

# IGCSE

## Business Studies

Sample Assessment  
Materials (SAMs)

### Edexcel IGCSE in Business Studies (4BS0)

First examination 2011

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#### *Acknowledgements*

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# Introduction

The sample assessment material has been prepared to support the specification.

The aim of the material is to provide students and centres with a general impression and flavour of the actual question paper and mark scheme in advance of the first operational examinations.



# Sample question paper

Paper 1: Business Studies

7







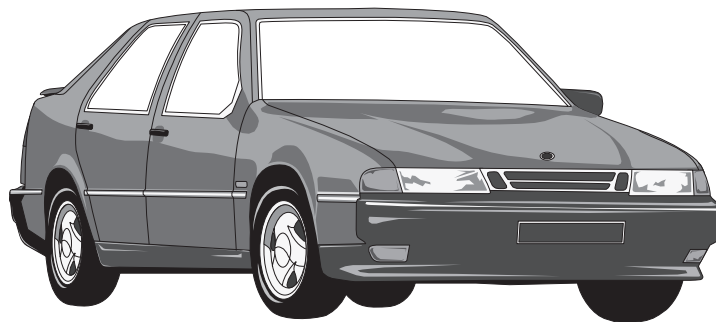
**Read this page, then answer the questions which follow.**

### **Context**

*Comet Cars plc (CC plc)* is a manufacturer of cars. The Head Office and one of its factories are located in the city of Bristol (UK). There are two other UK factories in Coventry and Wolverhampton.

There are many car manufacturers in Europe and the rest of the world. This means that *CC plc* has to survive and operate in a very competitive market. As a result, the directors of *CC plc* realise that the company must produce a range of quality cars in order to stay competitive with other manufacturers.

The directors realise how important it is to keep making and selling new cars that appeal to customers.



**Answer ALL questions.**

**SECTION A**

**For each of the questions (i) – (v), choose an answer A, B, C, D and put a cross in the box (☒). Mark only one answer for each question. If you change your mind, put a line through the box (☒) and then indicate your new answer with a cross (☒).**

1. (a) (i) Batch and flow are methods of

- A administration
- B finance
- C marketing
- D production

**(1)**

(ii) CAD is the abbreviation used in business for

- A Capital And Debentures
- B Cash And Delivery
- C Computer Aided Design
- D Credit Allowed Discount

**(1)**

(iii) *CC plc* will use stock control when

- A buying shares in other businesses
- B issuing items from factory stores
- C judging the amount of tax it owes
- D paying invoices owed to its suppliers

**(1)**

(iv) *CC plc* uses lean production methods. One advantage of this to *CC plc* is

- A costs fall leading to higher profits
- B costs fall leading to lower profits
- C costs rise leading to higher profits
- D costs rise leading to lower profits

