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Cambridge Assessment International Education

Cambridge IGCSE™

BUSINESS STUDIES **0450/23**

Paper 2 Case Study **October/November 2022**

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 2022 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

This document consists of **20** printed pages.

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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 descriptors 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>four</u> factors Duncan should consider when choosing which method of communication to use with DD's employees.** Award 1 mark for each relevant factor (maximum of 4 marks). Award a maximum of 1 additional mark for **each explanation in context.** Relevant answers might include: • How many employees need to be informed – as DD has 120 employees so a method such as a noticeboard would be suitable • Is feedback needed – if so then the manager of the dairy could use telephone calls to discuss points with them • How much information needs to be included in the message – if it is a lot of information about the possible new distribution channel then a written form of communication should be used • If there is need for a written record – could use email as he already uses this with employees • Speed of communication – if an employee producing cream needs to be told quickly then face-to-face may be chosen • Cost of the communication methods chosen – as there are many different departments in the dairy such as cheese and ice cream production then the noticeboard may be the best to use For example: If feedback is needed (1) then the manager of the dairy could use telephone calls to discuss points with the employees (app). **Application** could include: dairy; dairy products; cheese; high quality imported ingredients; 120 employees; noticeboard; currently uses email; farm; milk; butter; cream; ice cream; currently uses noticeboard or email to inform employees of daily tasks; only supplies local shops; fruit flavoured ice cream; employees are unhappy about their wages; employees left to work for a competitor; figures from Appendix 3.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Consider <u>two</u> ways DD can increase added value. Which is the best way for DD to 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 ways.

Well-justified recommendation.

Candidates discussing both ways in detail, in context and with a well-justified recommendation including why the alternative was 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 way.

Judgement with some justification / some evaluation of choice made.

Candidates discussing at least one way 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 ways with little/no explanation.

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

Candidates outlining both ways 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>1(b)</td><td>Relevant points might include:

<table>
<tr><td>Increase added value by increasing price

(Note: the two ways can come from this section if explanation is different)</td><td>• Improve the quality even more – of the ice cream – then customers will be willing to pay a higher price – but it depends on the prices charged by competitors for their dairy products – may lose sales
• Introduce a brand image – advertise the dairy – makes the products more well-known and hence DD may be able to raise prices as customers like to buy branded products
• Provide extra services such as gift wrap the cheese to give as a gift – customers will be willing to pay a higher price if the product is made to appear more attractive in its packaging</td></tr>
<tr><td>Increase added value by reducing input costs

(Note: the two ways can come from this section if explanation is different)</td><td>• Buy cheaper ingredients by changing supplier / buying in bulk to gain a discount / negotiating cheaper price – but customers may find the dairy products are of lower quality – unhappy customers may give DD a bad reputation – lower sales
• Source cheaper ingredients from home country instead of importing ingredients – input costs reduce – increase added value – but quality may be lower – lose sales</td></tr>
<tr><td>Recommendation</td><td>Justification might include:

• Increasing prices by improving the quality of the products is the best way to increase added value because DD has a reputation for good quality dairy products and customers are likely to be willing to pay the higher price. This is safer than potentially getting a bad reputation for poor quality products if alternative cheaper inputs are purchased.

• Reducing input costs by purchasing cheaper ingredients is the best way to increase added value because customers may not notice this as long as the quality of the inputs such as imported fruits is not of a lower quality and therefore does not reduce the quality of the ice cream. This is safer than increasing prices and potentially losing customers to competitors.</td></tr>
</table>
</td><td></td></tr>
</table>

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Question	Answer	Marks
2(a)	**Explain <u>four</u> roles of marketing for a business.** Award 1 mark for each role (maximum of 4 marks). Award a maximum of 1 additional mark for **each explanation**. Relevant roles might include: • Identifies customer needs – finds out exactly what goods or services consumers want before producing them • Satisfies customer needs – so that the goods or services provided by the business will be sold at a profit • Maintains customer loyalty – makes sure the business continues to meet any changing customer needs to ensure they keep coming back to buy from the business • Builds customer relationships – over the long-term to keep a good relationship with customers to understand them and to understand any changes in their needs For example: Identifies customer needs (1) so the business can find out exactly what goods or services consumers want before producing them (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 advantages and disadvantages of the following <u>three</u> channels of distribution DD could use for its products. Which channel should DD choose? Justify your answer.

- **Setting up a shop at the dairy**
- **Selling to a number of large supermarkets**
- **Selling to a wholesaler**

<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 channels.

Well-justified recommendation.

Candidates discussing all three channels in detail, in context and with a well-justified recommendation including why the alternative channels 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 channel.

Judgement with some justification / some evaluation of choice made.

Candidates discussing two or more channels in detail and applying them 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 channels with little/no explanation.

