Diploma Programme
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Business management
Standard level
Paper 2

30 April 2026

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

Session number

1 hour 30 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 **[40 marks]**.

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Section A

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

1. Precise Fabrications (PF)

Precise Fabrications (*PF*) produces airplane parts for the global aviation industry. *PF* is considering relocating its factory to enable an increase in production and obtain greater internal economies of scale. The relocation would require additional bank loans at a time when interest rates are predicted to increase.

PF initially identified a potential site, **Location A**, for which the financial manager produced the following financial information, based on the first four years of operations:

- Initial investment: $2.5 million
- Payback period: Three years
- Average rate of return (ARR): 23 %

However, a new site, **Location B**, is now available and offers greater production potential. The initial investment would be higher than investment for Location A at $3.5 million. The forecasted total return for this location is $800 000 in the first year, increasing by $100 000 each year for the following three years.

Both locations:

- are close to suppliers and other technology and aviation businesses
- offer improved communication networks.

(a) State **two** internal economies of scale. [2]

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(This question continues on the following page)

(Question 1 continued)

(b) For **Location B**:

(i) calculate the payback period (*show all your working*); [2]

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(ii) calculate the average rate of return (ARR) (*show all your working*). [2]

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(c) Using the payback period you calculated in (b)(i), comment on how the predicted increase in interest rates may affect the choice between **Location A** or **Location B**. [2]

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(d) Explain **one** reason, **other than** enabling an increase in production, for *PF* to relocate its factory. [2]

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2. Teezle Shirts (TS)

Teezle Shirts (*TS*) is a small publicly held company that manufactures shirts.

TS's profit for period in 2024 was $2 million, which is low compared to the industry average. *TS*'s directors are under pressure from a number of stakeholder groups to improve the business's profits and profitability.

Selected financial information from *TS*'s final accounts for 2025 is shown in **Table 1**.

Table 1: Selected financial information from *TS*'s final accounts as at and for the year ended 31 December 2025 (in $ millions)

Bank overdraft	5
Borrowings—long-term	8
Cash	7
Cost of sales	14
Debtors	20
Expenses	8
Interest	1.2
Non-current assets	10
Profit for period	**X**
Retained earnings	5
Sales revenue	25
Share capital	20
Stock	8
Tax	0.6
Trade creditors	7

In 2026, *TS* is considering a bank loan to finance a second factory.

(a) State the purpose of accounts for **two** different stakeholders or stakeholder groups. [2]

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(Question 2 continued)

(b) Using **Table 1**:

(i) prepare a statement of financial position (balance sheet) for *TS* as at 31 December 2025; [4]

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Answers written on this page will not be marked.

(Question 2 continued)

(ii) calculate *TS*'s profit for period, **X**, for 2025 (*show all your working*). [2]

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(c) Using your calculation in (b)(ii), comment on the effect on *TS*'s profits of using a bank loan to finance a second factory in 2026. [2]

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Section B

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

3. Uncho Cars (UC)

Uncho Cars (*UC*) is owned by Camille and Jadon Uncho. They have a partnership in a business that repairs cars and sells car spare parts.

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

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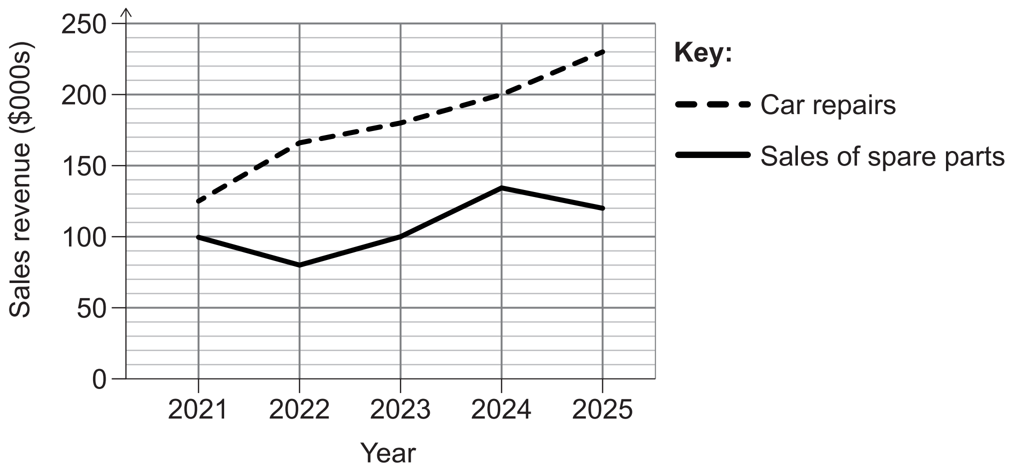
Figure 1 shows *UC*'s sales revenue from car repairs and sales of spare parts.

