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Business management
Higher level
Paper 2

2 May 2025

Zone A morning | **Zone B** morning | **Zone C** morning

Candidate session number

1 hour 45 minutes

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Instructions to candidates

- Write your session number in the boxes above.
- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer all questions.
- Section B: answer one question.
- Answers must be written within the answer boxes provided.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[50 marks]**.



Section A

Answer **all** questions in this section. Answers must be written within the answer boxes provided.

1. Summer Perfumes (SP)

Summer Perfumes (SP), a publicly held company that produces perfumes, recently launched a new product, Yasmina, which enlarged *SP*'s customer base.

The perfume market is highly competitive. *SP* developed a customer loyalty programme, which also helped to introduce Yasmina by offering an exclusive 20% discount to loyalty programme members for their first bottle of Yasmina. Approximately 75% of buyers of Yasmina are members of this customer loyalty programme. *SP* uses below-the-line promotion to position its perfumes as premium products.

SP's finance manager needs to prepare the statement of profit or loss for 2024 using the financial information in **Table 1**.

Table 1: Selected financial information for *SP* for the year ended and as at 31 December 2024

| | |
|---|-----------------------------------|
| Advertising expenses per quarter | \$5000 |
| Average price of each perfume sold | \$20 |
| Cost of sales | \$1 080 000 |
| Debtors | \$600 000 |
| Event sponsoring expenses | \$20 000 |
| Interest | 5 % of existing loan of \$100 000 |
| Number of perfumes sold | 90 000 |
| Other administrative expenses | \$30 000 |
| Rent of premises per month | \$2000 |
| Stock | \$220 000 |
| Tax | 25 % of profits |

(a) Describe **one** feature of below-the-line promotion.

[2]

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(Question 1 continued)

(b) Using information from **Table 1**:

(i) calculate the debtor days ratio (number of days) for *SP* for 2024 (*show all your working*);

[2]

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(ii) construct a statement of profit or loss for *SP* for the year ended 31 December 2024 (*show all your working*).

[4]

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(Question 1 continued)

(c) Explain **one** benefit for *SP* of having a customer loyalty programme.

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20EP05

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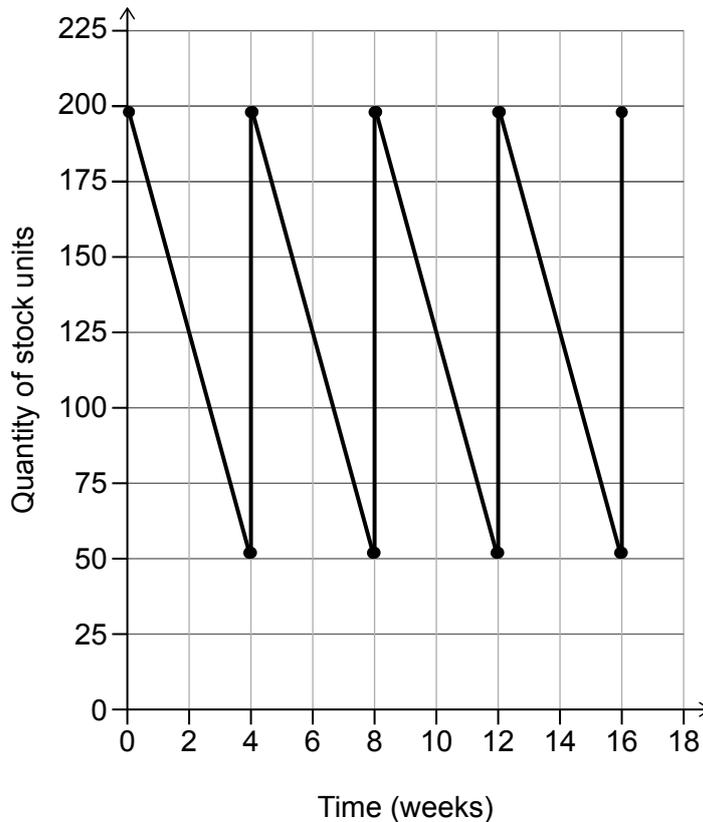
2. Fashion Clothing (FC)

Fashion Clothing (FC), a retailer that sells designer jeans, uses premium pricing and just-in-case (JIC) stock control. Recently, the demand for jeans increased. However, a supplier did not deliver the jeans on time, so *FC* changed to a new supplier, *Relay Jeans (RJ)*, which supplies two other retailers. *RJ* will be *FC*'s primary supplier.

RJ currently has a monthly maximum capacity of 250 units and produces 200 units per month, 10 of which are defective. The industry's average defect rate is 2%.

