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

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]**.

2225 – 5017

22 pages

Section A

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

1. Parta Cosmetics (PC)

Parta Cosmetics (*PC*), a privately held company, manufactures make-up such as lipstick and eye shadow. *PC* currently uses competitive pricing for its products. *PC* is well known for its cruelty-free policy of never testing its products on animals.

Table 1 shows selected forecasted financial information for *PC*.

Table 1: Selected forecasted financial information for *PC* for the year ending 31 December 2025 (all figures in $000s)

Accumulated depreciation	1860
Bank overdraft	2000
Borrowings (long term)	1041
Cash	1000
Debtors	1075
Property, plant, and equipment	7977
Other short-term loans	1220
Retained earnings	2931
Share capital	1000
Stock	1500
Trade creditors	1500

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(Question 1 continued)

(a) State **two** features of competitive pricing. [2]

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(b) Using **Table 1**:

(i) construct a fully labelled statement of financial position (balance sheet) for *PC* for the year ending 31 December 2025; [4]

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(Question 1 continued)

(ii) calculate *PC*'s gearing ratio for 2025 (*show all your working*). [2]

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(c) With reference to **Table 1**, distinguish between creditors and debtors. [2]

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2. Linda and Bella Spa (LBS)

Linda and Bella Jones own a beauty spa called *Linda and Bella Spa* (*LBS*). *LBS* offers beauty treatments for the face and body and operates as a partnership. It employs 12 employees, who work as needed and receive wages based on the beauty treatments they provide.

Linda, who manages *LBS*'s finances, verified that during the last year, *LBS*'s sales have increased more than she expected. However, the gross profit margin remained lower than her estimations. Linda was concerned, so she gathered some financial information to identify possible reasons for the lower gross profit margin (see **Table 2**).

Table 2: Selected financial information for *LBS* (all figures in $000s)

	Budgeted figures	**Actual figures**
Beauty treatment products: direct costs	45	70
Excess of revenues over costs (net income)	**X**	250
Rent	60	60
Sales revenue	500	550
Stock	25	20
Total costs	235	**Y**
Trade creditors	10	15
Wages: directly related to beauty treatments	130	170

(a) State **two** features of a partnership. [2]

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(Question 2 continued)

(b) Using **Table 2**:

(i) calculate *LBS*'s **budgeted** excess of revenues over costs (net income), **X** *(no working required*); [1]

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(ii) calculate *LBS*'s **actual** total costs, **Y** (*no working required*); [1]

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(iii) calculate *LBS*'s **actual** gross profit margin (*show all your working*). [2]

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(c) (i) Calculate *LBS*'s variance of excess of revenues over costs (net income) (*no working required*). [1]

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(ii) Determine whether your answer to (c)(i) is favourable or adverse (*no working required*). [1]

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(Question 2 continued)

(d) Linda estimated that *LBS*'s gross profit margin would be 65 %.

Using **Table 2**, explain **one** possible reason why *LBS*'s actual gross profit margin, calculated in (b)(iii), is lower than Linda's estimation. [2]

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3. Mehta Enterprises (ME)

Mehta Enterprises (*ME*), which owns apartment complexes in small cities in India, is considering building a small apartment complex in a large city near Mumbai. The cost to build the new apartment complex in Mumbai is $4 000 000. *ME* plans to rent out these apartments.

ME's forecasted rental income and operating expenses for the new apartment complex, for the first eight years, are shown in **Table 3**.

Table 3: *ME*'s forecasted rental income and operating expenses for the new apartment complex for the first eight years (all figures in $000s)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Rental income	400	500	600	800	800	800	800	800
Operating expenses	100	100	100	100	100	100	135	165

ME based its forecasted rental income on a simple linear regression analysis of rental property charges entered in a database. *ME* built this database based on apartments in the neighbourhood where the complex would be built. The independent variable was the size of the apartments that *ME* included in the database.

(a) State **two** features of a database. [2]

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(b) Using **Table 3**:

(i) calculate the payback period for the new apartment complex (*no working required*); [1]

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(Question 3 continued)

(ii) calculate the average rate of return (ARR) for the new apartment complex (*show all your working*). [2]

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(c) Complete **Table 4** by calculating the net cash flows and present value for the new apartment complex for the first eight years, using a discount rate of 4 %.