**(1)**

(v) The efficiency of *CC plc*'s employees can be measured by their

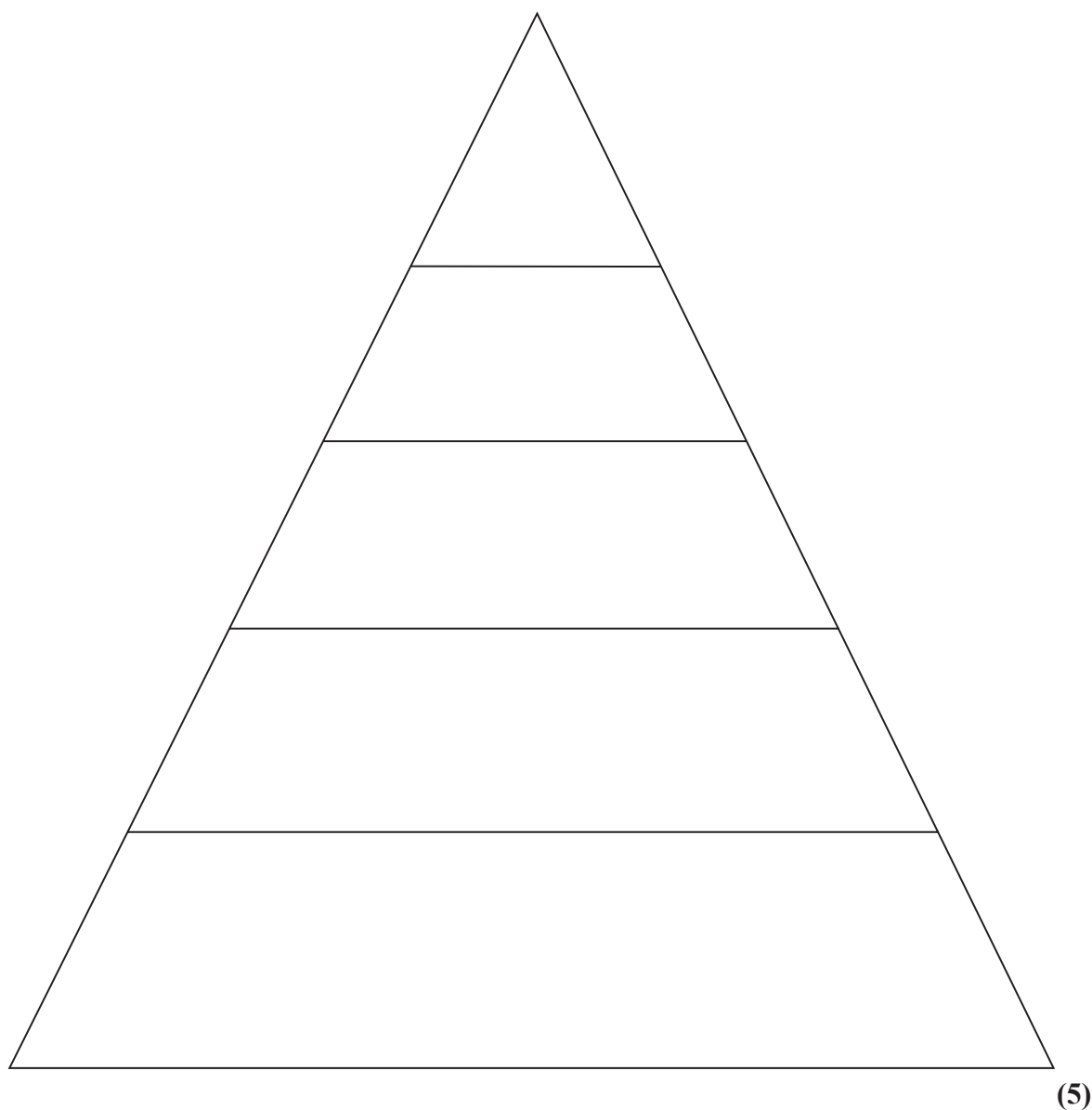
- A accountability
- B hierarchy
- C liability
- D productivity

**(1)**

- (b) The Human Resources (HR) director at *CC plc* is aware of Maslow's motivational theory. She wishes to complete a diagram of Maslow's hierarchy of needs.

Complete Maslow's hierarchy of needs using **only** the information below, by entering the appropriate letter in the diagram below.

- A Safety needs
- B Basic needs
- C Self-actualisation needs
- D Social needs
- E Esteem needs



(c) To help *CC plc* carry out its work, it has several different departments. These include:

- Finance
- Human Resources (Personnel)
- Production

For each department, give **one** example of its activity **and** explain how this helps *CC plc*.

(i) Finance department

Activity .....

Explanation .....

.....  
.....  
.....

**(2)**

(ii) Human Resources (Personnel) department

Activity .....

Explanation .....

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**(2)**

(iii) Production department

Activity .....

Explanation .....

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**(2)**

(d) *CC plc* has a quality control system.

(i) What is meant by 'quality control'?

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(2)

(ii) State **one** problem that *CC plc* will have if it makes poor quality cars.

How would this problem affect *CC plc*?

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(2)

**(Total 20 marks)**

Q1

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2. *CC plc* is in the secondary sector of the UK economy.

(a) What is meant by ‘secondary sector’?

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.....

(2)

(b) Complete the table below by stating **two** types of business in the **tertiary** sector that *CC plc* could trade with and **one** example of how *CC plc* will trade with it.

	Type of business	Example
1.		
2.		

(4)



(c) The directors of *CC plc* have set objectives for the company.

(i) State why it is important for a business, such as *CC plc*, to set business objectives.

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(2)

(ii) Which objectives, from the list below, is *CC plc* **most likely** to set?

Indicate your answers by marking **two** boxes.

