First Semester

Business Studies
(دراسات الاعمال)
(Answers)

SULTANATE OF OMAN
MINISTRY OF EDUCATION

مركز القياس والتقويم التربوي
The Center for Educational Assessment and Measurement (CEAM)

Marking Guide of General Educational Diploma for Private Schools

2023/2024

Semester One – First Session

Subject: Business Studies

Note: There are 21 pages in this guide

First: Answers for the Multiple-Choice Items (12 Marks):

N.	Answer	Mark	Learning Outcome	Learning Level
1	D Expense incurred for the daily operational needs of a business.	1	Explain the difference between revenue expenditure and capital expenditure	AO1
2	B Owner's capital.	1	Analyze different sources of finance and their advantages and disadvantages	AO2
3	C Electricity used in the manufacturing process.	1	Explain the different types of costs within a business (Fixed, variable, direct and Indirect)	AO1
4	C Neither a profit nor a loss.	1	Define Break-Even point	AO1
5	C The excess of a company's budgeted sales over its break-even sales.	1	Define margin of safety	AO1

6	C 6,000 units.	1	Calculate BEP in terms of number of units	AO2
7	B 45,000 OMR.	1	Explain & calculate sales revenue/variable cost per unit/<u>total variable cost</u>/total cost/total cost per unit or average cost.	AO2
8	D It indicates the initial amount of cash on hand for the forecasted period.	1	Explain the terms (Cash flow forecast, cash inflow, cash outflow, net cash flow, <u>opening cash balance</u>, closing cash balance and cash flow cycle)	AO1
9	D Generating more cash than it is spending.	1	Explain the terms (Cash flow forecast, cash inflow, cash outflow, net cash flow, opening cash balance, closing cash balance and cash flow cycle)	AO1
10	A Increases cash and leads to long-term profit growth.	1	Explain the difference between cash and profit	AO3
11	D Trade receivables.	1	Define the following concepts: Trade receivables	AO1
12	D Non-current liabilities.	1	Define the following concepts: non-current liabilities (loans and debentures)	AO1

Second: Answers for the Extended Response Items (48 Marks):

General Notes

- There may be different ways of answering questions, but a basic requirement for all answers is that they are RELEVANT.
- If the answer is clearly not relevant, and the student has clearly made no attempt to answer the question that was set, NO marks should be awarded. However, if the student has genuinely attempted the answer, but his answer is only partly relevant, then a reduced mark (not zero) should be awarded.

<table>
<tr><th>N.</th><th>Correct Answer</th><th>Mark</th></tr>
<tr><td>13</td><td>

<u>A sample answer:</u>
An example of an external source of finance: "Bank Loan"
The startup cleaning service business may apply for a bank loan to secure the necessary capital for various purposes. These could include purchasing high-quality cleaning equipment or hiring and training employees.
Note: External sources of finance are shared capital, venture capital, debentures, new partners, bank loans, bank overdraft, leasing and hire purchase, mortgages, debt factoring, trade credit, microfinance, crowdfunding, government grants.

<u>Marking rubric and guidance:</u>

<u>1 mark</u> for identifying a correct example of external sources of finance, and <u>1 mark</u> for the evidence of application in the provided context.
The given answer is just a sample answer; all other responses should be marked based on the following rubric:

<table>
<tr><th>Mark</th><th>Remembering and Understanding (AO1) – 1 mark</th><th>Mark</th><th>Application (AO2)- 1 mark</th></tr>
<tr><td>1</td><td>A correct and accurate example of an external source of finance is provided.</td><td>1</td><td>An accurate example is given that illustrates how the external source of finance might be utilized by a startup cleaning service business. The example effectively connects the external source of finance to the specific needs of the startup.</td></tr>
<tr><td>0.5</td><td>A partial or somewhat accurate example of an external source of finance is provided.</td><td>0.5</td><td>A partial or somewhat relevant demonstration is provided (with no example provided) connecting the external source of finance to the startup cleaning service business but lacking clarity.</td></tr>
<tr><td>0</td><td>No response or an incorrect example of an internal source of finance is provided.</td><td>0</td><td>No demonstration is provided, or the demonstration does not effectively illustrate the utilization of the chosen external source of finance for the startup cleaning service business.</td></tr>
</table>

<table>
<tr><td>Learning Outcome</td><td>Define short term, long term, <u>internal and external</u> sources of finance.</td></tr>
<tr><td>Learning Level</td><td>AO1, AO2</td></tr>
<tr><td>Pages</td><td>S1. 488 – S2. 170</td></tr>
</table>

</td><td>2</td></tr>
</table>

14	**A sample Answer:** ▪ Mahmood can implement a policy where the furniture store sells its products exclusively for cash, eliminating credit sales. Customers would be required to make immediate payment at the time of purchase. ▪ Mahmood can also take the approach of reducing the credit period offered to customers. If the store previously extended a 30-day credit period to its customers, Mahmood may decide to shorten it to, for example, 15 days. **Marking rubric and guidance:** The answer should provide two correct effective strategies that are clearly stated and ***briefly discussed***. *The given answer is just a sample answer; all other responses* ***should be marked*** *based on the following rubric:*	2

Marks	Application (AO2) – 2 marks
2	The response identifies two well-reasoned and effective strategies for Mahmood to manage trade receivables. The strategies are relevant, clearly stated and briefly discussed, and directly address the temporary cash flow challenge and working capital risk. Each strategy demonstrates an understanding of trade receivables management.
1	The response provides one strategy for Mahmood to manage trade receivables. The strategy is relevant and briefly explained, addressing the temporary cash flow challenge, or working capital risk to some extent.
0	The response does not provide any relevant strategies for Mahmood to manage trade receivables. There is no application, or the strategies provided are not related to the temporary cash flow challenge or working capital risk.

Learning Outcome	Analyze, and evaluate the methods of improving/maintaining working capital.
Learning Level	AO2
Pages	S1. 488 – S2.166

15	**A sample Answer:** 1. It helps businesses to plan and manage their finances. 2. It assists businesses in making financial decisions. ***Note:*** *other benefits might be:* **1.** *It shows negative closing cash flows. This means that plans can be made to source additional finance, such as a bank overdraft or the injection of more capital from the owner.* **2.** *It indicates periods of time when negative net cash flows are excessive. The business can plan to reduce these by taking measures to improve cash flow, as explained in Table 30.3.* **3.** *It is essential to all business plans. A business start-up will never gain finance unless investors and bankers have access to a cash flow forecast and the assumptions behind it.* **4.** *It helps businesses to maintain financial stability* **Marking rubric and guidance:** *The given answer is just a sample answer; all other responses* ***should be marked*** *based on the following rubric:*	2

Marks	Remembering and Understanding (AO1) – 2 marks
2	The response lists two accurate benefits of cash flow forecasting.
1	The response provides one benefit of cash flow forecasting.
0	The response does not provide any benefits of cash flow forecasting, or the provided benefits are incorrect or irrelevant.

Learning Outcome	Analyze the benefits and limitation of cash flow forecasting to a business.
Learning Level	AO1
Pages	S1. 505 – S2.183

16

Answer:

	Cash in	Cash out
Repayment of loans		✓
Revenue from the sale of goods	✓	
Payment of dividends to shareholders		✓
Interest and dividends received	✓	

Marking guidance:

*The correct designation of each entry is worth 0.5 mark (0.5*4=2 marks)*

Learning Outcome	Explain the terms (cash flow forecast, cash inflow. Cash outflow. Net cash flow. Opening cash balance, closing cash balance and cash flow cycle).
Learning Level	AO2
Pages	S1. 504– S2.181

2

17	**A sample answer:** First reason 'Stability and Job Security': Employees of Tasty Foods have a vested interest in the final accounts to assess the stability of the business and the security of their jobs. Second reason 'Fair Pay and Business Performance': Employees are interested in the final accounts to determine whether they are receiving fair compensation in light of the company's performance. The financial statements can provide insights into the company's overall financial health, which, in turn, can be linked to the company's ability to offer competitive salaries and benefits **Marking rubric and guidance:** *The given answer is just a sample answer; all other responses **should be marked** based on the following rubric:*	2

Marks	Application (AO2) – 2 marks
2	The response provides two well-reasoned and effective reasons why **employees** of Tasty Foods LLC might be interested in their company's final accounts. The reasons are relevant to the context and demonstrate a good understanding of why **employees** would be concerned about the company's financial performance.
1	The response provides one reason why **employees** might be interested in the final accounts, and it is relevant and somewhat explained, showing a basic understanding of the connection between financial statements and employee interest.
0	The response does not provide any reasons why **employees** might be interested in the final accounts, or the provided reasons are incorrect or irrelevant to the context of the annual meeting presentation.