Table 4

Year	**Net cash flows ($000s)**	**Discount rate at 4 %**	**Present value ($000s)**
1	. . . .	0.9615	. . . .
2	. . . .	0.9246	. . . .
3	. . . .	0.8890	. . . .
4	. . . .	0.8548	. . . .
5	. . . .	0.8219	. . . .
6	. . . .	0.7903	. . . .
7	. . . .	0.7599	. . . .
8	. . . .	0.7307	. . . .
			Total: . . . .

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(Question 3 continued)

Using your completed **Table 4**, calculate the net present value (NPV) for the new apartment complex for the first eight years (*show all your working*). [3]

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Net present value (NPV) $: . . . .

(d) Explain how *ME* used a simple linear regression analysis to forecast rental income for the apartments in the new apartment complex. [2]

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Section B

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

4. Greenland Supermarkets (GD)

Greenland Supermarkets (*GD*) specializes in frozen food. *GD*'s strengths include high customer satisfaction with regard to its customer service and an ability to ensure the availability of all products in all its supermarkets. *GD* operates a customer loyalty programme. Each *GD* supermarket also has a gas (petrol) station.

(a) State **two** features of a customer loyalty programme. [2]

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GD is considering a change to its opening hours. The Marketing Department has been asked to research customer reactions to a proposal to close at 22:00 instead of midnight. *GD* will use convenience sampling for interviews in 20 of its 120 supermarkets. All interviews will take place on the first Monday of next month, starting at 09:00. An assistant manager will interview 40 customers in each participating supermarket.

(b) Explain **one** advantage **and one** disadvantage for *GD* of using convenience sampling. [4]

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In January 2024, a new competitor, *Supreme Fuel* (*SF*), entered the gas station market by purchasing a bankrupt chain of gas stations. Now, *SF* has 75 gas stations located in *GD*'s market. *SF*'s success has been built on a low-price strategy. Gas stations set their own prices, which are unstable, and since 2024, *GD* has matched the prices charged in *SF*'s gas stations.

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(Question 4 continued)

Table 5 shows *GD*'s profit margins and the average gas prices for *GD* and *SF* for 2021 to 2024.

Table 5: GD's profit margins and average gas prices for *GD* and *SF*, 2021–2024

	Net profit margin (%)	***GD*'s average gas price per litre ($)**	***SF*'s average gas price per litre ($)**
2021	7.40	0.81	Not applicable
2022	7.45	0.83	Not applicable
2023	7.40	0.82	Not applicable
2024	6.10	0.72	0.72

(c) Comment on the data in **Table 5**. [2]

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(d) Explain the impact of *SF*'s entrance into the market on the price elasticity of demand for *GD* gas. [2]

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(Question 4 continued)

GD also owns a meat processing factory. It produces many frozen meals sold in *GD*’s 120 supermarkets. The factory has a large cold-storage warehouse for frozen meat, enabling *GD* to hold a four-month buffer stock. The costs of operating this warehouse increased significantly in 2023 because of large rises in electricity prices. The warehouse has 10 employees, all of whom have worked for *GD* for over 15 years.

In 2024, *GD*’s main suppliers of chicken suffered an outbreak of avian (bird) flu. Government regulations required these suppliers to take the necessary measures in their production to stop the disease from spreading. Now, experts fear that avian flu may become an annual problem.

GD’s profit margins are falling for both its supermarkets and gas stations. *GD*’s directors have a plan to improve profitability:

- Change the stock control system in *GD*’s meat processing factory from just-in-case (JIC) to just-in-time (JIT).
- Reduce the number of person-operated checkout stations by 50 % in each *GD* supermarket.
- Introduce self-service checkout stations in all *GD* supermarkets.
- Freeze employee wages for three years.
- Discontinue matching *SF*’s gas prices.

(e) Using information from the stimulus and **Table 5**, discuss *GD*’s directors’ plan to improve profitability. [10]

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(Question 4 continued)

5. La Gauchita (LG)

La Gauchita (*LG*) is a privately held company owned and run by the Pérez family. *LG* produces yerba mate, a herb used to prepare the national drink of many countries in South America. Like black or green tea, yerba mate is usually prepared with hot water. In some regions, it is more popular than coffee or tea.

(a) State **two** features of a privately held company. [2]

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LG's senior directors, Hugo, Paco, and Luis Pérez, make all decisions together. Paco is a charismatic leader with a dominant personality. Most employees like Paco's paternalistic leadership style. However, labour turnover of skilled employees is high. Hugo and Luis manage two functional departments each, with a wide span of control. *LG* has no middle managers. *LG* is a power-cultured organization.