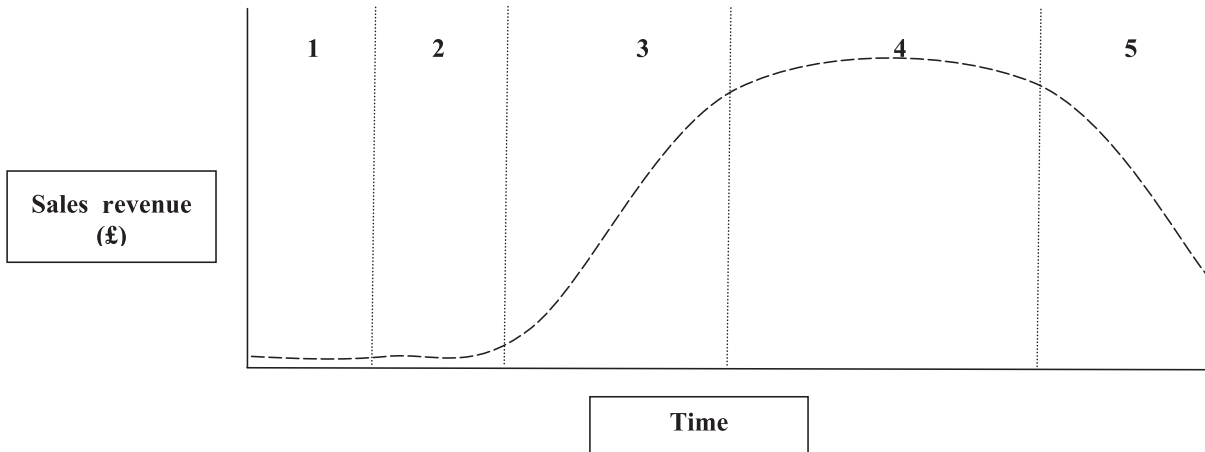
- A** To cut the costs of making each car.
- B** To sell cars at a financial loss.
- C** To make cars with fewer safety features.
- D** To pay higher rates of interest on money borrowed.
- E** To have an effective marketing strategy.
- F** To stop making spare parts for each car.

(2)

(d) Each type of car made by *CC plc* has a product life cycle. The product life cycle starts with its development stage. This is shown as number 1 on the chart below. The other stages of the product life cycle are numbered on the chart below.

Name each of the **four** stages of the product life cycle numbered 2, 3, 4 and 5.

**Product life cycle**



- 1 Development
  - 2 .....
  - 3 .....
  - 4 .....
  - 5 .....
- (4)**

(e) *CC plc* has just made a new car. The advertising for this new car is to be aimed at families with young children.

The Marketing department has a choice of media to use when advertising the new car. The two pairs of advertising media that can be used are:

- **Pair 1:** Cinema and television.
- **Pair 2:** Newspapers and posters.

(i) Select **one** of these pairs to advertise the new car.

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Discuss **two** reasons for advertising the new car using these media.

1 .....

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2 .....

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**(4)**

(ii) Discuss **one** reason for **not** using the other media.

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**(2)**

**Q2**

**(Total 20 marks)**

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3. The directors have been given a summary of the most recent balance sheet for *CC plc*. This summary is shown below.

**Balance sheet for *CC plc* at 5 April 2007**

	£million	£million
Fixed assets		400
Current assets	150	
Current liabilities	<u>90</u>	
Working capital		<u>60</u>
		460
Bank loan		<u>40</u>
		<u>420</u>
Share capital		300
Undistributed profit		<u>120</u>
		<u>420</u>

- (a) (i) How much money has *CC plc* reinvested in the company, rather than paid to its shareholders?

.....  
**(1)**

- (ii) Give **two** examples of assets that *CC plc* is likely to have.

1 .....

.....

2 .....

.....  
**(2)**

(b) *CC plc*'s balance sheet contains both share capital and a bank loan.

Describe **two** differences between share capital and a bank loan.

1 .....

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2 .....

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**(4)**

(c) How can *CC plc*'s directors use the information in this balance sheet for decision making?

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**(3)**

(d) (i) Name **one** Act of Parliament or other law that affects the work of *CC plc*.

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**(1)**

(ii) How will this Act of Parliament or other law affect the work of *CC plc*?

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**(5)**

(iii) Examine **one** way, other than through Acts of Parliament, that the UK Government affects the work of *CC plc*.

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**(4)**

**(Total 20 marks)**

**Q3**

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**TOTAL FOR SECTION A: 60 MARKS**

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**PLEASE TURN OVER FOR QUESTION 4.**

### SECTION B

4. The directors of *CC plc* want to introduce a new range of cars. These cars will be at the luxury end of the market and will be competing with expensive cars manufactured by other companies.



The directors of *CC plc* plan to invest in new machines to make the new range of cars. They hope this will lead to economies of scale. The new machines will make *CC plc* more capital-intensive.

- (a) (i) Discuss **one** likely benefit to *CC plc*, **other than** economies of scale, from becoming more capital-intensive.

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**(3)**

- (ii) Analyse **one** likely problem that becoming more capital-intensive will cause for *CC plc*.

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**(3)**



(iii) Discuss how investing in new machinery is likely to affect **two** economies of scale for *CC plc*.

1 .....

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2 .....