Figure 1 shows the stock control chart for *FC*'s jeans.

Figure 1: Stock control chart for *FC*'s jeans



(a) State **two** features of premium pricing.

[2]

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(Question 2 continued)

(b) Using **Figure 1**:

(i) determine *FC*'s buffer stock; [1]

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(ii) calculate the reorder quantity for *FC* (*show all your working*). [2]

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(c) Calculate *RJ*'s capacity utilization rate (*no working required*). [1]

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(d) Calculate *RJ*'s defect rate (*show all your working*). [2]

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(e) Explain **one** disadvantage of *FC*'s decision to have *RJ* as its primary supplier. [2]

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3. Veggie Beef (VB)

Veggie Beef (VB) produces vegetarian burgers for small retail stores and markets. It wants to sell its burgers to Circus, a supermarket chain operating nationwide. Circus will order 35 000 vegetarian burgers per month.

VB uses batch production and straight-line depreciation and has a capacity utilization rate of 90%. Workers have complained that the factory has become overcrowded.

VB has two options to increase output capacity:

- **Option A:** Rent larger premises, which would increase fixed costs by 10%.
- **Option B:** Purchase new machinery, which would lower unit costs. VB lacks sufficient internal sources of finance for the machinery. Interest rates have recently fallen.

Selected financial information for each option is shown in Table 2 and Table 3.

Table 2: Selected forecasted financial information for Option A (rent larger premises)

| | |
|----------------------------------|--------------|
| Fixed costs | \$20 000 |
| Maximum output capacity | 40 000 units |
| Unit contribution | \$1 |
| Variable costs at maximum output | \$80 000 |

Table 3: Selected forecasted financial information for Option B (purchase new machinery)

| | |
|-------------------------|--------------|
| Maximum output capacity | 35 000 units |
| Total contribution | \$52 500 |
| Total costs | \$67 500 |
| Variable cost per unit | \$1.50 |

(a) State two features of batch production.

[2]

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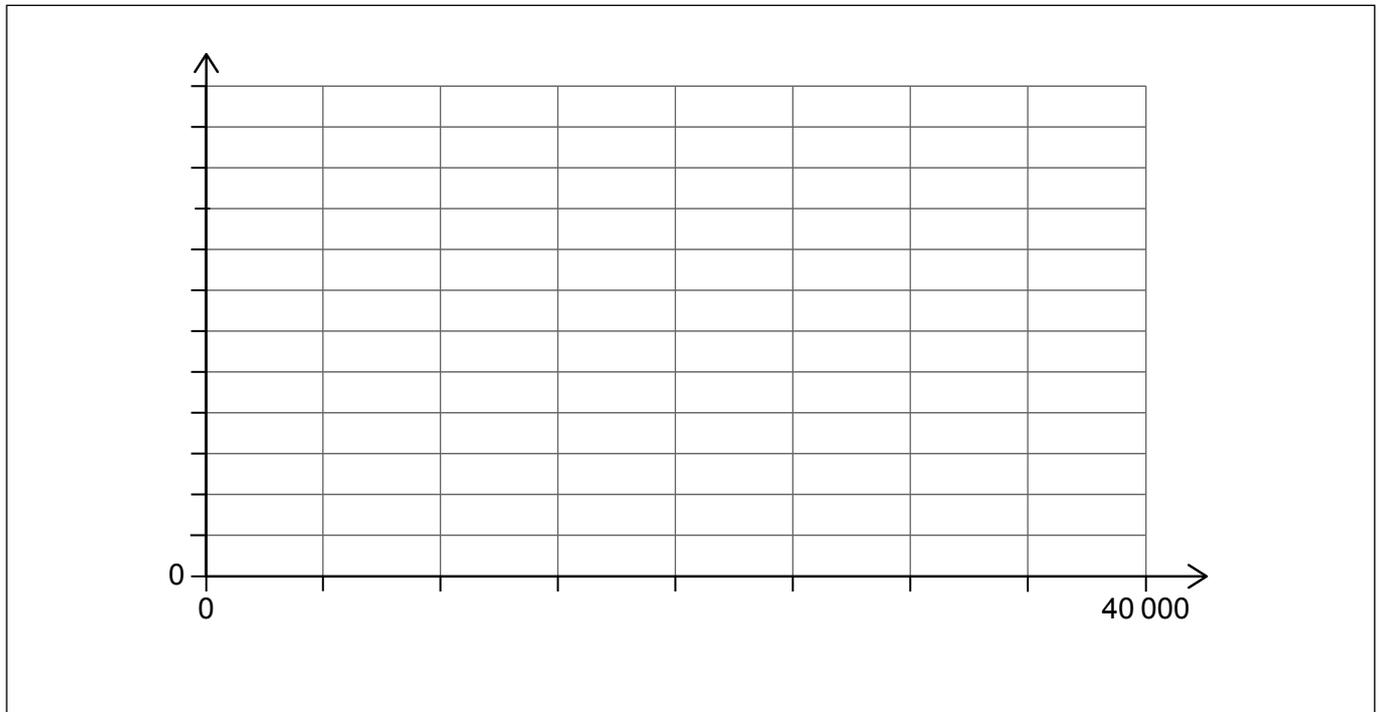
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(Question 3 continued)