Recently, a video showing poor hygiene standards during yerba mate production at *LG* was shared online. Within minutes, Luis had deleted all negative comments on *LG*'s social media pages. Consumers reacted negatively to Luis's actions, and criticism of the company increased. *LG*'s brand image was severely damaged.

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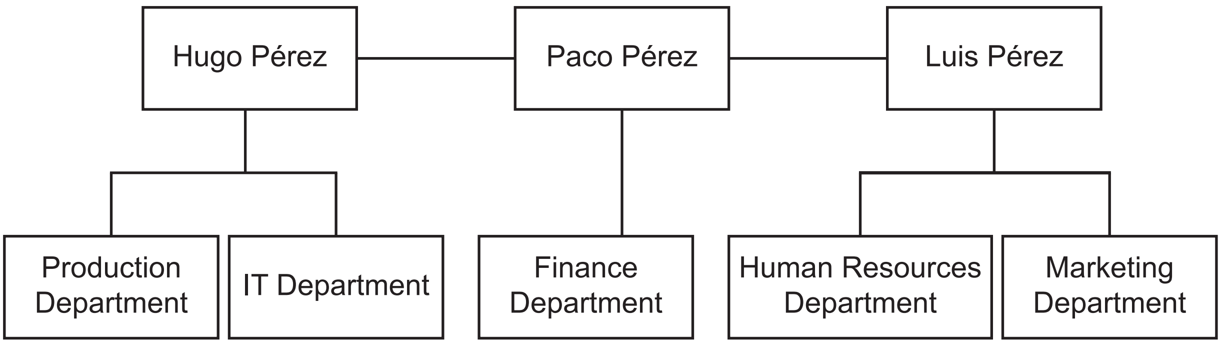
(Question 5 continued)

(b) With reference to Charles Handy’s theory as outlined in *Gods of management*, explain **one** advantage **and one** disadvantage for *LG* of being a power-cultured organization. [4]

LG’s organizational structure is shown in **Figure 1**.

Figure 1: *LG*’s organizational structure



(c) With reference to **Figure 1**, comment on *LG*’s organizational structure. [2]

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(Question 5 continued)

Public health authorities inspected *LG*'s factory. They saw some employees handling the yerba mate without disposable masks. *LG* was fined, and Luis disciplined those employees. The union, however, argued that wearing masks was not compulsory and called for a meeting. Hugo disagreed and explained to the union that he personally met with and told all employees that work equipment was mandatory at *LG*.

(d) Explain **one** disadvantage for *LG* of Hugo using verbal (oral) communication with employees. [2]

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Because of negative economic conditions and political instability in *LG*'s country, Paco wants to export *LG*'s yerba mate to international markets in 2026. Luis is unsure and believes that selling internationally could prove challenging for *LG*. He has collected some market information and production costs, which are shown in **Table 6** and **Table 7**.

Table 6: Selected market information

	***LG*'s country**	**Country X**	**Country Y**
LG's estimated market share	20 %	5 %	5 %
Mean consumption of yerba mate per person per year (in kilograms)	6	10	1
Population	40 000 000	3 000 000	200 000 000
Consumer drinking habits	Yerba mate is most popular	Yerba mate is most popular	Coffee is most popular
Administrative barriers	Not applicable	Import regulations	Tax on imported agricultural products
Main language used	Spanish	Spanish	French

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(Question 5 continued)

Table 7: *LG*'s production costs

	Production of yerba mate per year	
	Up to 59 000 000 kilograms	**More than 59 000 000 kilograms (if *LG* sells to Country X and Country Y)**
Variable cost per kilogram	$5	$4.5

(e) Using information from the stimulus, **Table 6**, and **Table 7**, discuss the advantages **and** disadvantages for *LG* of marketing its yerba mate to international markets. [10]

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(Question 5 continued)

Companies, products, or individuals named in the stimulus are fictitious and any similarities with actual entities are purely coincidental.

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References:

1. Prostock-Studio, 2019. *Set of decorative cosmetics for mass market on white - stock photo*. [image online] Available at: https://www.gettyimages.co.uk/detail/photo/set-of-decorative-cosmetics-for-mass-market-on-royalty-free-image/1178120644 [Accessed 8 August 2024]. Source adapted.

5. LarisaBlinova, 2016. *Herb yerba mate traditional tea of Latin America - stock photo*. [image online] Available at: https://www.gettyimages.co.uk/detail/photo/herb-yerba-mate-traditional-tea-of-latin-america-royalty-free-image/521977646 [Accessed 8 August 2024]. Source adapted.

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