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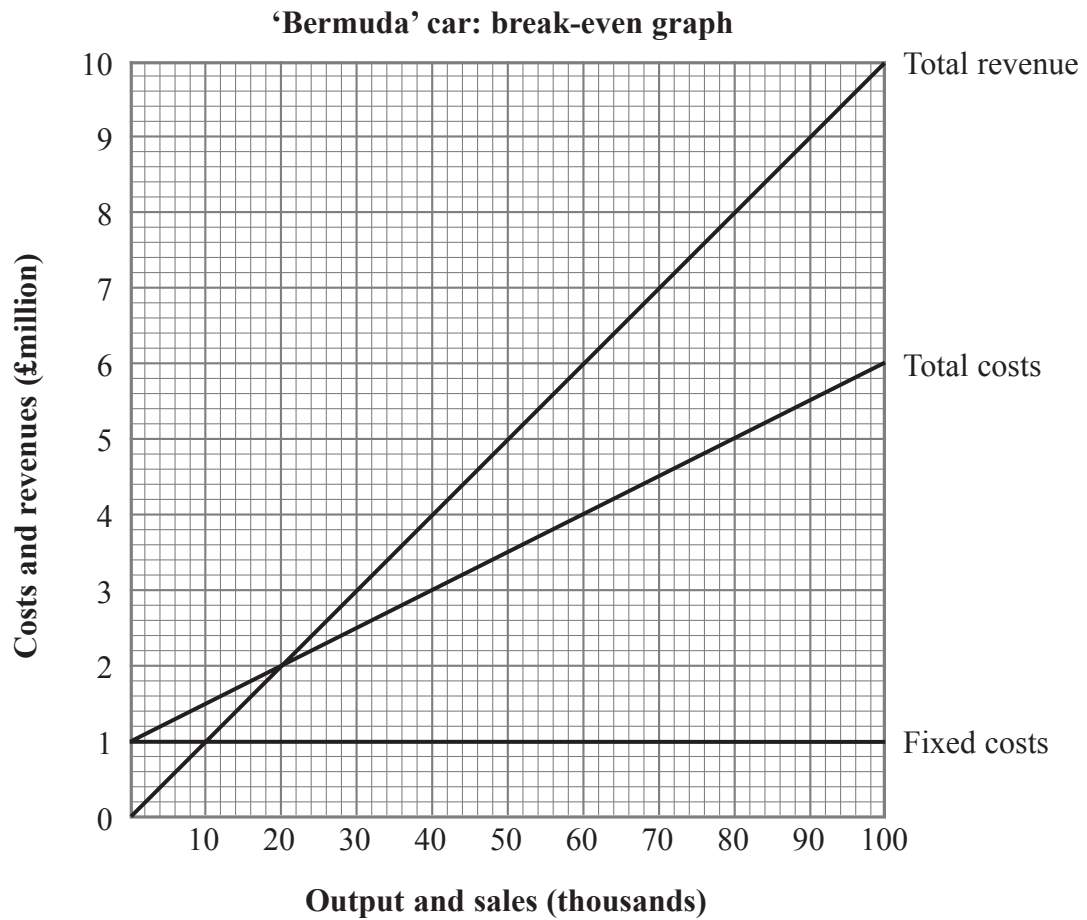
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**(6)**

(b) *CC plc* has produced the following break-even graph for one of the new cars in the range – the ‘Bermuda’.



The directors of *CC plc* are discussing whether to increase the production of the ‘Bermuda’ car.

Assess the value of using break-even analysis to help the directors decide whether to increase production of the ‘Bermuda’ car.

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**(8)**

**Q4**

**(Total 20 marks)**

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5. Employees in *CC plc*'s Marketing department at Head Office will need to decide on a suitable pricing strategy for the new luxury car range. They can select from the following strategies:

- cost plus
- penetration

Select **one** of these pricing strategies.

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(a) Analyse which of these pricing strategies *CC plc* should use for the new luxury car range.

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**(5)**

(b) One director wants to promote the new luxury range using persuasive advertising methods. Another director would prefer to use informative advertising to promote the new range.

(i) Define the term ‘persuasive marketing’

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**(1)**

(ii) Discuss how persuasive **and** informative advertising can both be suitable methods to use in this situation.

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**(4)**

(c) The directors have to modernise the Bristol factory to make the new luxury range. This means that they will need to obtain a large amount of finance. They have two choices:

**Choice 1:** A new share issue, to be made through the London Stock Exchange.

**Choice 2:** A new bank loan, repayable over 10 years.

Select **one** of these sources of finance for modernising the Bristol factory.

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Justify why you have selected this source of finance and rejected the other.

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(10)

(Total 20 marks)

Q5

**TOTAL FOR SECTION B: 40 MARKS**  
**TOTAL FOR PAPER: 100 MARKS**

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## Sample mark scheme

General marking guidance	33
Paper 1: Business Studies	35



## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.



