

Cambridge AS & A Level · Business 9609 · Notes

Business finance

AS

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What you need to know

By the end of this topic you should be able to:

1. **Explain why businesses need finance:** to start up, to grow and to survive.
2. **Tell short-term needs for finance from long-term ones:** money needed for less than a year (day-to-day running) against money tied up for years (buildings, machinery, expansion).
3. **Explain the difference between cash and profit**, and why a profitable business can still run out of cash.
4. **Explain how a lack of finance can make a business fail**, and what **bankruptcy**, **liquidation** and **administration** mean.
5. **Explain the meaning and importance of working capital**, and calculate it.
6. **Explain how a business manages its trade receivables and trade payables** to protect its working capital.
7. **Distinguish capital expenditure from revenue expenditure**, with examples.

Choosing between sources of finance (loans, shares, overdrafts, leasing) is the next topic, and cash-flow forecasts come after that. Here you only need to know that short-term needs suit short-term sources and long-term needs suit long-term ones.

Understand it

Why businesses need finance

Finance is the money a business raises to pay for what it needs. Almost every business needs it at three stages.

- **To start up.** Before a single sale there is spending: premises, equipment, a first batch of inventory, a website, launch marketing. A new café must buy its coffee machine and fit out the shop months before it has regular customers, and it needs money to pay rent and wages while it builds a customer base. New businesses also struggle to get trade credit, because suppliers don't yet trust them, so they often pay for supplies on delivery.

- **To grow.** Growth means spending now for revenue later: a second site, more machinery, more employees, research into new products, buying another business. Growth also needs **more working capital**, because more sales mean more inventory to buy and more customers who owe money.
- **To survive.** Revenue can fall suddenly (a recession, a new rival, a lost contract) while bills keep arriving. Finance carries the business through a bad period, pays for unexpected costs (a machine breaking down, a sharp rise in material prices) and replaces worn-out or outdated equipment so it stays competitive.

Short-term and long-term needs

	Short-term need	Long-term need
How long the money is tied up	Less than a year	More than a year, often many years
Typical uses	Inventory, wages, bills, covering customers who pay late, a seasonal dip in sales	Premises, machinery, vehicles, expansion, research and development
Suitable sources (next topic)	Overdraft, trade credit, short-term loan	Long-term loan, share capital, retained profit, leasing

The rule is to **match** the source to the need. Paying for a new factory with an overdraft is risky, because the bank can demand an overdraft back at short notice; taking a ten-year loan to pay one month's wages means paying interest long after the need has gone.

Cash and profit are not the same

- **Profit** is revenue minus costs over a period. A sale counts as revenue when it is made, even if the customer has not yet paid.
- **Cash** is the money the business actually holds, in its bank account or till, at a point in time.

A print shop prints brochures for a client for 6,000 dollars, with 60 days to pay. The paper and ink cost 2,500 dollars, paid this month. The order makes a **profit** of $6000 - 2500 = 3500$ dollars, but this month the shop's **cash** falls by 2,500 dollars, because nothing comes in for two months.

Cash and profit differ because of:

- **credit sales:** revenue now, cash later;
- **credit purchases:** costs now, cash paid later;
- **capital spending:** a machine is paid for at once, but its cost is spread over its useful life in the profit figures;
- **inventory** bought but not yet sold: cash has gone out, but no cost appears in profit until it is sold;
- **loans and owners' capital:** cash comes in, but it is not revenue.

So a business can be **profitable but short of cash**, and that is what usually kills it: suppliers, employees and the tax authority must be paid in cash, not in profit. A business making a loss can keep going for a while if it has cash, but not for ever.

Working capital

Working capital is the money available to run the business day to day. It is measured as

