CAMBRIDGE
International Education

Cambridge IGCSE™

BUSINESS STUDIES **0450/22**

Paper 2 Case Study **October/November 2024**

MARK SCHEME

Maximum Mark: 80

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the October/November 2024 series for most Cambridge IGCSE, Cambridge International A and AS Level components, and some Cambridge O Level components.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptions for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)

b DO credit alternative answers/examples which are not written in the mark scheme if they are correct

c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).

d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)

e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities

f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).

g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

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4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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0450/7115/0086 Business Studies – Paper 2 Annotations

Annotation	Description	Use
Tick	Tick	Indicates a point which is relevant and rewardable (used in part (a) questions).
Cross	Cross	Indicates a point which is inaccurate/irrelevant and not rewardable.
BOD	Benefit of doubt	Used when the benefit of the doubt is given in order to reward a response.
TV	Too vague	Used when parts of the answer are considered to be too vague.
REP	Repetition	Indicates where content has been repeated.
NAQ	Not answered question	Used when the answer or parts of the answer are not answering the question asked.
APP	Application	Indicates appropriate reference to the information in the context.
OFR	Own figure rule	If a mistake is made in a calculation, and the incorrect figure that results from the mistake is used for subsequent calculations.
SEEN	Noted but no credit given	Indicates that content has been recognised but not rewarded.
L1	Level 1	Used in part (b) questions to indicate where a response includes limited knowledge and understanding.
L2	Level 2	Used in part (b) questions to indicate where a response has a more detailed discussion and contains some evidence of justification.
L3	Level 3	Used in part (b) questions to indicate where a response includes a well-justified recommendation.

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Question	Answer	Marks
1(a)	**Explain <u>two</u> advantages and <u>two</u> disadvantages of BB being a public limited company.** Award 1 mark for each relevant advantage/disadvantage (max 4). Award 1 additional mark for **each** explanation of the advantage/disadvantage **applied to this context**. Relevant advantages might include: • Able to sell shares to the public – so additional capital can be raised to finance the new factory • Rapid expansion possible by raising large sums of capital – to become a multinational company • Limited liability would encourage more people to invest in the public limited company • Continuity Relevant disadvantages might include: • Accounts available to the public – competing bike manufacturers can see the accounts • Pressure to pay large dividends to shareholders – this restricts the planned expansion for the children's bike • Risk of takeover/original owners may lose control – and use its flow production line to produce competitors' products • Divorce between ownership and control • More complex accounting and reporting requirements/more legal formalities For example: Able to sell shares to the public (1) so additional capital can be raised to finance the new factory (app). **Application** could include: new factory; bikes; flow production; wants to become a multinational company; bike manufacturer; exports 30%; target market of adults and young children; components of bikes e.g. gears; 100 production workers; sells through specialist bike shops; high labour turnover; sales have increased every year since set up.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Consider the advantages and disadvantages of the following <u>three</u> methods BB could use to motivate its production workers. Which method should BB use? Justify your answer.
• Piece rate
• Teamworking
• Job rotation
<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of two or more methods.

Well-justified recommendation.

Candidates discussing all three methods, in context and with a well-justified recommendation, including why the alternative methods were rejected, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one method.

Judgement with some justification/some evaluation of choice made.

Candidates discussing two or more methods in detail and applying these to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the methods with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining the three methods in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>
</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>Relevant points might include:

<table>
<tr><td>Piece rate</td><td>• Employees would receive payment for each product/task they carry out – encourages them to work harder/carry out more tasks – produce more output – possibly increased sales from higher output of bikes
• Taylor – increased pay leads to employees being more motivated and may reduce the high labour turnover
• May be unfair if some tasks take longer than other tasks – so some employees gain more than others in higher payment – may demotivate some employees
• If machinery breaks down, then the employees will earn less total pay
• The 100 skilled production employees may work quickly to earn higher wages and hence may make more mistakes/reduce quality
• May not be able to sell the increased output – increasing storage costs
• May be difficult to measure the output of each of the 100 production employees – so difficult to calculate piece–rate and easier to stick to paying $10 per hour</td></tr>
<tr><td>Teamworking</td><td>• Production employees become more involved with the decision–making when working together in a team – makes them feel more valued as have more responsibility in the production process manufacturing bicycles
• Feel have more control over tasks – more loyal to BB – less likely to leave so may reduce recruitment costs
• Some parts of the flow production process may not easily be divided so a team of employees can work together/may not be easy to apply to the flow production process</td></tr>
</table>
</td><td></td></tr>
</table>