Figure 1: *UC*'s sales revenue from car repairs and sales of spare parts, 2021–2025



(b) Using **Figure 1**, comment on *UC*'s sales revenue. [2]

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(Question 3 continued)

Table 2 provides selected financial information for *UC*.

Table 2: Selected financial information for *UC* for the year ended and as at 31 December 2025 (in $000s)

Cash	5
Cost of sales	175
Current liabilities	30
Debtors	3
Non-current liabilities	40
Sales revenue	350
Stock	25
Trade creditors	15

(c) Using **Table 2**:

(i) calculate *UC*'s gross profit margin (*show all your working*); [2]

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(ii) calculate *UC*'s current ratio (*show all your working*). [2]

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(Question 3 continued)

UC has three car lifts, which are used to raise cars during repairs (see **Figure 2**). These lifts receive maintenance every six months.

Figure 2: A car lift

Until recently, only one business local to *UC* provided maintenance for car lifts. Two new local businesses opened in early 2026, offering the same service at a lower price.

(d) Explain how *UC* benefits from **one** external economy of scale. [2]

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UC are considering purchasing a gasoline (petrol) station, *Dovy's*, for $400 000. *Dovy's* is the oldest gasoline station in town, with two gasoline pumps. *Dovy's* only sells gasoline.

Dovy's sold 450 000 litres of gasoline in 2025. For 2026, *Dovy's* has forecasted the following for its gasoline:

- Litres sold: 500 000
- Average (mean) cost per litre to be paid to supplier: $0.90
- Average (mean) selling price per litre: $1.10
- Break-even level of sales: 300 000 litres
- Profit for period: $400 000

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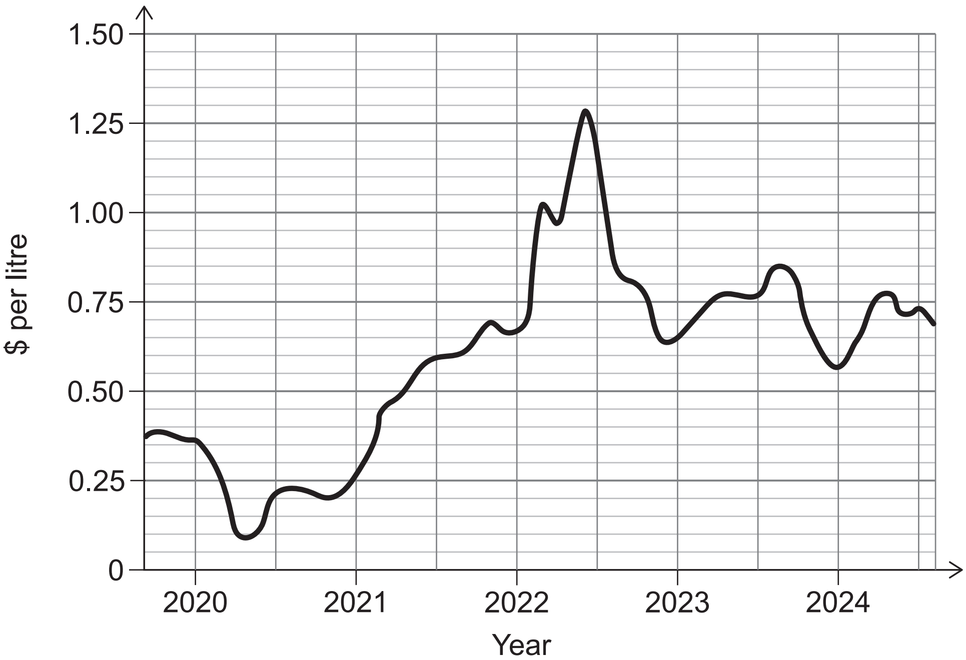
(Question 3 continued)