$$\text{Working capital} = \text{current assets} - \text{current liabilities}$$

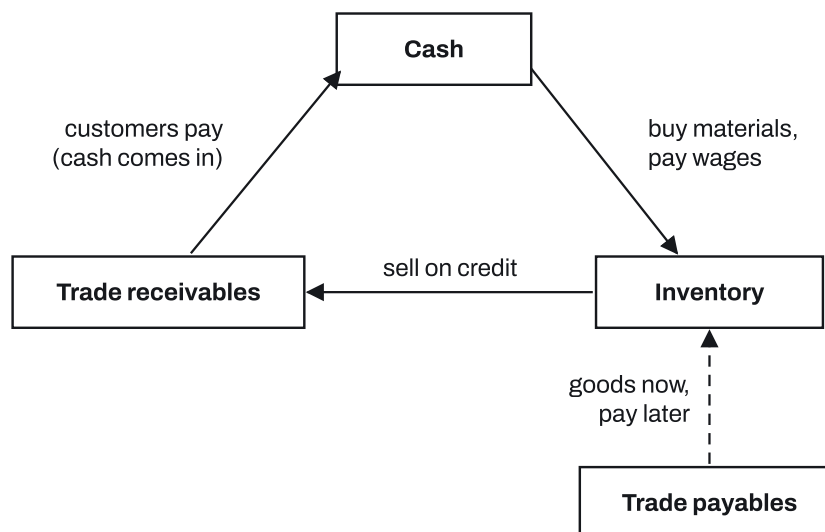
and is also called **net current assets**.

- **Current assets** are cash and things that will turn into cash within a year: **inventory**, **trade receivables** (money customers owe the business for goods or services they have received on credit) and **cash** in the bank.
- **Current liabilities** are debts due within a year: **trade payables** (money the business owes its suppliers for goods bought on credit), a **bank overdraft**, short-term loans and tax due.

A shop with inventory of 20,000 dollars, trade receivables of 15,000 dollars and cash of 5,000 dollars has current assets of 40,000 dollars. If it owes suppliers 18,000 dollars and has an overdraft of 7,000 dollars, its current liabilities are 25,000 dollars, and its working capital is $40000 - 25000 = 15000$ dollars.

Buildings, machinery and long-term loans are **non-current**: leave them out of working capital.

Money flows round a business in a loop, the **working capital cycle**. Cash buys materials and pays wages; these become inventory; the inventory is sold, often on credit, so it becomes trade receivables; when customers pay, it is cash again. Supplier credit (trade payables) lets the business hold inventory before it has paid for it. The longer the loop takes, the more working capital the business needs.



Why working capital matters

Too little working capital means the business cannot pay its bills when they fall due. It is **illiquid**: suppliers stop giving credit or stop delivering, so production halts; employees go unpaid and leave; the bank refuses further lending; the business cannot take a discount for paying early or buy materials cheaply in bulk. In the end it may be unable to trade at all.

Too much working capital is also a problem. Money sitting in large stocks of inventory, in customers' unpaid invoices or as idle cash earns nothing: it has an **opportunity cost**, because it could have bought machinery, paid off a loan or funded marketing. Large inventories cost money to store and insure, and may go out of date or perish.

So the aim is **enough working capital, but not too much**. How much is enough depends on the business: a supermarket paid in cash by its customers needs little, while a builder paid months after finishing a job needs a lot.

Managing trade receivables and trade payables

Working capital is tied up in **trade receivables**: the longer customers take to pay, the longer the business waits for its cash. Ways to collect it sooner:

- check a new customer's credit record before offering credit, and set a **credit limit**;
- offer **shorter credit terms** (30 days instead of 60);
- give a small **discount for paying early**;
- send invoices promptly and chase late payers;
- sell its invoices to a specialist firm for immediate cash, less a fee (**debt factoring**).

The trade-off: strict credit terms can drive customers to rivals that offer longer credit.

Trade payables work the other way: the longer the business takes to pay its suppliers, the longer it keeps its cash. It can **negotiate longer credit terms** or pay on the last allowed day. The trade-off: paying late can damage the relationship, lose early-payment discounts, and lead suppliers to give priority to other customers, charge more or insist on payment on delivery.

Capital expenditure and revenue expenditure

- **Capital expenditure** is spending on **non-current assets**, items the business will use for more than a year: buildings, machinery, vehicles, computer systems, an extension. It appears on the statement of financial position as an asset, and its cost is spread over its life.
- **Revenue expenditure** is spending on the **day-to-day running** of the business, used up within the year: materials, wages, rent, fuel, electricity, advertising, repairs and maintenance. It appears in the income statement as a cost, reducing this year's profit.

A bakery that buys a new oven makes capital expenditure; the flour and the electricity to run the oven are revenue expenditure. Repairing the oven is revenue expenditure (it only keeps the oven working as before); adding a bigger second oven is capital.

