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Business management
Standard level
Paper 2

1 May 2024

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

Candidate session number

1 hour 30 minutes

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Instructions to candidates

- 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.

1. Jenny and Rose

Jenny and Rose are entrepreneurs. They want to sell baskets of local organic food products online in 2025. Their fixed costs include website design, advertising, insurance, and setup costs.

Forecasted fixed costs for 2025 are \$4000, but they are expected to decrease the following year. **Table 1** shows forecasted variable costs per basket of local organic food products for 2025.

Table 1: Jenny and Rose’s forecasted variable costs per basket of local organic food products for 2025 (all figures in \$)

Basket	12
Food	39
Eating utensils	2
Delivery	3
Other variable costs	4

Jenny and Rose will sell their baskets of local organic food products for \$80 each. They aim to sell 400 baskets in 2025.

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

[2]

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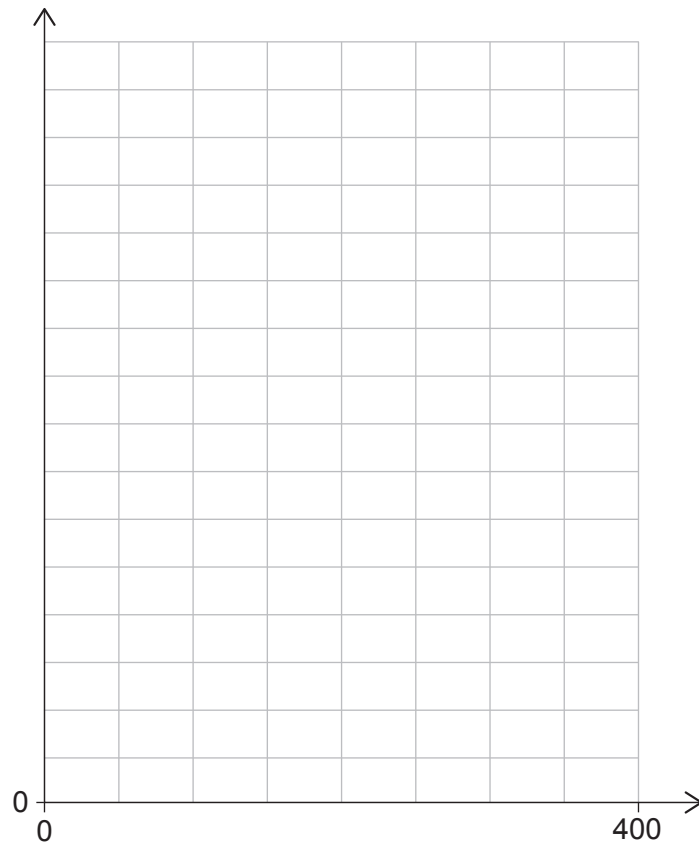
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(Question 1 continued)

- (b) Construct a fully labelled break-even chart, to scale, for the baskets of local organic food products for 2025.

[4]



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(Question 1 continued)

- (c) Jenny and Rose have forecasted fixed costs in 2026 to be \$2000 and predicted that they would sell 500 baskets of local organic food products. Per unit variable costs will remain the same as they were in 2025.

- (i) Calculate the profit if 500 baskets of local organic food products are sold in 2026 (*show all your working*). [2]

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- (ii) Explain **one** reason why fixed costs are likely to decrease in 2026. [2]

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2. Peak Pedometers PLC (PP)

Peak Pedometers PLC (PP) manufactures electronic pedometers for dairy cows. *PP*'s only product is pedometers. Farmers buy pedometers to put on each cow, which allows them to monitor the cows' movement, health, and diet. *PP* operates in the innovative high-tech agricultural sector.

PP uses below-the-line promotion.

Table 2 provides selected financial information for *PP* from its:

- statement of profit or loss for the years ending 30 April 2023 and 30 April 2024
- statement of financial position (balance sheet) as at 30 April 2023 and 30 April 2024.

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

	2023	2024
Bank overdraft	125	88
Borrowing, long-term	300	250
Cash	97	45
Cost of sales	672	702
Debtors	147	157
Expenses	426	468
Interest	36	34
Non-current assets	425	375
Retained earnings	226	178
Sales revenue	1341	1539
Share capital	100	100
Stock	137	127
Tax	51.75	83.75
Trade creditors	55	85

(a) State **two** types of below-the-line promotion.

