

1. GENERAL COMMENTS

The standard of learners' work/answers could not be compared with previous years, but currently their answers show the following:

- Most learners answers indicated good knowledge, but a lack of explanation and application to case.
- There are still learners on AS-level who are not supposed to enter this level.

2. COMMENTS ON INDIVIDUAL QUESTIONS

- 1 (a) Well answered. Most learners could give the two needs for funds for KB Taxis, but could not analyse it by showing the impact on the business. Some learners used the business name (KB Taxis) as an application where they should refer to the case study.

Answer

Knowledge (2 x 1)

Award one mark for each relevant need for funds.

Application (2 x 1)

Award one mark for each relevant application to KB Taxis.

Analysis (2 x 1)

Award one mark for the impact on the business of each need identified.

Possible answers:

- KB Taxis will need to finance their working capital (k) and help to improve its poor cash flow (ap) helping to improve for efficient running of the business. (an)
- The business may need money to expand. (k) It would allow the business to buy a bigger fleet of luxury cars (ap) so that more customers can be served. (an)
- To cope in times of difficulties (k) in situations where there is a decline in demand as a result of a decline in the economy. (ap) This would help the business to continue operating. (an)

Application

Private limited company, upper end of the market, fleet of luxury cars, expansion into weddings and executive cars, petrol/fuel as an expense, decline in the economy, poor cash flow and profits, credit terms of 30 days, new business idea of quality tyres, new business plan, forecast changes in 2021

- (b) This question required from learners to indicate and evaluate the implications for KB Taxis of changing from a partnership to a private limited company. Most learners gave a comparison of both firms and at the end the answers were the opposite of each other, which was incorrect. The requirement was to give the advantages and disadvantages of a private limited company well developed in case.

Answer

Knowledge (3 x 1)

Award up to three marks for advantages and/or disadvantages of changing from a partnership to a private limited company.

Application (3 x 1)

Award up to three marks for relevant application to KB Taxis.

Analysis (3 x 1)

Award up to three marks for analysis of implications on the business of changing from a partnership to a private limited company.

Evaluation (5 x 1)

Award up to five marks for evaluating the change from being a partnership to being a private limited company.

Knowledge may include:

Advantages of becoming a Private Limited Company

- More capital can be raised. (k)
- It has a legal personality. (k)
- Continuity of existence of KB Taxis is not affected by the death of Karen or Bill. (k)

- The owners can keep control as shares in a private limited company cannot be sold or transferred to anyone else without the agreement of the other shareholders. (k)
- Karen and Bill will have limited liability. (k)

Disadvantages of becoming a Private Limited Company

- It is an expensive procedure to establish a private company. (k)
- Still a limit in funds to be raised as the shares in a private limited company cannot be sold without the agreement of the other shareholders. (k)
- The accounts of a company are much less secret than for a partnership. (k)
- Divorce of ownership and control. (k)

Analysis may include:

Advantages of becoming a Private Limited Company

- The company will expand to serve more customers in the future. (an)
- The company can enter into legally binding contracts without putting the shareholders' private possessions at risk (an)
- Will be easier for KB Taxis to obtain more funds from financial institutions as the company is less risky. (an)

Disadvantages of becoming a Private Limited Company

- Will increase costs such as auditing of financial records. (an)
- Restricting selling of shares may make some people reluctant to invest in KB Taxis which will limit the opportunity to raise more funds. (an)
- Each year the financial statements must be sent to the Registrar of Companies which will be time consuming and expensive for the business. (an)

Evaluation

- The change can be positive for the business if they want to grow (ev). The opportunity to raise more finance means that economies of scale are more likely (ev). Any growth may not be possible otherwise. (ev)
- Although KB Taxis will have continuity (ev) if Karen and Bill do not mind handing over some control, (ev) as long as they restrict how many shares are sold, although they can remain in control in the future. (ev)

Application

3 years old, upper end of market, weddings & executive hire as well as taxis, refused funds due to lack of security, declining demand due to decline in the economy, cash flow and profit problems, diversification into tyres, forecast for lower prices and higher costs.

