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

- $60\,000 \div 40\,000$
- $=$ **1.5 : 1**

2.2

- ROCE shows the **profit** made from each dollar of **capital** invested (1)
- a higher ROCE means the business uses its capital **more efficiently** (1)
- so the investor is likely to get a higher **return** (dividends, share value) (1)

3.1

C

3.2

(a)

- the ability of a business to **pay its short-term debts** as they fall due, from cash or assets quickly turned into cash

(b)

- $56 \div 560 \times 100$
- $=$ **10** %

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

- **owners / shareholders**: is profit and return on their money rising?
- **suppliers** of timber: will Leaf pay on time?
- **employees**: is the business secure?
- **government**: tax due

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

- **reduce inventory**: it rose from 50 to 70; selling it frees cash
- **collect debts** faster from customers
- use **long-term** finance instead of short-term debt
- delay buying non-essential items

(e) for: (An)

- still profitable; revenue grew 12 %; new machinery could raise efficiency and profit

against: (An)

- profit margin fell from $60 \div 500 = 12$ % to 10 %; current ratio fell from $120 \div 80 = 1.5$ to $110 \div 100 = 1.1$; acid test fell from $70 \div 80 = 0.88$ to $40 \div 100 = 0.4$: liquidity is weak
- rising inventory suggests unsold furniture

decision: (Ev) for example, the bank should lend only if Leaf first improves liquidity or offers the machinery as security, because an acid test of 0.4 shows Leaf may struggle to meet repayments.

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.