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Question	Answer		Marks
1(b)	Job rotation	• Makes the employees' job more interesting/less boring • Change tasks around from one product to another on the **flow production line** – and may need different skills to complete this work • May keep working with different employees from the **100 production workers** which employees prefer • May increase training requirements as each worker may only be able to perform one task – so may need additional training to carry out different tasks – increases costs for BB • Quality of **bikes** may be lower if employees are less specialised in different tasks • May mean sometimes a worker does a job that is not liked – may reduce motivation • May only be motivating in the short term until the worker gets used to the new tasks • Does not make the individual tasks themselves more interesting	
	Recommendation	Justification might include: • Introducing piece–rate should be chosen as it will motivate the **100 production employees** to increase output to increase their wages. BB will earn a higher revenue if all output is sold, and employees are less likely to leave. Teamworking may make employees feel more motivated but may not lead to a higher output just happier production employees. Job rotation may not increase motivation if the different tasks are all equally boring on the production line. • Introducing teamworking should be chosen as this will make employees feel some control over the tasks they carry out on the **flow production line** and will give them chance to work together leading to higher motivation and they are less likely to leave. • Introducing job rotation between tasks producing **bikes** is the best method to choose because it will not cost BB any money if no training is required. It will give variety to the employees' jobs and will encourage them to stay at BB **instead of leaving.**	

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Question	Answer	Marks
2(a)	**Explain <u>two</u> effects of BB having a short chain of command.** Award 1 mark for each effect (max 2). Award a maximum of 3 additional marks for **each** explanation of the effect of having a short chain of command – **one of which must be applied to this context.** Relevant effects might include: • Communication is more accurate – as fewer people for messages to be passed through – less chance of errors being passed on • Senior managers are less remote from lower levels in the hierarchy - allows these managers to be more aware of the views of employees - less likely to be disputes between production employees and managers • Decision–making can be quicker – as fewer levels to discuss issues and pass on decisions – react to customer changes more quickly • Manager may have a wider span of control – which may increase the opportunities for delegation – employees feel more trusted/greater job satisfaction • Managers may have less control of what their subordinates are doing may be more likely for subordinates to make mistakes – increases costs • Increased workload for managers • Communication is quicker For example: Communication is more accurate (1) as there are fewer people for messages to be passed through (1) less chance of errors in the messages (1) about the production of bikes (app). **Application** could include: new factory; bikes; flow production; wants to become a multinational company; bike manufacturer; exports 30%; target market of adults and young children; bike components e.g. gears; 100 production workers; sells through specialist bicycle shops; higher labour turnover; flat organisational structure; named director/manager from Appendix 1.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>
Consider the following <u>three</u> extension strategies BB could use for its best-selling product. Which strategy should BB use? Justify your answer.

Adding new features
Start selling in toy shops
Television advertising campaign

<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of two or more strategies.

Well–justified recommendation.

Candidates discussing all three strategies, in context and with a well–justified recommendation, including why the alternative strategies were rejected, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one strategy.

Judgement with some justification/some evaluation of choice made.

Candidates discussing two or more strategies in detail and applying these to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the strategies with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining the three strategies in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>
</td><td>12</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>Relevant points might include:

<table>
<tr><td>Adding new features</td><td>• Bike will have additional features – such as more gears – making it easier to ride and therefore attractive to a wider range of customers
• Bikes may be better than competitors' bikes – encouraging customers to buy BB's bikes instead of competitors' bikes
• May encourage existing customers to get rid of their old bike and buy a bike with the new features – as they will want the most up-to-date version to show their friends – increasing revenue
• Takes time and cost to develop the new features of the product</td></tr>
<tr><td>Start selling in toy shops</td><td>• A different target market will see the children's bike in toy shops and may be attracted to buy it as usually sold through specialist bike shop so will not usually be seen by these other customers – increasing sales
• May be more toy shops in country X than specialist bike shops – making the bike more accessible to potential customers – greater number of shops where can buy/see the bike so more likely to buy the bike
• Potential customers go into toy shops to buy other products such as a scooter – see the bike whilst in the toy shop and may be attracted to buy one
• Also selling competitors' products so may be more competition</td></tr>
</table></td><td></td></tr>
</table>