[2]

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(Question 2 continued)

(b) Using information from **Table 2**, calculate:

(i) the current ratio for 2023 (*show all your working*);

[2]

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(ii) the tax rate for 2024 (*show all your working*);

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(iii) dividends paid in 2024 (*show all your working*).

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(Question 2 continued)

- (c) In 2024, *PP* paid high dividends. Comment on *PP*'s decision to pay high dividends in 2024. [2]

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will not be marked.



Section B

Answer **one** question from this section.

3. Wetlands Eco Lodge Ltd. (WEL)

Wetlands Eco Lodge Ltd. (WEL), a hotel that operates in an environmentally protected area, offers relaxing all-paid (all-inclusive) experiences in contact with wildlife. Providing a quality experience, however, incurs significant fixed costs.

In *WEL*'s first two years of operation, it frequently faced financial difficulty despite being profitable.

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

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Competition in the area in which *WEL* is located is fierce, ranging from cheap hostels to international chain hotels. Some competitors offer special activities, such as canoeing and archery. *WEL*'s management decided to implement a premium pricing strategy. A local tourist website lists all hotel prices in the area.

- (b) Explain **one** advantage **and one** disadvantage for *WEL* of implementing a premium pricing strategy. [4]

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WEL implemented a differentiation strategy and began offering premium activities not currently offered by competitors, such as photograph safaris and glass-bottomed boat rides. All premium activities are outsourced. The glass-bottomed boat rides have become so popular that *WEL* is considering taking over the only glass-bottomed boat provider in the area.

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(Question 3 continued)

- (c) Explain **one** advantage **and one** disadvantage for *WEL* of taking over the glass-bottomed boat provider.

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WEL conducted a customer satisfaction survey, a summary of which is shown in **Table 3**.

Table 3: Summary of *WEL*'s customer satisfaction survey

Item	Customers who were satisfied (%)
Contact with nature	100
Cultural experience	55
Food	75
Hotel staff and service	75
Premium activities	95
Price	70
Rooms	70

WEL's chief executive officer (CEO) wrote a report on operating costs that could be reduced, as shown in **Table 4**.

(This question continues on the following page)



(Question 3 continued)

Table 4: Summary of CEO's report on reducing *WEL*'s operating costs

Item	Possible cost reduction	Action
Fixed costs:		
Rent	Moderate	Negotiate new terms and conditions when current contract expires.
Insurance	Not significant	Negotiate new terms and conditions.
Internet	Small	Change provider.
Multichannel television	Small	Change provider.
Marketing	Moderate	Rely more on social media activities.
Variable costs:		
Food	Small	Switch suppliers but maintain premium quality.
Labour	Significant	Eliminate overstaffing and encourage multi-tasking.
Energy	Significant	Change provider; reduce, reuse and recycle.

WEL achieved a significant degree of differentiation and started a cost-reduction strategy while still charging premium prices.

The board of directors wants a differentiation focus. Their target customer is a high-income client, possibly international, seeking unforgettable experiences that combine local culture, contact with nature, premium service, and premium accommodation.

WEL's CEO explained to the board of directors that *WEL* had made some progress in different competitive strategies. However, the CEO stated that *WEL* did not clearly stand out in any of them. He feared that competitors would copy *WEL*'s initiatives. Staying ahead of competitors would be costly and time consuming.

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(Question 3 continued)

- [10]



4. Wafukho Hardware* (WH)

In 2013, using her personal savings, Wangui Wafukho opened a small hardware store, *Wafukho Hardware (WH)*, in Nakuru, Kenya. With limited capital, *WH* originally sold only a few items. For five years, banks turned Wangui down when she requested a loan. However, in 2018, the microfinance provider *East Africa Women Finance Trust (EAWFT)* loaned her \$600.

(a) State **two** features of microfinance.

[2]

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In subsequent years, *WH* borrowed money from *EAWFT* several more times, and the store continued to grow. *WH* currently operates in its original location, although Wangui has made a substantial addition to the building. Today, *WH* has 25 full-time employees and sells wood and other construction supplies in addition to hardware. In the current location, *WH* utilizes approximately 80 % of its land and building.

The following table shows selected financial information for *WH*.