Learning Outcome	Explain the need for businesses to produce final accounts.
Learning Level	AO2
Pages	S1. 546– S2.444

18	**Answer:** Liquidity refers to **how easy** it is **to convert assets into cash** without these assets losing value. *Key words:* how easy ***or*** how quickly ***or*** the ability ***AND*** converting assets to cash, without assets losing the value **Marking rubric and guidance:** *Any other attempt to define the term **should be marked** based on the following rubric:*	2

Marks	Remembering and Understanding (AO1) – 2 marks
2	Accurate definition provided
1	Partial or somewhat accurate definition (one important keyword is missing or incorrect linking between keywords)
0	No response or incorrect definition

Learning Outcome	Explain the concept of profitability and liquidity.
Learning Level	AO1
Pages	S1. 564– S2.444

19	**A sample answer:** Two factors Touchpoint Innovations should consider when deciding the most suitable source of finance: **Cost of Finance:** The cost of finance is a critical factor for Touchpoint Innovations. This cost represents the expenses associated with obtaining external funds, whether through loans, equity, or other financing options. Touchpoint Innovations must consider thinking in the cost of finance to make informed decisions. Higher financing costs, often associated with debt financing, can reduce the company's overall profitability. Interest payments can eat into earnings, affecting the net income of the company. In contrast, a lower cost of finance, such as equity financing, may contribute to higher profits by reducing interest-related expenses. **Risk Tolerance and Financial Stability:** The risk tolerance and financial stability of Touchpoint Innovations play a crucial role in the choice of financing source. Equity financing, for example, may dilute ownership and control, while debt financing might increase financial risk if repayment becomes challenging. Touchpoint Innovations must analyze its risk tolerance and the impact on financial stability. A careful risk assessment is required to determine the balance between control and financial stability. This analysis will help make informed decisions about financing sources that align with the company's growth plans and financial well-being. **Marking rubric and guidance:** *For each factor: 0.5 for the identification of the factor, 0.5 for the brief description, 0.5 for the good relevant analysis to the chosen source of finance, and 0.5 for mentioning at least one impact of the factor on selecting the chosen source of finance.* *The given answer is just a sample answer; all other responses **should be marked** based on the following rubric:*	4

Marks	Remembering and Understanding (AO1) - 2 Marks	Marks	Analysis (AO3) - 2 Marks
2	The response demonstrates a strong understanding of two factors that Touchpoint Innovations should consider when selecting a source of finance. The factors are accurately described.	2	The response provides a comprehensive analysis of the identified factors. Each factor is effectively analyzed in the context of Touchpoint Innovations' situation, explaining their relevance and potential impact on the choice of the source of finance. The analysis demonstrates a good understanding of the factors and their implications.
1	The response describes one of the factors demonstrating a partial or basic understanding.	1	The response provides a comprehensive analysis of one factor. This factor is effectively analyzed in the context of Touchpoint Innovations' situation, explaining their relevance and potential impact on the choice of the source of finance. The analysis demonstrates a good understanding of the factor and its implications.
0	The response does not identify any of the factors to consider when choosing a source of finance, indicating a lack of understanding.	0	The response does not provide any analysis of the factors or their relevance to Touchpoint Innovations' situation

	Learning Outcome	Analyze and evaluate the factors influencing the choice of sources of finance.	
	Learning Level	AO1, AO3	
	Pages	S1. 497 – S2.176	

20

<u>A sample Answer:</u>

Two limitations of using break-even analysis for a small family-owned restaurant are as follows:

Simplicity of the Model: Break-even analysis is often based on a simplified model that assumes constant variable costs and fixed costs (AO1). In the real world, especially in the restaurant business, costs are rarely constant. For instance, food prices can fluctuate, and labor costs can change due to seasonality or unexpected factors such as sick leave or hiring additional staff during peak hours (AO2). This limitation implies that the break-even analysis might provide an overly optimistic or pessimistic estimate of when the restaurant will become profitable, potentially leading to incorrect decisions regarding pricing or expansion (AO3).

Doesn't Consider Market Dynamics: Break-even analysis typically assumes that the market size and consumer demand are constant (AO1). However, for a small family-owned restaurant, market dynamics can change rapidly. New competitors can enter the market, dietary trends can shift, or the local economy might affect consumer spending (AO2). As such, break-even analysis might not account for these external factors, making it challenging for the restaurant to accurately predict when it will reach the break-even point (AO3).

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Marking rubric and guidance:

The given answer is just a sample answer; all other responses ***should be marked*** *based on the following rubric:*

Marks	Remembering and Understanding (AO1) - 2 Marks	Marks	Application (AO2) - 2 Marks	Marks	Analysis (AO3) - 2 Marks
2	The response demonstrates a strong understanding of two limitations of using break-even analysis. The limitations are accurately identified and briefly explained.	2	The response effectively applies the identified limitations to the specific context of the small family-owned restaurant. The application demonstrates a strong connection between the limitations and the particular business mentioned.	2	The response provides a comprehensive analysis of the identified limitations. Each limitation is effectively analyzed in the context of the small family-owned restaurant's situation, explaining their relevance and at least one potential impact. The analysis demonstrates a deep understanding of the limitations and their implications.
1	The response identifies one limitation of using break-even analysis, demonstrating a partial or basic understanding. The limitation is accurately identified and briefly explained. However, there is a gap as only one limitation is provided.	1	The response somewhat applies one of the limitations to the context of the restaurant but may lack clarity in the application. There is a gap in the application as only one limitation is addressed, or the application of the second limitation is minimal.	1	The response provides some analysis of one of the limitations, though it may lack depth or clarity. There is a gap in the analysis as only one limitation is addressed, or the analysis of the second limitation is minimal.
0	The response does not identify any limitations, indicating a lack of understanding.	0	The response does not effectively apply the limitations to the context of the small family-owned restaurant, indicating a lack of application or relevance to the scenario.	0	The response does not provide any analysis of the limitations or their relevance to the small family-owned restaurant's situation, indicating a lack of analytical depth.

Learning Outcome	Analyze the benefits/uses and limitations of a break-even analysis.
Learning Level	AO1, AO2, AO3
Pages	S1. 527– S2.203

21

A sample answer:

Industry example: Medicine.
In the medical industry, this limitation is highly relevant. The medical industry is characterized by its sensitivity to various factors, such as research and development costs, regulatory compliance expenses, and manufacturing expenditures. Unexpected cost increases in any of these areas can have a substantial impact on a company's financial health (AO2).

The analysis:

First, In the medical industry, pharmaceutical companies often allocate a substantial portion of their budget to research and development. These expenses are vital for innovation, creating new drugs, and staying competitive. However, clinical trials and research projects can be unpredictable. Delays, unexpected safety concerns, or regulatory changes can lead to increased research and development expenses. When such unexpected cost increases occur, it can disrupt cash flow forecasts. Companies might not have accurately predicted the timing and magnitude of these costs, leading to a gap between forecasted and actual cash flows. This inaccuracy can affect financial planning, making it challenging for medical companies to allocate resources effectively, plan for future investments, and meet their financial obligations.

Second, Pharmaceutical companies often rely on global supply chains for raw materials and manufacturing. Unexpected events, such as natural disasters or geopolitical issues, can disrupt the supply chain, leading to cost increases.
These cost increases can affect cash flow forecasts, especially if the forecasts did not account for potential supply chain disruptions. The inaccuracies can lead to difficulties in managing working capital, paying suppliers on time, and meeting production targets.

Marking rubric and guidance:

The given answer is just a sample answer; all other responses ***should be marked*** *based on the following rubric:*

Marks	Application (AO2) - 1 Mark	Marks	Analysis (AO3) - 3 Marks
1	The response effectively applies the concept of this limitation to a correct industry context. It demonstrates a clear understanding of how this limitation is relevant to the chosen industry.	3	The response provides a thorough and comprehensive analysis of two situations where this limitation may challenge the business (2 marks) and at least two impacts (1 mark) of the limitation within the chosen business context and situations. It showcases a deep understanding and offers valuable insights.
0	The response does not effectively apply the concept of the limitation of cash flow forecasting to any industry context, or it does not demonstrate an understanding of the concept's relevance to the chosen industry.	2	The response provides a thorough and comprehensive analysis of one situation where this limitation may challenge the business (1 mark) and at least two impacts (1 mark) of the limitation within the chosen business context and situation. Or two situations where this limitation may challenge the business (2 mark) without mentioning any impacts within the chosen business context.
		1	The response provides a thorough and comprehensive analysis of one situation where this limitation may challenge the business (1 mark) without mentioning any impacts of the limitation within the chosen business context. Or it addresses two

4

			impacts of the limitation within the chosen business context without discussing any situations.
		0	The response does not provide any discussion or insights into the limitation and its implications in any business context indicating a lack of analytical depth.

Learning Outcome	Analyze the benefits and limitation of cash flow forecasting to a business
Learning Level	AO2 , AO3
Pages	S1. 506– S2.183

22

A sample answer:

1. It can be used to measure ***and***/***or*** compare the performance of a business.
2. The actual profit data can be compared with the budgeted profit levels of the business.
3. Bankers and creditors of the business will need the information to help decide whether to lend money to the business.
4. Prospective investors will use the profit performance of the business as a guide to whether to buy shares in it or not.

Marking rubric and guidance:

*The given answer is just a sample answer; all other responses **should be marked** based on the following rubric:*

Marks	Remembering and Understanding (AO1) - 4 Marks
4	The response provides good knowledge by identifying FOUR uses of the statement of profit and loss. It effectively identifies and briefly describes each use.
3	The response demonstrates good knowledge by identifying and briefly describing THREE uses of the statement of profit and loss.
2	The response provides basic knowledge by identifying and briefly describing TWO uses of the statement of profit and loss, although there are missing points.
1	The response demonstrates limited knowledge by identifying and briefly describing only ONE use of the statement of profit and loss.
0	The response does not provide any knowledge about the uses of the statement of profit and loss.

Learning Outcome	Explain the need for businesses to produce final accounts.
Learning Level	AO1
Pages	S1. 548– S2.431

4

23.A (3 marks)

A sample answer:

Company X:
Current Ratio (3:1): the ratio of company X indicates that it has three times more current assets than current liabilities. This strong current ratio can have several positive impacts on the company's performance. In the food manufacturing industry, where raw material procurement and seasonal demand fluctuations are common, having a high current ratio is beneficial (AO2). It suggests that Company X is well positioned to meet its short-term obligations, including purchasing raw materials and paying suppliers promptly. This can lead to smoother production processes and a lower risk of disruptions due to financial constraints. Additionally, a high current ratio can enhance the company's credibility with suppliers, potentially leading to better credit terms and relationships, which could result in cost saving (AO3).

Company Y:
Current Ratio (0.72:1): Company Y's current ratio is significantly lower at 0.72:1. This lower current ratio may have several negative impacts on the company's performance. In the food manufacturing industry, where maintaining a smooth production process and timely payments to suppliers are vital (AO2), a ratio below 1 suggests that Company Y may face challenges in meeting its short-term obligations (AO3). This could lead to disruptions in production and strained relationships with suppliers, potentially resulting in supply chain issues and higher procurement costs. Company Y may need to rely on short-term borrowing or alternative financing methods to bridge the gap between current assets and current liabilities, incurring additional interest expenses and financial risks. Additionally, a low current ratio may raise concerns among investors and creditors about the company's financial stability and ability to manage its working capital effectively, potentially affecting its access to capital and the cost of capital.

Marking rubric and guidance:
*0.5 mark for the good relevant application of industry specific considerations within the analysis of each company (0.5 *2 = 1 mark), 1 mark for the good accurate analysis for each company with at least **one** potential correct impact on the company's financial health (1*2 = 2)*
*The given answer is just a sample answer; all other responses **should be marked** based on the following rubric:*

Marks	Application (AO2) - 1 Mark	Marks	Analysis (AO3) - 2 Marks
1	Good and accurate application of industry-specific considerations within the discussion of both companies.	2	Basic analysis of the ratio for each company, and at least one potential impact on each company's financial health.
0.5	Good and accurate application of industry-specific considerations within the discussion of one company. Or partial and somewhat relevant application of industry-specific considerations in the discussion of both companies.	1 – 1.5	Basic analysis of the ratio for one company, with at least one potential impact on the company's financial health. Or Basic analysis of the ratio for both companies, with at least one potential impact on only one company's financial health.
0	No application or incorrect application of industry-specific considerations.	0 - 0.5	No analysis of the ratio for each company, its implications, or effects on the companies' financial health (0 mark). Or very limited vague analysis of the ratio for

			only one company without mentioning any impact.

Learning Outcome	Comment on the relative performance of a business using profitability and liquidity ratios.
Learning Level	AO2, AO3
Pages	S1. 564– S2.446-447

23.B (3 marks)

A sample Answer:

Company X (Current Ratio: 3:1): Company X is in a strong liquidity position, which is particularly advantageous in the food manufacturing industry. The high current ratio reflects its ability to efficiently manage working capital and meet short-term financial obligations. Company X can leverage this strong position to negotiate favorable terms with suppliers and explore opportunities for strategic expansion.

Company B (Current Ratio: 0.72:1): Company Y faces liquidity challenges, especially when considering the demands of the food manufacturing sector. The low current ratio indicates that the company might struggle to manage cash flow and meet immediate financial commitments. To address this, Company Y should focus on optimizing its working capital, possibly by renegotiating supplier agreements or diversifying its product range.

Marking rubric and guidance:

*1 mark for the evaluative comment for each company (1*2 = 2 marks) and 0.5 mark for the suggested development strategy for each company (0.5 * 2 = 1 mark).*

The given answer is just a sample answer; all other responses ***should be marked*** *based on the following rubric:*

Marks	Evaluation (AO4) - 3 Marks
3	Comprehensive and insightful evaluative comment with well-reasoned one development strategy for each company and in-depth considerations.
2 – 2.5	Good evaluative comment and one recommended development strategy that offers reasonable insights and suggestions for one of the companies.
1 – 1.5	Basic evaluative comment for one company with no recommended development strategy (1 mark) or with one accurate development strategy (1.5 mark).
0 – 0.5	No evaluative comments or recommended strategies provided, or the provided evaluative comment lacks depth and insight and is somehow vague.

Learning Outcome	Comment on the relative performance of a business using profitability and liquidity ratios.
Learning Level	AO4
Pages	S1. 564– S2.446-447

24.A	**A sample answer:** One of the sources of finance that Hamed considered to expand his operations is **a Long-term loan**: In addition to his personal savings and profits, Hamed decided to secure a long-term loan of 400,000 OMR. This loan provided the necessary capital for purchasing lands and constructing a factory for the expanded operations. ***Note:*** The sources of finance that Hamad considered are: • Long term bank loan • Personal saving • Retained profit • Friends and family. **Marking rubric and guidance:** *(0.5 for the identification based on the scenario, 0.5 for providing a contextual information from the case study)* *The given answer is just a sample answer; all other responses **should be marked** based on the following rubric:*	1

Marks	Application (AO2) – 1 Mark
1	The response demonstrates a clear understanding of one sources of finance Hamed considered for expanding his operations and provides relevant contextual information from the case study.
0	The response does not provide any relevant information about the sources of finance Hamed considered for expanding his operations.

Learning Outcome	Analyze different Sources of Finance and their advantages & disadvantages.
Learning Level	AO2
Pages	S1. 488-495 – S2.170-175

24.B.i — 2

<u>A sample answer:</u>

One disadvantage of securing a long-term loan, which is one of the sources of finance considered by Hamed for expanding his perfume shop, is the potential interest cost that can significantly impact the company's overall financial health.
The interest costs associated with a long-term loan can lead to a substantial financial burden for Hamed's business. As the loan obligation stretches over several years, monthly or annual repayments with interest <u>can potentially strain the company's cash flow</u>. During the initial phase of expansion, when significant investments are required to upgrade production processes, increase capacity, and promote the new branches, <u>the pressure of repaying the loan may limit resources available for day-to-day operations</u>. <u>Moreover, the cumulative interest payments over the life of the loan can affect the company's profitability</u>

<u>Marking rubric and guidance:</u>

*The given answer is just a sample answer; all other responses **should be marked** based on the following rubric:*

Marks	Analysis (AO3) - 2 marks
2	The response provides a good analysis of one disadvantage of the identified sources of finance. The analysis is insightful, demonstrates a deep understanding of the financial concepts, and effectively discusses at least one potential impact of the mentioned disadvantage in the context of Hamed's situation.
1	The response offers a basic analysis of one disadvantage of the sources of finance, but it may lack depth, clarity, or detailed insight. The response does not provide or provide one impact of the mentioned disadvantage in the context of Hamed's situation, but the impact lacks accuracy and relevance. It shows a moderate understanding of the financial concepts and their relevance to the scenario.
0	The response does not provide any analysis or insights into the disadvantages of the sources of finance, indicating a lack of analytical depth or understanding.

Learning Outcome	Analyze different Sources of Finance and their advantages & disadvantages.
Learning Level	AO3
Pages	S1. 491 – S2.72

24. B.ii (3 marks)

<u>A sample answer:</u>

<u>I think the disadvantage provided may critically affect the company's financial health if the company does not plan or consider its potential impacts.</u>

In light of these considerations, Hamed should develop strategies to mitigate the potential financial burden of the long-term loan. For example, he can create detailed financial projections to assess the company's capacity to meet the loan obligations while maintaining reserves for operational and growth requirements.

<u>Marking rubric and guidance:</u>

1 mark for the evaluative comment, 2 marks for the suggestion and brief description of one development strategy.
*The given answer is just a sample answer; all other responses **should be marked** based on the following rubric:*

Marks	Evaluation (AO4) - 3 marks
3	The response provides a good evaluation of one disadvantage of the sources of finance. The evaluative comment is insightful, demonstrates a good understanding of the financial concepts, and effectively discusses the potential drawbacks of the sources in the context of the given scenario. The evaluation suggests one accurate and effective development strategy.
2	The response provides a reasonably good evaluation of one disadvantage of the sources of finance and provides one suggested development strategy but lacks clarity and description.
0.5 - 1	The response offers a basic evaluation but lacks depth, clarity, or detailed insight of one disadvantage of the sources of finance. Or the evaluation comment is good, but no development strategy is suggested.
0	The response does not provide any evaluation or insights into the disadvantages of the sources of finance, indicating a complete lack of analytical depth or understanding.

