

Specimen Paper Answers – Paper 2
Cambridge IGCSE™ / IGCSE (9–1)
Business 0264 / 0774

Cambridge O Level
Business 7081

For examination from 2027



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Introduction

These specimen answers have been produced by Cambridge International ahead of the examination in 2027 to exemplify standards for those teaching Cambridge IGCSE / IGCSE (9–1) and O Level Business. Questions have been selected from Specimen Paper 2, Questions 1(b), Questions 3(a) and (b), and Questions 4(a) and (b).

The marks given are for guidance only and are accompanied by a brief commentary explaining the strengths and weaknesses of the answers. Comments are given to indicate where and why marks were awarded, and how additional marks could be obtained. There is also a list of common mistakes and guidance for candidates for each question.

The specimen materials are available to download from the [School Support Hub](#)

2027 Specimen Paper 02

2027 Specimen Paper Mark Scheme 02

2027 Specimen Insert 02

Past exam resources and other teaching and learning resources are available on the [School Support Hub](#)

Assessment overview

The syllabuses for Cambridge IGCSE / IGCSE (9–1) / O Level Business are available at www.cambridgeinternational.org

All candidates take two papers. Candidates will be eligible for grades A* to G.

All candidates take:

Paper 1 1 hour 30 minutes
Short Answer and Data Response 50%
80 marks
Four questions requiring a mixture of short answers and structured data responses.
Candidates answer all questions.
Externally assessed

and:

Paper 2 1 hour 30 minutes
Case Study 50%
80 marks
Four questions based on a case study, provided as an insert with the paper.
Candidates answer all questions.
Externally assessed

Question 1

- 1(b) Consider the following **three** methods of market research TT could use when deciding which products to sell in the new cafe. Which method should TT use? Justify your answer.

Specimen answer

competitors' websites... are likely to contain a large amount of information about the desserts and ice-creams sold in their cafes. Prices are also likely to be listed and this would allow TT to put their prices lower than the competitors' prices and attract more customers. This should increase sales and revenue for TT and may increase market share. However, these competitors' cafes may not be located near to the new TT cafe and so if TT lowers its prices to be more competitive it is not likely to attract customers away from TT's competitors.

focus groups... would allow TT to obtain detailed information about customers' preferences for ice cream and desserts to sell in the new TT café. This should allow TT to gain a better idea of which products to sell in the café and which are likely to be in high demand. This may help gain higher sales and revenue. It will also inform TT of which products not to sell as sales will be much lower. However, focus groups are expensive and time-consuming to set up and TT's costs may be increased further if they employ a specialist market research agency to carry out the research, to ensure the research results represent the views of potential customers of the new café.

observation in other cafes... secretly observes the behaviour of customers which may give more accurate results than asking them questions that they may not answer truthfully. It will also give a better idea of which products are popular in these other cafes and which are less popular. Therefore, TT can make better decisions about which cakes to sell in the new café to help them be more competitive and attract customers away from competing cafes. However, this method will not tell TT the reasons for the choices and it may be that customers prefer other cakes that these cafes are not currently selling. This could lead to TT making choices for cakes to sell that are less useful and for which sales are likely to be lower.

recommendation... The method chosen should be observation as it ensures the results are more accurate and the best products are sold in the new café. The other two methods are less likely to be as effective and may not be accurate. [12]

Mark awarded for 1(b) = 8 out of 12

Examiner comment

The response contained good explanation of the advantages and disadvantages of using each of the three methods of market research, such as ‘Competitors website: ...Prices are also likely to be listed on the website – allows TT to put prices lower than competitors’ prices – attracts more customers – should increase sales and revenue for TT ...’. These are linked consequences and not just a simple statement such as ‘... find out the prices competitors charge ...’. These market research methods were also applied to this context by referring to the products sold, i.e. desserts, ice cream and cakes. This puts the answer at the top of the Level 2 mark band. However, the method of observation was only briefly justified in the recommendation and the other two methods were rejected without any justification. Therefore, the response did not move into the Level 3 mark band.

To gain the highest marks and move into Level 3 this response needed a well justified recommendation in context. The decision was suitable, as any of the three methods could have been justified as the best method of market research to use. However, this response only made a basic statement and did not give reasons for this choice. A decision needs to contain why it was made and why the two alternative options were rejected, using the context of the case, in order to move to the top of Level 3 and gain 12 marks. For example, the method chosen should be observation as the behaviour of potential customers is observed in cafes and therefore is more likely to be a true reflection of which desserts and cakes these customer prefer. This method is better than asking potential customers in a focus group when their answers may be what they think the person leading the questions wants to hear or is influenced by others in the group. Customer websites may not be very useful as they only contain information about what competitors sell and the prices they charge when the cafes may be in completely different locations to the new café and therefore have a different target market.

