Cambridge Assessment International Education

Cambridge IGCSE™

BUSINESS STUDIES **0450/22**

Paper 2 Case Study **February/March 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 February/March 2022 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 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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Question	Answer	Marks
1(a)	**Explain <u>four</u> methods a business could use to communicate with its employees.** Award 1 mark for each relevant method (maximum of four). Award a maximum of 1 additional mark for **each explanation**. There are no application marks available for this question. Relevant methods might include: • Memo – short written message that can be on paper or emailed • Letter – when more of a formal document is required such as informing an employee of dismissal • Report – a detailed document about a particular issue or problem • Notice/Poster – put on a board so that all employees can read the detailed information on it • Text message – can be quickly sent to employees' mobile phones and can be reread if necessary • PowerPoint presentation – can give a lot of visual information in a meeting with employees/managers • Meeting with employees/briefing/video conferencing – can give information to many employees at once and feedback is not necessary • Face-to-face conversation - where the manager can discuss an issue with an employee / can be two-way communication with an employee / give instructions to an employee • Telephone/mobile phone call – two-way communication which allows discussion/explanation • Email - can send detailed information which the employees can refer back to in the future • Tannoy/public address (PA) system • Newsletter • Social media For example: Phone call using mobile phone (1) allows discussion of any issues so questions can be answered straight away (1)	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Consider the following <u>three</u> ways the internet could be used to improve the promotion of MH. Which is the best way for Sadiq to choose? Justify your answer.

Improve its existing website.
Advertise using social media.
Email special offers to existing customers.

<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 ways.

Well-justified recommendation.

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

Judgement with some justification / some evaluation of choice made.

Candidates discussing two or more ways 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 ways with little/no explanation.

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

Candidates outlining the three 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>

<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></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>Improve its existing website</td><td>• Makes the hotel information more accessible to potential customers searching for a hotel and make them more likely to book a room
• The website now may look more attractive as some guests have said the current website is boring so more photographs may attract potential customers to book
• Have complete control over the way the hotel is shown in the adverts
• Room prices can be quickly updated
• Can include interactive adverts, which are more attractive than static adverts in magazines or newspapers
• Website can be used for exclusive offers direct to consumer</td><td>• Increased costs of paying for a specialist to carry out the website improvements
• On-going costs of maintenance of the website, e.g. updating room prices
• Search engines may not bring up the hotel on the first page of a search unless Sadiq pays for this and can be expensive
• Relies on people finding the website / may be relatively unknown</td></tr>
</table></td><td></td></tr>
</table>

Question	Answer	Marks
1(b)		

	Advantages	Disadvantages
Advertise using social media	• Can target specific demographic groups such as higher income earners • Viral marketing / share information with family and friends enables recommendations to be spread quickly and to a large group of potential customers who may want to book a **room at the hotel** • Potential customers will see an advert for the hotel when they go to sites such as Facebook, which increases awareness of the hotel • Social media widely used by consumers – large scale exposure	• Can easily be ignored as there are a lot of adverts on social media • Can be expensive for MH to pay for pop-ups to ensure the **hotel** is seen by a large group of people • Potential customers may not use social media and therefore they will not be aware of the hotel • Bad reviews can lead to fewer bookings and the bad reviews may be unfair if only a small proportion of reviews are bad
Email special offers to existing customers	• Cheap way to get information to a lot of existing **hotel customers** • Emails go direct to existing customers, so it targets tourists who are more likely to return to the hotel • May reach tourists that are in other countries and are difficult to reach in other ways • Directs more traffic to the website	• Email may go into spam and so be ignored • No guarantee the email address is correct and therefore will not be seen by **tourists** • Existing customers may see this as annoying and get a negative view of the hotel • Only sent to existing customers / some customers may not have email so not targeting new customers / may be less effective

Question	Answer		Marks
1(b)	Recommendation	Justification might include: • Updating the website is the best option to choose as it can include a lot of information about the **hotel** which the other two alternatives do not. It can include interactive sections that may be more attractive than those in an email or social media advert which are likely to be more limited. • Social media is the best as the advert is more likely to be seen than a website, which has to be searched for and social media will appear immediately. Viral marketing means that people using social media can more quickly spread information than the website and emails to thousands of people about the hotel especially if these guests have had a **good holiday** there. • Using emails is the best one to choose as the alternatives require that people look for the website or stop and read the social media advert and they may ignore it. An email is less likely to be ignored and targets people who have already been a customer and therefore may be more likely to read the email and return to the **hotel**.	