Learning Outcome	Analyze different Sources of Finance and their advantages & disadvantages.
Learning Level	AO4
Pages	S1. 491 – S2.72

24.C.i (1 mark)

Answer:

Admin Cost =Gross Profit-Operating Profit
= 45,000-25,000 (0.5 mark)
= 20,000 OMR (0.5 mark)

Learning Outcome	Calculate missing figures from a Profit or Loss (Income Statement) & Statement of financial position using data provided.
Learning Level	AO2
Pages	S1. 548 – S2.431

<table>
<tr><td>24.C.ii</td><td>
Answer:

Tax 20% of PBT = PBT-PAT
=18,750-15,000 (0.5 mark)
=3,750 OMR (0.5 mark)

<table>
<tr><td>Learning Outcome</td><td>Calculate missing figures from a Profit or Loss (Income Statement) & Statement of financial position using data provided.</td></tr>
<tr><td>Learning Level</td><td>AO2</td></tr>
<tr><td>Pages</td><td>S1. 548 – S2.431</td></tr>
</table>
</td><td>1</td></tr>
<tr><td>24. C.iii</td><td>
Answer:

Dividend paid = PAT-Retained Earnings
=15,000-10,500 (0.5 mark)
=4,500 OMR (0.5 mark)

<table>
<tr><td>Learning Outcome</td><td>Calculate missing figures from a Profit or Loss (Income Statement) & Statement of financial position using data provided.</td></tr>
<tr><td>Learning Level</td><td>AO2</td></tr>
<tr><td>Pages</td><td>S1. 548 – S2.431</td></tr>
</table>
</td><td>1</td></tr>
<tr><td>24. C.iv</td><td>
Answer:
Gross Profit Margin = Gross Profit/Revenue *100
=45,000/ 100,000 *100 (1 mark)
= 45% (0.5 mark)

<table>
<tr><td>Learning Outcome</td><td>Calculate the profitability ratios (Gross profit margin / operating profit margin (net profit margin)) ROCE (Return on capital employed)</td></tr>
<tr><td>Learning Level</td><td>AO2</td></tr>
<tr><td>Pages</td><td>S1. 552, S2.435
S1.568-569, S2.448</td></tr>
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</td><td>1.5</td></tr>
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<tr>
<td>24. C. v</td>
<td>

Answer:

Operating Profit Margin = Operating profit/Revenue *100

= 25,000/100,000 *100 (1 mark)

= 25% (0.5 mark)

<table>
<tr><td>Learning Outcome</td><td>Calculate the profitability ratios (Gross profit margin / operating profit margin (net profit margin)) ROCE (Return on capital employed)</td></tr>
<tr><td>Learning Level</td><td>AO2</td></tr>
<tr><td>Pages</td><td>S1. 552, S2.435
S1.568-569, S2.448</td></tr>
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<td>1.5</td>
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SULTANATE OF OMAN
MINISTRY OF EDUCATION

Marking Guide of General Educational Diploma for Private Schools

2023/2024

Semester One – Second Session

Subject: Business Studies

مركز القياس والتقويم التربوي
The Center for Educational Assessment and Measurement (CEAM)

Note: There are 19 pages in this guide

First: Answers for the Multiple-Choice Items (12 Marks):

N.	Answer	Mark	Learning Outcome	Learning Level
1	D Working capital.	1	Define short term, long term, internal, and external sources of finance.	AO1
2	D Renovating and improving the existing factory infrastructure.	1	Explain the difference between revenue expenditure and capital expenditure	AO2
3	A Costs of direct labor.	1	Explain the different types of costs within a business (Fixed, variable, direct and Indirect)	AO1
4	B Flour used for baking cakes.	1	Explain the different types of costs within a business (Fixed, variable, direct and Indirect)	AO1
5	B The breakeven point decreases.	1	Explain how changes in costs or price affect Breakeven point	AO1

6	B 500 members.	1	Calculate BEP in terms of number of units	AO2
7	C 10 OMR	1	Explain & calculate sales revenue/variable cost per unit/total variable cost/total cost/total cost per unit or average cost.	AO2
8	D Estimate cash inflow and cash outflows.	1	Explain the terms (Cash flow forecast, cash inflow, cash outflow, net cash flow, opening cash balance, closing cash balance and cash flow cycle)	AO1
9	A Payments to suppliers for raw materials.	1	Explain the terms (Cash flow forecast, cash inflow, cash outflow, net cash flow, opening cash balance, closing cash balance and cash flow cycle)	AO1
10	B Pay off long-term debts with the surplus cash.	1	Comment on the results of a cash flow forecast.	AO3
11	C Net Current assets	1	Define the following concepts: Net current assets(Working Capital).	AO1
12	A Equity	1	Define the following concepts: Equity	AO1

Second: Answers for the Extended Response Items (48 Marks):

General Notes

- There may be different ways of answering questions, but a basic requirement for all answers is that they are RELEVANT.
- If the answer is clearly not relevant, and the student has clearly made no attempt to answer the question that was set, NO marks should be awarded. However, if the student has genuinely attempted the answer, but his answer is only partly relevant, then a reduced mark (not zero) should be awarded.

N.	Correct Answer	Mark
13	See below	2

<u>A sample answer:</u>

One strategy: delaying payments to suppliers to increase the credit period.

Example: A small computer hardware store is looking to manage its trade payables more efficiently. One strategy they can employ is to delay payments to their suppliers to extend the credit period. Instead of making immediate payments to their suppliers, they negotiate with their suppliers to allow them more time to settle their accounts. So, if the store has a 30-day credit period with its suppliers for the goods they purchase, they can effectively extend their credit period to 45 or even 60 days.

<u>Marking rubric and guidance:</u>

<u>1 mark</u> for stating a correct strategy, and <u>1 mark</u> for the example.

*The given answer is just a sample answer; all other responses **should be marked** based on the following rubric:*

Mark	Remembering and Understanding (AO1) – 1 mark	Mark	Application (AO2) – 1 mark
1	The response demonstrates accurate knowledge by effectively stating one strategy for managing trade payables.	1	The response provides an accurate example that illustrates how the stated strategy can be utilized by a chosen business, demonstrating a clear application of the concept.
0.5	The response somewhat accurately states one strategy for managing trade payables, with some minor inaccuracies or lack of clarity.	0.5	The response offers a somewhat accurate example that connects the stated strategy to the chosen business, though the application may lack clarity.
0	The response states an incorrect or irrelevant strategy for managing trade payables, indicating a lack of knowledge.	0	The response fails to provide a relevant example, or the example does not effectively demonstrate the utilization of the stated strategy by the chosen business, indicating a lack of application.

Learning Outcome	Analyze, and evaluate the methods of improving/maintaining working capital.
Learning Level	AO1,AO2
Pages	S1. 488– S2. 166

14	**Answer:** A. Capital Expenditure (1 mark) B. Revenue Expenditure (1 mark) **Learning Outcome**: Explain the difference between revenue expenditure and capital expenditure. **Learning Level**: AO2 **Pages**: S1. 488 – S2. 167	2
15	**Answer:** **An opening cash balance** is the cash held by the business at the beginning of the month, while a **closing cash balance** is the cash held by the business at the end of the month, <u>which becomes next month's opening balance.</u> <u>**Marking rubric and guidance:**</u> *The underlined sentence is not mandatory.* *1 mark for the correct description of each term (1*2=2 marks)* *All responses **should be marked** based on the following rubric:*	2

Mark	Remembering and Understanding (AO1) 1 mark
1	Accurate definition provided
0.5	Partial or somewhat accurate definition
0	No response or incorrect definition

Note: The provided rubric is for the definition of each term

Learning Outcome	Explain the terms (Cash flow forecast, cash inflow, cash outflow, net cash flow, opening cash balance, closing cash balance and cash flow cycle)
Learning Level	AO1
Pages	S1. 504 – S2. 180

16

Answer:

Cash flow for the month= Total cash in – Total cash out
= 37,000- 29,000 (1 mark)
= 8,000 OMR (1 mark)

Marking rubric:

Marks	Application (AO2) – 2 marks
2	Correct figure, correct mathematical operations but with correct answer
1	Correct figure, correct mathematical operations but with no or wrong answer
0	No attempt to calculate/ just writing the formula

Learning Outcome	Prepare a simple cash flow forecasts and calculate missing figures.
Learning Level	AO2
Pages	S1. 506 – S2. 182

Marks: 2

17

A sample answer:
Final accounts can be used by Core LLC, to demonstrate their financial health to the bank to support the application. By presenting the statement of profit and loss, Core LLC can showcase its revenue, expenses, and net profit, which may provide a proof that the company is able to repay the bank loan by the scheduled date.

Marking rubric and guidance:
*The given answer is just a sample answer; all other responses **should be marked** based on the following rubric:*

Marks	Application (AO2) – 2 marks
2	A relevant and clear response demonstrating one practical relevant way of using final accounts to support the application for bank loans /other debts.
1	A partially relevant response that demonstrates somewhat relevant way of using final accounts to support the application for bank loans /other debts, but it's unclear.
0	No response or an irrelevant response that doesn't demonstrate how final accounts can help Core to deal with bank loans /other debts.

Marks: 2

Learning Outcome	Explain the need for businesses to produce final accounts.
Learning Level	AO2
Pages	S1. 546 – S2. 444

18

Answer:

Current assets refer to the business assets that are likely to be converted into cash before the next statement of financial position is drawn up.

Marking rubric and guidance:

*All responses **should be marked** based on the following rubric:*

Marks	Remembering and understanding (AO1) - 2 marks
2	Accurate definition provided
1	Partial or somewhat accurate definition
0	No response or incorrect definition

Learning Outcome	Define the following concepts: non-current assets (fixed assets), - current assets (inventory)
Learning Level	AO1
Pages	S1. 552 – S2. 435

2

19

A sample answer:

One advantage of using overdraft to finance the "Sweet Family Scoops" ice cream shop during seasonal fluctuations is the flexibility it offers. An overdraft provides the business with the ability to borrow funds as needed to cover operating expenses, such as purchasing inventory or covering payroll, during the slower winter months when revenue is lower.

