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**Business management**  
**Higher level**  
**Paper 2**

Friday 9 November 2023 (morning)

1 hour 45 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 three questions.
- Section B: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[50 marks]**.

## Section A

Answer **three** questions from this section

**1. Andrea and Mariana  
Lincoln School Expansion of Sports Facilities:**

The Board of Directors in Lincoln School are planning on expanding the extracurricular areas in the school to accomplish the goal of winning more AASCA's with the use of these developed areas. The three options for the expansion of the school are, adding a pool, a tennis court, or synthetic grass for the soccer field. Within these three choices, the cost of building a pool would be \$300,000, a tennis court would be \$70,000 and adding synthetic grass for the soccer field would cost around \$400,000. The expected consequences or pay-offs after the investments made will depend on the demand from the students or the school staff. This is shown in the table below.

	Swimming Pool	Tennis Court	Synthetic grass for soccer field
Success	\$950,000	\$310,000	\$900,000
Fail	\$620,000	\$125,000	\$540,000

	Swimming Pool	Tennis Court	Synthetic grass for soccer field
Success	0.7%	0.6%	0.5%
Fail	0.3%	0.4%	0.5%

1 Construct a fully labeled decision tree

[10]

**Turn over**

## 2. Les Légumes Contentes (LLC)

*Les Légumes Contentes (LLC)* is a cooperative of farmers that sells organic produce. *LLC*'s starting capital is \$5000. It needs a bank loan to buy refrigerators for its store. The bank has requested a cash-flow forecast. The forecasted figures are shown in **Table 3**.

**Table 3: Forecasted figures for *LLC* for the first four months of operations, beginning 1 January**

Average price per kg of produce	\$4
Forecasted sales for January	3000 kg
Forecasted sales from February onwards	4000 kg
Cash sales	50 % of each month's sales, from customers paying at the cooperative store
Credit sales	50 % of each month's sales, sold to supermarkets and payable one month later
Rent	\$4500 per month
Labour costs	\$2500 per month
Cost of goods sold	40 % of sales revenue per month
Overhead costs	\$1100 per month, paid in cash

- (a) State **two** features of a cooperative. [2]
- (b) Using **Table 3** and the information provided above, prepare a monthly cash-flow forecast for *LLC* for the first four months of operations. [6]
- (c) Calculate *LLC*'s forecasted net profit at the end of April (*show all your working*). [2]

### 3. Ritev Enterprises (RE)

*Ritev Enterprises (RE)* is a public limited company that owns a chain of 20 gas (petrol) stations. Next year, *RE* plans to modernize its gas stations by installing self-service pumps.

**Table 2** provides selected financial data for *RE* from:

- the profit and loss account for year ending 31 May 2021
- the balance sheet as of 31 December 2021.

**Table 2: Selected financial data for *RE***

	\$m
Accumulated retained profit	5
Cash	1
Cost of goods sold	80 000
Creditors	6
Dividends	1
Expenses	185
(Net) fixed assets	50
Long-term liabilities	15
Overdraft	1
Sales revenue	100 000
Share capital	29
Stock	5

The finance director is concerned about the trend in consumer preference for electric cars and the potential impact of increased numbers of electric cars on *RE*.

- (a) State **two** appropriate external sources of finance that *RE* could use to modernize its gas stations. [2]
- (b) (i) Construct a fully labelled balance sheet for *RE* as of 31 December 2021. [5]
  - (ii) Calculate *RE*'s gross profit margin (*no working required*). [1]
- (c) Explain the potential impact of the increasing popularity of electric cars on *RE*'s costs **and** revenues. [2]

## Section B

### 4. Bandit & Max

*Bandit & Max (BM)* is a partnership between Dr. Jones and Dr. Morris that produces specialist food for dogs with health problems. *BM*'s unique selling point/proposition (USP) is food for dogs with diabetes and digestive or kidney problems. *BM*'s mission statement is, "To help strengthen the bond between people and their dogs."

*BM* uses a cost-plus (mark-up) pricing strategy; however, the costs of raw materials are rising. *BM* has an excellent brand image and sells its products only through veterinarians and large pet shops that provide advice to customers. Veterinarians recommend *BM*'s dog food because of its high quality and nutritional value. However, potential customers in some areas lack access to *BM*'s food. *BM*'s sales are not growing.

Dr. Morris wants to diversify into specialist cat food, as more people are buying or adopting cats. *BM* has experience in developing new products. In the past, *BM* outsourced its research and development. Now, Dr. Morris wants *BM* to build its own research facilities, but building costs are high. *BM*'s warehouse will need refurbishing to stock more food. *BM* could become a private limited company to raise the necessary finance.

Dr. Jones disagrees. He believes *BM* should not diversify. *BM*'s current distribution costs are high. He has suggested introducing a new distribution channel for the dog food that includes a large supermarket chain, a wholesaler, and many small pet shops.

- (a) Describe **one** feature of a mission statement. [2]
- (b) Explain **two** advantages of *BM*'s unique selling point/proposition (USP). [4]
- (c) Explain **one** advantage **and one** disadvantage for *BM* of using a cost-plus (mark-up) pricing strategy. [4]
- (d) Discuss whether *BM* should diversify into specialist cat food **or** introduce a new distribution channel for dog food. [10]

## 5. Frez PLC (FR)

*Frez PLC (FR)* has 6000 employees in its 100 supermarkets and 250 in its head office. *FR* operates a 360-degree feedback appraisal system for head office employees. *FR*'s directors believe that this system has improved retention and morale of head office employees. This year, to reduce head office costs, *FR* offered head office employees the option of teleworking, which 60 % accepted. They will work at the head office only one day per month.

Each *FR* supermarket has 10 departments. Departmental managers have concerns about their workload caused by their large span of control. Labour turnover at *FR* supermarkets is increasing each year because departmental managers are leaving. In January, *FR* increased its supermarket opening hours and hired an additional 1000 part-time employees. *FR* is considering extending its 360-degree feedback appraisal system to all supermarket employees.

Recently, demand from supermarket shoppers for a home delivery service increased, although industry experts disagree on whether this demand will continue. *FR*'s main competitors already provide delivery services.

*FR* has decided to launch a home delivery service. It will require 500 vans, which would be replaced every five years. *FR* is considering two options:

- **Option 1:** purchase the vans at a unit cost of \$34 000 each, financed by a five-year bank loan at 3 % interest.
- **Option 2:** Lease the vans at a unit cost of \$13 000 per year per van. The minimum term for the lease will be 24 months.

*FR* already borrowed \$50 million in 2019 to finance the modernization of its supermarkets.

- (a) State **two** features of a public limited company. [2]
- (b) (i) Explain, with reference to Maslow's motivation theory, how teleworking at *FR* may damage motivation amongst head office staff. [2]
- (ii) Explain **one** disadvantage for *FR*, **other than** the impact on employee motivation, of introducing teleworking. [2]
- (c) Explain **two** disadvantages for *FR* if it extends its 360-degree feedback appraisal system to its supermarket employees. [4]
- (d) Recommend whether *FR* should choose **Option 1** or **Option 2**. [10]

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### References: