Diploma Programme
Programme du diplôme
Programa del Diploma

# Business management
# Standard level
# Paper 2

30 April 2026

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

Session number

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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]**.

2226 – 3028

## Section A

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

**1. Albert Shelby (AS)**

In 2020, Albert Shelby opened a food business *AS*, selling freshly made hot dogs (sausages served in a bread bun). Albert operates from a specially designed vehicle, which he drives to sports events and music concerts. In 2025, Albert purchased a new vehicle using external finance.

Albert only operates *AS* on Saturdays and sold 12 500 hot dogs in 2025.

In 2026, Albert plans to operate *AS* for one additional day each week and has forecasted annual sales of 22 500 hot dogs.

**Table 1** shows Albert's forecasted costs and prices for 2026.

**Table 1: Forecasted costs and prices for *AS* for 2026**

| | |
|---|---|
| Annual fixed costs | $15 000 |
| Unit price per hot dog | $8 |
| Variable costs per hot dog | $6 |

In 2027, Albert plans to have an additional revenue stream by renting out his vehicle for one day a week when he is not using it. The vehicle rent would be $80 per day.

(a) State **two** external sources of finance a business may use. [2]

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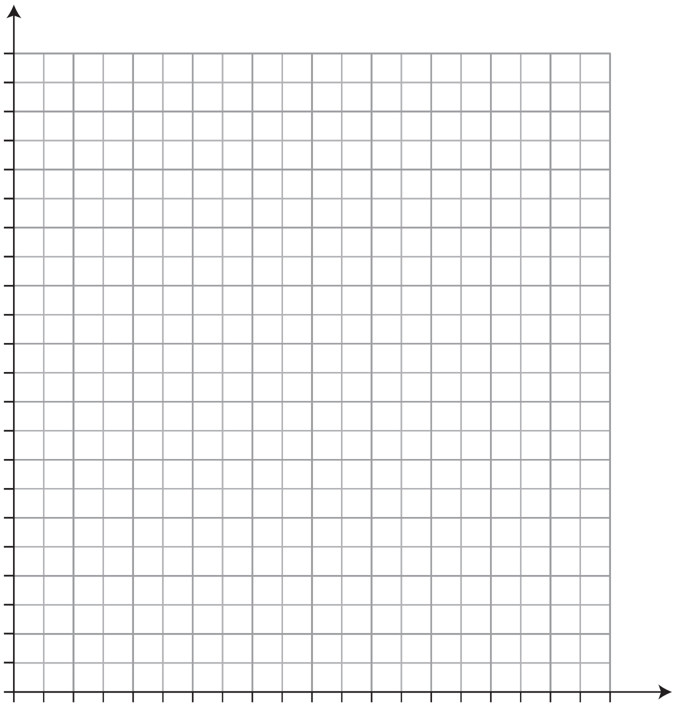
**(This question continues on the following page)**

**(Question 1 continued)**

(b) Using **Table 1**, construct a fully labelled break-even chart for 2026, to scale, for *AS*. [4]



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Answers written on this page
will not be marked.

**(Question 1 continued)**

(c) Calculate *AS*'s forecasted margin of safety for 2026 (*show all your working*). [2]

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(d) Explain how Albert's planned change to *AS*'s revenue streams in 2027 may affect its total revenue. [2]

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**2. W&Z Pharma (W&Z)**

*W&Z Pharma* (*W&Z*) is a publicly held company that develops innovative medicines. For the financial year ending 31 December 2025, *W&Z* had intangible assets worth $250 million.

**Table 2** provides selected financial information for *W&Z*

**Table 2: Selected financial information for *W&Z* for the year ended and as at 31 December 2025 (all figures in $ millions)**

| | |
|---|---|
| Bank overdraft | 220 |
| Borrowings—long term | 510 |
| Cash | 230 |
| Cost of sales | 460 |
| Debtors | 360 |
| Dividends | **X** |
| Expenses | 1650 |
| Interest | 52 |
| Non-current assets | 710 |
| Retained earnings/profit | 150 |
| Sales revenue | 2550 |
| Tax | 48 |
| Trade creditors | 22 |

The government is giving financial incentives to profitable companies developing new medicines. Recently, pressure groups have organized protests over *W&Z*'s use of animal testing. Sales of *W&Z*'s products are falling as a result, and suppliers are worried about *W&Z*'s future liquidity. Potential investors are concerned about future dividends.

(a) State **two** types of intangible assets. [2]

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**(This question continues on the following page)**

**(Question 2 continued)**

(b) Using **Table 2**, for the year ended and as at 31 December 2025:

(i) calculate *W&Z*'s gross profit (*show all your working*); [2]

. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .

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(ii) calculate *W&Z*'s profit for period (*show all your working*); [2]

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(iii) calculate *W&Z*'s dividends, **X** (*show all your working*). [2]

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(c) Explain **one** reason why an external stakeholder group might be interested in *W&Z*'s profit or loss statement. [2]

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## Section B

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

**3. Handcrafted Juices (HJ)**

*Handcrafted Juices* (*HJ*) entered the market for organic (free from artificial chemicals) vegetable juices because of increased consumer demand. In 2024, *HJ* sold three varieties of vegetable juice at $3.75 per bottle, which was higher than the $3.00 industry average (mean). *HJ* uses a premium pricing method. Nevertheless, customer feedback is positive, highlighting the juices' unique flavours and high-quality ingredients. In tests, most consumers preferred *HJ*'s vegetable juices to those of its competitors. Sales reached 160 000 bottles, which was close to *HJ*'s maximum output.

*HJ* is committed to ethical objectives and sustainable practices, sourcing its ingredients locally. *HJ* donates (gives) 1 % of its revenues to local environmental projects.

(a) State **two** reasons why organizations set ethical objectives. [2]

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**(This question continues on the following page)**

**(Question 3 continued)**

Despite a 10 % decrease in raw ingredient costs, *HJ* increased the price of its juices to $4.00 per bottle in 2026, compared to the $3.12 industry average (mean). Sales of *HJ*'s juices are forecasted to remain at 160 000 bottles. *HJ* is considering raising $50 000 in additional capital to invest in new machinery.

For *HJ*'s annual general meeting (AGM), the chief financial officer (CFO) prepared profitability data for *HJ*'s vegetable juice lines (without the $50 000 investment). Some of this data is shown in **Table 3**.

**Table 3: Selected profitability data for *HJ*'s vegetable juice lines for the years ending 2025 and 2026 (forecasted)**

| | **2025** | **2026 (forecasted)** |
|---|---|---|
| Capital employed | $750 000 | $822 857 |
| Gross profit | $280 200 | $320 000 |
| Gross profit margin | 46.7 % | 50 % |
| Profit before interest and tax | $120 000 | $115 200 |
| Profit margin | 20 % | **X** |
| Return on capital employed (ROCE) | 16 % | 14 % |

(b) Using **Table 3** and other information in the stimulus:

(i) calculate *HJ*'s forecasted profit margin for 2026, **X** (*show all your working*); [2]

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**(This question continues on the following page)**

**(Question 3 continued)**

(ii) calculate *HJ*'s forecasted return on capital employed (ROCE) for 2026 with the additional capital investment of $50 000 (*show all your working*). [2]

. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .

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(c) Suggest **one** reason why *HJ* forecasted that its gross profit margin will increase in 2026. [2]

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**(This question continues on the following page)**

**(Question 3 continued)**

**Table 4** shows selected liquidity data for *HJ*'s vegetable juice lines.

**Table 4: Selected liquidity data for *HJ*'s vegetable juice lines for the years ending 2025 and 2026 (forecasted)**

| | **2025** | **2026 (forecasted)** |
|---|---|---|
| Acid test (quick) ratio | 1.3 | 1.0 |
| Current assets | \$170 000 | \$180 000 |
| Current liabilities | \$100 000 | \$120 000 |
| Current ratio | 1.7 | 1.5 |
| Stock level | \$40 000 | **Y** |

(d) Using **Table 4**, calculate *HJ*'s forecasted stock level for 2026, **Y** (*show all your working*). [2]

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*HJ*'s profits are falling. *HJ*'s Marketing department conducted a survey of loyal customers to determine if premium pricing and sustainability influenced their purchasing decisions. A total of 60 % of respondents said they were willing to pay 25 % more for locally and sustainably produced organic vegetable juices manufactured by companies committed to waste reduction and the use of renewable energy and recyclable packaging.

