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Business management
Standard level
Paper 2

2 May 2025

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

Candidate session number

1 hour 30 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 **[40 marks]**.



Section A

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

1. MS Cars (MSC)

Migrieve Shah owns a business, *MS Cars (MSC)*, that sells used (second-hand) cars.

In the first four months of 2025, *MSC's* sales fell by 20% compared with the same months in 2024.

On 1 May 2025, Migrieve arranged an overdraft from her bank, as a fall in sales caused liquidity problems for her business. She has forecasted the figures shown in **Table 1** for *MSC* for the next four months of 2025 (June to September).

Table 1: Forecasted figures for *MSC*, June–September 2025

Monthly rent	\$10 000
Monthly salary	\$8000
Electricity every third month, starting in June	\$800
Monthly advertising expenses	\$3000
Monthly sales revenue, June	\$50 000
Monthly sales revenue, July	\$51 000
Monthly sales revenue, August	\$48 000
Monthly sales revenue, September	\$46 000
<i>MSC's</i> opening balance in June	\$5000
Purchases of used cars are equivalent to 50% of monthly sales revenue	

The majority of *MSC's* customers use a bank loan to finance car purchases.

(a) State **two** features of an overdraft.

[2]

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(This question continues on the following page)



(Question 1 continued)

- (b) Using information in **Table 1**, prepare a cash-flow forecast for *MSC* for June–September 2025.

[6]

(This question continues on page 5)



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(Question 1 continued)

- (c) Since making the forecast in **Table 1**, Migrieve has learned that interest rates are forecasted to rise in July 2025.

Comment on **one** possible impact on *MSC's* cash flow if interest rates rise, as forecasted, in July 2025.

[2]

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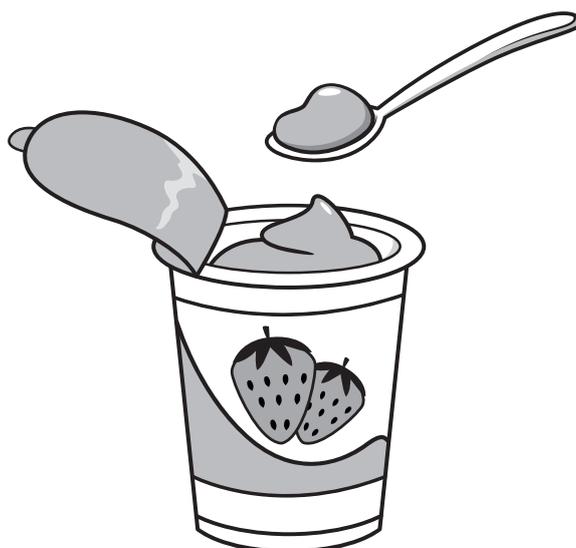
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2. Fru-Yo (FY)



Fru-Yo (FY) produces premium-priced yoghurts. *FY* has strong brand loyalty and relies only on word-of-mouth promotion. *FY*'s target market is consumers who may have health problems.

FY created two new zero-sugar fruit yoghurts. *FY* did no market research into the new yoghurts but is confident that *FY*'s brand loyalty will ensure success. The market constantly changes because competitors regularly introduce new healthy yoghurts.

Table 2 shows forecasted financial information for the two new zero-sugar fruit yoghurts, Yoghurt A and Yoghurt B.

Table 2: Forecasted financial information for *FY*'s new zero-sugar fruit yoghurts

	Yoghurt A	Yoghurt B
Cost to bring to market (\$ millions)	(5)	(7)
Payback period	2 years and 6 months	X
Average rate of return (ARR)	Y	21.4%
Forecasted returns for the new yoghurts (\$ millions)		
	Yoghurt A	Yoghurt B
Year 1	1	5
Year 2	2	4
Year 3	4	2
Year 4	6	2

(This question continues on the following page)



(Question 2 continued)

(a) State **two** features of brand loyalty.

[2]

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(b) Using **Table 2**:

(i) calculate the forecasted payback period for the cost of bringing Yoghurt B to market, **X** (*show all your working*);

[2]

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(ii) calculate the forecasted average rate of return (ARR) for Yoghurt A, **Y** (*show all your working*);

[2]

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(Question 2 continued)

(iii) calculate the mean value of Yoghurt A's forecasted returns once on market (years 1-4) (*show all your working*).

[2]

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(c) Explain **one** reason why *FY* should carry out market research into Yoghurt B.