- 2 (a) Well answered. Most learners could explain by using an example from KB Taxis the concept variable cost. Some learners confused it with fixed cost.

Answer

Knowledge (1 x 1)

Award one mark for a clear explanation of variable cost.

Application (1 x 1)

Award one mark for a relevant example from KB Taxis.

Answers may include

- Variable costs vary directly with output (k) such as labour costs. (ap)
- If no tyres are produced then no rubber is needed (ap) so the variable cost will be zero. (k)

Application

Rubber, labour cost, petrol/fuel, any reference to the costs per unit in the table.

- (b) (i) Moderately answered. Learners could calculate the break-even level of production for the year commencing 1 July 2021. Some learners had no idea how to calculate the break-even after the changes. Some answers were written wrongly as N\$224 instead on 224 units.

Answer

Knowledge (1 x 1)

Award one mark for the formula.

Application (2 x 1)

Award up to two marks for using correct figures.

Analysis (1 x 1)

Award one mark for the correct answer.

$$\begin{aligned} \text{Break-even} &= \frac{\text{Total fixed costs}}{\text{Contribution per unit}} \quad (\text{k}) \\ &= \frac{28\,000}{405 - 280} \quad (\text{ap}) \\ &= 224 \text{ units (an)} \end{aligned}$$

- (ii) Most learners could not identify and explain their reasons why break-even is of limited use to KB Taxis. Most learners' answers referred to the definition of break-even, instead of the advantages and disadvantages of break-even analysis before making a decision and supporting their decision. Learners mostly focussed on one side of the question.

Answer

Knowledge (2 x 1)

Award one mark for each statement about break-even.

Application (2 x 1)

Award up to two marks for relevant application to KB Taxis.

Analysis (2 x 1)

Award up to two marks for the impact on the business of the use(s) of break-even analysis.

Evaluation (2 x 1)

Award up to two marks for a justified opinion whether break-even analysis is of use to KB Taxis.

Knowledge may include:

Advantages of break-even analysis

- Managers can calculate/read the expected profit or loss to be made. (k)
- Managers can redraw the break-even graph to show a change in the break-even point. (k)
- The break-even chart can also be used to show the safety margin. (k)

Disadvantages of break-even analysis

- Break-even charts/calculations are constructed assuming that all items are sold. (k)
- Break-even charts/calculations are based on forecast data which may be incorrect. (k)
- Cost curves are drawn as a straight line. (k)

Analysis may include:

Advantages of break-even analysis

- Can make changes to prices or costs if necessary. (an)
- The impact on profit or loss of KB Taxis' decisions can also be shown. (an)
- May help to determine the likely success of the business. (an)

Disadvantages of break-even analysis

- If not, all tyres are sold then the business will not meet the profit forecast. (an)
- Managers of KB Taxis must control these factors otherwise the break-even point will be incorrect. (an)

Evaluation

Yes, break-even analysis is valuable to KB Taxis. (ev)

- Analysis provides useful guidelines to management on how the break-even point will change, as a result of the new price and costs for the year starting July 2021. (ev)
- Comparisons can be made between different options by constructing new charts showing changed circumstances. (ev)

No, break-even analysis is of limited value to KB Taxis. (ev)

- Too many factors to control to change break-even point. (ev)
- The simple charts used have assumed that costs of rubber, labour and revenues can be drawn with straight lines. (ev)
- Not all costs can be classified into fixed and variable costs. (ev)
- There is no allowance made for stock levels on the break-even chart. (ev)
- It is unlikely that fixed costs will remain unchanged at different output levels up to maximum capacity. (ev)

Application

3 years old, upper end of market, declining demand due to decline in the economy, cash flow and profit problems, diversification into tyres, suppliers of rubber, quality tyres, forecast for lower prices and higher costs, any use of data, any use of answer to Q2 (b) (i) [OFR]

- (c) Most learners could identify one advantage of a business plan for KB Taxis, but could not analyse (impact on business) it and give reasons as evaluation.

