) loss [k] Other appropriate responses should also be credited.	**4**	To use words from the stem as application, the reference must be appropriate (i.e. make sense) in relation to the point being made. The following words are likely to be appropriate for this question: • Watches • 5 (employees) • Training (every year) • Job production • 600 units (sold) • 500 (break-even output) • 100 (margin of safety) • $4000 (profit at 600 units) • $60 000 (break even revenue) Other appropriate examples can be credited.

Question	Answer	Marks	Notes
1(d)	**Explain <u>two</u> benefits to FBW of having full-time employees.** Award 1 mark for identification of each relevant benefit (max 2). Award 1 mark for each relevant reference to this business (max 2). Award 1 mark for each relevant explanation (max 2). Points might include: • Workers likely to be more loyal/committed [k] so lower labour turnover/lower cost of recruitment [an] for its 5 employees [app] • Easy to communicate/update [k] when making its watches [app] so could be more efficient [an] • Consistent standard of work [k] leading to better reputation [an] which is helpful as using job production [app] • Fewer workers needed [k] so less training required [an] • Less employees to manage [k] so managers can focus on other issues [an] • Employees become more familiar with the business [k] • Always available/can find when needed [k] Other appropriate responses should also be credited.	**6**	To use words from the stem as application, the reference must be appropriate (i.e. make sense) in relation to the point being made. The following words are likely to be appropriate for this question: • Watches • 5 (employees) • (Regular) training • Job production • 600 units sold • 500 (break-even output) Other appropriate examples can be credited.

© UCLES 2023

Question	Answer	Marks	Notes
1(e)	**Do you think job production is the best method of production for a small business to use? Justify your answer.** Award up to 2 marks for identification of relevant points. Award up to 2 marks for relevant development of points. Award up to 2 marks for a justified decision as to whether job production is the best method of production for a small business to use. Points might include: Job production: • Meet exact customer requirements [k] which increases customer loyalty/sales [an] • Unique/high-quality products [k] can charge higher price [an] • Products made to order/can take a long time to make [k] so low output [an] • No economies of scale [k] leading to higher average cost [an] • Skilled labour is needed [k] increases labour/training costs [an] • Requires a lot of employees/labour intensive [k] Batch production [k]: • Some economies of scale [an] • Able to produce more [an] so unit costs lower [an] • Can produce range/variety of products [an] • Demotivated employees [an] increasing labour turnover [an] • Machines must be reset between batches [an] • Added cost of moving/storing semi-finished goods [an] • Warehouse space is needed [an]/increases storage costs [an] Other appropriate responses should also be credited.	**6**	This is a general question so there are no marks for application. Some points could be written as an advantage or a disadvantage of each method but only award once. Some points can be [k] or [an] but do not award the same point twice. Do not award: Comparisons between batch and flow e.g. batch production not greatly affected by machine breakdown, batch is flexible/can change production easily as not appropriate for this question.

© UCLES 2023

Question	Answer	Marks	Notes
1(e)	Justification might include: Job production allows a business to produce goods that meet exact customer demands [k] so able to charge a higher price [an]. However, skilled labour can cost more [k] which can lead to high labour costs [an]. Overall, I think job production is not the best method for a business, especially if it is small as the number of sales may not cover the additional cost of the labour [eval] so the business is unable to make a profit. [eval]		

Question	Answer	Marks	Notes
2(a)	**Identify <u>two</u> ways a business plan can help a business to reduce risk.** Award 1 mark per way (max 2). Points might include: • Help secure funding/attract investors • Can show whether/when extra finance needed/help budgeting • Help set goals/objectives/provide sense of direction • Help monitor/check/track progress • Test feasibility of idea/identify demand • Help set (suitable) prices • Understand level/type of competition • Help identify skills/employees needed • Help allocate resources (appropriately) Other appropriate responses should also be credited.	**2**	Only award the first two answers given.

Question	Answer	Marks	Notes
2(b)	**Identify <u>two</u> possible reasons why a business might want to expand.** Award 1 mark per reason (max 2). Points might include: • Increase sales/revenue • Increase profit • Widen customer base/target new markets • Increase market share • Increase reputation/more prestige/status • Increase output • Spread risk/diversify • Gain economies of scale Other appropriate responses should also be credited.	**2**	Only award the first two answers given.

Question	Answer	Marks	Notes
2(c)	**Outline <u>one</u> advantage and <u>one</u> disadvantage to Gloria of using telephone calls as a method of communication with her employees.** Award 1 mark for identification of each relevant advantage/disadvantage (max 2). Award 1 mark for each relevant reference to this business (max 2). Points might include: Advantages: • Instant/quick to contact [k] her 4 employees [app] • Opportunity to get immediate feedback [k] about cleaning jobs [app] • Can talk to employees who are anywhere/elsewhere [k] • Can leave a message/voice note [k] Disadvantages: • Technical problems e.g. no internet/signal [k] so will not help reduce her workload [app] • No hard copy/nothing to refer to [k] • Receiver may not answer the phone/might be busy when call [k] • Not face to face/no body language [k] • May only be able to speak to one person at a time [k] • Cannot show data/chart over a phone [k] • Cost [k] Other appropriate responses should also be credited.	**4**	To use words from the stem as application, the reference must be appropriate (i.e. make sense) in relation to the point being made. The following words are likely to be appropriate on this question: • (House) cleaning • 4 employees • Sole trader • Can help share her workload Other appropriate examples can be credited.

Question	Answer	Marks	Notes
2(d)	**Explain <u>two</u> factors Gloria should consider when deciding whether to take on a business partner.** Award 1 mark for identification of each relevant factor (max 2). Award 1 mark for each relevant reference to this business (max 2). Award 1 mark for each relevant explanation (max 2). Points might include: • Have to share responsibilities/management/control [k] of the cleaning business [app] which could lead to conflict [an] • Offer skills (or examples of) [k] which could lead to business opportunities [an] such as the repair service [app] • May offer experience/expertise/knowledge [k] increasing efficiency [an] to help reduce the workload [app] • Access to finance/capital [k] so can grow faster/upgrade equipment [an] making it easier to expand [app] • Different objectives/ways of working [k] which could lead to slower decision-making/conflict [an] • Whether want to share decision-making/take longer to make decisions [k] but may lead to better decisions [an] • Someone to share risk/losses/costs [k] • Whether wants/have to share any profit [k] compared to staying as a sole trader [app] Other appropriate responses should also be credited.	**6**	To use words from the stem as application, the reference must be appropriate (i.e. make sense) in relation to the point being made. The following words are likely to be appropriate for this question: • (House) cleaning • Expand/repair service • 4 employees • Effective communication is important • Reduce her workload • Sole trader • Market research Other appropriate examples can be credited. Takes time to make decisions is [k] or [an] but do not award the same point twice. Reduce workload can be [k], [app] or [an] but only award once. Conflict/argument is [an] only.

Question	Answer	Marks	Notes
2(e)	**Explain <u>two</u> methods of primary market research a business could use to find out the demand for a new product or service. Which would be the best method to use? Justify your answer.** Award up to 2 marks for identification of relevant points. Award up to 2 marks for relevant development of points. Award up to 2 marks for a justified decision as to which is the best method of primary market research for a small business to use to find out the demand for a new product or service. (Postal) questionnaire/survey [k] – apply to either method: • Customer opinions/preferences/suggestions can be gathered [an] • Large amounts of information can be collected [an] • Detailed information can be gathered [an] • Allows many people to be asked (the same questions) [an] • Questions may be poorly worded/difficult to phrase questions properly/people interpret questions in a different way [an] • People may not tell the truth/say what they think sounds good [an] • Customers may not complete/return the questionnaires [an] • May have to pay someone with the right skills to design the questionnaire properly [an] which increases the cost [an] **Online** survey [k] – <u>additional</u> specific points • Data can be quickly presented/analysed using IT tools [an] • Fast/quicker response time (than other forms of survey) [an] • Cheaper **than** interviews/postal questionnaire/focus group etc. [an] • No representative needed to carry it out [an] (Postal) questionnaire/survey [k] – <u>additional</u> specific points • Carrying out questionnaire takes time/money [an] • Analysing results takes time [an]	**6**	This is a general question so there are no marks for application. Some points could be written as either advantages or disadvantages of different methods but only award once. Some points can be awarded as [k] or [an] but only award once.

Question	Answer	Marks	Notes
2(e)	Interview [k] • Allows for detailed information to be gathered [an] • Can explain questions [an] • Interviewer bias possible (if interviewer is not properly trained) [an] • Expensive [an] • Time consuming to carry out [an] Focus group [k] • Highly detailed responses [an] • Chance to ask follow-up questions [an] • Some group members can influence what others say [an] leading to unreliable results [an] • Can only ask a few people [an] • Expensive [an] • Time consuming [an] Observation [k]: • Seeing what people do can be more accurate than what they say [an] • More expensive (than other methods) [an] • Test marketing/product trials [k]: • Cost of any mistake is limited to a small output [an] • Takes longer for final product to reach main market [an] Other appropriate responses should also be credited. Justification might include: One method is a questionnaire [k] which allows many people to be asked the same questions [an]. Another option is a focus group [k]. This might be better because it could provide highly detailed responses [an]. Although fewer people can be asked, the ability to ask follow-up questions is important especially when offering a new product [eval] so the extra detail could allow the business to make more informed decisions increasing the chances of success [eval].		

