Solutions

Marking: **K** knowledge, **App** application to the case, **An** analysis (a developed chain of reasoning), **Ev** evaluation (a justified judgement); calculations earn **M1** for the method and **A1** for the answer.

Each answer shows the steps, then the **result**.

2.1

- van: **non-current asset**
- overdraft: **current liability**

2.2

- cash is **tied up** in goods that are not sold (1)
- so there may be too little cash to pay bills: poor **liquidity** (1)
- storage costs; goods may go out of date, be damaged or stolen (1)

3.1

B

3.2

(a)

- assets that are **cash** or will be turned into cash **within a year**, e.g. inventory, receivables

(b)

- $(95 + 40 + 5) - (70 + 30)$
- = **$40 000**

(c) two reasons, each outlined (K + App each):

- to check **debt**: Delta already has a $150,000 loan and an overdraft
- to see **assets** that could be security for a loan (property and vehicles)
- to judge **liquidity**: only $5,000 cash, so can it repay?

(d) two ways, each explained (K, App, An each):

- **reduce inventory**: $95,000 of tools is tied up; a sale or ordering less frees cash
- **collect receivables** faster: builders owe $40,000; chase payment or offer early-payment discounts
- ask suppliers for longer **credit**
- delay non-essential spending

(e) for: (An)

- raises **cash quickly** to pay suppliers; leasing spreads the cost; repairs may be included

against: (An)

- vans are sold for less than they are worth to Delta; **lease** payments go on for years and may cost more in total; the problem is mainly inventory and receivables, not vans

decision: (Ev) for example, Delta should first cut inventory and chase the $40,000 owed, because that cash is already Delta's; sell vans only if those steps do not work quickly enough to keep suppliers.

Level 3 (5–6): a justified decision for this business, weighing both sides. Level 2 (3–4): points explained and applied. Level 1 (1–2): points identified.