Diploma Programme
Programme du diplôme
Programa del Diploma

Business management
Higher level
Paper 2

30 April 2026

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

Session number

1 hour 45 minutes

Instructions to students

- 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]**.

2226 – 3022

23 pages

Section A

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

1. TrentAA (TA)

TrentAA (*TA*) manufactures large and small suitcases. *TA*'s factory operates Monday to Friday, with a 100 % capacity utilization rate.

TA's variable costs to make one large suitcase are:

- raw materials $30
- energy $1
- wages $5

TA has received an urgent order from a new retailer, Y, for 200 large suitcases to be delivered in eight days' time. The selling price of *TA*'s large suitcase is $45.

To meet retailer Y's order, *TA* could take one of two possible approaches:

1. Open the factory one Saturday. *TA*'s factory employees are paid piece rate. For the Saturday that it opens, *TA* would increase the wage paid by 20 %. Opening for that Saturday would cost an extra $100 in heating and lighting.

2. Purchase identical suitcases from another supplier whose lead time is less than eight days. Each of these suitcases would cost *TA* $37.

Approximately 75 % of *TA*'s factory floor space is used to make large suitcases. The factory's rent is $20 000 per year. A total of 60 % of *TA*'s factory employees' wage costs comes from large suitcases.

(a) Define the term *capacity utilization rate*. [2]

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(Question 1 continued)

(b) (i) Calculate the cost to make the suitcases to meet retailer Y’s order of 200 large suitcases (*show all your working*). [2]

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(ii) Calculate the cost to purchase the suitcases from another supplier to meet retailer Y’s order of 200 large suitcases (*show all your working*). [2]

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(c) Calculate the total contribution if *TA* purchases the suitcases from another supplier to meet retailer Y’s order of 200 large suitcases (*show all your working*). [2]

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(d) Explain how *TA* could use absorption costing to allocate costs between the large and small suitcases it manufactures. [2]

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2. Running Technologies (RT)

Running Technologies (*RT*) is a publicly held company that produces innovative wearable technology* targeted at people involved in sports. This is a highly competitive market where technology is constantly developing.

RT has a flat organizational structure. *RT* has recently opened a new, technologically advanced factory and uses the straight-line depreciation method for machinery and equipment. *RT*'s machinery and equipment requires replacing regularly. The finance manager of *RT* must prepare the company's statement of financial position (balance sheet) for 2025. **Table 1** shows selected financial information for *RT*.

Table 1: Selected financial information for *RT* for the year ended as at 31 December 2025 (all figures in $000)

Accumulated depreciation	6000
Bank overdraft	5000
Borrowings—long term	30 000
Cash	5000
Cost of sales	60 000
Debtors	30 000
Plant and equipment	13 000
Property	30 000
Retained earnings	8000
Sales revenue	90 000
Share capital	22 000
Short-term loans	15 000
Stock	28 000
Trade creditors	20 000

* wearable technology: electronic devices worn on the body for communication and health purposes

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(Question 2 continued)

(a) State **two** features of a flat organizational structure. [2]

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(b) Using information from **Table 1**, construct a statement of financial position (balance sheet) for *RT* as at 31 December 2025 (*show all your working*). [4]

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(Question 2 continued)

(c) In 2026, *RT* will purchase four new machines at $100 000 each, and each machine will have a residual value of $20 000. *RT* will depreciate the machines over a five-year period.

Using straight-line depreciation, calculate *RT*'s total annual depreciation expense for the four new machines (*show all your working*). [2]

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(d) Explain **one** disadvantage for *RT* of using the straight-line depreciation method. [2]

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3. Hurray Rugby Club (HRC)

Hurray Rugby Club (*HRC*) experienced financial problems but survived thanks to contributions from fans. Ron Scrum, *HRC*'s newly appointed chief executive officer (CEO), has since improved *HRC*'s finances using loan capital (bank loan).

Ron has an autocratic leadership style and monitors *HRC*'s expenses, particularly those of the Marketing department, which recently overspent on advertising. Ron sets a four-monthly expenses budget for each department and consolidates all expenses into a single budget (see **Table 2**).