# Paper 1

## Section A

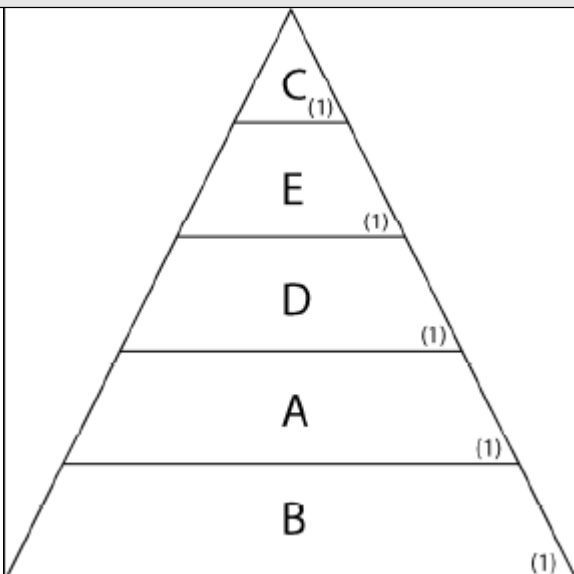
Question Number	Answer	Mark
1(a)(i)	D	1

Question Number	Answer	Mark
1(a)(ii)	C	1

Question Number	Answer	Mark
1(a)(iii)	B	1

Question Number	Answer	Mark
1(a)(iv)	A	1

Question Number	Answer	Mark
1(a)(v)	D	1

Question Number	Answer	Mark
1(b)		5

Question Number	Answer	Mark
1(c)(i)	<p>Any one from:</p> <ul style="list-style-type: none"> <li>• handles money (1) - received from <i>CC plc's</i> customers buying cars/when paying <i>CC plc's</i> suppliers (1)</li> <li>• deals with wages/salaries (1) - on behalf of <i>CC plc</i> employees (1)</li> <li>• budgets/cash flow forecasting (1) - for decision making by <i>CC plc</i> managers (1)</li> <li>• invoicing/accounts (1) - record keeping/analysis of <i>CC plc</i> financial performance (1)</li> <li>• tax (1) - calculations/<i>CC plc</i> must pay to government (1)</li> <li>• financial statements (1) - judging <i>CC plc's</i> success (1)</li> </ul> <p>1 mark for stated example + 1 mark for development or relevance to <i>CC plc</i></p>	2

Question Number	Answer	Mark
1(c)(ii)	<p>Any one from:</p> <ul style="list-style-type: none"> <li>• recruitment (1) - ensures employees who leave <i>CC plc</i> are replaced appropriately (1)</li> <li>• training (1) - ensures staff efficiency at <i>CC plc</i> (1)</li> <li>• terms and conditions of service (1) - legal requirement for <i>CC plc</i> (1)</li> <li>• contracts (1) - legal requirement for <i>CC plc</i> (1)</li> <li>• disciplinary/grievance (1) - so staff and managers at <i>CC plc</i> are aware of procedures (1)</li> <li>• dismissal (1) - unsuitable employees at <i>CC plc</i> (1)</li> <li>• welfare (1) - assists with employee queries/problems (1)</li> </ul> <p>1 mark for stated example + 1 mark for development or relevance to <i>CC plc</i></p>	2

Question Number	Answer	Mark
1(c)(iii)	<p>Any one from:</p> <ul style="list-style-type: none"> <li>• production planning/production control (1) - so <i>CC plc</i> can meet demand (1)</li> <li>• research and development (1) - so <i>CC plc</i> can stay competitive (1)</li> <li>• quality control/assurance (1) - checking to ensure agreed standards for making cars are being met (1)</li> <li>• stock control (1) - JIT/avoid wastage (1)</li> <li>• making cars (1) - to meet <i>CC plc's</i> demand (1)</li> </ul> <p>1 mark for stated example + 1 mark for development or relevance to <i>CC plc</i></p>	2

Question Number	Answer	Mark
1(d)(i)	<p>Any one from:</p> <ul style="list-style-type: none"> <li>• maintaining a consistent level of quality (1) - through regular checks (1)</li> <li>• checking goods/materials (1) - to make sure they are suitable (1)</li> </ul> <p>1 mark for basic statement of what is meant + 1 mark for development</p>	2

Question Number	Answer	Mark
1(d)(ii)	<p>Any one from:</p> <ul style="list-style-type: none"> <li>• loss of custom (1) - people choose to buy competitors' cars instead of <i>CC plc's</i> cars (1)</li> <li>• bad publicity (1)- loss of status/fall in <i>CC plc's</i> sales (1)</li> <li>• legal (1) - customers may sue <i>CC plc</i> if a car is unsafe (1)</li> </ul> <p>1 mark for stating problem + 1 mark for effect of problem on <i>CC plc</i></p>	2

Question Number	Answer	Mark
2(a)	<p>Any <b>one</b> from:</p> <ul style="list-style-type: none"> <li>the industrial sector (1) - that manufactures (1)</li> <li>secondary type of activity (1) - make/build (1)</li> <li>change raw materials (1) - into finished goods (1)</li> </ul> <p>1 mark for simple statement + 1 mark for development</p>	2

