Diploma Programme
Programme du diplôme
Programa del Diploma

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

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]**.

20 pages

2224 – 5011

Section A

Answer **all** questions in this section.

1. Hernan Gutierrez (HG)

Hernan Gutierrez (*HG*), a sole trader, runs a print shop. He wants to acquire more paper stock, for which he needs a $5000 one-year short-term loan. He has prepared a quarterly cash-flow forecast for 2025 for his loan application, shown in **Table 1**. The forecast assumes that the loan will be granted and repaid.

Table 1: Quarterly cash-flow forecast for *HG* for 2025 (all figures in $)

	Quarter			
	1	2	3	4
Opening balance	(90)	(25)	**Y**	2325
Cash inflows				
Cash sales revenue	12 800	20 000	13 500	19 300
Bank loan	5000			
Total cash inflows	17 800	**X**	13 500	19 300
Cash outflows				
Advertising	370			
Electricity	170	200	210	210
Equipment rental	1500	1500	1500	1500
Insurance		450		
Labour	900	900	900	900
Loan repayment with interest	1395	1395	1395	1395
Paper stock	13 400	13 500	9200	11 400
Total cash outflows	**W**	17 945	13 205	15 405
Net cash flow	65	2055	295	3895
Closing balance	(25)	2030	2325	**Z**

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(Question 1 continued)

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

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(b) Using **Table 1**, complete the following figures for the cash-flow forecast for *HG* for 2025:

(i) total cash outflows, **W**, for quarter 1 (*no working required*); [1]

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(ii) total cash inflows, **X**, for quarter 2 (*no working required*); [1]

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(iii) opening balance, **Y**, for quarter 3 (*no working required*); [1]

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(iv) closing balance, **Z**, for quarter 4 (*no working required*). [1]

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(Question 1 continued)

(c) Using information from **Table 1**, calculate the interest rate on *HG*'s one-year short-term loan for 2025 (*show all your working*). [2]

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(d) Explain how this cash-flow forecast might help Hernan operate his business, **other than** by supporting his loan application. [2]

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2. **JnDj**

Jane Ngandu and Donal Jeall each own 50 % of a partnership, *JnDj*. Jane has designed a high-quality video doorbell that will have the brand name ICU.

Figure 1: Example of a video doorbell

The ICU video doorbell allows homeowners, using a mobile phone app, to see and talk to people ringing the doorbell. However, competition in the video doorbell market is growing, with low-priced products taking an increasing share of the market.

JnDj will:

- sell the ICU video doorbell on *JnDj*'s website for $50, with a five-year guarantee. Competitors offer a two-year guarantee.
- launch the ICU video doorbell in January 2025. Donal forecasts sales of 2500 ICU video doorbells in the first year.

Table 2 shows *JnDj*'s forecasted costs.

Table 2: *JnDj*'s forecasted costs for 2025 (all figures in $)

Components cost	34
Fixed costs	15 000
Per doorbell:	
Assembly cost	1
Delivery cost	3
Packaging cost	2

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

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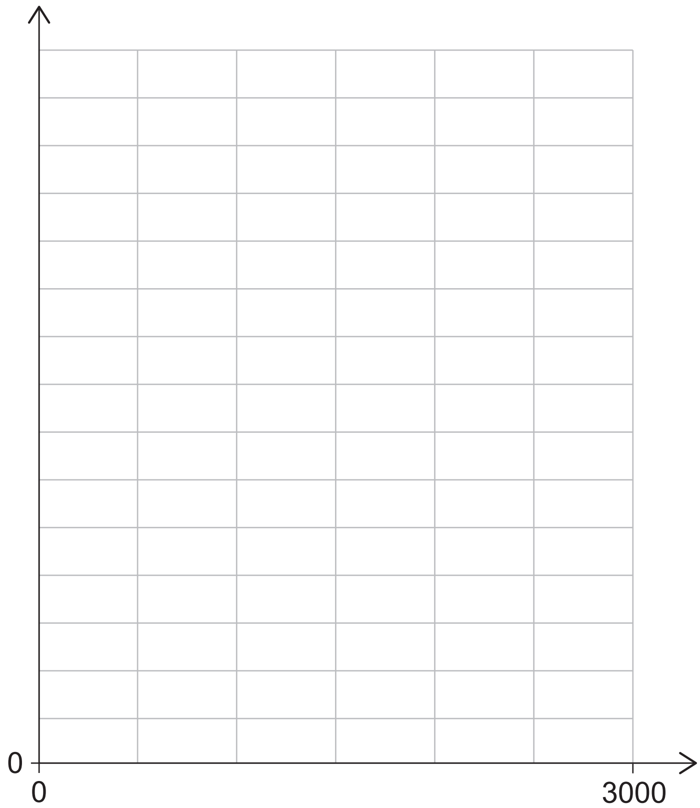
(Question 2 continued)

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

(i) construct a fully labelled break-even chart for *JnDj*, to scale, for the new ICU video doorbell; [4]



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(Question 2 continued)

(ii) calculate the change in the break-even level of output if it is estimated that *JnDj*’s fixed costs for 2025 will be 10 % higher (*show all your working*). [2]

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(c) Explain **one** reason why *JnDj* chose to offer a five-year guarantee on the ICU video doorbell. [2]

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Answers written on this page
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. [4]

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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**.

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(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)

(d) Using the data provided in **Table 3** and **Table 4**, and other information in the stimulus, recommend which strategy *WEL* should implement to gain a competitive advantage over competitors. [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 2: Decision tree for the first year of new operations for both options

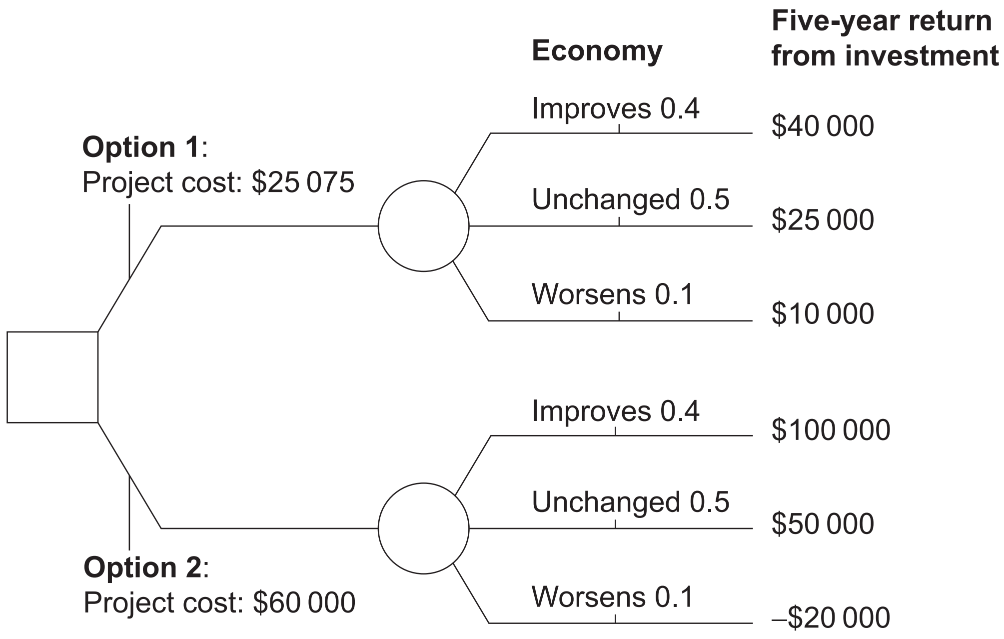

Table 6 contains additional information on both options.

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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(Question 4 continued)

(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**. [10]

References:

Figure 1 dourleak, n.d. *Pushing an electronic doorbell - stock photo*. [image online] Available at: https://www.gettyimages.co.uk/detail/photo/pushing-an-electronic-doorbell-royalty-free-image/530349479 [Accessed 11 December 2023]. Source adapted.