[2]

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Section B

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

3. Alexa's Apparel Ltd. (AA)



Alexa and Antonio Pérez founded *Alexa's Apparel Ltd. (AA)* in 2020. AA is located in Arizona, United States (USA). Alexa designs traditional Mexican dresses and offshores the manufacturing to women in indigenous communities in Mexico. The dresses are individually handmade by artisans working at home, who hand-cut, hand-sew, and hand-embroider (decoratively sew) the dresses. Customers order these custom-made dresses at designer markets throughout Arizona. On average, a dress takes 10 days to complete, and artisans typically make two dresses per month.

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

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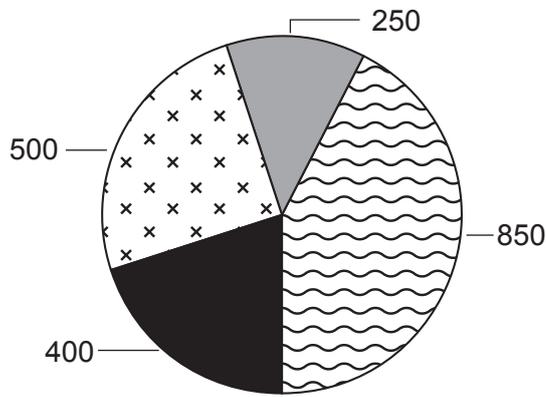
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(Question 3 continued)

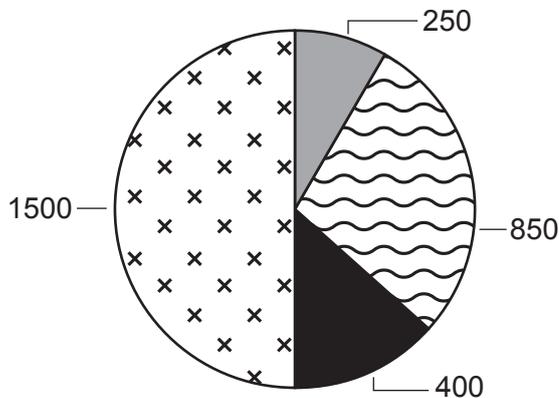
By 2024, the demand for Alexa’s designs increased. She raised capital from friends for expansion of the business. **Figure 1** and **Figure 2** show the share ownership in AA in 2023 and 2024 (in number of shares).

Figure 1: Share ownership in AA in 2023



Key:  Rogelio Jiménez  Alexa Pérez
 Patricia Martin  Antonio Pérez

Figure 2: Share ownership in AA in 2024



Key:  Rogelio Jiménez  Alexa Pérez
 Patricia Martin  Antonio Pérez

(This question continues on the following page)



(Question 3 continued)

(b) Using **Figure 1** and **Figure 2**:

(i) calculate the percentage of shares owned by Alexa and Antonio **combined** in 2023 (*no working required*);

[1]

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(ii) comment on the implication of the changes to share ownership in AA between 2023 and 2024;

[2]

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(iii) explain how many more shares Rogelio would need to have majority control of AA in 2024.

[1]

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As demand and variable costs grew, AA increased its dress prices in 2025.

Table 3 shows selected financial information for AA for 2024 and forecasted financial information for 2025.

Table 3: Selected financial information for AA for 2024 and forecasted financial information for 2025

	2024	2025
Fixed costs	\$6000	\$6000
Variable costs per dress	\$85	\$90
Price per dress	\$325	\$340

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(Question 3 continued)

(c) Using **Table 3**:

(i) calculate the break-even quantity for AA in 2024 (*show all your working*); [2]

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(ii) calculate the profit or loss for AA in 2024 if 150 dresses were sold (*show all your working*). [2]

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Alexa has forecasted sales of 600 dresses in 2025. Rogelio would like to grow AA beyond Arizona by selling online. Rogelio believes switching from job production (AA’s current production method) to batch production is necessary in 2026 to save time and reduce unit costs. Rogelio forecasts that batch production would increase fixed costs by 100 % and decrease variable costs by 50 %. AA would not increase its sales price.

Rogelio noticed that customers preferred five dress styles. Sizes ranged from extra-small to extra-large. Rogelio estimates sales growth, from the forecasted 600 in 2025, of 10 % per year for five years. Rogelio fears that if AA does not change its production method, it will not satisfy demand on time. By changing to batch production, a dress could be finished within two days instead of 10.