Question Number	Answer	Mark								
2(b)	<table border="1"> <thead> <tr> <th>Type of business</th> <th>Example</th> </tr> </thead> <tbody> <tr> <td>Insurance company (1)</td> <td>Arranges insurance (1)</td> </tr> <tr> <td>Bank (1)</td> <td>Arranges finance (1)</td> </tr> <tr> <td>Garage (1)</td> <td>Sells cars (1)</td> </tr> </tbody> </table> <p>Accept 2 answers: 1 mark for type + 1 mark for example that relates to type</p>	Type of business	Example	Insurance company (1)	Arranges insurance (1)	Bank (1)	Arranges finance (1)	Garage (1)	Sells cars (1)	4
Type of business	Example									
Insurance company (1)	Arranges insurance (1)									
Bank (1)	Arranges finance (1)									
Garage (1)	Sells cars (1)									

Question Number	Answer	Mark
2(c)(i)	<p>Any <b>one</b> from:</p> <ul style="list-style-type: none"> <li>objectives are targets (1) - can measure achievement against these (1)</li> <li>objectives come from aim/mission statement (1) - helps achieve the aim/mission statement (1)</li> </ul> <p>1 mark for basic reason why important + 1 mark for development (answer need not refer to <i>CC plc</i>)</p>	2

Question Number	Answer	Mark
2(c)(ii)	<p>A and E 1 mark for each correctly identified objective (maximum 2 marks)</p>	2

Question Number	Answer	Mark
2(d)	<p>2 Introduction/Launch (1) 3 Growth (1) 4 Maturity/Saturation (1) 5 Decline (1)</p>	4



Question Number	Answer	Mark
2(e)(i)	<p>Any <b>one</b> from:</p> <p>(cinema and television)</p> <ul style="list-style-type: none"> <li>• there is a moving image/sound and music <b>(1)</b> - this makes it persuasive/adds appeal <b>(1)</b></li> <li>• can target cinema and television adverts <b>(1)</b> - eg to reach a national audience <b>(1)</b></li> </ul> <p>(newspapers and posters)</p> <ul style="list-style-type: none"> <li>• permanent <b>(1)</b> - therefore can provide more information <b>(1)</b></li> <li>• likely to be less expensive than the other pair <b>(1)</b> - which could make it more cost-effective <b>(1)</b></li> </ul> <p>1 mark for a basic reason + 1 mark for supporting example or development</p> <p style="text-align: right;">(1+1) x 2</p>	<b>4</b>

Question Number	Answer	Mark
2(e)(ii)	<p>Any <b>one</b> from:</p> <p>(cinema and television)</p> <ul style="list-style-type: none"> <li>• they are less permanent <b>(1)</b> - so the advert cannot be kept/might be forgotten <b>(1)</b></li> </ul> <p>(newspapers and posters)</p> <ul style="list-style-type: none"> <li>• they are static media <b>(1)</b> - so less interesting/less appealing than TV or radio <b>(1)</b></li> </ul> <p>1 mark for a basic reason + 1 mark for supporting example or development</p>	<b>2</b>

Question Number	Answer	Mark
3(a)(i)	£120 million Answer must state '£' and confirm amount is in millions	1

Question Number	Answer	Mark
3(a)(ii)	Any <b>two</b> from: <ul style="list-style-type: none"> <li>• buildings/premises (1)</li> <li>• delivery vehicles (1)</li> <li>• furniture (1)</li> <li>• equipment/machines (1)</li> <li>• stock of unsold cars (1)</li> <li>• debtors (1)</li> <li>• bank/cash (1)</li> </ul> Accept any valid other example(s) of an asset that a car manufacturer is likely to own	2

Question Number	Answer	Mark
3(b)	Any <b>two</b> from: <ul style="list-style-type: none"> <li>• share capital comes from owners (1) - whereas a bank loan comes from a lender (1)</li> <li>• share capital is normally not repayable (1) - whereas a bank loan is repayable (1)</li> <li>• share capital earns dividend (1) - whereas a bank loan earns interest (1)</li> </ul> 1 mark for statement about share capital + 1 mark for how it differs to a bank loan  <span style="float: right;">(1+1) x 2</span>	4

Question Number	Answer	Mark
3(c)	Any <b>one</b> from: <ul style="list-style-type: none"> <li>• shows share and loan capital/shows the amount borrowed (1) - £300 million/£40 million/£340 million (1) - the directors can therefore see if more investment is needed (1)</li> <li>• can calculate liquidity ratios/can use for ratio analysis (1) - current assets £150 million/current liabilities £90 million/working capital £60 million (1) - this will show the directors if more cash is needed (1)</li> </ul> 1 mark for stating how + 1 mark for development 1 mark for using information from the balance sheet	3