The prices *Dovy's* paid for a litre of gasoline from its supplier, 2020–2024, are shown in **Figure 3**.

Figure 3: Prices *Dovy's* paid ($) per litre of gasoline, 2020–2024



Camille and Jadon are discussing if they should purchase *Dovy's*. If the purchase goes ahead, they plan to:

- increase the number of gasoline pumps from two to four
- build an on-site store (shop) that sells a range of groceries and snacks.

The town in which *UC* is located has four other gasoline stations. Two are owned by multinational gasoline companies, and one is owned by a supermarket. In December 2025, the supermarket introduced a very successful promotion that gave a 5 % discount on its gasoline to customers who spent more than $25 in the supermarket.

The government of *UC*'s country wants to increase the country's use of sustainable resources. Wind and solar power provide 80 % of the country's electricity, and its electricity prices are some of the lowest in the world. From 2027, the government will offer a $5000 incentive payment to people who purchase electric vehicles.

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(Question 3 continued)

(e) Using **Figure 3** and other information in the stimulus, discuss the limitations of a break-even analysis as a tool to support *UC*'s decision to purchase *Dovy's*. [10]

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(Question 3 continued)

4. Tourcard Fabrics (TF)

Tourcard Fabrics (*TF*) is a privately held company that manufactures cloth. *TF* is known for its excellence in operations management.

(a) State **two** roles of operations management. [2]

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In 2015, *TF* developed Phabcel, an environmentally sustainable synthetic fibre for clothing. *TF* employs high-performing salespeople who generate sales by visiting clothing manufacturers' places of business. *TF* ships (delivers) orders directly to its customers (clothing manufacturers).

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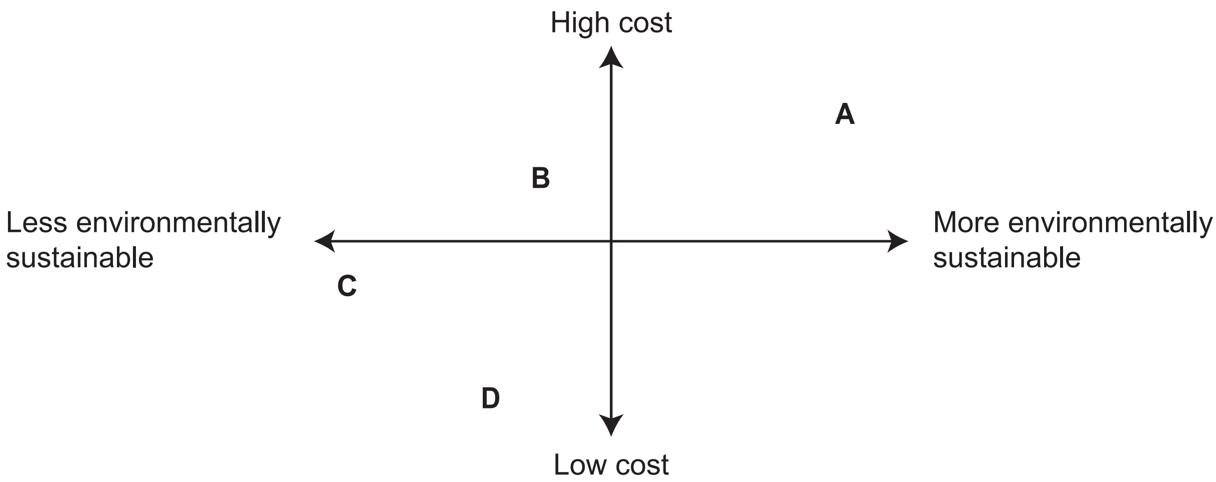
(Question 4 continued)

Figure 4 shows the position map for the four most popular cloths used in clothing.