Question	Answer	Marks	Notes
3(a)	**Define 'import tariff'.** Award 2 marks for a full definition. Award 1 mark for a partial definition. A tax placed on imported goods when they arrive into a country [2] OR A **specific** form of tax imposed on imported goods [2] Partial definition e.g. type of tax [1] OR tax on imported goods [1] Other appropriate responses should also be credited.	**2**	First mark for understanding it is a tax. Idea of from another/into the country is +1 only.
3(b)	**Identify <u>two</u> reasons why some markets can become more competitive.** Award 1 mark per reason (max 2). Points might include: • Globalisation/free trade • Internet/ecommerce/social media/developments in technology • Improvements in transport/infrastructure • New legal controls/provide grants/removal of tariffs/quotas • Increase in competitors Other appropriate responses should also be credited.	**2**	Only award the first two answers given. Do not award: Factors affecting demand/spending patterns e.g. changes in population, spending on advertising, lower prices/actions of competitors
3(c)	**State the <u>four</u> stages of the business cycle.** Award 1 mark per stage (max 4). • Recession • (Economic) growth • Boom • Slump/depression	**2**	Award the first four responses only. The order does not matter.

© UCLES 2023

Question	Answer	Marks	Notes
3(d)	**Explain <u>one</u> possible effect of the following changes on VVA when importing raw materials:** Award 1 mark for identification of each relevant effect [max 2]. Award 1 mark for each relevant reference to this business [max 2]. Award 1 mark for each relevant explanation [max 2]. Points might include: Introduction of import quotas in country X: • Limit/reduce the amount of imports [k] as import 45% of these [app] which could reduce output/may have to find more (local) suppliers [an] • May mean have to find local/alternative suppliers/may not be able to find suitable suppliers [k] leading to increase time/cost [an] • Fewer imports possible [k] leading to fewer (potential) sales [an] • Lower production [k] Appreciation of country X's exchange rate: • Imports become cheaper [k] reducing VVA's costs [an] of its school bags [app] • Imports become cheaper [k] so may be able to lower prices [an] • Lower import price [k] so could increase its profit margin [an] • Imports become cheaper [k] so can import more [an] • Can import more (materials) [k] so can increase output [an] Other appropriate responses should also be credited.	**6**	To use words from the stem as application, the reference must be appropriate (i.e. make sense) in relation to the point being made. The following words are likely to be appropriate for this question: • School backpacks/bags • 45% (raw materials) / 55% locally • Retailers • Increased level of competition Other appropriate examples can be credited. Do not award: Tariff as [app].

Question	Answer	Marks	Notes
3(e)	**Do you think retailers are the best channel of distribution for a manufacturing business to use? Justify your answer.** Award up to 2 marks for identification of relevant points. Award up to 2 marks for relevant development of points. Award up to 2 marks for a justified decision as to whether using retailers is the best channel of distribution for a manufacturing business to use. Points might include: Retailers: • Wide distribution/access to customers/sell in different places [k] increase sales/revenue [an] • Retailers will carry out/pay for advertising/promotional activities [k] raise awareness/increase sales [an] • Can sell in large quantities/higher sales [k] • Manufacturer can hold less inventory [k] lower storage costs [an] • Price may be higher [k] leading to fewer sales [an] • No direct contact with customers [k] so difficult to build/maintain customer relationship [an] • Loss of (some) control of marketing mix/promotion/price/product [k] • Retailer takes some of the profit [k] which reduces profit margin [an] • Manufacturer must pay **delivery** costs to the retailers [k] Other options could include: Sell direct to customers/direct selling/online/internet/ecommerce open own shops [k] • All/more profit goes to manufacturer [an] • Can sell at a lower price [an] leading to more sales [an] • Can control all/more of the marketing [an] • Allows for direct customer contact/feedback/market research [an] • Increased delivery costs/customers over a wide area/[an] • May need to employ extra workers (to manage paperwork/pack) [an]	**6**	This is a general question so there are no marks for application. Points must focus on viewpoint of manufacturing business. Some points can be presented as advantages/disadvantages of different channels but only award point once. Some points can be written as [k] or [an] but only award once.

Question	Answer	Marks	Notes
3(e)	Use wholesalers [k] • Wholesalers will buy in bulk/large amounts [an] • Saves storage space for manufacturer [an] • Loss of control over marketing mix [an] • Takes part of the profit [an] • Agents (when selling in other countries) [k] • Have local market knowledge [an] Other appropriate responses should also be credited. Justification might include: Retailers offer a wide distribution [k] which can help increase potential sales [an]. Selling direct to customers [k] would mean the business could keep all the profit [an]. I think selling to retailers is better as the high sales will increase the total revenue [eval] which will offset the lower profit margin. [eval]		