Common errors and general guidance for candidates

- The choices need to have explanation of the advantages and disadvantages. One advantage and one disadvantage well explained is likely to move a response into higher mark bands than if several advantages and disadvantages are just listed/stated.
- The recommendation needs to justify why the choice was made and not simply repeat an advantage given earlier in the response.
- The recommendation needs to also give reasons why the alternative choices were rejected. Comparative statements about the choices, i.e. why one method is better than the other methods, helps to ensure this is achieved.
- The recommendation needs to be applied to the context in the case. If the recommendation is generic, then the top of the Level 3 band cannot be achieved.
- Candidates need to read the question carefully and make sure the recommendation answers the question set.

For further information about common mistakes made by candidates, please refer to the examiner reports which are published after the first exam series in 2027 on the [School Support Hub](#)

Question 3

3(a)(i) Calculate the average cost of each dessert. Show your working.

Specimen answer

$$(\$1000 + \$20\,000) / 5000$$

$$\text{average cost} = \$4.20$$

[2]

Mark awarded for 3(a)(i) = 2 out of 2

3(a)(ii) Calculate the variable cost of each dessert. Show your working.

Specimen answer

$$\$20\,000 / 5000$$

$$\text{variable cost} = \$4.00$$

[2]

Mark awarded for 3(a)(ii) = 2 out of 2

3(a)(iii) State **four** ways the cost data in **3(a)(i)** or **3(a)(ii)** might be used by a business.

Specimen answer

way 1... May help a business decide which product to sell.

way 2... May help a business to decide the price to charge for a product.

way3... May help a business calculate the break-even number of sales/output.

way4... May help a business to decide which supplier to choose over other alternatives.

[4]

Mark awarded for 3(a)(iii) = 4 out of 4

Examiner comment

The calculations were correct and the ways cost data could be used were all correct in this response.

The response has also included the formula, which is correct. It is good practice to show your workings in case an error is made in the final answer, then some credit might be awarded for the method.

Common errors and general guidance for candidates

- Incorrect numbers are used for the calculations.
- Candidates need to make sure they learn all the relevant formulas listed in the syllabus.
- The third section needs to have four different ways, candidates often repeat the ways using slightly different wording but are essentially the same point.
- This third section is a generic question as no reference is made to the business and candidates should not waste time trying to apply their answers.

- 3(b) Use Appendix 2 and other information to consider TT's financial position. Do you think TT's financial position improved in 2025? Justify your answer using suitable calculations.

Specimen answer

TT holds less inventory as it has decreased from \$10m in 2024 to \$8m in 2025, showing a fall of \$2m. The amount of cash held increased by \$0.5m and trade receivables fell by \$1.5m. Trade payables also decreased by \$2m but the bank overdraft increased from no overdraft in 2024 to an overdraft of \$5m in 2025, indicating a need for short-term borrowing. TT had increased its bank loan by \$1m between the two years showing that its borrowing had increased.

TT's liquidity was shown by the current ratio falling to 1.5 : 1 which meant that TT only had 1.5 current assets to cover its current liabilities, whereas in 2024 it had 3 times the amount of current assets to current liabilities and TT could easily pay its short-term debts. It could be argued that this was better as it was a high current ratio in 2024 and TT may have had too many current assets not earning a return. A current ratio of 1.5 to 2 would be preferable.

TT's acid test ratio had also fallen and in 2025 it was 0.5 whereas it was 1 in 2024, which showed that it had only half the number of current assets, not including inventory, to pay for short-term debts. TT may find it more difficult to cover its short-term debts if it needed to do this quickly.

conclusion... TT's financial position in 2025 had not improved as the current ratio and acid test ratio had both fallen showing that it was in a worse financial position. [12]

Mark awarded for 3(b) = 9 out of 12

Examiner comment

The first part of the response compared several of the figures in 2024 with those in 2025 and it was applied by using the figures supplied in Appendix 2. This put the response at the top of the Level 1 mark band.

The response then went on to calculate both the current ratio and acid test ratio. There was some explanation which showed understanding of the liquidity position of TT. This moved the response to the top of the Level 2 mark band, as again there was evidence of application by the use of figures from the appendix.

The recommendation did make a judgement as to whether TT was in a better financial position in 2025 and included a simple justification. The response moved into the lower part of the Level 3 mark band. The recommendation was not applied, so the mark awarded remained at the bottom of this level. To improve the recommendation, it could have gone on to say that TT was not in a better financial position in 2025 as it now had an overdraft of \$5m leading to a lower acid test ratio which was very low at 0.5 and may have caused liquidity problems for TT. It had also increased its bank loan to \$3m in 2025, so increased interest payments will have resulted in higher expenses for TT.