Question Number	Answer	Mark
3(d)(i)	<p>Any one from:</p> <ul style="list-style-type: none"> <li>• Disability Discrimination</li> <li>• Race Relations</li> <li>• Sex Discrimination</li> <li>• Employment Equality (Religion and Belief)</li> <li>• Employment Act</li> <li>• Working Time Directive</li> <li>• Sale and Supply of Goods/Trade Descriptions</li> <li>• Health and Safety at Work</li> </ul> <p>1 mark for a named Act of Parliament that will affect the work of a car manufacturer</p>	1

Question Number	Answer	Mark
3(d)(ii)	<p><b>Valid points could include:</b></p> <p>eg</p> <p>(EO laws) rules on work behaviour (1) - <i>CC plc</i> must consider employee needs/control behaviour (1) - affects policy on (eg) recruitment (1) - cost implications eg special equipment (1) - fail to follow means bad publicity, which affects sales (1)</p> <p>(Employment Act) <i>CC plc</i> must give maternity or paternity leave (1) - must keep job open because mothers can return to work within one year (1) - may face requests from employees with children under six/disabled children under 18 for flexible working (1) - this influences work patterns (1) - <i>CC plc</i> must follow grievance procedures/obey conditions under which staff can be dismissed (1)</p> <p>(Working Time Directive) maximum continuous time <i>CC plc</i> employees work in a week is 48 hours/20 minute rest after every six hours (1) - any night shift employees have work time limited to eight hours in a 24 hour period (1) - employees entitled to four weeks' annual paid leave p.a. and statutory holidays (1) - may affect <i>CC plc's</i> work arrangements (1) - will not apply if employees are in 'exception' category (1)</p> <p>1 mark for identifying how  2 x 1 mark for explanation or development  2 x 1 mark for examples illustrating how it applies to <i>CC plc</i></p>	5

Question Number	Answer	Mark
3(d)(iii)	<p>Any one from:</p> <ul style="list-style-type: none"> <li>• taxation policy (1) - tax levels affect <i>CC plc's</i> finances (1) - higher tax means less to invest - reduces liquidity/affect survival chances (1)</li> <li>• competition policy (1) - free market means more competition for <i>CC plc</i> (1) - affects survival/profitability (1) - influences pricing policy/markets entered/models made (1)</li> </ul> <p>1 mark for identifying the way  1 mark for relating to <i>CC plc</i>  2 x 1 marks for examining the effect</p>	4

## Section B

Question Number	Answer	Mark
4(a)(i)	<p>Any <b>one</b> from:</p> <ul style="list-style-type: none"> <li>quicker production (1) - because machines are faster than labour (1) - so <i>CC plc</i> will have more output/more to sell (1)</li> <li>more reliable production (1) - because machines are more consistent than labour (1) - which improves quality for <i>CC plc</i> (1)</li> <li>reduces employee numbers (1) - because of greater capital intensity (1) - which will save costs for <i>CC plc</i> (1)</li> </ul> <p>1 mark for benefit 1 mark for reason/development 1 mark for relevance to <i>CC plc</i></p>	3

Question Number	Answer	Mark
4(a)(ii)	<p>Any <b>one</b> from:</p> <ul style="list-style-type: none"> <li>it will affect staff (1) - need to retrain them/could get rid of some staff (1) - leads to loss of morale in <i>CC plc</i> (1)</li> <li>financial implications (1) - will need to raise finance/could cost to raise finance (1) - likely to affect <i>CC plc's</i> profits/survival in the short term (1)</li> </ul> <p>1 mark for identifying problem 1 mark for development 1 mark for analysing the relevance to <i>CC plc</i></p>	3

Question Number	Answer	Mark
4(a)(iii)	<p>Any <b>two</b> from:</p> <ul style="list-style-type: none"> <li>bulk buying (1) - because more machines should mean more output (1) - so the unit cost of raw materials falls (1)</li> <li>technical (1) - specialist machines should increase productivity (1) - which allows <i>CC plc</i> to cut its prices/makes it more competitive (1)</li> </ul> <p>1 mark for identifying a relevant economy of scale 2 x 1 mark for discussing how it is affected by capital investment</p> <p style="text-align: right;">(1+1+1) x 2</p>	6

Question Number	Answer	Mark
4(b)	<p><b>Valid points could include:</b></p> <p>eg</p> <ul style="list-style-type: none"> <li>• (use) breakeven analysis shows a car's breakeven point (1) - (value) so the directors can see the profit margin (1) - and judge risk by checking the margin of safety (1) - (limitation) but the analysis might be wrong (1) eg because it does not account for costs varying (1)</li> <li>• (use) costs must be split into fixed and variable (1) - (value) this encourages <i>CC plc</i> staff to undertake cost analysis (1) - which can be used in decision making (1) - (limitation) but these costs can in practice be semi-variable (1) - which means the analysis could be flawed (1)</li> <li>• (use) this analysis is most effective for a single product business (1) - (value) in showing eg areas of profit and loss, and margin of safety (1) - (limitation) but <i>CC plc</i> makes other cars (1) - this can affect the accuracy of the analysis (1) - because judgements must be made eg how to apportion its fixed costs between different car models (1)</li> </ul> <p>3 x 1 mark for how <i>CC plc</i> could use break-even analysis  3 x 1 mark for showing its value in this context  3 x 1 mark for limitation of its value  Any combination to a maximum of 8 marks</p>	<b>8</b>