Managers need to know the difference because:

- **they are financed differently**: capital spending needs long-term finance; revenue spending comes from working capital and revenue;

- **profit is measured correctly:** counting a 30,000-dollar van as a cost of this year alone would understate this year's profit and overstate later years';
- **planning and budgeting:** managers can see the true cost of running the business each month, separate from one-off investments.

When a lack of finance makes a business fail

Business failure means the business stops trading. Finance is a common cause:

- **cash runs out:** more money flows out than in, so bills, suppliers and wages cannot be paid;
- **too little working capital:** no money for inventory, so no products to sell;
- **no finance for investment:** equipment becomes outdated, rivals become more efficient, and sales fall;
- **no cushion for shocks:** a sudden fall in demand or rise in costs cannot be absorbed;
- **lenders and suppliers lose confidence:** a business already short of cash finds it hardest to borrow or get credit, so the problem feeds on itself.

Growing too quickly (**overtrading**) is a classic route: sales rise faster than the working capital needed to support them, so a profitable, popular business runs out of cash.

Other causes also bring businesses down: poor management, a weak idea or business model, too little market research, poor marketing, strong competition and changes in the market. Examiners credit these when the question asks why businesses fail in general.

When a business cannot pay its debts when they are due, it is **insolvent**. What happens next depends on its legal form:

- **Bankruptcy** applies to **individuals**, so to sole traders and partners. A court declares the owner bankrupt, and because they have unlimited liability, their personal possessions (even their house) can be sold to pay the business's debts.
- **Liquidation** applies to **companies**. The company's assets are sold, the money is shared among the creditors in a set order, and the company is closed and stops existing. Shareholders lose what they invested but, with limited liability, no more.
- **Administration** is a step a company in trouble can take **before** liquidation. An administrator, a specialist appointed to run it, takes control, and creditors cannot take legal action while the administrator tries to rescue the business: by cutting costs, selling parts of it, or selling it as a going concern. If rescue fails, it is liquidated.

Key facts and formulas

There is no formula list for this subject in the exam. "Learn it" means you must remember it.

Fact or formula	Status
Businesses need finance to start up, to grow and to survive	Learn it
Short-term need: under a year (inventory, wages, bills); long-term need: over a year (premises, machinery, expansion)	Learn it
Profit = revenue – costs over a period; cash = money actually held at a point in time	Learn it
Working capital = current assets – current liabilities (net current assets)	Learn it
Current assets: inventory, trade receivables, cash; current liabilities: trade payables, overdraft, short-term loans, tax due	Learn it
Trade receivables: money owed to a business by customers for goods or services supplied on credit and not yet paid for	Learn it
Trade payables: money a business owes its suppliers for goods or services received on credit and not yet paid for	Learn it
Change in working capital = this year's working capital – last year's	Learn it
Capital expenditure: spending on non-current assets used for more than a year	Learn it
Revenue expenditure: spending on day-to-day running costs used up within the year	Learn it
Bankruptcy: an individual (sole trader, partner) declared unable to pay debts; personal assets can be sold	Learn it
Liquidation: a company's assets are sold to pay creditors and the company is closed	Learn it
Administration: an administrator takes control of an insolvent company to try to rescue it before liquidation	Learn it

How to do it

We have tagged 13 questions on this topic (2021–2026), on Papers 1 and 2. 2 of them have parts of more than one type, so the counts add up to 15.

Question type	Questions
Explain or analyse why a business fails (lack of finance and other reasons)	4
Evaluate the main cause of business failure (essay)	2

Question type	Questions
Explain the term working capital (in context)	2
Explain the importance or effects of a business's working capital level	2
Distinguish capital expenditure from revenue expenditure	2
Calculate working capital or its change from a statement of financial position	1
Define trade receivables	1
Explain why a business needs finance	1

The marks are for four skills: **K** (knowledge: a correct point or definition), **App** (application: using the business or industry in the question), **An** (analysis: a chain of causes and consequences) and **Eval** (evaluation: a supported judgement). Below, (K), (App), (An) and (Eval) after a sentence show the mark it earns; (1) is a plain mark.

1. Explain or analyse why a business fails (lack of finance and other reasons) (4 questions)

Paper 1, in three sizes: a short **[3]** explanation of one reason (or of two reasons) for failure, which need not be financial; a **[5]** analysis of a single way that a shortage of finance leads to failure; and an **[8]** analysis of two such finance-related reasons.