Two impacts of this advantage:

1. Improving Cash Flow Management: The advantage of flexibility in overdraft usage directly impacts the business's ability to manage cash flow effectively. During the slow winter months, the shop can use the overdraft facility to cover immediate expenses without depleting its cash reserves. This ensures that the business can continue its operations smoothly, even when revenue is low.

2. Reducing Financial Stress: Without an overdraft, the business might face financial stress during the off-season. Having the flexibility to access funds when needed alleviates this stress, allowing the owners to focus on serving customers and preparing for the busy summer season rather than worrying about cash shortages.

Marking rubric and guidance:

1 mark for the identification of one advantage, 1 mark for good description of this advantage, 2 marks for the clear correct discussion of two impacts.

The given answer is just a sample answer; all other responses ***should be marked*** *based on the following rubric:*

Marks	Remembering and Understanding (AO1) 2 Marks	Marks	Analysis (AO3) 2 Marks
2	Accurate and relevant advantage of overdraft is presented with a concise description.	2	Accurate and relevant discussion of two impacts demonstrating how this advantage can affect the business's financial health, growth, or operations.
1	Accurate and relevant advantage of overdraft is presented without a concise description	1	Partial or somewhat relevant discussion of only one impact, or of two impacts lacking depth in explaining how this advantage can affect the business's financial health, growth, or operations.
0	No relevant advantage demonstrated, or incorrect information provided.	0	No discussion or irrelevant analysis of impact is presented.

Learning Outcome	Analyze different sources of finance and their advantages and disadvantages
Learning Level	AO1, AO3
Pages	S1. 490 – S2. 172

Marks: 4

20. A (2)

A sample Answer:

Sales revenue, often referred to as revenue or sales, is the total income generated by a business through the sale of its products or services during a specific period. It is a crucial financial metric that represents the top line of a company's income statement and reflects the primary source of income for the business.

Marking rubric and guidance:

*The given answer is just a sample answer; all other responses **should be marked** based on the following rubric:*

Marks	Remembering and Understanding (AO1) - 1 Mark
2	A clear and accurate description of the meaning of sales revenue is provided.
1	A somewhat accurate or partially clear definition description of the meaning of sales revenue is provided.
0	No relevant description of the meaning of sales revenue is given.

Learning Outcome	Explain and calculate sales revenue
Learning Level	AO1
Pages	S1. 524 – S2. 199

20. B (2)

Answer:

Break-even point = Fixed cost / (Selling price per unit – variable cost per unit)
= 50,000 / (150-100)
= 50,000 / 50 (1 mark)
= 1000 smart watch (1 mark)

Marking rubric:

Marks	Application (AO2) – 2 marks
2	Correct figure, correct mathematical operations but with correct answer
1	Correct figure, correct mathematical operations but with no or wrong answer
0	No attempt to calculate/ just writing the formula

Learning Outcome	Explain and calculate sales revenue
Learning Level	AO2
Pages	S1. 524 – S2. 199

20. C (2 marks)

A sample answer:

With an increase in sales revenue by 17% of the company's annual sales, one significant impact on the break-even point is a potential decrease in the break-even point.

When sales revenue increases, the fixed costs of the company, such as rent, salaries, and other overhead expenses, remain constant. However, with higher sales revenue, these fixed costs represent a smaller proportion of the total revenue. As a result, the break-even point, which is the level of sales at which the company covers all of its fixed costs, becomes lower. This is because the company needs to sell fewer units to cover its fixed costs, as a smaller percentage of the increased sales revenue is required to meet these expenses. A lower break-even point means that the company can start generating profit more quickly, as a greater portion of its revenue contributes to profit beyond the break-even level.
This can lead to improved financial stability and profitability, making it easier for the company to cover its costs and generate profit, which is a positive outcome of the increase in sales revenue.

Marking rubric and guidance:

0.5 mark for identifying the impact, 1.5 for the analysis of this impact.
The given answer is just a sample answer; all other responses ***should be marked*** *based on the following rubric:*

Marks	Analysis (AO3) - 2 Marks
2	Accurate, relevant and comprehensive analysis of One potential impact of the change in sales revenue on the store's financial position is presented, and the impact is explained effectively.
1	Partial or somewhat relevant analysis of one impact is provided, or the analysis lacks depth or clarity, and does not explain the implications or consequences.
0	No relevant analysis or incorrect analysis of the impact is presented.

Learning Outcome	Explain the impact of changes in revenue or costs of the profit/loss of a business.
Learning Level	AO3
Pages	S1. 524 – S2. 199

21	**A sample answer:** In the tech sector, where innovation and development often require substantial upfront investments, cash flow forecasting plays a crucial role. It's particularly relevant in situations where technology companies might anticipate negative closing cash flows, as these scenarios require precise financial management. Two impacts of the benefit: Resource Allocation for Research and Development: When a technology company foresees negative closing cash flows, it faces a pressing need to allocate its resources strategically. This is vital in a sector where innovation is paramount, and financial stability is often tied to staying ahead of the curve. The insight from cash flow forecasting, especially when negative closing cash flows are expected, enables the company to channel resources towards R&D projects with the highest potential for short-term returns or those that are crucial for long-term growth. This strategic approach ensures that the available cash is used to drive innovation effectively. Talent Retention in the Face of Financial Challenges: The tech industry's success heavily relies on attracting and retaining top talent. In a scenario where negative closing cash flows are projected, the company can leverage its cash flow insights to make informed decisions regarding talent retention. For instance, it might provide additional stock options or performance-based bonuses to key employees when short-term cash is expected to be constrained. This not only helps retain skilled employees but also aligns their interests with the company's financial stability during challenging periods of negative cash flows.	4

Marking rubric and guidance:

The given answer is just a sample answer; all other responses ***should be marked*** *based on the following rubric:*

Marks	Application (AO2) - 1 Mark	Marks	Analysis (AO3) - 3 Marks
1	The response offers a relevant and clear application of the benefit of cash flow forecasting, linking it directly to the chosen business.	3	The response provides comprehensive analysis, demonstrating a deep understanding of the concept, and discusses two impacts of this benefit on the chosen business, explaining their relevance and potential effects.
0.5	The response provides a partial or somewhat relevant application, but it may lack clarity or a direct link to the chosen business.	2	The response provides a reasonably thorough analysis, discussing two impacts of this benefit on the chosen business, though it may lack some depth or clarity. ***OR*** the response provides comprehensive analysis, demonstrating a deep understanding of the concept, and discusses one impact of this benefit on the chosen business, and a basic limited analysis of the second impact without showing the relevance and potential effects.
0	The response does not provide any application, or the provided application is incorrect.	1	The response provides a basic analysis of one impact, or the analysis of the impact lacks depth or clarity.
		0	No analysis or relevant analysis is provided.

Learning Outcome	Analyze the benefits and limitations of cash flow forecasting to a business.
Learning Level	AO2, AO3
Pages	S1. 506 – S2. 183

22	**A sample answer:** 1. Assets: An asset is simply something that a business owns. Assets are what a business purchases with its capital. There are two main categories of assets that appear on the statement of financial position, current and non-current assets. The distinction between the two categories is based upon the time the assets are held within the business. 2. Liabilities: a liability is a debt owed by the business to organizations or individuals. Another way of thinking about a liability is that it shows the sources of capital the business has raised in order to purchase its assets. As with assets, there are a number of categories of liabilities: • Current liabilities • Non-current liabilities These are debts that a business does not expect to repay within the period of one year. • Equity **Marking rubric and guidance:** *1 mark for the identification and 1 mark for the description.* *Other elements may be net current assets and net assets, and reserves.* *The given answer is just a sample answer; all other responses* ***should be marked*** *based on the following rubric:*	4

Marks	Remembering and Understanding (AO1) - 4 Marks
4	The response correctly identifies and describes two elements of statement of financial position.
3	The response correctly identifies and describes one elements of statement of financial position and identify a second element but without a clear correct description.
2	The response correctly identifies and describes one elements of statement of financial position. ***Or*** identifies two elements without a clear correct description.
1	The response correctly identifies one element of statement of financial position, but does not provide any description of this element
0	The response doesn't identify or describe any element of statement of financial position, ***or*** the identified element is incorrect.

Learning Outcome	Prepare a simple statement of financial position
Learning Level	AO1
Pages	S1. 550 – S2. 435

23. A

A sample answer:

Pralines:

Pralines has an acid test ratio of 2:1, indicating that for every OMR 1 in current liabilities, the company has OMR 2 in highly liquid assets (like cash and marketable securities) that can be readily used to settle these obligations. This high acid test ratio is a positive sign of liquidity. Pralines can easily cover its short-term liabilities without relying heavily on selling its inventory, which is vital in an industry where inventory might not always have a consistent demand throughout the year.

Choco:

Choco, on the other hand, has an acid test ratio of 0.75:1. This means that for every OMR 1 in current liabilities, Choco has OMR 0.75 in highly liquid assets. While this ratio is below the ideal 1:1 ratio, it's important to note that Choco operates with a slightly lower liquidity cushion compared to Pralines. This might be a concern if Choco faces unexpected short-term financial demands or disruptions in its cash flow, which are common in the confectionery industry.