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

Candidates outlining all three channels 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><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Setting up a shop at the dairy</td><td>• Simple to set up and operate as dairy products sold directly from the dairy
• Farm produce is fresh as there are no intermediaries between the farm and the customer – good reputation for high quality
• Prices may be lower as no profit margins for intermediaries to be added to the price of milk, butter, and cream</td><td>• Consumers may not live nearby and may not be willing to regularly travel 30 miles from Main city for fresh produce
• If customers are only from the local area, then this will restrict sales – possibly lower revenue
• Increased costs of setting up a retail outlet at the dairy to sell the products</td></tr>
<tr><td>Sell to a number of large supermarkets</td><td>• Dairy can sell large quantities of cream and other dairy products – lower administration costs
• Likely to have an increased number of customers – over a wider area – possibly increasing revenue from ice cream sales</td><td>• No direct contact with consumers – so may not know what consumers think about the specialist new cheese
• Retailer adds a mark-up to milk and cream so prices are higher – may be less competitive as there are many different brands available for consumers to choose between at supermarkets – possibly fewer sales</td></tr>
<tr><td>Sell to a wholesaler</td><td>• Lower distribution costs for the dairy – usually buys in large quantities from dairy – then sells to many small retailers in small quantities</td><td>• Supermarkets buy in bulk so they might expect to purchase at a discount – lowering the DD’s profit margin</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>2(b)</td><td>
<table>
<tr><td></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td></td><td>• Can offer storage for the products – reduce warehouse costs for DD
• Small retailers more likely to buy DD products as they are fresh and therefore need to be purchased regularly and in small quantities</td><td>• Wholesaler will add a mark-up, so prices are likely to be higher than if products are purchased directly from the dairy
• Wholesaler may not purchase the full range of products such as cream and milk – so DD still needs to find alternative outlets for the full range of the products
• Takes longer for the fresh dairy products to reach consumers – product quality may be reduced</td></tr>
</table>
</td><td></td></tr>
</table>

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Question	Answer	Marks
2(b)	Recommendation: Justification might include: • Selling directly to customers is the best channel to use because this will allow the dairy to sell at lower prices than if it sold its products through supermarkets or wholesalers. It will also allow DD to possibly make more profit on its **dairy products** if it keeps all the mark-ups. Supermarkets stock many different brands, and it might be more difficult to get DD's products noticed and then chosen. A wholesaler will delay the products getting to customers and therefore the quality may be lower leading to poor sales. • Selling to a number of large supermarkets is the best channel to use because the supermarkets will buy its products, such as **cheese and ice cream**, in large quantities which may reduce DD's distribution costs and increase sales due to the large number of customers who use large supermarkets. • Using a wholesaler is the best channel to use because then DD's products will be distributed to many small retailers and its **dairy products** can be sold over a larger geographical area, possibly leading to higher sales and increased revenue for DD.	

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Question	Answer	Marks
3(a)	**Explain <u>two</u> possible reasons why DD might hold low levels of inventory.** Award 1 mark for each reason (maximum of 2 marks). Award a maximum of 3 additional marks for each explanation of the reason for holding low levels of inventory – **one of which must be applied to this context.** Answers might include: • Dairy products are perishable – cannot easily be stored – or they may be of lower quality – and customers will be dissatisfied and give DD a bad reputation • The products are sold quickly – as DD sells food products such as milk and butter – it is expensive for DD as these products need to be refrigerated – adds to costs for DD if high levels of inventory are kept • Consumers use milk and butter regularly – so it is bought regularly from retailers – therefore milk and butter are delivered to customers quickly – so DD does not need to hold large levels of inventory of milk or butter • Reduces the need for working capital / improves cash flow – capital not tied up in inventory • Reduced space required for finished products – lowers storage costs For example: Dairy products are perishable (app) and so cannot easily be stored (1) or they may be of lower quality if stored too long (1). Not storing these products means customers are satisfied and will not give DD a bad reputation (1). **Application** could include: dairy; dairy products; cheese; high quality imported ingredients; 120 employees; noticeboard; currently uses email; farm; milk; butter; cream; ice cream; currently uses noticeboard or email to inform employees of daily tasks; only supplies local shops; fruit flavoured ice cream; employees are unhappy about their wages; employees left to work for a competitor; figures from Appendix 3; new refrigerators, fruit.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>

Consider the following <u>three</u> methods DD could use to motivate its employees. Which is the best method to use? Justify your answer.

- **Give employees a 50% discount on all DD products**
- **Introduce profit sharing**
- **Introduce 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 the 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>

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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><td>Give employees a 50% discount on all DD products</td><td>• Half price essential food products – equivalent to an increase in wages – leaves more money available to spend on other things for the family
• Discounts may be of limited value if employees only buy small quantities of dairy products – the rest of their food spending will cost a lot more
• May not cost DD much because 50% discount will not cost DD 50% of the price, as selling price includes a profit for DD, but would still motivate employees</td></tr>
<tr><td>Introduce profit sharing</td><td>• Employees now receive an additional payment to their wages. A share of the profits may increase motivation which may lead to increased productivity in the dairy, and this may lead to lower costs per unit and possibly higher profit
• However, existing shareholders of this private limited company may lose some control if profit sharing is from the issue of shares to employees
• Employees may see no link between their day-to-day effort and their contribution to profit which is shared at the end of the year
• Other factors may affect profit which employees may have no influence over
• May lead to reduced dividends per share or less retained profit for the private limited company</td></tr>
<tr><td>Introduce job rotation</td><td>• Makes the work more interesting / less boring
• Change tasks around from one product to another in the dairy – and may need different skills to complete this work – may prefer to work with different employees each day
• However, may increase training requirements as each worker may only perform one task – increases costs for DD
• Quality of products such as ice cream may be lower if employees are less specialised in different tasks
• May mean sometimes a worker does a task that is not liked – may reduce motivation
• May only be motivating in the short term until the worker gets used to the new tasks – the production tasks may still be boring</td></tr>
</table>
</td><td></td></tr>
</table>

