



Edexcel A-level Business exam practice answers

How your exams are marked

Questions worth 1 or 2 marks test your knowledge. Aspects of definitions will earn a mark each. These answers show these as a [1] for each aspect that would earn a mark.

Questions worth 3 to 7 marks will earn marks for each of three skills: knowledge, application of knowledge, and analysis of the question. These answers indicate how these skills can be shown for each question.

Questions worth 8 or more marks test four skills: knowledge, application, analysis and evaluation (your ability to make a supported judgement). These are marked using a levels of response grid – this asks the examiner to judge how well you have shown all four skills in your response. Top-level answers will:

- 'show accurate and thorough understanding throughout, using the business context'
- 'use well-developed and logical, coherent chains of reasoning, showing a range of cause and/or effect(s)'
- 'use information well to support judgements, showing a full awareness of the validity and significance of competing arguments/factors'.

As a guide:

- for questions worth 8–10 marks, develop two arguments fully before making a judgement
- for questions worth more than 10 marks, develop three arguments before making a judgement.

These answers will indicate points on which valid arguments can be developed and suggest typical ways to demonstrate all relevant skills for the question asked.

8: Managing finance

- 1 (a) Formula: $\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$ [1]
(i) Three years ago – 50% [1]
(ii) Two years ago – 45.83% [1]
(iii) Last year – 40% [1]
- (b) Formula: $\text{Operating profit margin} = \frac{\text{Operating profit}}{\text{Sales revenue}} \times 100$ [1]
(i) Three years ago – 11.54% [1]
(ii) Two years ago – 2.08% [1]
(iii) Last year – No profit made. Loss was equivalent to 8.89% of [1]



revenue

- (c) Formula: Profit for the year (net) margin = Profit for the year (net profit) / Sales revenue \times 100 [1]
 (i) Three years ago – 1.92% [1]
 (ii) Two years ago – 0.42% [1]
 (iii) Last year – No profit made. Loss was 11.11% of revenue [1]
- 2 Points to make include:
 • Profitability is falling according to all measures
 • The decline becomes more rapid from 2015 to 2016
 [1 mark per point made plus 1 mark for development of each point]
- 3 (a) Formula: Current ratio = Current assets / Current liabilities [1]
 (i) Three years ago – 2.67:1 [1]
 (ii) Two years ago – 1.5:1 [1]
 (iii) Last year – 0.5:1 [1]
 (b) Formula: Acid test ratio = (Total current assets – inventories) / Current liabilities [1]
 (i) Three years ago – 1:1 [1]
 (ii) Two years ago – 0.5:1 [1]
 (iii) Last year – 0.1:1 [1]
- 4 Points to make include: [4]
 • The results of both ratios fall as the years pass.
 • Acid test was ideal in 2014 but fell in both subsequent years.
 • Current ratio was higher than ideal in 2014, reached the ideal level in 2015 but fell drastically to a very low 2016 figure.
 • The results for 2016 show huge liquidity problems.
 [1 mark per point made plus 1 mark for development of each point]
- 5 Key issues: [10]
 External factors:
 • A weakening pound would have driven up the firm's costs, explaining the fall in margins.
 • If increased costs were passed on to customers in higher prices, which would explain the fall in revenue.
 • With restaurants closed during the pandemic lockdown period, cash inflows are likely to have dropped significantly, even if a delivery or takeaway service was offered.
 Internal issues:
 • The trends in the financial data are clear – the directors could have found ways to boost liquidity.
 • If liquidity had been stronger going into the pandemic lockdown, the business may have been able to survive.
 • A change in strategy to avoid the external problems could have been put in place before the firm went bust.