1. **K**: name a precise reason. Finance reasons: cash runs out (negative cash flow), too little working capital, no finance to invest or grow, no reserves for unexpected events, cannot get loans or credit. Other reasons, accepted when the question doesn't say "finance": poor management, a flawed business model, too few customers, weak marketing, strong competition, failing to adapt.
2. **App**: say how it happens in practice, with an example business or the business type in the question (a café cannot pay its coffee supplier; a builder waits months for payment).
3. **An**: follow the chain to the end, **failure**. Two or more links count as developed analysis. Useful chains:
 - too little working capital → suppliers not paid on time → credit stopped and deliveries halted → no inventory, so nothing to sell → revenue collapses → insolvency, then liquidation (company) or bankruptcy (sole trader);
 - cash runs out → wages unpaid → employees leave → products cannot be made or services delivered → customers go to rivals;
 - bank sees falling cash → refuses an overdraft or loan → the business cannot cover a short-term gap → cannot pay its debts when due;
 - no finance to invest → equipment becomes outdated → higher costs or lower quality than rivals → market share lost → losses;
 - no reserves → an unexpected fall in demand or rise in costs → cannot survive the bad months.

Mark structures:

- **[3]**, one reason: K for the reason + 2 for a developed explanation of it.

- [3], two reasons: both reasons fully explained for 3; one explained, or both only partly explained, gets 2; a bare list of two gets 1.
- A label with no "how" is only partial: "the owner was not good at business" earns little until you say what went wrong (no cash planning, so bills arrived that could not be paid).
- [5] = 1 K + 2 App + 2 An on **one** way.
- [8] = for each of two reasons, 1 K + 1 App + up to 2 An; make the two reasons clearly different (cash running out and lack of investment, not cash and working capital described twice).

2. Evaluate the main cause of business failure (essay) (2 questions)

Paper 1 Section B [12]: the question names one cause of failure and one type of business, and asks you to judge whether that cause is the most important one, sometimes by giving you a statement to agree or disagree with. Marks: 2 K, 2 App, 2 An, 6 Eval.

1. **K**: define **business failure** (the business stops trading because it cannot cover its costs or pay its debts) and the cause named (working capital, fast growth, lack of finance).
2. **App**: use the **named type of business** all the way through. A small shop is not a factory: talk about its stock, its suppliers, its location, its customers' credit, its season. A niche producer depends on one product and a narrow market.
3. **An**: build chains for the named cause, then for **other causes**:
 - the named cause, for example poor working-capital management: suppliers paid late → credit and deliveries stopped → empty shelves → customers go elsewhere → insolvency;
 - fast growth: orders outgrow cash → more inventory and staff paid for before customers pay → cash runs out despite high sales (overtrading); quality and control slip;
 - other causes: a poor location or business model, inexperienced management, weak marketing, strong rivals (online sellers, large chains), a change in tastes.
4. **Eval**: decide whether the named cause is **the main one for this type of business**, and say what it depends on: how new the business is, how much start-up finance it had, how seasonal or perishable its products are, how strong its rivals are, the skills of its owner. A strong line of argument: the named cause is often the **final trigger** (the business runs out of cash), but the **root cause** is something else (too few customers, poor planning), so it depends whether you judge by symptom or cause.

Examiners repeatedly see essays that analyse well but never judge. Put a judgement in context in every paragraph's last line, and finish with a clear decision.

3. Explain the term working capital (in context) (2 questions)

Paper 2 (a)(ii) [3]: 1 K + 2 App.

1. **K**: "current assets minus current liabilities", or "the finance available for the day-to-day running of the business".

2. **App**: two of: a day-to-day item it pays for (wages, materials, bills); why it matters (paying debts on time, avoiding insolvency); a fact from the case (the case's loans, its slow-paying customers, its high production costs).

Repeating the term without saying what the money is for or how it is measured scores nothing. Don't copy the case's sentence either.

4. Explain the importance or effects of a business's working capital level (2 questions)

Paper 1 [5], marked in levels: 1 for describing working capital, 2–3 for explaining, 4–5 for an effective explanation that fits the exact question.

