Business management
Higher level
Paper 2

30 October 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]**.

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Section A

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

1. IslanderGrill (IG)

IslanderGrill (*IG*) is a beachfront restaurant owned as a partnership by Naree and Mali. *IG* also provides catering for external events such as weddings.

IG operates the restaurant and external events as two profit centres. Naree manages the restaurant, and Mali manages the external events. Each partner competes to achieve the highest monthly profit.

Table 1 shows forecasted financial information for *IG* for the period ending December 2025.

Table 1: Forecasted financial information for *IG* for the period ending December 2025

	Budgeted ($)	Actual ($)
Advertising	200	150
Electricity	95	105
Raw materials	250	400
Rent	200	200
Salaries and wages	650	800
Sales revenue	1700	1950

Naree and Mali want to purchase a fishing boat, which would:
- have a lifespan of five years
- cost $25 000
- reduce annual raw material costs by $2000
- allow *IG* to sell surplus fish to increase annual sales revenue by $4000.

The advertising expenditure is 80 % for the restaurant and 20 % for external events.

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

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(Question 1 continued)

(b) Using information from **Table 1**, construct a budget for *IG* for the period ending December 2025. [4]

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(Question 1 continued)

(c) Calculate the average rate of return (ARR) from *IG* purchasing a fishing boat (*show all your working*). [2]

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(d) Explain **one** advantage for *IG* of operating the restaurant and external events as profit centres. [2]

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2. Miley Flowers (MF)

Miley Florence, a sole trader, owns a business called *Miley Flowers* (*MF*). She grows and sells flowers. *MF* is profitable, and Miley can keep substantial retained earnings every year. Miley wants her business to grow, so she is considering two investment options:

- **Option A**: Importing tropical plants from Country X. Miley will need an additional heated building to protect the tropical plants.
- **Option B**: Growing fruit trees. Miley will have to buy additional land to grow the fruit trees.

Miley is expecting to invest a maximum of $60 000.

Forecasted financial information for **Option A** is shown in **Table 2**, and the payback period for **Option B** is shown in **Table 3**.

Table 2: Forecasted net cash flow and net present value (NPV) for Option A

Year	Net cash flow in $
0	(55 000)
1	20 000
2	23 000
3	24 000
4	24 000
NPV at 6 % discount rate	23 499

Table 3: Payback period for Option B

	Years
Payback period	3.1

(a) State **two** disadvantages of operating as a sole trader. [2]

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(Question 2 continued)

(b) *MF*'s sales revenue in 2024 was \$126 000 compared to total market sales of \$1 400 000 in the region. National total market sales were \$25 200 000 in 2024.

Calculate *MF*'s market share of the **regional** market for flowers (*show all your working*). [2]

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(c) Using **Table 2**, calculate the payback period for **Option A** (*show all your working*). [2]

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(Question 2 continued)

(d) Complete **Table 4** by calculating the present value for **Option B** for the first four years, using a discount rate of 6 %.

Table 4

Year	Net cash flow ($)	Discount rate at 6 %	Present value ($)
0	(60 000)	1.000	. . . .
1	(5000)	0.9434	. . . .
2	10 000	0.8900	. . . .
3	50 000	0.8396	. . . .
4	60 000	0.7921	. . . .

Using your completed **Table 4**, calculate the net present value (NPV) for **Option B** for the first four years (*show all your working*). [2]

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(e) Using your answers to parts (c) and (d) and **Table 2** and **Table 3**, explain whether Miley should choose **Option A** or **Option B** to help *MF* grow. [2]

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3. Arctica Drones (AD)

Arctica Drones (*AD*) is a new drone production business. *AD* plans to sell its drones to local delivery businesses who will use the drones to deliver small packages. The business plans to use cost-plus pricing. Investors want the business to be profitable as soon as possible.

AD has purchased new machinery, costing $200 000, to produce the drones. The management estimates that *AD* can use the machinery for four years and that it will have a residual value of $30 000. The machinery can produce a maximum of 5000 drones in one year. **Table 5** shows *AD*'s production numbers based on forecasted sales of drones for the lifetime of the new machinery.

Table 5: *AD*'s forecasted production of drones

Year	Number of drones produced
1	1000
2	1500
3	3000
4	4500

(a) Define the term *cost-plus pricing.* [2]

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(b) (i) Using the straight-line depreciation method, calculate the book value of the new machinery at the end of **Year 2** (*show all your working*). [2]

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(Question 3 continued)

(ii) Using the units of production depreciation method, calculate the depreciation of the new machinery in **Year 1** (*show all your working*). [2]

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(iii) Calculate *AD*'s capacity utilization rate in **Year 1** and **Year 4** (*no working required*). [2]

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(c) Explain **one** advantage for *AD* of using the units of production depreciation method for the new machinery. [2]

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Section B

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

4. Glub (GLB)

Glub (*GLB*) manufactures a soft drink, called Keela, in Country X. One of *GLB*'s aims is market leadership.