Marking rubric and guidance:

*1.5 for the analysis of each company performance (1.5*2 = 3)*
The given answer is just a sample answer; all other responses ***should be marked*** *based on the following rubric:*

Marks	Application (AO2) - (1 Mark)	Marks	Analysis (AO3) - (2 Marks)
1	Good and accurate application of industry-specific considerations.	2	The response provides comprehensive analysis, demonstrating a deep understanding of the liquidity positions of Pralines and Choco. It explains at least one impact of the liquidity positions on their operations, strategies, and financial health.
0.5	Partial and somewhat relevant application of industry-specific considerations.	1	The response provides a basic analysis of the liquidity positions and their potential impact on the businesses' operations, strategies, and financial health. but may lack depth or clarity.
0	No application or incorrect application of industry-specific considerations.	0	The response does not provide any analysis or insights into the liquidity positions or their implications for the management's satisfaction.

Learning Outcome	Comment on the relative performance of a business using profitability and liquidity ratios.
Learning Level	AO2, AO3
Pages	S1. 565 – S2. 446

3

23. B (3 marks)

A sample answer:

Pralines management would likely be satisfied with this ratio because it means Pralines has a comfortable cushion of highly liquid assets to cover its short-term obligations. The confectionery industry often experiences seasonal fluctuations in demand, and having a higher liquidity position would provide Pralines with a safety net to navigate through lean periods without relying on inventory sales. Therefore, it is reasonable to assume that the management of Pralines would be satisfied with their liquidity position.

Choco's management might have mixed feelings about their liquidity position. On one hand, they have a liquidity buffer, but it is not as substantial as Pralines. The management might be concerned about their ability to meet unforeseen short-term obligations or disruptions in cash flow. In an industry where cash flow can be uneven, they might want to explore strategies to improve liquidity, such as better cash management or credit arrangements. So, the management at Choco may not be entirely satisfied with their current liquidity position. However, there might be room for improvement in managing liquidity to ensure the company can handle unforeseen financial challenges in the confectionery industry. It's important for Choco to strike a balance between maintaining a competitive inventory level and having readily available liquid assets to meet its short-term liabilities.

Marking rubric and guidance:

2 marks for the evaluative comments for both companies and 1 mark for the recommended strategy for Choco.
*The given answer is just a sample answer; all other responses **should be marked** based on the following rubric:*

Marks	Evaluation (AO4) - 3 marks
3	Comprehensive and insightful evaluative comment for both companies' liquidity position, with well-reasoned one development strategy and in-depth considerations for Choco.
2	Good evaluative comment for both companies' liquidity position without any recommended development strategy.
1	Good evaluative comment for one company's liquidity position without any recommended development strategy.
0	No evaluative comments or recommended strategies provided, or evaluation lacks depth and insight.

Learning Outcome	Comment on the relative performance of a business using profitability and liquidity ratios.
Learning Level	AO4
Pages	S1. 565 – S2. 446

24. A

Answer:

Supreme Trading LLC utilized a short-term loan of 42,000 OMR to support their operational costs and fund advertising efforts to achieve their sales targets, as mentioned in the case study.

Mark	Application (AO2) – 1 mark
1	The response identifies one source of finance that Supreme Trading LLC' utilized and provides relevant contextual information from the case study.
0.5	The response identifies one source of finance that Supreme Trading LLC' utilized but with no or incorrect relevant contextual information.
0	The response does not identify any source of finance that Supreme Trading LLC' utilized or the identification is wrong. No or incorrect relevant contextual information.

Learning Outcome	Analyze different Sources of Finance and their advantages & disadvantages .
Learning Level	AO2
Pages	S1. 488 – S2. 170

Marks: 1

24. B.i

A sample Answer:

One disadvantage of the short-term loan utilized by Supreme Trading LLC is the potential for higher interest rates. Short-term loans often come with higher interest rates compared to long-term loans. In the case study, it is mentioned that the company opted for a short-term loan of 42,000 OMR to support operating costs and fund advertisements. While this decision helped them meet immediate financial needs, the higher interest rates could increase the overall cost of borrowing, impacting the company's profitability in the short term. This is a common drawback associated with short-term financing, as the urgency and flexibility of such loans often come at the expense of higher interest payments.

Marking rubric and guidance:

*The given answer is just a sample answer; all other responses **should be marked** based on the following rubric:*

Marks	Analysis (AO3) – 2 marks
2	The response provides a comprehensive analysis of one disadvantage of the source of finance used by Supreme LLC. The analysis is insightful, and demonstrates a deep understanding of financial concepts, and effectively discusses at least one potential impact of this disadvantage on the business.
1	The response offers a basic analysis of one disadvantage of the source of finance, but it may lack depth, clarity, or detailed insight.
0	The response does not provide any analysis or insights into one disadvantage of the source of finance.

Marks: 2

Learning Outcome	Explain the difference between revenue expenditure and capital expenditure.
Learning Level	AO3
Pages	S1. 488 – S2. 167

24. B.ii

A sample answer:

The higher interest rates associated with the short-term loan could have a negative impact on Supreme Trading LLC's financial health. The increased cost of borrowing may affect their overall profitability, potentially reducing the funds available for other operational and strategic initiatives.

To manage this effect, Supreme Trading LLC could consider implementing a more rigorous cost management strategy or it might explore negotiating with financial institutions for better loan terms or refinancing options. By demonstrating a strong financial performance and potential for continued growth, they could position themselves favorably to negotiate lower interest rates or explore long-term financing options that offer more favorable terms.

Marking rubric and guidance:

The given answer is just a sample answer; all other responses ***should be marked*** *based on the following rubric:*

Mark	**Evaluation (AO4) – 3 marks**
3	The response offers a comprehensive evaluation of the effect of this disadvantage on the financial health of Supreme LLC, but it may lack depth, clarity, or detailed insight. The evaluative comment is insightful, demonstrates a deep understanding of the disadvantage and its relevance to the scenario, and effectively discusses the overall effect of the disadvantage on the company's situation. The evaluation offers a well-reasoned development strategy.
2	The response offers a reasonable evaluation of the effect of this disadvantage on the financial health of Supreme LLC, but it may lack depth, clarity, or detailed insight. The evaluative comment demonstrates a moderate understanding of the disadvantage and its relevance to the scenario. A development strategy may be suggested but lack some depth or clarity.
1	The response provides a basic evaluation of the effect of this disadvantage on the financial health of Supreme LLC but it may lack depth, clarity, or detailed insight. The evaluative comment shows limited understanding of the disadvantage and its relevance to the scenario. One development strategy may be suggested but lacks depth or clarity .
0	The response does not provide any evaluation or insights into the effect of this disadvantage on the financial health of Supreme LLC, indicating a lack of evaluative depth or understanding

Learning Outcome	Recommend and justify a suitable source of finance in a given situation
Learning Level	AO4
Pages	S1. 491 – S2. 170

Marks: 3

24. C.i

Answer:

GPM = Gross Profit/ Revenue *100
 = 105,000 OMR /200,000 OMR * 100 (1 mark)
 = 52.5% (1 mark)

Marking rubric:

Marks	**Application (AO2) – 2 marks**
2	Correct figure, correct mathematical operations with correct answer
1	Correct figure, correct mathematical operations but with no or wrong answer
0	No attempt to calculate/ just writing the formula

Learning Outcome	Calculate the profitability ratios (Gross profit margin / operating profit margin (net profit margin)) ROCE (Return on capital employed)
Learning Level	AO2
Pages	S1. 568 – S2. 455

Marks: 2

24. C.ii

Answer:

NPM= Net profit/Revenue *100
 = 25,000 OMR/200,000 OMR * 100 (1 mark)
 = 12.5% (1 mark)

Marking rubric:

Marks	**Application (AO2) – 2 marks**
2	Correct figure, correct mathematical operations with correct answer
1	Correct figure, correct mathematical operations but with no or wrong answer
0	No attempt to calculate/ just writing the formula

Marks: 2

Learning Outcome	Calculate the profitability ratios (Gross profit margin / operating profit margin (net profit margin)) ROCE (Return on capital employed)
Learning Level	AO2
Pages	S1. 568 – S2. 455

24. d (2 marks)

A sample answer:

- Cash: In the case of Supreme Trading LLC, cash would include the funds they have available in their bank accounts, which they can use for various day-to-day operational needs. This cash may be used to pay for expenses like rent, utilities, and salaries, as well as to invest in marketing and advertisement initiatives or to cover immediate financial requirements during the year.

- Accounts Receivable: For Supreme Trading LLC, accounts receivable would represent the amounts owed to the company by customers who have purchased car batteries on credit. Since they began their business by offering extended warranties and competitive pricing, it's likely that a portion of their sales were made on credit, leading to accounts receivable.