1. Define working capital (1 mark on its own).
2. Explain two or three effects, each with a reason, and **answer the question set**:
 - "importance to a **new** business": no trading record, so suppliers want payment on delivery; rent and wages are due before enough customers arrive; it must survive until revenue builds up;
 - "effects of a **high** level": it can pay suppliers promptly (and take discounts), offer credit to win customers, and rely less on an overdraft, **but** money is tied up in inventory, receivables and idle cash with an opportunity cost.
3. For 4–5, show both sides where they exist (a high level is safe but can be wasteful) and say what the right level depends on.

5. Distinguish capital expenditure from revenue expenditure (2 questions)

- Paper 2 [3], "explain the distinction ... for [case business]": define **both** (1 each, explaining **expenditure**, not just "capital" and "revenue"), then the third mark for one example of each **from the case** ("the new X is capital expenditure; the Y it uses each week is revenue expenditure").
- Paper 1 [5], "why a manager needs to understand the difference": define both, then explain reasons: they are financed differently, recorded in different statements (capital on the statement of financial position, revenue in the income statement), and profit and running costs are measured correctly for planning. Effective answers explain why each reason matters to the manager.

6. Calculate working capital or its change from a statement of financial position (1 question)

Paper 2 (b)(i) [3]: 1 for the formula or one year's figure, 2 for both years' figures, 3 for the answer.

1. Write the formula: working capital = current assets – current liabilities.
2. Use **only** the current assets and current liabilities lines; ignore non-current assets, non-current liabilities and equity.
3. Work out each year, then subtract: this year – last year. Say whether it is a rise or a fall.

For example, current assets of 70 and 64 (thousand dollars) and current liabilities of 52 and 40: working capital is $70 - 52 = 18$, then $64 - 40 = 24$, a rise of $24 - 18 = 6$ thousand dollars. A percentage change is also accepted: $\frac{6}{18} \times 100 = 33.3\%$.

7. Define trade receivables (1 question)

Paper 1 [2]: money owed **to** the business by its customers for goods or services already supplied **on credit** and not yet paid for. "Money owed" alone earns 1; mixing it up with trade payables (money the business owes) earns nothing.

8. Explain why a business needs finance (1 question)

Paper 1 [3]: 1 K for a reason + 2 for explaining it.

1. **K**: start-up, growth, survival, day-to-day running (working capital), buying equipment.
2. **Explain** with what the money pays for and why it is needed **before** revenue arrives: "a new gym needs finance to start up (K): it must buy machines and fit out the building before any member joins (1), and pay rent and instructors for the first months while membership builds (1)."

Worked examples

Example 1

Ridgeway Kayaks (RK) is a partnership that hires out kayaks and paddleboards on a lake. In the past year it bought six touring kayaks and a new online booking system. It also paid its summer instructors, the lakeside rent, insurance and the cost of mending damaged paddles.

Extract from RK's statement of financial position at 31 March (thousand dollars):

	2025	2026
Non-current assets	85	112
Current assets	34	41
Current liabilities	26	37
Non-current liabilities	30	50

- (a) Calculate RK's working capital at 31 March 2026, and the percentage change since 2025. [3]
- (b) Using examples from RK, explain the difference between capital expenditure and revenue expenditure. [3]
- (a) Working capital = current assets – current liabilities (1).

2025: $34 - 26 = 8$ thousand dollars; 2026: $41 - 37 = 4$ thousand dollars (1).

Change = $\frac{4 - 8}{8} \times 100 = -50\%$, so working capital has **halved**, to 4,000 dollars (1).

(b) Capital expenditure is spending on non-current assets that a business uses for more than a year (K). Revenue expenditure is spending on the day-to-day running of the business, used up within the year (K). So RK's six touring kayaks and booking system are capital expenditure, while the instructors' wages, the rent and the paddle repairs are revenue expenditure (App).

Example 2

Explain why a business should manage its trade receivables and trade payables carefully. [5]

Trade receivables are the money customers owe a business for goods supplied on credit; trade payables are the money it owes its suppliers. Both affect its working capital (descriptive, level 1).

If a wholesaler lets its customers take 90 days to pay, its cash is tied up in their unpaid invoices for three months, while its own suppliers, wages and rent must still be paid. It may need an expensive overdraft, or be unable to pay its bills on time (explanation, level 2). By checking customers' credit records, offering a small discount for paying within 14 days and chasing late payers, it brings cash in sooner and protects its liquidity (level 2).