Table 2: Budgeted figures, actual figures and *HRC*'s expenses variance (all figures in $000s)

Month	Budgeted figures				Actual figures				Total Variance
	Department			Total	Department			Total	
	Sports	Marketing	Finance		Sports	Marketing	Finance		
January	500	**X**	20		450	200	15		55 [A]
February	500	100	20		460	180	15		35 [A]
March	500	100	20		460	190	15		**Y**
April	500	150	20		470	200	15		15 [A]
Total				**2520**				**2670**	

[A] = Adverse
[F] = Favourable

Ron has decided that departments showing a favourable variance for a four-month period will receive a performance-related bonus.

(a) State **two** features of an autocratic leadership style. [2]

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(Question 3 continued)

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

(i) calculate the budgeted expense for the Marketing department for January, **X** (*show all your working*); [2]

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(ii) calculate the total variance for the Marketing department for the period January–April **and** state whether it is adverse or favourable (*show all your working*); [2]

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(iii) calculate the total variance for March, **Y**, **and** state whether it is adverse or favourable (*show all your working*). [2]

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(c) Explain the importance of budgets and variances for *HRC*'s Marketing department in decision-making. [2]

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Section B

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

4. Reina Jabones (RJ)

Reina Jabones (*RJ*) is a publicly held company that manufactures laundry detergents for washing clothes. *RJ* is the market leader for laundry detergents in Country Y, with a 55 % market share. *RJ*'s products include powder detergents and liquid detergents.

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

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(Question 4 continued)

Rey, *RJ*'s most popular powder detergent, has been on the market for 25 years. *RJ* uses competitive pricing. Competitors offering similar powder detergents to Rey set their prices low, decreasing their profit margins. Rey's prices are slightly below competitors' prices. Rey is a high-quality product. Its unit production costs are low due to economies of scale; however, profit margins for Rey are lower than for *RJ*'s other products.

(b) Explain **two** advantages for *RJ* of using competitive pricing for Rey. [4]

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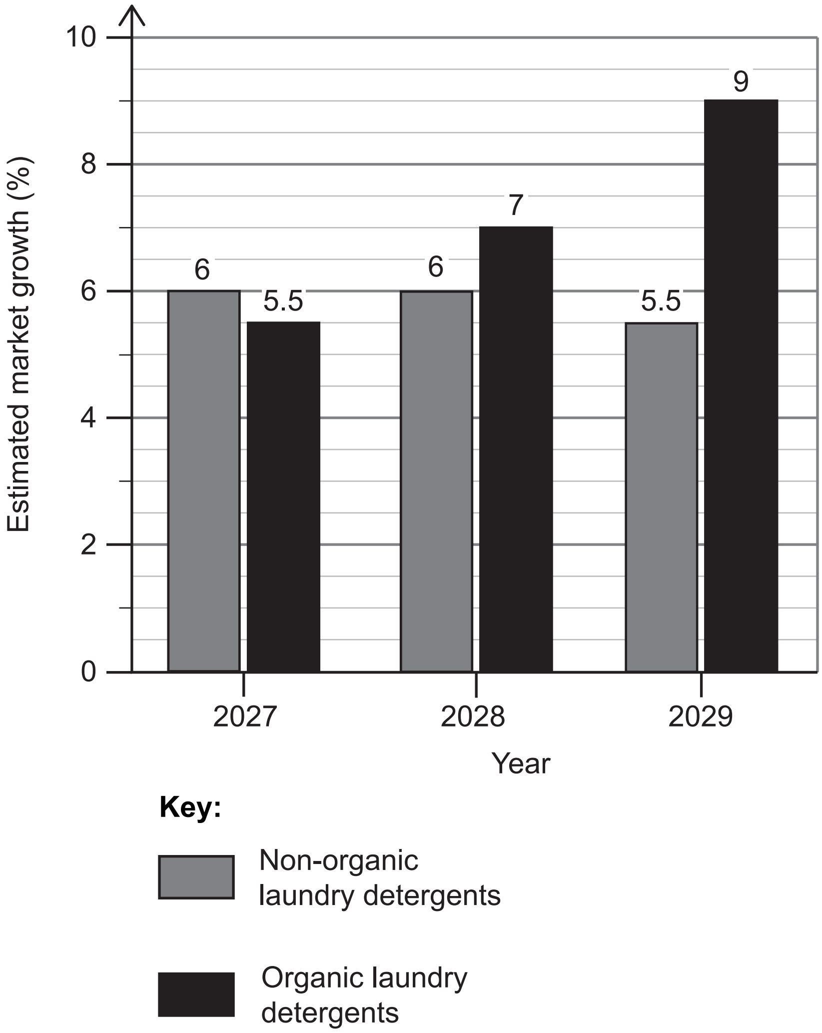
(Question 4 continued)