Table 5: Selected financial information for *WH* for the year ended 31 December 2023 (all figures in \$000s)

Bank overdraft	2
Borrowing, long-term	9
Cash	7
Costs of sales	142
Debtors	4
Expenses	80
Interest	1
Non-current assets	18
Profit for period	X
Retained earnings	22
Sales revenue	232
Share capital	5
Stock	23
Tax	2
Trade creditors	14

* hardware: tools and other items used in home life and household repair as well as for activities such as gardening

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(Question 4 continued)

- (b) (i) Calculate *WH*'s profit for period, **X**, for the year ended 31 December 2023
(show all your working).

[2]

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- (ii) Comment on *WH*'s liquidity at 31 December 2023.

[2]

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Early in 2024, Wangui began to consider expansion plans. Nakuru was growing, and the United Nations (UN) had predicted continued growth for at least the next 10 years. A lot of residential and commercial construction would have to take place to support the growing population. Wangui had also observed that many small construction companies (builders) did not want to buy types of equipment that they used only occasionally. Instead, they preferred to hire (rent) such equipment on a short-term basis.

Wangui is considering two options:

- **Option 1:** Move to a new larger location, continue to sell hardware, wood, and construction supplies, and acquire a range of equipment for rental to small construction companies.
- **Option 2:** Remain in the existing location, sell hardware, wood, and construction supplies. *WH* would also become a small construction company.

Wangui created, for the first year of new operations, a decision tree to help her decide which option to choose, shown in Figure 2.

The total project cost for **Option 1** would be \$25 075 over five years.

The total project cost for **Option 2** would be \$60 000 over five years.

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(Question 4 continued)

Figure 1: Decision tree for the first year of new operations for both options

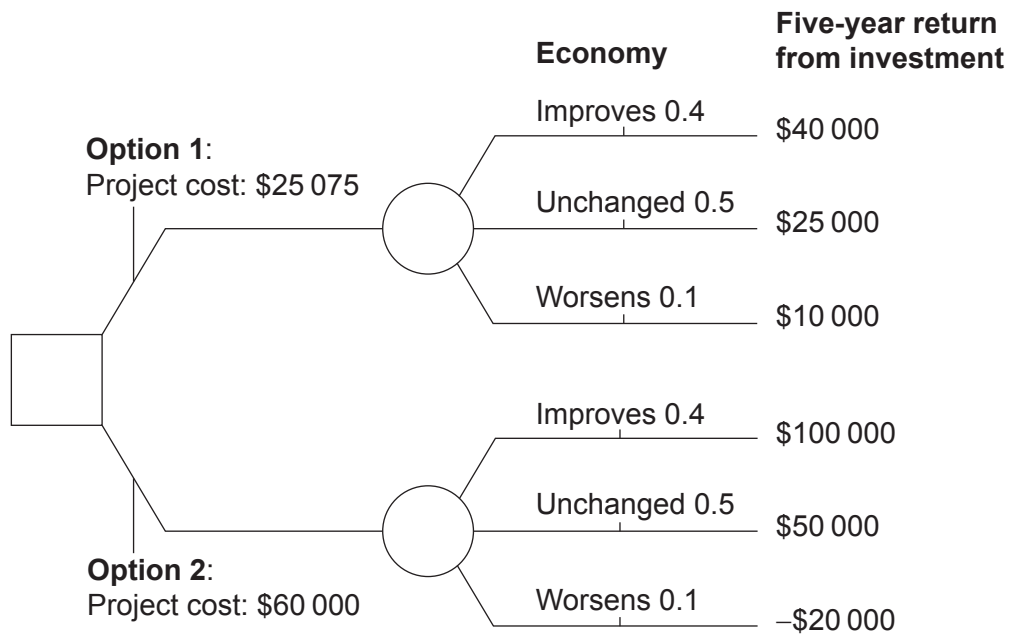


Table 6 contains additional information on both options.

Table 6: Additional information on both options

	Option 1	Option 2
Expected return	\$4425	Y
Payback period	Z	4.76 years

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(Question 4 continued)

- (c) (i) Calculate the expected return, **Y**, for **Option 2** (*show all your working*). [2]

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- (ii) Assuming the average expected annual return on investment from **Option 1** remains constant over the five-year period, calculate the payback period, **Z**, for **Option 1** (*show all your working*). [2]

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(d) Using the information in the stimulus **and** your calculations in parts (c) (i) and (ii), discuss whether Wangui should choose **Option 1** or **Option 2**.



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