Question	Answer	Marks
2(a)	**Explain <u>one</u> advantage and <u>one</u> disadvantage to Sadiq of delegating tasks to his employees.** Award 1 mark for each advantage/disadvantage (maximum of two marks). Award a maximum of 3 additional marks for **each explanation** of the advantage/disadvantage of delegating tasks – **one of which must be applied to this context.** Relevant advantages might include: • Would allow Sadiq to give more time to other tasks - more time to make better decisions as not rushed - improves the success of the hotel / less likely to make mistakes • Sadiq could keep more control of the whole business - if he has some time to devote to checking on and communicating with his employees – he will be more aware of what is happening in the business and if anything needs changing • Employees could be more motivated – as feel trusted to do additional tasks / work is more interesting – increases efficiency • May be able to monitor/measure success of employees more easily • Employees may be more productive as their skills are developed Relevant disadvantages might include: • Sadiq could lose some control – as tasks are carried out by employees who may not know what to do – employees may make the wrong decisions • Sadiq may need to train the employees – so that they know how to carry out the delegated tasks – which will increase costs in the short-term • Mistakes may be made by subordinates – this may lead to customer complaints – bad reputation for the business For example: Sadiq may have more time to spend carrying out his tasks (1) such as marketing the hotel (app) so he will be able to concentrate on these tasks and be less likely to make mistakes (1) improving the reputation of the business and potentially increasing sales (1). **Application** could include: Sadiq works 60 to 90 hours a week; reference to employees listed in the organisational chart in Appendix 1; 40 employees; hotel; sole trader.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>

Consider the following <u>three</u> ways Sadiq could achieve a high-quality service at MH. Which is the most effective way? Justify your answer.

- **Only buying food ingredients from suppliers that guarantee good quality.**
- **The room cleaners made responsible for checking their own work.**
- **Chefs regularly sampling food before it is served to guests.**

<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 ways.

Well-justified conclusion.

Candidates discussing all three ways in detail, in context and with a well-justified conclusion including why the alternative ways 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 way.

Judgement with some justification / some evaluation of choice made.

Candidates discussing at least two ways 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 ways with little/no explanation.

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

Candidates outlining all three 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>

<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></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>Only buying food ingredients from suppliers that guarantee good quality</td><td>• Ensures the meals are of high quality if the ingredients are of a good standard
• Less likely to have to throw away poor quality food so these costs are reduced</td><td>• Costs of ingredients are likely to be higher and therefore menu prices may have to rise or profits reduced
• May limit some of the types of ingredients used to only those that are supplied by these businesses – reduces menu options
• May increase costs if need to find new supplier
• Quality may be lower for other reasons such as low skill of the chef</td></tr>
<tr><td>The room cleaners made responsible for checking their own work</td><td>• Can remove the need for a supervisor
• This is a type of quality assurance and can motivate room cleaners at the hotel as they will feel trusted
• Should eliminate poor quality room cleaning and reduce the number of complaints</td><td>• The standard may fall as cleaners of the hotel rooms may not realise the standard required unless trained – relies on cleaners being committed to the job
• Training costs are likely to rise as the cleaners will require training on how to produce the high-quality service required
• Cleaners may want higher wages as more responsibility
• Efficiency may reduce if take longer to clean the rooms</td></tr>
</table></td><td></td></tr>
</table>