(a) State **two** advantages of market leadership. [2]

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Table 6 shows selected financial and production information for *GLB*.

Table 6: Selected financial and production information for *GLB* for 2024

Total sales	250 million units
Keela unit selling price	$1.2
Debtors	$40 million

(b) Using **Table 6**, calculate *GLB*'s debtor days (number of days) ratio for 2024 (*show all your working*). [2]

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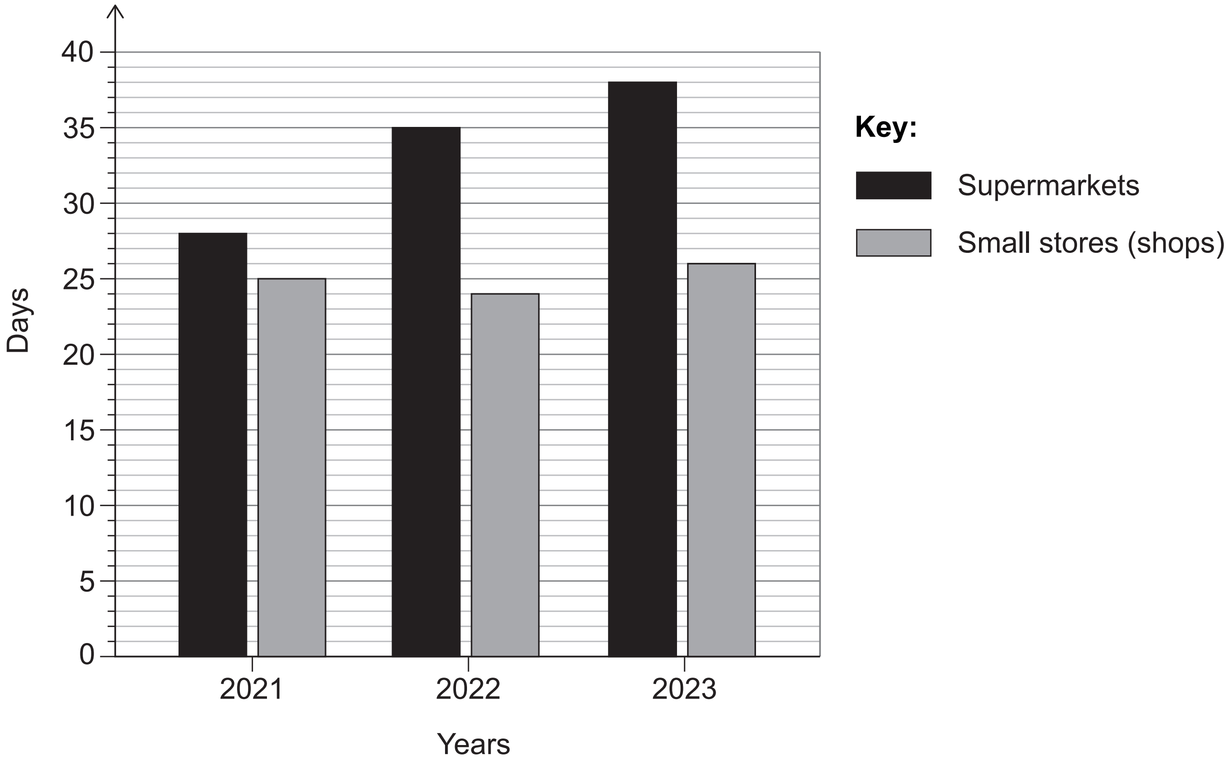
(Question 4 continued)

GLB sells Keela on trade credit to supermarkets and small stores (shops). A total of 75 % of Keela sales are to supermarkets. *GLB*'s debtor days (number of days) for 2021–2023 are shown in **Figure 1**.

Figure 1: *GLB*'s debtor days (number of days) for 2021–2023



(c) Comment on *GLB*'s debtor days (number of days) data shown in **Figure 1**. [2]

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(Question 4 continued)

GLB has limited storage space, which can hold three weeks of stock. In 2023, *GLB*'s factory closed for eight weeks because of strike action. The strike was about the wages paid by *GLB*. Most of *GLB*'s employees are from low-income households and have no savings. The strike ended with employees receiving a small wage increase.

(d) (i) Explain **one** impact of the strike action on *GLB*. [2]

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(ii) Explain **one** impact of the strike action on *GLB*'s employees. [2]

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Keela is a high-sugar drink. Sales of Keela did not grow between 2010 and 2019 but have increased, on average, by 4 % annually since 2020. This increase has been partly due to a change in marketing, which persuaded younger consumers to switch to Keela from a similar drink produced by a rival competitor.

In December 2024, working closely with the marketing department, *GLB*'s production director, Emma Ganes, drew up a sales forecast for Keela predicting annual growth of 6 % per year for the next five years.