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Question	Answer	Marks
3(b)	Recommendation: Justification might include: • Introducing discounts on DD's **dairy products** is the best method to choose as this will make employees feel as though they have had a wage increase at little additional cost to DD. This is likely to be cheaper than training employees for job rotation or sharing profits which may disappoint Duncan and **his family** when dividends are reduced. • Giving a share of the profits to DD's employees is the best method to choose because if employees are more motivated then productivity and profit from the **dairy** is likely to increase which may mean Duncan and **his family** may not receive less profit overall. • Introducing job rotation between products such as **cheese or ice cream** is the best method to choose because it will not cost DD any money if no training is required. It will give variety to the employees' jobs and will encourage them to stay at DD **instead of leaving to work for a competitor.**	

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Question	Answer	Marks
4(a)	**Explain <u>two</u> ways a reduction in interest rates might affect DD.** Award 1 mark for each way (maximum of 4 marks). Award a maximum of 3 additional marks for **each explanation** of an effect of a reduction in interest rates – **one of which must be applied to this context.** Ways might include: • Decrease the interest costs of a new bank loan – Duncan may be more likely to invest in the dairy – may buy new refrigerators – lower interest rates reduce the total cost of investment for the dairy / may benefit from lower interest rates on existing long-term bank loan of $5000 • Reduces the cost of an overdraft – reduces interest payment for expenses – as the dairy has an overdraft of $1000 – lower costs are likely to lead to higher profit • May lead to higher economic growth and lower unemployment – higher incomes for consumers – increased demand for dairy products • May increase demand for dairy products which increases revenue for DD – available income consumers could spend increases – if they had a mortgage to repay – as lower repayments due to lower interest rates For example: Decrease the cost of the overdraft (1) as DD has an overdraft of $1000 in 2021 (app). This will lead to a decrease in DD's expenses for interest payments (1), which means lower total costs possibly leading to higher profit (1). **Application** could include: dairy; dairy products; cheese; high quality imported ingredients; 120 employees; noticeboard; currently uses email; farm; milk; butter; cream; ice cream; currently uses noticeboard or email to inform employees of daily tasks; only supplies local shops; fruit flavoured ice cream; employees are unhappy about their wages; employees left to work for a competitor; figures from Appendix 3; new refrigerators, overdraft of $1000.	**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 the financial position of DD and its main competitor. Which company is in a better financial position? Justify your answer using suitable 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 of whether DD is in a better financial position than its competitor.

Well-justified conclusion.

Candidates discussing in detail which business is in a better financial position, in context and with a well-justified conclusion including why the other business a better financial position 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 DD or its competitor is in a good financial position.

Judgement with some justification / some evaluation of choice made.

Candidates discussing in detail whether DD and its competitor are in a good financial position and applying this 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 financial position of DD or its competitor with little/no explanation.

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

Candidates outlining the financial position of DD 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 statements</td><td>• Trade receivables are higher by $20 000 – as more customers are allowed credit by DD
• Cash is held by its competitor but not by DD as it has an overdraft of $1000
• Amount of trade payables is lower by $41 000
• DD has taken out a bank loan for $5000 which is $45 000 lower than the competitor
• DD has current assets of $80 000
• DD’s competitor has current assets of $80 000
• DD has current liabilities of $40 000
• DD’s competitor has current liabilities of $80 000</td></tr>
<tr><td>Level 2 statements</td><td>• The current ratio of DD’s competitor is 1 and DD’s is 2
• The acid test ratio of DD’s competitor is 0.75 and DD’s is 1.95
• The current ratio of DD is reasonable at 2 and indicates that DD has twice as many current assets to pay current liabilities
• The current ratio and acid test ratio of competitor are low and shows that it is only just liquid</td></tr>
<tr><td>Conclusion</td><td>• DD is in a better financial position because both liquidity ratios are better with the current ratio of 2 and acid test ratio of 1.95, indicating DD has better liquidity and is easily able to pay the current liabilities of $40 000. DD is at much less risk of insolvency than its competitor. It has less debt than its competitor.

• DD’s competitor is in a better financial position because it has twice the revenue of DD showing it is successful and has high sales. It can also cover its current liabilities of $80 000 with a current ratio of 1 and its acid test ratio is acceptable at 0.75, especially as the inventory is sold quickly.</td></tr>
</table></td><td></td></tr>
</table>

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