RJ recently launched two organic (free from artificial chemicals) laundry detergents made from plants. *RJ* is the only company in the market currently offering organic laundry detergents. *RJ* consulted secondary research on the market growth of organic and non-organic laundry detergents in Country Y for the next three years (see **Figure 1**).

Figure 1: Estimated market growth rate of organic and non-organic laundry detergents in Country Y, 2027–2029



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(Question 4 continued)

(c) Using data from **Figure 1**, comment on the estimated market growth for organic **and** non-organic laundry detergents in Country Y for 2027–2029. [2]

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(Question 4 continued)

RJ’s product portfolio has four brands:
- Rey and Sol, *RJ*’s powder detergents, which operate in a slow-growing market. Rey is profitable and has a 65 % market share for powder detergents. *RJ* recently reduced Sol’s price and updated its packaging, but Sol’s sales continue to fall. Sol has a 16 % market share for powder detergents.
- CocoX and EcoX, *RJ*’s new organic liquid detergents, which sell at premium prices. Sales of both products are growing rapidly. The two products together have an 80 % market share of liquid detergents. *RJ*’s advertising expenses for CocoX and EcoX are high.

(d) Complete the Boston Consulting Group (BCG) matrix (**Figure 2**) for *RJ*’s four brands. [2]

Figure 2: *RJ*’s Boston Consulting Group (BCG) matrix

		Market share	
		High	Low
Market growth	High	. . . .	. . . .
	Low	. . . .	. . . .

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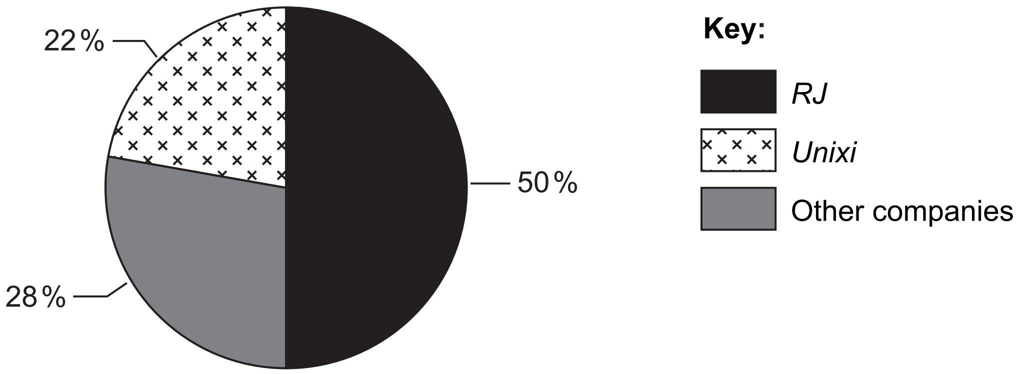
(Question 4 continued)

Unixi Ltd. a multinational company, recently entered the laundry detergent market in Country Y. *Unixi* offers several products, including organic detergent tablets that it claims are three times more efficient than liquid and powder detergents. *Unixi* invests heavily in research and development (R&D). *RJ*'s chief executive officer (CEO), Pedro Piazza, became worried about *Unixi*'s entry into the market and requested a brand loyalty survey (see **Table 3**) and updated market share data (see **Figure 3**). Among other things, the data showed that *RJ*'s market share had decreased by 5%.

