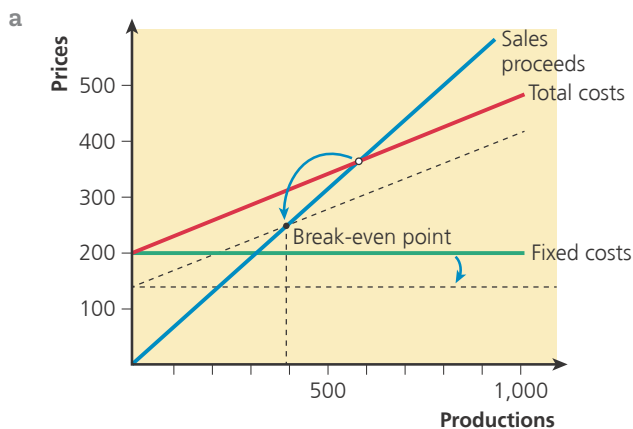


5 Decision making to improve financial performance

Opportunity knocks for ABC plc

REVISED



(4 marks)

- b Possible benefits of ABC using an overdraft are that an overdraft is easy to set up and flexible. This is important for ABC because of its cash-flow issues and the need to keep costs down.

Level	Descriptor	Marks
3	Such answers will be well explained and applied to the context.	6–5 marks
2	Such answers will demonstrate some knowledge and application to the context.	4–3 marks
1	Such answers will demonstrate some knowledge and understanding but lack application.	2–1 marks

- c Potential problems include persuading the bank to lend given ABC's financial problems, the cost of borrowing and the need to pay the loan back. Answers should develop a line of argument in the context of the case.

Level	Descriptor	Marks
3	Such answers will demonstrate knowledge and understanding of the key issues. Lines of argument (analysis) will be developed in depth, focusing on the question set and applied to the context in detail.	9–7 marks
2	Such answers will demonstrate knowledge and understanding in attempting to answer the question set. Lines of argument are likely to be in context but lack development.	6–4 marks
1	Such answers will demonstrate a limited knowledge and understanding of the issues. Any analysis/explanation is descriptive and lacking in relevant application.	3–1 marks

- d This question requires students to look at the importance of cash flow and profit and also to draw a fully justified conclusion.

Cash flow is important because, if the firm fails to repay its loans or pay its staff, then it could be wound up. The firm suffers from a cash-flow problem but it is a regular (seasonal) problem which can be anticipated. In addition, the purchase of the adjacent land would mean that it could run a summer school programme, which would reduce the seasonality of its service.

On the other hand, the company has seen its profit fall for five consecutive years and its gross profit margin is very low. If this continues, the firm will be making a loss next year.

The arguments made in the answer should also be set in the context of the case.

Evaluation could revolve around the short and long term. While a business may survive without profit in the short term, it cannot survive without cash. Good answers will, however, focus on the words 'consistent profit' in the question and how this relates to ABC plc's need to raise capital.

Level	Descriptor	Marks
4	Such answers will demonstrate excellent knowledge and understanding of the key issues. Lines of argument (analysis) will be well developed, in depth, focused on the question set and applied to the context in detail. Any judgements will clearly and effectively answer the question set and be fully supported by the evidence presented.	16–13 marks
3	Such answers will demonstrate knowledge and understanding of the key issues. Lines of argument (analysis) will be developed, focusing on the question set and applied to the context in question. Any judgements made will address the question set, have some balance and be supported by evidence.	12–9 marks
2	Such answers will demonstrate some knowledge and understanding in attempting to answer the question set. Lines of argument are likely to be in context but lack development. Any judgements made will have some supporting evidence but may not be fully focused on the question set and may be lacking in balance.	8–5 marks
1	Such answers will demonstrate a limited knowledge and understanding of the issues. Any analysis/explanation is descriptive and lacking in relevant application. Any judgements made are likely to be assertions with little or no supporting evidence.	4–1 marks