Marking rubric and guidance:

Identification (1 mark, 0.5 for each current asset) and description (2 marks: 1 for each asset)
*The given answer is just a sample answer; all other responses **should be marked** based on the following rubric:*

Mark	Application (AO2) – 2 marks
2	The response demonstrates a clear understanding of two current assets that will appear on Supreme Trading LLC's balance sheet. The assets are accurately described and appropriately linked to the context of the case study.
1	The response somewhat describes one or two current assets that will appear on Supreme Trading LLC's balance sheet, but it may lack clarity or detailed insight. The description of assets is somewhat relevant to the context of the case study.
0	The response does not effectively identify or describe any current assets that will appear on Supreme Trading LLC's balance sheet, indicating a lack of understanding or relevance to the case study

Learning Outcome	Define the following concepts: non-current assets, non-current liabilities
Learning Level	AO2
Pages	S1. 552 – S2. 435

General Education Diploma for

Private Schools

Business studies

First Semester

First Session

Marks Scheme

2022/2023

Answers of Questions One: Multiple Choice [6 Marks]

Item	1	2	3	4	5	6
Answers	A	B	A	A	A	D

Answers Two: Filling the Gaps [6 Marks]

Item	Answers
7	Working capital
8	Revenue
9	Variable
10	Negative
11	Current assets
12	Profit before tax

Answers of Question Three: Extended Response [48 Marks]

13. Student's Answer might be any <u>three</u> of these reasons: **[3 Marks]**

- To purchase capital equipment
- To pay bills and expenses and build up inventories (working capital)
- To take over another firm
- To pay debts

(Source 1, p. 485)

- To buy additional non-current assets (e.g. furniture and machines)
- To hire new staff and pay salaries
- To buy additional supplies (e.g. inventory and groceries)

(Source 2, p. 163)

14. Student's Answer might be any <u>four</u> of these sources: **[4 Marks]**

- Bank overdrafts and bank loans including microfinance
- Crowd funding
- Credit from suppliers (trade payables)
- Loans from family and friends
- Owners' investment
- Taking on partners with capital to invest

(Source 1, p. 494)

- Owners' savings
- Banks
- Suppliers
- Government grants and loans

(Source 2, p. 172)

15. Student's Answer might be any <u>three</u> of these external sources: **[3 Marks]**

- Hire purchase
- Leasing
- Share capital
- Debentures
- Bank (long-term) loans
- Business mortgages
- Government grant
- Venture capital
- Bank overdraft
- Trade credit
- Debt factoring

(Source 1, p. 489)

- Share capital
- Bank overdrafts
- Trade credit
- Leasing and hire purchase
- Bank loans
- Mortgages
- Debentures
- Venture capital
- Debt factoring
- Microfinance
- Crowdfunding
- New partners
  (Source 2, p. 172)

16. Student's Answer might be any <u>four</u> of the following factors: [4 Marks]

- Why is finance needed and the time period its needed for?
- Cost
- Amount required
- Form of business ownership and desire to retain control
- Level of existing borrowing
- Flexibility
  (Source 1, p. 497- 498)
- Cost of the source of finance
- Flexibility
- The need to retain control
- The uses to which finance is put
- The level of existing dept
  (Source 2, p. 176 – 177)

17. The students answer might include the following: [4 Marks]

	Direct Costs	**Indirect Costs**
Explanation	**One of the following explanations: [1 mark]** the costs that can be clearly identified with each unit of production and can be allocated to cost centre. **(Source 1, p.515)** The costs that can be related to the production of a particular product and vary directly with the level of output. **(Source 2, p. 188).**	**One of the following explanations: [1 mark]** The costs that cannot be identified with a unit of production or allocated accurately to a cost centre. **(Source 1, p.515)** The overheads that cannot be allocated to the production of a particular product and relate to the business as whole. **(Source 2, p. 188).**

An Example	**One of the following examples: [1 Mark]** 1.The purchase of the meat to make hamburgers in a fast-food restaurant 2. The labour cost of the mechanic when repairing the car in a garage. 3. The salary of a teacher in a school. **(Source 1, p.515)** The costs of raw materials and fuel **(Source 2, p. 188).**	**One of the following examples: [1 Mark]** 1. The purchase of a tractor for a farm 2. The promotional expenditure for a supermarket business 3. The rent of a shop 4. The cost of cleaning of a school **Source 1, p.515)** The costs of marketing and administration **(Source 2, p. 188).**

18. Student's answers have to be as follows: [6 Marks]

a) Total production cost = Fixed cost+ (Variable cost*number of units)

Total Production Cost for **ABC company** = 10,000 + (25*1000) = 35,000 **[1 Mark]**

Total Production Cost for **XYZ company** = 10,000 + (25*5000) = 135,000 **[1 Mark]**

b) Average cost per unit = Total production cost/ number of units

Average cost per unit of **ABC company** = 35,000/1000 = 35 OMR **[1 Mark]**

Average cost per unit of **XYZ company** = 135,000/1000 = 27 OMR **[1 Mark]**

c) Company **XYZ will earn a higher profit** [1 Mark]

Justification: Because **it has a lower average cost of production [1 Mark].**

19. Student's answers have to be as follows: [4 Marks]

a) Break-Even Graph **[1 Mark]**

b) 200 units [**1 Mark]**

c) Margin of safety= output at full capacity-break even output

= 300 – 200 **[1 Mark]**

= 100 units **[1 Mark: 0.5 for the result and 0.5 for the unit of measurement]**

20. Student's answer might be any two of the following reasons: [2 Marks]

- To support loan applications
- To avoid unexpected cash flow crises
- To ensure that they have sufficient money to pay their pills
- To avoid cash flow difficulties
- To make sure that companies have planned their management of cash flow
  (Source 2, p. 180)

- Because Finance is very tight at start-up, so accurate planning is much more significant for new business (to avoid unexpected cash flow crisis)
  (Source 1, p. 503-504)

21. Student's answers have to be as follows: **[10 Marks]**

a) Non-current assets = Total assets - Total current assets

= 23,000 - 11,000 **[1 Mark]**

= 12,000 OMR **[1 Mark]**

b) Other current liabilities = Total current liabilities - Trade and other payable
= 1,800 - 1,400 **[1 Mark]**

= 400 OMR **[1 Mark]**

c) Total liabilities = Total current liabilities + non-current liabilities
= 1,800 + 4,000 **[1 Mark]**
= 5,800 OMR **[1 Mark]**

d) Net assets = Total assets - Total liabilities
= 23,000 - 5,800 **[1 Mark]**
= 17,200 OMR **[1 Mark]**

e) Reserve and retained earnings = Total equity - Share capital
= 17,200 - 6,500 **[1 Mark]**
= 10,700 OMR. **[1 Mark]**

22. Student's answers have to be as following: **[8 Marks]**

a) Liquidity ratios: **[4 Marks]**

	Current Ratio	Acid Test Ratio
WAVE Company	Current ratio = current assets/current liabilities = 100,000/40,000	Acid test ratio= liquid assets/current liabilities

	= 2.5 **[1 Mark]**	Liquid assets = current assets-inventories = 100,000-50,000 **[0.5 Mark]** Acid test ratio = 50000/40,000 = 1.25 **[0.5 Mark]**
AREEN Company	Current ratio = current assets/current liabilities = 150,000/120;000 = 1.25 **[1 Mark]**	Acid test ratio= liquid assets/current liabilities Liquid assets = current assets-inventories = 150,000-70,000 = 80,000 **[0.5 Mark]** Acid test ratio =80,000 /120,000 = 0.6 **[0.5 Mark]**

b) Profitability ratios: **[4 Marks]**

	Gross Profit Margin Ratio	Operating profit margin ratio
WAVE Company	Gross Profit margin = gross profit/revenue *100 = 20,000/350,000*100 = 5.7% **[1 Mark]**	Operating profit margin ratio= Operating Profit (profit from operations)/ revenue *100 = 100,000/350,000*100 = 28.5% **[1 Mark]**
AREEN Company	Gross Profit margin = gross profit/revenue *100 = 80,000/600,000*100 = 13.3% **[1 Mark]**	Operating profit margin ratio= Operating Profit (profit from operations)/ revenue *100 = 250,000/600,000*100 = 41.6% **[1 Mark]**

SULTANATE OF OMAN
MINISTRY OF EDUCATION

Marking Guide of General Educational Diploma for the Private Schools

2022/2023

Semester One – Second Session

Subject: Business Studies

مركز القياس والتقويم التربوي
The Center for Educational Assessment and Measurement (CEAM)

Note: There are 11 pages in this guide

First: Answers for the Multiple-Choice (Items 1-6) (6 Marks):

Item N.	Answer	Mark	Learning Outcome	Learning Level
1	A A new computer system	1	Understand and explain the difference between revenue expenditure and capital expenditure	Knowledge
2	D Mortgage	1	Understand and analyze different sources of finance	Reasoning: Analysis
3	D 2,500 units	1	Understand and be able to calculate and draw a break even chart and interpret it	Application
4	B Sales revenue	1	Understand and analyze the importance of maintaining cash flow for a business and the role of forecasting	Knowledge
5	B It shows the business revenue and expenses over a period of time	1	Understand and able to prepare a simple Income Statement (P&L) and Statement of Financial Position (Balance Sheet).	Reasoning: Evaluation
6	C 250 OMR	1	Be able to calculate missing figures from an Income Statement and Balance Sheet using data provided.).	Application

Second: Answers for the Fill in the Blank (Items 7-12) (6 Marks):

Item N.	Answer	Mark	Learning Outcome	Learning Level
7	Short	1	Understand and analyze different sources of finance and their advantages and disadvantages	Knowledge
8	Capital	1	Understand and explain the difference between revenue expenditure and capital expenditure	Knowledge
9	Labor	1	Understand, explain, and calculate different types of revenue and costs within a business.	Knowledge
10	Negative	1	Understand and explain cash flow and explain the cash flow cycle	Reasoning: Analysis
11	Statement of profit or loss/ Income Statement	1	Understand and able to prepare a simple Income Statement (P&L) and Statement of Financial Position (Balance Sheet).	Application
12	Cost of sales	1	Understand and able to prepare a simple Income Statement (P&L) and Statement of Financial Position (Balance Sheet).	Knowledge