Alexa, however, worries about finding storage and workspace. She also fears that AA will lose its unique selling point/proposition (USP). AA’s designs cater to a niche market of people willing to pay premium prices for exclusively designed dresses. Another part of AA’s appeal to customers is that it creates jobs in indigenous Mexican communities.

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4. HSM Bakery Ltd. (HSM)

HSM Bakery Ltd. (HSM), a privately held company, produces baked goods (bread, cakes, and cookies), which are sold to shops.

In recent years, HSM has broadened its target market by producing a range of gluten-free cakes.

(a) Define the term *target market*. [2]

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The production of HSM's cakes for six months in 2023 are shown in **Table 4**.

Table 4: Number of cakes produced by HSM, June–November 2023 (in millions)

	Number of cakes produced
June	1.6
July	1.5
August	1.6
September	1.45
October	1.6
November	1.7

(b) Using **Table 4**, determine the mode value of HSM's production of cakes (*no working required*). [1]

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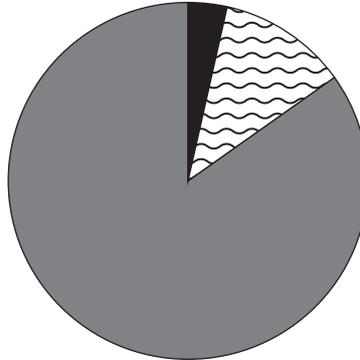
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(Question 4 continued)

Figure 3 and Figure 4 show HSM's sales revenue from all of its baked goods (bread, cakes, and cookies) for 2023 and 2024.

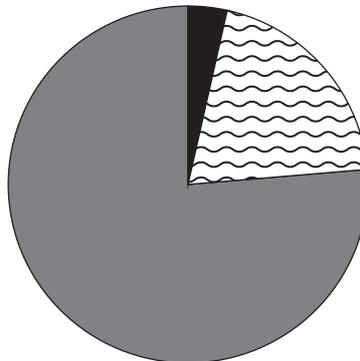
Figure 3: HSM's sales revenue from bread, cakes, and cookies for 2023 (in \$ millions)



Key:



Figure 4: HSM's sales revenue from bread, cakes, and cookies for 2024 (in \$ millions)



Key:



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(Question 4 continued)

- (c) Using **Figure 3** and **Figure 4**, comment on the change in *HSM's* sales revenue from 2023 to 2024.

[2]

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Table 5 shows selected items from *HSM's* 2024 final accounts.

Table 5: Selected items from *HSM's* 2024 final accounts (in \$ millions)

Cash	12
Cost of sales	340
Current liabilities	8
Debtors	4
Equity	275
Non-current liabilities	125
Profit before interest and tax	80
Overheads	205
Sales revenue	625
Share capital	20
Stock	16
Total assets	408

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(Question 4 continued)

(d) Using **Table 5**:

(i) calculate *HSM's* gross profit margin for 2024 (*show all your working*); [2]

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(ii) calculate *HSM's* current ratio for 2024 (*show all your working*); [2]

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(iii) calculate *HSM's* return on capital employed (ROCE) for 2024 (*no working required*). [1]

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The 150 employees in *HSM's* factory (plant) are paid above the industry average. The factory manager, Davina Coulthard, has an autocratic leadership style. This leadership style has influenced the selection and appointment of departmental managers.

In 2022, without consulting the workforce, Davina reduced the lunchtime break for factory employees from 60 minutes to 35 minutes. Many employees see working conditions as a problem. Frequent breakdowns in the factory's air conditioning and heating systems have forced employees to work in extreme temperatures. Employee absenteeism has increased in the last 18 months. *HSM* has 12 vacancies in its factory. Some of *HSM's* customers have complained about the quality of some batches of cakes.

(This question continues on the following page)



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References:

2. [image of yoghurt] Easy_Company, 2020. *Vector illustration of yogurt isolated on white background for kids coloring activity worksheet/workbook*. - stock illustration. [image online] Available at: <https://www.gettyimages.co.uk/detail/illustration/vector-illustration-of-yogurt-isolated-on-royalty-free-illustration/1205808161> [Accessed 20 September 2024]. Source adapted.
3. [image of Mayan woman] mofles, 2014. *Colorful Mayan girl in Yucatan* - stock photo. [image online] Available at: <https://www.gettyimages.co.uk/detail/photo/colorful-mayan-girl-in-yucatan-royalty-free-image/497569907> [Accessed 20 September 2024]. Source adapted.



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24EP23

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24EP24