<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>Chefs regularly sampling food before it is served to guests</td><td>• Should ensure every meal is of a consistent standard and no bad meals are served. It is a form of quality control
• Fewer customer complaints about the restaurant leading to recommendations and possibly higher sales</td><td>• Wasteful of time for the chefs when they could be getting on with cooking the next meals
• Expensive if the meal has to be scrapped – better to find the problem earlier in the process
• Identifies the poor-quality meal but does not identity where the fault lies</td></tr>
<tr><td>Conclusion</td><td colspan="2">Justification might include:
• Having good quality ingredients is the most important even if the costs are slightly higher as this should ensure the meal is of good quality and will not need to be regularly checked by the chef as they will know it is of good quality without having to check. The room cleaning is less important as it can still be checked by supervisors to ensure they are reasonably clean but poor-quality food in the restaurant will lead to a poor reputation and possibly lost sales.
• Having clean rooms is the most important. Hotel guests may not eat at the hotel restaurant, but they will stay in the rooms so if the rooms are not cleaned well, then the hotel will get a bad reputation and will lose guests to competitors.
• Chefs regularly sampling meals should ensure that the restaurant will not receive customer complaints and even if slightly lower quality ingredients are purchased then a good chef may still be able to cook a good meal. Hotel guests may spend very little time in their hotel room and therefore the quality of the cleaning may be of less importance to them.</td></tr>
</table>
</td><td></td></tr>
</table>

Question	Answer	Marks
3(a)	**Explain <u>four</u> advantages to Sadiq of changing his business to a partnership.** Award 1 mark for each relevant advantage (maximum of four). Award a maximum of 1 additional mark for **each explanation in context**. Relevant advantages might include: • Able to raise more capital from partners – needs $10 000 for each room for redecoration if chooses Option 2 • Responsibilities/decisions can be shared • More ideas from new partners – could offer advice about what new facilities could be provided for hotel guests • Partners can specialise in particular tasks where they have specific skills – such as take over the financial decisions as Sadiq has few financial skills • Other partner can cover if absent or ill – Sadiq could take time off and not work 60–90 hours each week • Share costs and risk For example: Partners can specialise in a particular task (1) because Sadiq currently carries out finance tasks and he is not very skilled at doing this (app). **Application** could include: Sadiq works 60 to 90 hours a week; reference to employees listed in the organisational chart in Appendix 1; 40 employees; needs $10 000 for each room; redecoration of rooms; hotel guests; wants to increase revenue; sole trader; improve quality of customer service; no savings; improve cash flow.	**8**

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

Consider the <u>two</u> options for Sadiq to increase MH's revenue. Which option should he choose? 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 both options.

Well-justified recommendation.

Candidates discussing both options in detail, in context and with a well-justified recommendation including why the alternative option 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 option.

Judgement with some justification / some evaluation of choice made.

Candidates discussing at least one option 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 options with little/no explanation.

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

Candidates outlining both options 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>

Question	Answer	Marks
3(b)	Relevant points might include:	

	Advantages	Disadvantages
Option 1	• A reduction in price to $50 could lead to an increase in revenue to $3750 per night • An increase in revenue of $750 per night with no additional capital cost • Target market remains unchanged so easier to attract customers as understand this market	• Revenue per night will fall by $500 if no extra guests come to the **hotel** • A lower price may lead to lower profits for Sadiq if 50% more guests not attracted • This does not address the **complaints about the poor quality of some rooms** – so may not attract 50% more guests • Lower price may give image of lower quality
Option 2	• Increasing the price by 50% will lead to $1500 extra revenue per night if **50 rooms** remain occupied each night • This is $750 higher than the extra revenue per night from Option 1 • **Higher income tourists** may be willing to pay for improved room • May calculate that using projected figures it would take 534 nights to recoup the cost of the upgrades. $800 000/1500 (the extra income) = 534 nights.	• **High redecoration cost** of $800 000 in total plus downtime whilst rooms are out of action means lost revenue in the short term • However, Sadiq may need to improve other facilities at the **hotel** as the high-income guests may expect more from the rest of the hotel as well as the room upgrades – may increase costs even more • Marketing may need to change as it is new target customer MH is less familiar with how to attract them • May lose existing customers

Question	Answer	Marks
3(b)	Recommendation: Justification might include: • Option 1 is better as it is less risky as MH would not have to spend **$10 000 upgrading each room** when there is no guarantee guests will use them. Because Sadiq is already familiar with the requirements of existing customers and with the lower price he may be more successful in attracting the increased number of customers than the new target market for Option 2. • Option 2 is better as it targets a new segment of the market and therefore MH can increase room prices leading to a higher increase in revenue of $750 more per night than Option 1 and no additional **guests** are needed.	