- (b) Using information from **Table 2**, construct a fully labelled break-even chart, to scale, for **Option A**. [4]



- (c) Using information from **Table 3**, calculate *VB*'s profit at 35 000 units for **Option B** (*show all your working*). [2]

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- (d) Explain **one** challenge for *VB* of operating at 90% capacity utilization rate. [2]

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Section B

Answer **one** question from this section. Answers must be written within the answer boxes provided.

4. Camera Action! (CA)

Camera Action! (CA) is a marketing company that produces video templates* for social media advertising. CA's main customers are retailers. These retail businesses can download the templates, add their brand logos, and personalize the content. Festive holiday video templates are CA's most popular products. The company has a strong organizational culture and a matrix structure. It has 100 employees, who work in teams.

(a) State **two** benefits from having a strong organizational culture. [2]

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In 2020, during the COVID-19 pandemic, e-commerce and social media advertising peaked. However, in 2023, CA's sales dropped to pre-pandemic levels. CA externally recruited 20 experienced videographic designers to design a new video mobile phone application (app), using artificial intelligence (AI). CA's video-design quality improved.

(b) Explain **two** advantages for CA of recruiting videographic designers externally. [4]

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* video templates: are ready made videos that can be personalized by inserting images, music, text and other media elements.

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(Question 4 continued)

Rowna Givens, CA's marketing manager, is worried about CA's 2024 sales. Rowna knows that a stable sales revenue is key to CA's financial health. She has prepared a report with financial and statistical data, shown in **Table 4**.

Table 4: CA's sales per year and statistical data

| Year | CA's sales (\$000s) |
|--------------------------|---------------------|
| 2019 | 600 |
| 2020 | 1100 |
| 2021 | 1000 |
| 2022 | 800 |
| 2023 | 600 |
| 2024 | 550 |
| Sales standard deviation | 232 |

- (c) (i) Using **Table 4**, calculate the mean value for CA's sales over the period 2019 to 2024 (*show all your working*). [2]

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- (ii) Using **Table 4** and your answer to part (c)(i), comment on CA's sales data **and** standard deviation. [2]

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5. **Bling Denim (BD)**

Bling Denim (BD) markets a well-known brand of denim jackets that were originally made in factories in the United States (USA). In the 1980s, *BD* outsourced and offshored its manufacturing operations overseas. In 2024, *BD* reshored manufacturing to the USA.

(a) Define the term *outsourcing*.

[2]

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BD's reshored manufacturing in the USA takes place in a newly built factory that follows cradle-to-cradle design and manufacturing principles. This new factory:

- is 100 % powered by renewable energy sources
- disposes of half of all its waste locally at a landfill site
- manages its water usage carefully, using only a small fraction of the water typically used in a clothing factory
- has reduced its toxic chemical usage by 35% compared to previous factories
- pays its workers fair wages.

BD also produces denim jackets in its existing (old) factory.

(b) Explain **two** benefits for *BD* of following cradle-to-cradle design and manufacturing principles.

[4]

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(Question 5 continued)

Table 6 shows selected financial data for *BD* for 2023 and 2024.

Table 6: Selected financial data for *BD* for 2023 and 2024

| | |
|--------------------------------------|--------------|
| <i>BD</i> 's 2023 denim jacket price | \$72 |
| <i>BD</i> 's 2024 denim jacket price | \$79 |
| | |
| <i>BD</i> 's 2023 sales revenue | \$29 000 000 |
| <i>BD</i> 's 2024 sales revenue | \$28 130 000 |

(c) Comment on the data in **Table 6**. [2]

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BD is receiving increasing pressure from stakeholders to fully follow cradle-to-cradle design and manufacturing principles. Social media complaints have criticized *BD*'s design and manufacturing processes, resulting in some customers no longer buying *BD*'s denim jackets. Sales fell by 3% in 2024. Many shareholders were unhappy that manufacturing operations moved to the USA, where costs are high and regulations extensive.

(d) Explain **one** way in which stakeholders applied pressure on *BD*. [2]

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20EP18

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20EP19

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20EP20