Table 3: Results of *RJ*'s brand loyalty survey

		%		%		%
How long have you been buying *RJ*'s laundry detergents?	Less than a year	10	1–4 years	20	More than four years	70
How would you rate your overall satisfaction with *RJ*'s laundry detergents?	Satisfied	65	Neutral	25	Dissatisfied	10
What factor would make you change to another laundry detergent brand?	Lower price	40	Better detergent quality	45	Discounts & special offers	15
How likely are you to continue buying *RJ*'s laundry detergents?	Very likely	50	Neutral	30	Unlikely	20

Figure 3: Laundry detergent market share by company



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(Question 4 continued)

(e) Using **Table 3**, **Figure 3** and other information in the stimulus, discuss how *Unixi*'s entry into the laundry detergent market might affect *RJ*'s position as a market leader. [10]

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(Question 4 continued)

5. Lullaby Bee (LB)

Lullaby Bee (*LB*), a privately held company, specializes in toys for young children. Laura Blue, an entrepreneur, established *LB* in 2012 to create sustainable toys with high-quality materials and unique designs. *LB*'s mission statement is, "To provide young children with safe, innovative high-quality toys".

LB owns two factories and 10 stores in Country S. The company has 500 employees, a creative Research and Development (R&D) department and low labour turnover.

Between 2012 and 2025, *LB*'s sales grew significantly. Laura believes that *LB*'s success is due to its unique designs and high-quality products. Excellent customer service and brand loyalty allow *LB* to apply a premium pricing method.

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

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(Question 5 continued)

LB operates in a competitive market. Most soft toys on the market are easily damaged. *LB*'s R&D department recently completed testing of Soft Lullaby, an innovative, sustainable fabric that is soft, plant-based, and tear-resistant, to satisfy growing customer demands for soft, long-lasting, sustainable toys. No one in the market currently produces a fabric like Soft Lullaby. Soft Lullaby enables *LB* to reduce waste and address customers' unmet needs.

(b) Explain **one** reason why *LB*'s R&D department develops new products like Soft Lullaby. [2]

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In a recent press conference, Laura said, "We build our brand on innovation and quality, and Soft Lullaby is the next step in our growth path". However, returns of faulty *LB* toys are increasing. Laura is considering implementing a total quality management (TQM) method, which would require *LB* to invest in employee training.

(c) Explain **one** way in which total quality management (TQM) could improve *LB*'s operations. [2]

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(Question 5 continued)

Laura recently read about Digital Taylorism and became enthusiastic about the idea of monitoring factory employees. She tested new monitoring equipment on some factory employees and gathered data (shown in **Table 4**). Rumours of the monitoring equipment spread quickly among factory employees.

Table 4: Data on *LB*'s factory employees provided by the new monitoring equipment

Absenteeism	Low
Frequency of employees' breaks (for coffee, lunch, toilet/restroom)	Low
Punctuality	High
Productivity	High
Efficiency	High

(d) Using **Table 4**, explain **one** disadvantage for *LB* of introducing Digital Taylorism. [2]

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(Question 5 continued)

Recently, James, the owner of *Sixties Toys* (*ST*), a company located in Country A that produces wooden toys distributed in supermarkets, contacted Laura. He wished to sell his company and asked Laura if she wanted to buy it. *ST* has a large R&D department and uses quality control methods. In 2024, one type of *ST*'s toys had safety issues, increasing the defect rate by 4.0 %. To evaluate the sales offer from *ST*, Laura prepared a comparative report, shown in **Table 5**.

Table 5: Selected information from Laura's comparative report for 2025

	LB	***ST***	**Industry average (mean)**
Defect rate	5.0 %	16.0 %	3.0 %
Stock turnover in days	116	95	90
Gearing ratio	6.1 %	2.2 %	1.8 %
Customer complaints	100	800	Not applicable

(e) Using data from **Table 5**, comment on *LB*'s **and** *ST*'s gearing ratios. [2]

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(Question 5 continued)

(f) Using **Table 4**, **Table 5** and other information in the stimulus, discuss whether *LB* should accept the offer to buy *ST*. [10]

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(Question 5 continued)

Disclaimer:

References:

4. [image of laundry detergent] Lugowski, D., 2024. *Person adding washing powder to the washer, close up. Female hand holding laundry powder – stock photo*. [image online] Available at: https://www.gettyimages.co.uk/detail/photo/person-adding-washing-powder-to-the-washer-close-up-royalty-free-image/2004750073 [Accessed 4 July 2025]. Source adapted.