Question	Answer	Marks	Notes
4(a)	**Define 'retained profit'.** Award 2 marks for a full definition. Award 1 mark for a partial definition. Profit (left, or) reinvested back into the business, (after all payments have been made) [2] OR Profit (remaining after all expenses, tax and dividends have been paid), which is ploughed back into the business [2] Partial definition e.g. profit /money to reinvest [1] OR profit left after dividends / shareholders paid [1] Other appropriate responses should be credited.	**2**	

Question	Answer	Marks	Notes
4(b)	**Define 'current assets'.** Award 2 marks for a full definition. Award 1 mark for a partial definition. Items owned by/belong to business and used **within** one year [2] OR Resources that the business owns and expects to convert into cash before the date of the next statement of financial position [2] Partial definition e.g. items in the business for **less than** one year/12 months/within a financial year [1] OR assets owned Other appropriate responses should be credited.	**2**	
4(c)	**Outline <u>two</u> possible reasons why working capital is important for CPF.** Award 1 mark for each relevant reason (max 2). Award 1 mark for each relevant reference to this business (max 2) Points might include: • To pay day-to-day expenses/(short term) debts or examples such as pay wages [k] for its 30 employees [app] • To pay for **unexpected** expenses/emergencies [k] especially as the business is looking to expand [app] • To ensure the business has a good credit reputation [k] for the 4 shops [app] • Ensures the business can take advantage of special offers/discounts on bulk purchases [k] of its clothes [app] • To cope with seasonal demand [k] Other appropriate responses should also be credited.	**4**	To use words from the stem as application, the reference must be appropriate (i.e. make sense) in relation to the point being made. The following words are likely to be appropriate for this question: • (4) shops/retailer/stores • 30 (employees) • Clothes • Private limited company • Plans to expand • Retained profit is low Other appropriate examples can be credited.

© UCLES 2023

Question	Answer	Marks	Notes
4(d)	**Explain <u>one</u> way each of the following stakeholder groups might be affected by CPF's plans to expand its business.** Award 1 mark for identification of each relevant way (max 2). Award 1 mark for each relevant reference to this business (max 2). Award 1 mark for each relevant explanation (max 2). Points might include: Employees: • Opportunities for promotion [k] for the 30 employees [app] so may be able to benefit from higher wages [an] • Work extra hours [k] at the new shop [app] so gain extra payments/which may lead to mistakes [an] • Greater variety/different tasks/work to do [k] making the work more interesting/less boring for them [an] • More job security [k] increasing motivation [an] • Employees may have to move location [k] so long time to get to work/travel costs increase [an] Suppliers: • Additional orders/sales/produce more [k] of clothing [app] leading to additional revenue [an] • Security/certainty of regular orders [k] so able to plan effectively [an] • May struggle to meet extra demand [k] • May have to distribute goods to a new area [k] increasing transport costs [an] Other appropriate responses should also be credited.	**6**	To use words from the stem as application, the reference must be appropriate (i.e. make sense) in relation to the point being made. The following words are likely to be appropriate for this question: • (4/new) shops/retailer/stores • 30 (employees) • Clothes • Private limited company • Low retained profit Other appropriate examples can be credited. Some points can be [k] or [an] but only award once.

© UCLES 2023

Question	Answer	Marks	Notes
4(e)	**Do you think it is better for a private limited company to use debt (e.g. a loan) or equity (issuing more shares) as a source of long-term finance? Justify your answer.** Award up to 2 marks for identification of relevant points. Award up to 2 marks for relevant development of points. Award up to 2 marks for a justified decision as to whether it is better for a limited company to use debt (e.g. a loan) or equity (issue shares) as a source of long-term finance. Points might include: Debt: • May be difficult to raise additional finance [k] if banks/suppliers concerned about its ability to repay existing loans [an] • No change of ownership [k] so lenders have no say in decisions [an] • Can receive all the money at once/at the same time [k] • Must pay interest [k] which increases costs/cash flow problems [an] • Need to repay [k] • Need security [k] which can lose if unable to repay debt [an] Equity/issue shares: • No interest/finance costs to pay [k] so no extra cash outflows [an] • Permanent source of capital/no need to repay [k] • Can only sell to friends and family/small number of shareholders [k] which can limit the amount of capital raised [an] • Dividends expected/paid to shareholders [k] so less **retained** profit [an] • Give up some **ownership** [k] Other appropriate responses should also be credited.	**6**	This is a general question so there are no marks for application. Some points could be written as either advantages or disadvantages of different sources but only award once. Some points can be written as [k] or [an] but only award a point once.

Question	Answer	Marks	Notes
4(e)	Justification might include: Using debt may be difficult to raise additional finance [k] if banks are concerned about its ability to repay existing loans [an]. Selling shares means no interest [k] so no extra cash outflows [an]. Equity is better because if the business has financial difficulties debt is still expected to be repaid [eval] which increases the risk of the business failure. [eval]		

© UCLES 2023