Subject: Business Studies Second Session First Semester – 2022/2023

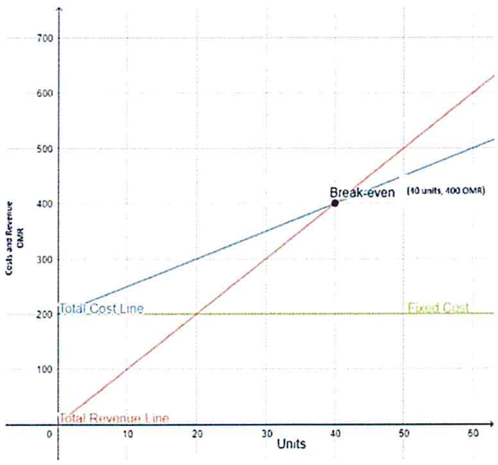
Third: Answers for the Extended Response Items (40 Marks):

General Notes

- There may be different ways of answering questions, but a basic requirement for all answers is that they are RELEVANT.
- If the answer is clearly not relevant, and the student has clearly made no attempt to answer the question that was set, NO marks should be awarded. However, if the student has genuinely attempted the answer, but his answer is only partly relevant, then a reduced mark (not zero) should be awarded.

Item N.	Correct Answer	Mark	Pages	Learning Outcome	Learning Level
13	• To purchase the assets (machinery and equipment) to start trading • To buy a lease (for a factory to use for manufacturing or for an office or shop) • To fund its market research • To promote and establish its brand among customers • To use cash to pay bills for suppliers of raw material, water and electricity. • To buy more capital when it grows • To take over another firm • To pay debts	3	S1. 458 S2. 162	Understand and explain the importance of finance for business	Knowledge
14	• When a large sum of finance is required (and it is difficult to raise funds internally). • When the level of risk associated with the business is low making it easier for it to convince outsiders to invest or lend it money • When the firm's profitability level is low which reduces the possibility to use retained profits. • For long-term business expansion and long-term research projects	4	S1. 497 S2. 172	Understand and evaluate the reasons why businesses may need external sources of finance and justify appropriate sources of finance	Reasoning: Evaluation

15	• Retained Profit • Sale of unwanted assets • Reduction in working capital • Sale and leaseback of non-current assets • Owners investment • Working capital	3	S1. 489 S2. 170	Understand and analyze different sources of finance and their advantages and disadvantages.	Knowledge
16	A. Bank Overdraft B. Microfinance C. Crowdfunding D. Venture Capital	4	S1. 490 S2. 172	Understand and analyze different sources of finance and their advantages and disadvantages.	Knowledge
17	**A:** Working capital = Current assets - Current liabilities = 25,000 OMR - 19,900 OMR *(1 Mark)* = 5,100 OMR *(1 Mark)* **B:** • Make sure that its trade receivables are received on time • Ensure that it does not hold too high inventory levels • Pay its own debts as (trade payables) as late as possible • Using computer systems to record sales and inventory levels, and to order inventory as required • Minimize the working capital tied up in inventories by producing only when orders have been received • Only selling products for cash and not on credit	4	S1.488 S2 166	Understand and analyze different sources of finance and their advantages and disadvantages.	Application (A) Knowledge (B)
18	**A:** Variable cost = Total cost- fixed cost = 190,000 – 100,000 *(1 Mark)* = 90, 000 OMR *(1 Mark)*	6	S1.515 + 517 S2. 189+ 195	Understand, explain and calculate different revenue and costs within a business	Application

	<u>B:</u> 1000 bicycles *(2 Marks)* **<u>C:</u>** 4000 bicycles *(2 Marks)*				
19	**<u>A:</u>** *4 Marks*  On the horizontal axis, we have the units produced, and on the vertical axis, we have the cost and revenue in OMR (*1 Mark)*. The blue line represents <u>the Total Cost curve</u> *(1 Mark),* and the red line represents the <u>Total Revenue curve</u> *(1 Mark).* The Break-Even Point is where the Total Cost and Total Revenue curves intersect. In this case, it occurs at <u>40 units</u> produced *(1 Mark),* At this point, the Total Cost and Total Revenue are both 400 OMR, which means that you have covered your fixed costs of 200 OMR and are making a profit of 200 OMR.	8	S1. 524 S2. 199	Understand and be able to calculate and draw a break even chart and interpret the significance of its results.	Application (A+B) + Reasoning: Analysis (C)

	Note: *The enlarged version of the graph can be found on page 11* **B:** Total cost = Fixed Cost+ (Variable Cost*number of sold units) = 200 + (5 *50) *(1 Mark)* = 450 OMR *(1 Mark)* **C:** An increase in the variable cost will increase the slope of the Total Cost curve, which will increase the Break Even Point *(1 Mark),* while a decrease in the variable cost will decrease the slope of the Total Cost curve, which will decrease the Break Even Point *(1 Mark).*				
20	*Any two relevant correct reasons with a brief explanation should be awarded one mark each (1*2=2 Marks).* • To support applications for loans • To help avoid unexpected cash-flow crises	2	S1:505-S2:180	Understand and analyze the importance of maintaining cash flow for a business and the role of forecasting	Reasoning: Analysis
21	**A:** Gross Profit Margin = Gross Profit / Revenue = 1,400,000 / 2,500,000 *(1 Mark)* = 0.56 or 56% *(1 Mark)*	6	S1:567, 568 - S2:448, 449	Be able to calculate GPM, BPM, ROCE, Current ratio, Acid test ratio Be able to analyze the relative performance of a firm based on an income statement and balance sheet.	Application + Analysis (C)

	<u>B:</u> Operating Profit Margin = Operating Income / Revenue = 500,000 / 2,500,000 *(1 Mark)* = 0.2 or 20% *(1 Mark)* **<u>C:</u>** The high gross profit margin of 56% suggests that the company is able to generate a significant profit from each sale after accounting for the cost of goods sold. *(1 Mark)* The operating profit margin of 20% indicates that the company is generating a decent profit from its operations after deducting all operating expenses. *(1 Mark)*. Overall, the company appears to be performing well financially.				

Fourth: Answers for the Case Study Items (8 Marks):

General Notes

- There may be different ways of answering questions, but a basic requirement for all answers is that they are RELEVANT.
- If the answer is clearly not relevant, and the student has clearly made no attempt to answer the question that was set, NO marks should be awarded. However, if the student has genuinely attempted the answer, but his answer is only partly relevant, then a reduced mark (not zero) should be awarded.

Item N.	Correct Answer	Marks	Page(s)	Learning Outcome	Learning Level
22	*Student answers that provide a clear identification of the four financing options available to the company, each option should be awarded 0.5 Mark each.* **The financing options available to Smart Gadgets Ltd. for the expansion project are:** • Cash reserves of 500,000 OMR • Line of credit of up to 1,000,000 OMR • Loan of 500,000 OMR • Hire purchase agreement for 500,000 OMR .	2	Based on the case study scenario	Understand and analyze different sources of finance and their advantages and disadvantages.	Application
23	The total cost of the expansion project is 1,500,000 OMR *(1 Mark).* Smart Gadgets Ltd. can finance 500,000 OMR from its internal sources (cash reserves*) (1 Mark).*	2			Application
24	As the company can finance 500,000 from its internal sources, the total amount of external financing required for the expansion project is 1,000,000 OMR only, which includes the line of credit, loan, and hire purchase agreement.	2			Application
25	*The answer should identify one advantage of Hire purchase (1 Mark), one disadvantage of hire purchase (1 Mark), One advantage of bank loan (1 Mark), One disadvantage of bank loan (1 Mark).* **Advantages of Hire Purchase:** • Ownership of the asset is transferred to the company upon the final payment. • Lower initial outlay compared to purchasing the asset outright. • Fixed repayments and interest rate over the life of the agreement.	2	S1: 491 S2: 172		Reasoning Analysis

	• Typically, easier to obtain compared to traditional bank loans. **Disadvantages of Hire Purchase:** • Higher overall cost due to interest and fees. • The asset may not be fully paid off until the end of the agreement. • The company may not have the flexibility to make early repayments without incurring fees. • The asset may be repossessed if the company defaults on the payments. **Advantages of Bank Loan:** • Lower overall cost compared to hire purchase due to lower interest rates. • The company owns the asset from the outset. • The company can typically negotiate more flexible repayment terms. • Interest payments are tax-deductible. **Disadvantages of Bank Loan:** • Higher initial outlay compared to hire purchase due to the need to pay for the asset upfront. • May be more difficult to obtain for smaller companies or those with less established credit histories. • The company may be required to provide collateral or personal guarantees to secure the loan. • Interest rates may be variable, making it more difficult to budget for repayments. • In summary, a hire purchase agreement may be a better option for XYZ Ltd. if it has limited cash reserves or is unable to obtain a bank loan due to its credit history. However, a bank loan may be a more cost-effective option in the long run due to lower interest rates and greater flexibility. Ultimately, the decision will depend on the company's specific circumstances and financial goals.				

The End of the Marking Guide