Question	Answer	Marks
4(a)	**Referring to Appendix 2 and other information, explain how the following <u>two</u> new legal controls could affect MH.** • **Restaurant menus must list all ingredients in the food served.** • **Single-use plastic bottles cannot be used.** Award up to 1 mark for how each legal control could affect MH (maximum of two marks). Award a maximum of 3 additional marks for **each explanation** of how the legal control affects the business – **one of which must be applied to this context.** Relevant answers might include: Restaurant menus must list all ingredients in the food served: • Costs may be increased – may need to reprint menus / may now need to source other supplies or ingredients – may need to increase prices • Improved consumer knowledge may increase demand – customer needs are being met/allergies – so more likely to eat at the hotel restaurant which increases revenue • Competitors have access to information about ingredients used in meals Single-use plastic bottles cannot be used: • May need to find alternative products to plastic – glass bottles may be more expensive in the short-term – but in the long term they will be cheaper as they can be recycled • Less litter in surrounding area to MH – as no plastic waste littering the area – improved reputation of the hotel For example: The costs for MH might increase (1) because the hotel restaurant (app) will need new menus and these will have to be printed with the old ones thrown away (1) which may lead to lower profits in the short-term (1). **Application** could include: 4 chefs will need to change ingredients; waiters and kitchen assistants may need additional training; reference to information in Appendix 2; glass bottles; may get better reviews /so do not get bad reviews.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
Consider the following <u>three</u> ways Sadiq could improve MH's cash flow.

• Arrange a bank loan.
• Ask customers to pay a deposit of 20% when they book a room.
• Ask for trade credit from food suppliers.

Which would be the most effective way for MH to improve its cash flow? 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 two or more ways.

Well-justified conclusion.

Candidates discussing all three ways in detail, in context and with a well-justified conclusion including why the alternative ways 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 way.

Judgement with some justification / some evaluation of choice made.

Candidates discussing two or more ways 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 all three 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>
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</td><td>12</td></tr>
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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></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>Arrange a bank loan</td><td>• Provides a cash injection into the business - provides working capital to enable the hotel to keep trading
• Provides a large cash inflow at one time – possibly removing a negative flow in the cash flow
• May be quick to arrange and receive the cash inflow quite quickly</td><td>• Interest payable on bank loan
• Interest and repayment of the loan will be an outflow each month - may make MH’s cash flow worse in the long run
• May take time if bank requests documents to support the application for the loan</td></tr>
<tr><td>Ask customers to pay a deposit of 20% when they book a room</td><td>• Improves the cash inflows as deposit is received when the tourist books a room
• Helps to reduce the chance of guests cancelling if deposit is not refundable, which improves the cash inflow
• It is a lower deposit than other hotels in the local area that charge 30% deposit – so may still attract more guests - improving the cash inflow</td><td>• May lose some tourists who prefer to book and pay no deposit
• Existing customers may not return to the hotel as not happy about the deposit being introduced when they have not had to pay this in the past</td></tr>
</table></td><td></td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
<table>
<tr><td></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>Ask for trade credit from food suppliers</td><td>• Reduces cash outflows
• Hotel may have received payment for restaurant meals before payment to suppliers of ingredients is required</td><td>• Some suppliers may be unwilling to offer trade credit so MH may have to find new suppliers of ingredients
• Trade suppliers may offer lower discounts which would increase cash outflows in the longer term
• It takes time to arrange for trade credit and Sadiq works long hours each week and may not have time</td></tr>
<tr><td>Conclusion</td><td colspan="2">Justification might include:
• Arranging a bank loan is the best method to choose as it will not upset any hotel guests by asking for a deposit which would reduce cash inflows and will not take time for Sadiq to make trade credit agreements. The business has been running successfully and so it is likely the bank will grant the loan.
• Asking for a deposit will be best as it will increase the cash inflows and may help to pay for the redecoration instead of Sadiq needing to take on a partner and losing some control or applying for a bank loan and having to pay interest.
• Trade credit will be best as it delays the cash outflows. This is the better long-term solution to improve MH’s cash flow as revenue from the restaurant may be obtained before ingredients are paid for and it will not lead to potential loss of customers which the deposit option may do.</td></tr>
</table>
</td><td></td></tr>
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