Answer

Knowledge (1 x 1)

Award one mark for an advantage of producing a business plan.

Analysis (2 x 1)

Award up to two marks for relevant analysis of the advantage for the business of producing a business plan.

Evaluation (3 x 1)

Award up to three marks for evaluation of whether a business plan will be advantageous.

Knowledge may include:

- A business plan forces management to plan ahead. (k)
- Communicating with all stakeholders. (k)
- To obtain funds/finance. (k)
- Business plan reduces the number of mistakes. (k)
- Business plan will make it easier to update and amend the business strategies in future. (k)
- It gives the business a sense of direction. (k)
- Owners can use the business plan to review the firm's progress. (k)

Analysis may include:

- Helps the business to obtain funds to invest. (an)
- Planning ahead provides information that a business needs to prioritise expenditure (an) not to waste resources. (an)
- The business can analyse areas to improve break-even point to maximise profits (an) to provide services efficiently. (an)

Evaluation

KB Taxis is entering a new business sector (service to manufacturing) and the business plan will force it to set new objectives (ev) which provide guidance on managing it. (ev)

Different products in a different market need adjustments in marketing. (ev)

Without a business plan it may make mistakes and stand little chance of being successful. (ev)

- 3 Format: Most learners scored full marks (3) for the layout of a report. Some learners have no idea of the layout of a report. An example is attached to the syllabus.

Introduction: Learners could not indicate the short-term finances in the introduction. They mostly scored knowledge marks for showing it in the findings instead of showing it in the introduction.

Findings (body): Most learners could identify trade credit, factoring of debts and bank overdraft as sources of short-term finance as well as the advantages and disadvantages of each. A few learners confused short-term loan, retained profit selling of unused assets, selling of stock and owners' savings with short-term finance which is mostly internal sources of finance, except loan. Most learners could not apply (application) the mentioned resources to KB Taxis.

Conclusion: Most learners failed to conclude their report by indicating/weighing up the advantages and disadvantages of each source of finance chosen.

Recommendation: Most learners could recommend one source of finance, but could not give reasons/explanation for the choice. Some learners repeated the advantages/disadvantages mentioned in the findings instead of giving alternative advantages/disadvantages.

Answer

Knowledge (5 x 1)

Award three marks for correct format and up to two marks for appropriate sources of finance.

Application (5 x 1)

Award up to five marks for relevant application of advantages and disadvantages in context.

Analysis (5 x 1)

Award up to five marks for relevant explanation/development of advantages and disadvantages given in findings. (Maximum of 3 marks if answer only considers one source of finance)

Evaluation (5 x 1)

Weighing up advantages and disadvantages, drawing a conclusion and finally a recommendation.

| | |
|---|-------------------|
| Format (to, from, title, date, introduction, findings, conclusion, recommendation) If one missing (2), if two missing (1), if more than two missing (0) | (3 k) |
| Introduction | (2 k) |
| Findings | (10: 5 ap & 5 an) |
| Conclusion & Recommendation | (5 ev) |

Possible answers may include

INTRODUCTION

Due to KB Taxis' diversification to produce tyres, there will be a need for more working capital to cover operating costs.

Therefore, trade credit, (k) overdraft (k) and factoring of debts (k) are possible as sources of finance. (**NB:** Do not accept any sources of finance which are not short-term)

FINDINGS

Trade credit

(By delaying payment of bills for goods or services received. It puts KB Taxis in a better cash position. Trade credit is a lifeline for a business cash flow.)