GLB's current factory has a 94 % capacity utilization rate. To meet the predicted sales growth of Keela, Emma suggested expanding by building a new factory. It would take 18 months to build this new factory, and it would increase production capacity by 25 %. This expansion would cost $5 million and have a payback period of three years.

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(Question 4 continued)

Emma created a STEEPLE analysis to examine potential threats for *GLB*:

- Social: A recent study showed that young consumers are drinking fewer sugary drinks. However, among over-18s, there was no change to the demand for high-sugar drinks.
- Economic: Since 2019, Country X’s economy has experienced low unemployment, shortages of skilled labour, and rising living standards. However, figures for the last three months suggest the economy is slowing down and that unemployment may increase in 2026.
- Political: The government, under pressure from health organizations, recently announced plans to place a tax on drinks with high sugar levels in 2027.
- Legal: New laws are planned in Country X that will require businesses to reduce the sugar in drinks to below a certain level.

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(Question 4 continued)

(e) Using the information in the stimulus, discuss the benefits **and** limitations of sales forecasting for *GLB* when expanding the production of Keela. [10]

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(Question 4 continued)

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will not be marked.

5. Pizza Pepperoni (PP)

Pizza Pepperoni (*PP*) is a publicly held company that operates a chain of fast-food pizza restaurants across the country. *PP*'s menus consist of a wide variety of Italian-style pizzas and salads. *PP* also offers take-away and free delivery services.

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

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Three years ago, *PP* appointed a new chief executive officer (CEO), Joey Saki, to introduce lean production and continuous improvement (kaizen) in all *PP* restaurants.

As a result of continuous improvement (kaizen) and lean production:
- *PP*'s employees developed successful new recipes, such as an award-winning vegan (non-animal product) pizza
- redundancies at *PP* increased by 25 %
- orders were delivered 10 % faster
- 20 % of *PP*'s most experienced middle managers resigned.

Joey also decided to benchmark *PP*'s production processes against *Ginno's Pizza* (*GP*), a rival pizza chain recognized for being innovative and efficient. Joey hired a consultant to gather the necessary information to benchmark against *GP*.

(b) Explain **one** advantage **and one** disadvantage for *PP* of benchmarking its production processes against *GP*. [4]

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(Question 5 continued)

PP pays for its raw food ingredients in cash. *PP* has a good relationship with all of its suppliers, but some suppliers often fail to deliver on time. Recently, flour and cheese prices have increased substantially. The demand for low-price, supermarket-brand frozen pizzas has also increased by 75 %. *PP*'s finance manager has prepared a cash-flow forecast for the next three months (**Table 7**).

Table 7: *PP*'s cash-flow forecast for the next three months (all figures in $ millions)

	Month 1	**Month 2**	**Month 3**
Opening balance	5	5	4
Cash inflows			
Cash sales revenue	30	30	30
Tax refund	0	2	0
Total cash inflows	30	32	30
Cash outflows			
Salaries and wages	5	5	5
Raw food ingredients	20	23	25
Other costs	5	5	5
Total cash outflows	30	33	35
Net cash flow	**X**	(1)	(5)
Closing balance	5	4	**Y**

(c) Using **Table 7**, calculate the missing values **X** and **Y** (*no working required*). [2]

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(Question 5 continued)

(d) Explain **one** method that *PP* could use to solve its cash-flow problem. [2]

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Customer complaints are increasing. Joey asked the marketing department to conduct a customer satisfaction survey. The results are shown in **Table 8**.

Table 8: Results of *PP*'s customer satisfaction survey

	Very unsatisfied	Unsatisfied	Satisfied	Very satisfied
Food flavour	5 %	20 %	60 %	15 %
Food freshness	5 %	45 %	45 %	5 %
Menu variety	5 %	10 %	70 %	15 %
Order delivery speed	10 %	50 %	40 %	0 %

Joey is concerned about the results and has developed a strategy to improve *PP*'s quality of service within four months. His strategy consists of introducing:

- quality assurance and a "less waste" policy
- just-in-time (JIT) stock control
- monthly surveys to monitor customer and employee satisfaction.

The trade union has argued that Joey's strategy could increase job redundancies. Trade union members in *PP*'s workforce have said they have not been fully trained for quality assurance. *PP* will have to hire external inspectors to check the quality of production. Most of *PP*'s managers have an autocratic leadership style, and placing an emphasis on less waste could cause stress for employees.

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(Question 5 continued)

(e) Using **Table 8** and other information in the stimulus, evaluate the impact of Joey's strategy to improve *PP*'s quality of service. [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.

Disclaimer:

References:

3. PhonlamaiPhoto, 2017. *Delivery drone with box - stock photo.* [image online] Available at: https://www.gettyimages.co.uk/detail/photo/delivery-drone-with-box-royalty-free-image/637413978 [Accessed 10 March 2025]. Source adapted.