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Question	Answer		Marks
2(b)	Television advertising campaign	• A wider range of people will see the advertisement and will become aware of the **bike** – leading to higher sales • TV adverts can be attractive and persuasive – using moving images and colour to attract **children or their parents** to purchase a **bike** – can reinforce the brand image and attract customers • The TV advert can be put on between programmes that are watched by **children** – so they are seen by target customers – increasing the effectiveness of the marketing budget • High cost of television advertising	
	Recommendation	Justification might include: • **Bikes** with new features will attract existing customers to upgrade their bike leading to increased sales. These customers are already familiar with the BB brand and will want the latest version of the bike. Selling through toy shops will be less effective as customers may not go to toy shops to buy a bike, preferring instead to go to a specialist shop where they can get advice. A TV campaign may not be effective if customers do not watch television. • Starting to sell through toy shops should be used as it will enable BB to reach a wider market of potential customers including **children and their parents** and therefore, they may be more likely to buy a BB **bike** if they are now aware of the product. • A new TV campaign should be used as it will make many more people aware of the **children's bike** and **parents** might be attracted to buy one leading to increased revenue.	

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Question	Answer	Marks
3(a)	**Explain <u>one</u> way each of the following stakeholder groups might be affected by a business becoming a multinational company.** Award 1 mark for how each stakeholder group will be affected (max 2 marks for each stakeholder group). Award a maximum of 1 additional mark for **each** explanation of how the stakeholder group will be affected. There are no application marks available for this question. Effects on shareholders might include: • Value of assets of company increases – as increased profit can be reinvested • Increased dividends – profit increases from avoiding barriers to trade • Lower dividends – if need to fund expansion into other countries • Increased share price/value of shares increases – as becomes a more well-known business due to market share increasing • Easier to sell shares – as the company is known globally with higher revenue/profit/better image Effects on employees might include: • May lose jobs – as business moves to produce in a country with lower labour/production costs • May gain promotion – from business expanding into different markets / business can access a larger target market and additional jobs may be required • May have a more secure job – as business remains competitive if competitor companies are also expanding abroad • Higher wages paid – as business is more successful and can afford to increase wage rates Effects on suppliers: • May have increased sales – as output of multinational increases • May lose sales – as multinational may purchase from cheaper suppliers in other countries Effects on government: • Higher tax revenue if higher profit repatriated • May lose tax revenue if multinational locates head office in another country For example: Employees may lose their jobs (1) as the business becomes a multinational company and moves its production to another country to lower labour/production costs (1).	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>
Using Appendix 2 and other information, consider the <u>two</u> countries BB could choose to locate its first new factory. Which country should BB choose? Justify your answer.
<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of both countries.

Well-justified recommendation.

Candidates discussing both countries in detail, in context and with a well-justified recommendation, including why the alternative country is rejected, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one country.

Judgement with some justification/some evaluation of choices made.

Candidates discussing at least one country in detail and applying it to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the countries with little/no explanation.

Simple judgement with limited justification/limited evaluation of choices made.

Candidates outlining both countries in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>
</td><td>12</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>Relevant points might include:
<table>
<tr><th></th><th>Benefits</th><th>Drawbacks</th></tr>
<tr><td>Country A</td><td>• Gross profit per bike is $225 more than Country B
• Highest selling price per bike at $1000 – possibly highest revenue if demand remains high
• 70% of raw materials are available in country A which may make it easier and quicker to receive supplies – less need to import
• Only 30% of the raw materials need to be imported – so depreciation in exchange rate may have smaller effect on costs
• Gross profit margin is 35% which is higher than country B at 31.25%</td><td>• Has many competitors so demand may be lower – may have to reduce selling price to attract customers – possibly reducing revenue
• May have to spend more on marketing to enter the new market abroad – increasing costs – possibly reducing profit
• Higher wage costs to produce each bicycle at three times the cost of Country B – leading to higher wage costs overall
• Harder to recruit new workers as unemployment is low – may have to offer more fringe benefits to attract employees from their many competitors
• 30% of raw materials need to be imported – if depreciation in the exchange rate of country A then may make the cost of these raw materials more expensive</td></tr>
</table></td><td></td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>
<table>
<tr><th></th><th>Benefits</th><th>Drawbacks</th></tr>
<tr><td>Country B</td><td>

Half the raw material cost per bicycle at $175 in country A – makes it easier to charge the lowest price of $400 per bicycle
High unemployment makes it easier to recruit new employees – more likely to remain with BB as few alternative employment opportunities in country B – lowering recruitment costs/training costs in the future
Lowest wage costs at $100 per bicycle – reducing total labour costs
Low price at $400 per bicycle may attract many customers – possibly increasing revenue

</td><td>

Only 40% of raw materials are available in country B so a large proportion of other raw materials may need to be imported/transported a long way – increasing delivery costs and delivery time
Lower difference between price of $400 and costs of $275 = $125, whereas it is $350 in country A
Few competitors may indicate that demand for bicycles in country B is low – BB needs to spend on market research to be sure there is a market in country B – investment could be wasted if there is not sufficient demand to make the expansion successful

</td></tr>
<tr><td>Recommendation</td><td colspan="2">Justification might include:

BB should choose country A as it can charge the highest price of $1000 per bicycle which may lead to higher revenue and with a higher difference of $350 per bicycle between price and variable costs it gives the highest gross profit per bicycle sold. Whereas country B has to have 60% of raw materials imported and if there is a depreciation in the exchange rate then this could be very expensive in the future.
BB should choose country B as it has the lowest wage cost per bicycle, and it will be easy to recruit new employees as there is high unemployment there.