Trade payables need balancing too. Taking the full 60 days of credit its suppliers allow keeps cash in the business for longer, but paying late beyond that would damage the relationship: suppliers might stop giving credit and demand payment on delivery, which would drain cash faster than before. Managing both sides so that cash comes in from customers before it must go out to suppliers means the business can pay its debts when they are due without holding more working capital than it needs (effective explanation, level 3: 5 marks).

Example 3

Analyse two ways in which a shortage of working capital could cause a small manufacturing business to fail. [8]

Way 1: suppliers stop supplying. Working capital is the money available for day-to-day running, so a shortage means bills cannot be paid when they are due (K). A workshop making kitchen cabinets wins an order for 20 kitchens from a housing developer, who will pay 90 days after delivery, while the workshop must pay 3,000 dollars of timber per kitchen within 30 days, $20 \times 3000 = 60000$ dollars before any cash arrives (App). If it cannot pay its timber merchant on time, the merchant stops its credit and holds back the next delivery (An), so the workshop cannot finish the kitchens, the developer withholds payment and cancels future orders, and with no cash coming in the business becomes insolvent (An).

Way 2: employees cannot be paid. Wages are a current liability that must be paid in cash every month (K). With its cash tied up in timber and unfinished cabinets, the workshop may be unable to pay its six joiners at the end of the month (App). Skilled joiners would soon leave for other firms (An), so output falls further behind, more orders are delivered late, and the loss of customers and revenue makes the cash shortage worse until the owners must close the business (An).

Each way earns K + App + a developed chain: $2 K + 2 App + 4 An = 8$.

Example 4

"Most new mobile-app developers fail because they run out of finance before their app earns enough revenue." Evaluate this view. [12]

Knowledge. Business failure means a business stops trading because it cannot cover its costs or pay its debts as they fall due (K). Finance is the money a business raises to pay for start-up, running costs and growth (K).

Why finance matters for an app developer. An app developer spends heavily before it earns anything: programmers, designers and testing for months before launch, then marketing to get downloads (App). Suppose a start-up raises 300,000 dollars and spends 40,000 dollars a month on its team; it can last $300000 \div 40000 = 7.5$ months (App). If the app is not earning by then, the money is gone (An). Many apps are free to download and earn from subscriptions or advertising that build up slowly, so revenue can lag far behind costs (An). Investors who see few paying users will not provide a second round of finance, so a promising app can fail simply because cash ran out a few months too soon (An).

Other reasons. But running out of finance is often the **last** step rather than the cause. Many apps fail because too few people want them: the developer built what it liked without researching the market, so downloads never come, however much finance it has (An). App stores hold millions of apps, and a new app competes with large firms that can copy its idea and outspend it on marketing (An). Inexperienced founders may also spend too fast, hiring before the product is proven (An).

Judgement. The view is partly right: for a new app developer, running out of cash is usually the moment the business ends, because its costs come long before its revenue (Eval). But the deeper reason is usually that the app did not attract enough paying users; with real demand, investors would have funded it further (Eval). So the main cause depends on the case: a developer with a proven product and strong early growth that fails has truly been let down by finance, while one with few users would have failed whatever finance it raised. Developers can reduce the risk by launching a simple version early, testing whether users will pay, and keeping monthly spending low until revenue appears (Eval).

The marks: 2 K, 2 App, 2 An, and 6 Eval for a supported judgement in the context of new app developers that weighs finance against other causes and says what the answer depends on.

Common mistakes

- **Not knowing the working capital formula.** Some candidates used every number in a statement of financial position. Working capital uses only current assets and current liabilities (November 2022).
- **Confusing working capital with start-up capital or machinery.** Working capital pays for day-to-day running, not for equipment (June 2021, June 2022).
- **Answering a different question.** Asked about a **high** level of working capital, weaker answers wrote only about a low one (March 2021); asked about a **new** business, many answers never said why it mattered to a new one (June 2021).

- **Not distinguishing capital and revenue expenditure.** Define **both** and explain the **expenditure** in each, then give examples; without the difference, few marks are possible (June 2022, November 2022).
- **Leaving out the context.** In a Paper 2 question "for [case business]", the third mark needs an example from the case (November 2022).
- **Mixing up cash and profit.** A profitable business can run out of cash, and cash coming in from a loan is not profit (November 2022).
- **Drifting off the cause in an essay.** In the working-capital essay, many answers slid into general management and leadership styles instead of working capital (June 2023).
- **Evaluating in general terms.** Top evaluation marks need judgements about the named business type, such as a small shop or a niche food producer, not about "businesses" (June 2023, March 2023).
- **Partial explanations.** A reason with no "how" earns little: "it had bad managers" needs the step that follows, such as no one forecasting cash, so a large bill could not be paid (November 2022).
- **Matching the wrong finance to the need.** An overdraft suits short-term working-capital needs, not starting a business or buying equipment (November 2021).