Advantages

- Helps to get stock and raw materials on credit without paying for them straight away.
- Allows KB Taxis to be more flexible to adapt to market demands, when their finances are not stable.
- *Get a competitive edge*
Buying goods as required on credit gives KB Taxis a competitive advantage over rival firms that may have to pay upfront.
- *No cash required upfront*
Help to buy fuel and pay wages when cash flow is low.
- *Trade credit is an interest free loan*
Best way to keep cash in the business effectively providing access to working capital at no cost.
- Less administration compared to arranging a short-term loan, rather than using cash reserves on stock, the business is effectively providing a service on behalf of the supplier and get a profit for doing so.
- *Easy to arrange*
If KB Taxis has a good credit history, it is able to meet a supplier's requirements and has the ability to invoice regular payments, then it is easy to arrange and maintain.
- *Increase KB Taxis reputation*
Demonstrating their business can make regular payments against credit, is a good way to establishing and maintaining KB Taxis as a valuable customer. A good trade credit history can mean suppliers treat the business as a preferred buyer.
- *Discount and bulk buying*
Suppliers may offer appealing discounts to trade credit customers who pay early.

Disadvantages

- *Penalties and interest*
It is an interest free loan, but missing repayment deadlines can turn "free money" into "expensive debt". Trade credit terms include penalties for late payment and interest payable on outstanding credit.
- *Legal action*
Fall behind on trade credit payments and KB Taxis could face legal action, including goods and assets being confiscated to pay outstanding bills.
- *Negative impact on credit rating*
Missed deadlines and late payments can quickly harm KB Taxis' rating. That may cause problems in future when KB Taxis seeks to raise finance as a loan. Poor credit rating can affect the amount of interest they will have to pay to secure a loan in the future.
- *Loss of suppliers*
Suppliers may refuse to supply to KB Taxis, leaving their business unable to operate or meet customer demand, resulting in the closure of KB Taxis.

Overdraft

(The bank gives the business permission to spend more money from the current account than is currently in it.)

Advantages

- *A flexible source of finance*
This means that the amount used can vary from day-to-day, depending on the particular needs of the business.
- Cheaper than a loan because it only pays interest on outstanding amount per day.
- It is quick to arrange.

- There is not normally a charge for paying off the overdraft earlier than expected.

Disadvantages

- If KB Taxis has to extend its overdraft, it will have to pay an arrangement fee.
- KB Taxis' bank could charge the business if they exceed their overdraft limit without permission.
- Bank has the right to ask for repayment of KB Taxis' overdraft amount at any time, although this is unlikely to happen unless they, get into financial difficulties.
- Unlike loans they can only get an overdraft from the bank where they maintain the business' current account.
- The interest rate applied is nearly always variable, making it difficult to calculate the borrowing cost accurately.

Debt factoring

(Selling of claims over debtors to a debt factor in exchange for immediate liquidity.)

Advantages

- KB Taxis can instantly release the cash value of its invoices/debtors and put it to better use.
- Improve cash flow for KB Taxis quickly.
- *Saves time and resources*
Loss of profit can be counteracted by the saving of time and resources facilitated by improved cash flow. Administration and resources needed to manage and chase up invoices/debtors can be expensive. Debt factoring frees up time to use elsewhere in the business. Leads to greater overall efficiency and ensures that every resource is being used wisely.
- *Accelerates growth*
KB Taxis can expand rapidly provided it reinvests the factor's money wisely.
- Debt factoring can be useful in smoothing out business finance issues as well as stimulating cash flow and growth.
- The risk of collecting the debts becomes the risk of the factoring company.

Disadvantages

- *Reduces profits*
Reduce the overall profits for a business, because the debt factor charges a percentage of the overall invoice/debtors value.

CONCLUSION

Candidate should weigh up the advantages and disadvantages of sources of finance discussed in the findings/body.

RECOMMENDATION

Candidate should give a clear recommendation of the most suitable source of finance.

Application

3 years old, upper end of market, weddings & executive hire as well as taxis, refused funds due to lack of security, declining demand due to decline of the economy, cash flow and profit problems, business customers offered 30 days' credit, diversification into tyres, forecast for lower prices and higher costs, use of any quantitative data in the context, rubber, refused loan request, lack of security.

3. POSITIVE SUGGESTIONS TO TEACHERS

Teachers should concentrate on the following:

- Teach learners according to syllabus and not to a specific textbook.
- Teachers should place more emphasis on the keywords of questions and how learners should answer the questions, especially questions containing analysis and evaluation.