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

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Question	Answer	Marks
4(a)	**Explain <u>two</u> reasons why BB might want to sell its products in new markets in other countries.** Award 1 mark for each reason (max 2). Award a maximum of 3 additional marks for **each** explanation of the reason why BB might want to enter new markets in other countries – **one of which must be applied to this context.** Relevant reasons might include: • Much greater growth potential than existing market – populations may be increasing and incomes rising – enabling more people to afford BB's products • Home market has slow growth – so future growth in sales is limited – new markets provide opportunities for growth not available in the existing market • May encourage more production to be located in other countries as well as sales – provides more information on these markets to lead to better understanding of these customers • New developments in marketing may make it easier to reach consumers in foreign markets • To increase sales of BB's products – increases revenue and possibly profit if distribution costs are not too high • Spreads risk – less dependent on one market for its sales For example: There may be much greater growth potential than existing market (1) because population and incomes may be rising (1) which enables more people to afford BB's bikes (app) so sales and revenue will increase (1). **Application** could include: new factory; bikes; flow production; wants to become a multinational company; bike manufacturer; exports 30%; target market of adults and young children; bike components e.g. gears; 100 production workers; paid $10 per hour; sells through specialist bicycle shops; sales have not grown for 3 years.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>

Using Appendix 3 and other information, consider BB's financial performance compared to its main competitor. Do you think BB's financial performance is better than its competitor? Justify your answer using appropriate calculations.

<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion whether BB or its competitor has the better financial performance.

Well-justified conclusion.

Candidates discussing in detail whether or not BB has a better financial performance than its competitor, in context and with a well-justified conclusion should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of whether BB or its competitor has a good financial performance.

Judgement with some justification/some evaluation of choice made.

Candidates discussing in detail whether BB and its competitor has a good financial performance and applying it to the case with a well justified conclusion should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the financial performance of BB and its competitor with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining the financial performance of BB and its competitor in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>

</td><td>12</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>Relevant points might include:

<table>
<tr><td>Level 1</td><td>• The return on capital employed is twice as high as its competitor at 30%
• BB has taken out a bank loan for $10m which is $50m lower than the competitor
• Gross profit is only half the amount of the competitor’s at $60m
• BB has $80m less revenue than its competitor at $120m for the year
• The acid test ratio is higher at 1.3
• Revenue is lower at $120m for BB and sales have not been increasing for its bestselling children‘s bicycle
• Profit is a lot lower than its competitor’s profit statements</td></tr>
<tr><td>Level 2 statements</td><td>• The return on capital employed is higher for BB at 30% and indicates that BB gains $30 return for every $100 dollars invested in BB but the competitor only returns $15 for every $100 invested so BB is more efficient in its use of capital
• The acid test ratio of 0.67 for BB’s competitor shows that after inventories have been removed from current assets it cannot pay all its current liabilities when they fall due for payment. This may make it difficult for the competitor to keep trading if it cannot pay its current liabilities without relying on cash inflows from the sale of inventories
• The acid test ratio for BB is good at 1.3 and indicates that BB can repay its current liabilities by 1.3 times – so liquidity is good. However, this may suggest that current assets could be put to better use in the business to increase revenue
• The gross profit margin for BB’s competitor is 60%
• The gross profit margin for BB is 50%
• The profit margin for BB’s competitor is 20%
• The profit margin for BB is 5%</td></tr>
</table></td><td></td></tr>
</table>

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Question	Answer		Marks
4(b)	Conclusion	• BB's financial performance is better than its competitor as the acid test ratio of **1.3** indicates that BB has better liquidity than its competitor with only an acid test ratio of **0.67.** BB may be able to pay any current liabilities more easily. BB is at less risk of insolvency than its competitor and has $50m fewer loans to repay than its competitor. The competitor may have higher gross profit margin and higher profit margin, but these do not lead to a higher ROCE. • BB's competitor has a better financial performance as the gross profit margin is higher by 10% and the profit margin is also higher by 15%.	

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