Common errors and general guidance for candidates

- Candidates should use figures from the appendix in their responses to show that they can apply their answers.
- The figures from the appendix should not just be repeated but they should be compared i.e. they had increased or decreased.
- Ratios should be included, or calculations should be made if asked for in the question, otherwise the marks are not likely to be as high because the question has not been fully answered.
- The result of any calculations should be clearly labelled as to what has been calculated or it may not be clear that the candidate understands what they have calculated, e.g. the acid test ratio in 2025 was
- Explanation should be included to show understanding of the results of ratios calculated.
- The conclusion should make a judgement, and this should be applied to the context in the case, possibly by including figures from the appendix or information from the rest of the insert.

For further information about common mistakes made by candidates, please refer to the examiner reports which are published after the first exam series in 2027 on the [School Support Hub](#)

Question 4

- 4(a) Explain **one** advantage and **one** disadvantage of TT using environmentally friendly packaging for its products.

Specimen answer

advantage... *Using environmentally friendly packaging will improve the reputation of TT.*

explanation... *This may attract many more customers who want to purchase products that have this type of packaging and may result in increased sales and revenue. It may possibly increase market share if competitors are not using this type of packaging.*

disadvantage... *Using environmentally friendly packaging may have higher costs to clean the packaging so it can be used again.*

explanation... *If the costs of cleaning increases, then variable costs are likely to increase, which will reduce the gross profit margin.* [8]

Mark awarded for 4(a) = 6 out of 8

Examiner comment

The response included one advantage and one disadvantage and each of these had linked developed explanation, i.e. the consequences of the advantages/disadvantage were explained. However, both the advantage and disadvantage were generic, and they could have been for any business. Therefore, the application mark for the advantage and the disadvantage was not awarded.

Common errors and general guidance for candidates

- Responses need to be answered in the context of the business outlined in the insert.
- The advantage and disadvantage need to be explained. This means the candidate should explain why it is an advantage or a disadvantage and not just make a simple statement, i.e. it will increase costs.
- If a question asks for one advantage and one disadvantage, candidates should not include several advantages and disadvantages. This will not gain higher credit as it is not asked for in the question.

For further information about common mistakes made by candidates, please refer to the examiner reports which are published after the first exam series in 2027 on the [School Support Hub](#)

- 4(b) Use Appendix 3 and other information to consider how each of the following **three** changes might affect TT. Which change is likely to have the greatest effect on TT? Justify your answer.

Specimen answer

a decrease in tax on people's income...*The decrease in tax on people's incomes from 25% to 20% is likely to lead to an increase in demand for TT's cafes as consumers will have more of their wages left over after paying tax. This will allow consumers to spend more income on luxuries, like eating desserts or ice cream at cafes, which is likely to increase revenue for TT. This is assuming consumers prefer TT cafes to competitor's cafes.*

an increase in tax on business profits...*An increase in tax on business profits from 24% to 26% will leave less profit available to invest after paying tax. This may lead to less investment.*

a decrease in interest rates...*A decrease in interest rates will leave consumers with less interest being paid on savings. This may mean that these consumers reduce the number of times they visit cafes for desserts or cakes so TT's cafes may have less demand and lower sales. However, if TT want to take out a bank loan to expand TT and open another café then it will cost less in interest payments and may make it more likely that TT will expand.*

conclusion... *The effect on TT of the increase in tax on business profits is that it will leave less profit for the business. The decrease in tax on people's income will also affect TT as revenue is likely to be higher and the decrease in interest rates will also affect TT as bank loans will be cheaper.* [12]

Mark awarded for 4(b) = 7 out of 12

Examiner comment

The explanation of the decrease in tax on people's income and the decrease in interest rates are both explained and applied to TT. This puts these responses into the Level 2 mark band and towards the higher part of Level 2. The explanation of the increase in tax on business profits is a simple statement and is generic. This part of the response is not clear that it applies to TT or even a café business. More explanation of the increase in tax on business profits would be required to move this part of the response into the Level 2 mark band.

The conclusion does not answer the question i.e. which change is likely to have the greatest effect. A judgement of only one change is needed and not all three changes. The conclusion only repeats what has been stated earlier in the response. The conclusion is not applied to TT and does not explain why one change is likely to have a greater effect than the other two changes. Therefore, overall, the response remained in Level 2.

Common errors and general guidance for candidates

- Simple statements of the effects of the changes without further explanation will be credited in the Level 1 mark band even if there are several statements made about the effects.
- The response should be clearly applied to the business in the insert.
- The explanation to each change should clearly focus on the effect on TT and not be a vague explanation about the effect on any business.
- The judgement should be for one change only, selecting all three changes is not an answer to the question. If asked for one change that will have the most effect it should be clear in the answer, which change will have the most effect.
- The conclusion should make a clear judgement that does not repeat the earlier points. The conclusion should make a clear comparison as to why one change will have a greater effect than the other changes.

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