Question Number	Answer	Mark
5(a)	<p><b>Valid points could include:</b></p> <p>eg cost plus</p> <p>(what) it is based on costs being calculated and a profit mark-up added (1) - (relevance) so it can be used by <i>CC plc</i> for a new car (1) - (analysis) <i>CC plc</i> will know other manufacturers' prices (1) - so it can set its own mark-up accordingly (1) - and still guarantee that it will make a profit on the new cars (1)</p> <p>eg penetration</p> <p>(what) it is based on setting a price below market price (1) - (relevance) so it can be used by <i>CC plc</i> for a new car (1) - (analysis) the low price will help <i>CC plc</i> gain market share (1) - which helps establish a client base (1) - and the company can adjust its prices in the future (1)</p> <p>1 mark for what cost plus/penetration is 1 mark for relevance to <i>CC plc</i> 3 x 1 mark for analysis</p>	5

Question Number	Answer	Mark
5(b)(i)	1 mark for correct definition of what persuasive advertising is	1

Question Number	Answer	Mark
5(b)(ii)	<p><b>Valid points could include:</b></p> <p>eg</p> <ul style="list-style-type: none"> <li>(what) persuasive seeks to convince customers to buy a <i>CC plc</i> car model rather than one from another manufacturer (1) - (suitability) it is a suitable method because other manufacturers use it therefore <i>CC plc</i> is meeting like with like (1) - and customers can be tempted to buy <i>CC plc</i>'s models if its adverts are very persuasive (1)</li> <li>(what) informative gives details about <i>CC plc</i> car models (1) - (suitability) it is a suitable method because cars are a major purchase and customers need/expect a lot of information (1) - and if <i>CC plc</i> does not supply this information customers are likely to go elsewhere (1)</li> </ul> <p>2 x 1 marks for discussing the suitability of persuasive 2 x 1 marks for discussing the suitability of informative</p>	4

Question Number	Answer	Mark
5(c)	<p><b>Any one from:</b></p> <p>eg new share issue</p> <ul style="list-style-type: none"> <li>• this is permanent capital (1) - it means <i>CC plc's</i> net worth could increase (1) - unlike a bank loan, which will not increase its net worth because it must be repaid/it is only a loan (1)</li> <li>• <i>CC plc</i> can invite existing shareholders to buy (1) - this is a 'ready-made' market (1) - whereas the bank loan has to be negotiated (1)</li> <li>• <i>CC plc</i> need not pay a dividend if it is short of cash/if it is failing to make a profit (1) - whereas it will have to pay loan interest (1) - and, if not, the bank may force closure/liquidity problems result (1)</li> <li>• investors are happier to invest in a lower geared company which <i>CC plc</i> will be with share capital rather than fixed interest capital (1) - they are less likely to invest if <i>CC plc</i> has outstanding loans (1)</li> </ul> <p>eg new bank loan</p> <ul style="list-style-type: none"> <li>• <i>CC plc</i> will pay off the loan (1) - so gets rid of the liability (1) - but its share capital is permanent (1)</li> <li>• the bank will not become an owner of <i>CC plc</i> (1) - whereas new shareholders can affect the running of <i>CC plc</i> (1) - so the directors could lose control (1)</li> <li>• interest on the loan is paid from untaxed/gross profit (1) - whereas a dividend is paid from taxed/net profit (1) - so it is more financially efficient for <i>CC plc</i> to pay loan interest (1)</li> <li>• <i>CC plc</i> can budget for interest payments with some certainty (1) - compared with dividends that will vary/will have a variable effect on its finances (1)</li> <li>• the bank can provide other services or expertise (1) - which are not likely to be available from <i>CC plc's</i> shareholders (1)</li> <li>• the loan is a guaranteed amount (1) - but there is no guarantee that all <i>CC plc's</i> shares will be sold (1)</li> <li>• it is normally inexpensive to arrange a bank loan (1) - but a share issue is very expensive for <i>CC plc</i> (1)</li> </ul> <p>No mark for selecting the source of finance A balanced answer is required: 5 marks maximum for why one source is selected 5 marks maximum for why the other source is rejected 2 marks maximum for balancing comments against selection (ie for disadvantages associated with the source selected)</p> <p>Any combination to a maximum of 10 marks</p>	10





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