Figure 4: Position map for the four most popular cloths used in clothing



A: Phabcel
B: Wool
C: Cotton
D: Polyester

TF's elaborate product development and manufacturing process has made Phabcel expensive but allows *TF* to produce a soft, silky and long-lasting cloth. Phabcel is more expensive than polyester, stronger than cotton, and more comfortable than wool. Over the past 10 years, *TF* has built strong brand awareness by promoting Phabcel through salespeople and through advertisements in industry journals. *TF* complements this promotion with a customer service that is superior to those of its closest competitors. *TF*'s salespeople frequently take customers out to expensive restaurants to help generate sales. Through this excellent customer service, *TF* has built many strong relationships with its customers, which is uncommon in the cloth manufacturing industry.

Cotton and wool are typically treated as commodities (materials used to manufacture consumer products). Normally, cloth manufacturers use price to differentiate themselves from competitors.

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(Question 4 continued)

(b) Explain **two** ways, **other than** price, in which *TF* differentiates itself from its closest competitors. [4]

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Table 3 shows *TF*'s monthly production figures for 2025.

Table 3: *TF*'s monthly production figures, in units, for 2025

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
410	460	520	540	540	530	580	560	540	560	420	380

(c) Using **Table 3**:

(i) calculate the mean for *TF*'s production figures for 2025 (*show all your working*); [2]

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(Question 4 continued)

(ii) calculate the median for *TF*'s production figures for 2025 (*show all your working*). [2]

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Although demand for Phabcel is growing, *TF*'s chief marketing officer (CMO) believes that *TF* could have even higher sales. They have recommended that *TF* increases the commission it pays to its salespeople. They also think that *TF* should develop a more tangible (physical) presence, such as opening a showroom, expanding *TF*'s online presence, and developing cloth sample booklets (see **Figure 5**) that the salespeople can leave with customers.

Figure 5: An example of a cloth sample booklet

However, although *TF*'s current salespeople are happy with the idea of increased commission, they are worried that opening a showroom would reduce their sales, as there would be new employees generating sales in the showroom. If the CMO's ideas were implemented, the human resources officer (HRO) would need to look at strategies to reduce the expected resistance to change among *TF*'s current salespeople.

The chief financial officer (CFO) explained to the CMO that all of these marketing changes would be too expensive and that *TF* would not be able to implement all of them at the same time.

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(Question 4 continued)

(d) Using the information in the stimulus, discuss *TF*'s current marketing mix and the CMO's proposed changes to it. [10]

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(Question 4 continued)

Disclaimer:

References:

1. [image of airplane] shaunl, 2015. *Taxiing Passenger Jet – stock photo*. [image online] Available at: https://www.gettyimages.co.uk/detail/photo/taxiing-passenger-jet-royalty-free-image/472408296 [Accessed 25 April 2025]. Source adapted.

Figure 2 3alexd, 2010. *Car service - stock photo.* [image online] Available at: https://www.gettyimages.co.uk/detail/photo/car-service-royalty-free-image/157606062 [Accessed 25 April 2025]. Source adapted.

4. Barva, S., 2023. *Cotton fabric stacked in layers. Natural fabric for sewing clothes and bed line - stock photo.* [image online] Available at: https://www.gettyimages.co.uk/detail/photo/cotton-fabric-stacked-in-layers-natural-fabric-for-royalty-free-image/1501117637 [Accessed 4 July 2025]. Source adapted.

Figure 5 megaflopp, 2021. *Women holding catalog and choosing fabrics closeup - stock photo*. [image online] Available at: https://www.gettyimages.co.uk/detail/photo/women-holding-catalog-and-choosing-fabrics-closeup-royalty-free-image/1299963544 [Accessed 25 April 2025]. Source adapted.