How to get the marks

- **Command words.** *Define*: a precise meaning (2 marks: both parts of the idea). *Explain*: a point, then how or why, with the case if there is one. *Calculate*: formula, figures, answer. *Analyse*: one or two points, each developed through a chain to a consequence; no judgement needed. *Evaluate*: both sides, then a decision for the business type in the question, with reasons.
- **[2] define trade receivables:** who owes (customers), to whom (the business), why (goods or services supplied on credit, not yet paid).
- **[3] explain working capital (Paper 2):** the definition (K), then two pieces of application: what it pays for, why it matters, a fact from the case.
- **[3] calculate:** write the formula; show each year's figure; state the change as a rise or fall. A slip in arithmetic still earns marks if your method is shown.
- **[3] explain one reason a business needs finance or might fail:** name it, then two linked steps of explanation.
- **[5] analyse one way:** no marks without a valid way; then 2 for applying it and 2 for a chain of at least two links.
- **[5] explain (levels, Paper 1):** a definition gets only 1 mark; you need explained points that answer the exact question, and both sides for the top level.
- **[8] analyse two reasons:** two clearly different reasons, each with K, App and a chain.
- **[12] evaluate (Paper 1 essay):** 2 K, 2 App, 2 An, 6 Eval. The top band needs a developed judgement **in context**: about the named business type, weighing the stated cause against others, saying what it depends on. Judgements can appear throughout, not only at the end.
- **Use numbers.** A working capital figure, a fall in it, or how many months the cash will last is strong application.

Quick check

1. A business has: machinery 60,000 dollars; inventory 26,000 dollars; trade receivables 9,500 dollars; cash 3,500 dollars; trade payables 21,000 dollars; bank overdraft 8,000 dollars; a five-year bank loan 40,000 dollars. Calculate its working capital.
2. A café owner spends money on: (a) a delivery van, (b) fuel for the van, (c) monthly rent, (d) a new coffee roaster, (e) staff wages, (f) an extension to add 20 seats. Classify each as capital or revenue expenditure.
3. In May a florist delivers flowers worth 8,000 dollars to hotels, which pay 60 days later. The flowers and delivery cost 5,000 dollars, paid in May. Calculate the profit on these sales and the change in the florist's cash in May, and explain why they differ.
4. State one difference between a company entering administration and a company entering liquidation. **[2]**
5. Define the term trade receivables, and state one way a business could get its customers to pay sooner. **[3]**

Answers

1. Current assets = $26000 + 9500 + 3500 = 39000$ dollars. Current liabilities = $21000 + 8000 = 29000$ dollars. Working capital = $39000 - 29000 = 10000$ dollars. The machinery and the five-year loan are non-current, so they are left out.
2. Capital: (a) the van, (d) the coffee roaster, (f) the extension. Revenue: (b) fuel, (c) rent, (e) wages. The capital items will be used for more than a year; the revenue items are used up in day-to-day running.
3. Profit = $8000 - 5000 = 3000$ dollars. Cash in May falls by 5,000 dollars, because the costs were paid in May but the hotels pay 60 days later. The sale counts as revenue when it is made, but cash arrives only when the hotels pay.
4. In administration, an administrator takes control and tries to rescue the company or sell it as a going concern, and the company may carry on trading (1). In liquidation, the company's assets are sold to pay its creditors and the company is closed for good (1).
5. Money owed to a business by its customers for goods or services supplied on credit and not yet paid for (2). It could offer a small discount for payment within a short period, such as 10 days (1).

Past questions to try

- 9609/11/M/J/25 Q4: one way a lack of finance can lead to business failure.
- 9609/12/M/J/22 Q3: why a manager needs to know capital from revenue expenditure.
- 9609/12/F/M/21 Q3: the effects of a high level of working capital.
- 9609/12/F/M/23 Q6: part (b), whether growing too fast is the main reason a type of business fails.