Shareholders have expressed concerns about slow business growth, falling profitability, and the money *HJ* donates to environmental projects. Some have suggested increasing sales volume by reducing *HJ*'s juice prices to match the industry average (mean). This price reduction would require *HJ* to cut costs by importing cheaper vegetables from other countries.

*HJ* is considering implementing one of two strategic options:

- **Option 1:** Lowering the price of its organic vegetable juices to match the industry average (mean) and reducing its donations to local environmental projects by 1 %.
- **Option 2:** Investing in marketing and distribution to reinforce premium positioning and increase availability.

**(This question continues on the following page)**

**(Question 3 continued)**

(e) Using **Table 3**, **Table 4** and other information in the stimulus, evaluate the two strategic options (**Option 1** and **Option 2**) for *HJ*. [10]

**(This question continues on the following page)**

**(Question 3 continued)**

Please **do not** write on this page.

Answers written on this page
will not be marked.

**4. Silius Motors (SM)**

*Silius Motors* (*SM*) manufactures small luxury cars in Country X. Making cars to order, *SM* uses mass customization.

(a) Define the term *mass customization*. [2]

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*SM* needs to focus on designing electric cars, the demand for which is growing. To remain competitive, *SM* outsources the production of some of its car parts around the world. *SM* mostly outsources (and also offshores) to companies in Country Y, which is industrialized and has surplus raw materials and lower labour costs.

(b) Explain **two** advantages for *SM* of outsourcing the production of some of its car parts. [4]

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**(This question continues on the following page)**

**(Question 4 continued)**

**Table 5** provides selected financial information from *SM*'s final accounts.

**Table 5: Selected financial information for *SM* for the year ending and as at 31 December 2025 (all figures in $ millions)**

| | |
|---|---|
| Borrowings—long term | 540 |
| Cash | 520 |
| Cost of sales | 980 |
| Debtors | 480 |
| Expenses | 2200 |
| Bank overdraft | 450 |
| Sales revenue | 5600 |
| Stock | 500 |
| Trade creditors | 550 |

**Table 6** provides liquidity data for *SM* between 2023 and 2025.

**Table 6: Liquidity data for *SM*, 2023–2025**

| | **2023** | **2024** | **2025** |
|---|---|---|---|
| Current ratio | 2.46 | 2.03 | 1.5 |
| Acid test (quick) ratio | 1.51 | 1.32 | **X** |

(c) Using **Table 5** and **Table 6**, calculate *SM*'s acid test (quick) ratio for 2025, **X** (*show all your working*). [2]

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**(This question continues on the following page)**

**(Question 4 continued)**

(d) Using **Table 6** and the acid test (quick) ratio you calculated for 2025 comment on *SM*'s liquidity between 2023 and 2025. [2]

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Although offshoring the production of some of its car parts to Country Y was initially a successful strategy, *SM* is considering reshoring. Market research indicates that Country X's consumers want high-quality cars and will pay higher prices for luxury cars fully made in Country X. Switching to local production would improve *SM*'s reputation, create more employment opportunities in Country X, and improve Country X's economy.

**Table 7** provides a summary of a STEEPLE analysis carried out by *SM* for Country X and Country Y.

**Table 7: Summary of *SM*'s STEEPLE analysis of Country X and Country Y**

| STEEPLE factor | Country X summary | Country Y summary |
|---|---|---|
| Social | Surplus of skilled workers. Demanding consumers. | Limited but increasing number of skilled workers. |
| Technological | Advanced technological development and infrastructure in car manufacturing. | Significant technological development and infrastructure. Few quality control issues in car manufacturing. |
| Economic | Stable prices, low unemployment, low interest rates, low economic growth. High rental cost of manufacturing facilities. High standard of living. High labour costs. Decreasing energy costs. | Stable prices, declining unemployment, low interest rates, high economic growth. Low rental cost of manufacturing facilities. Standard of living expected to rise. Low but increasing labour costs. Low energy costs. |
| Environmental | Environmental protection is a governmental priority. | Environmental protection is becoming a governmental priority. |
| Political | Very stable. | Relatively stable. |
| Legal | Incentives for foreign investment and business activity. | Incentives for foreign investment. |
| Ethical | Corruption is rare. | Corruption is common. |

**(This question continues on the following page)**

**(Question 4 continued)**

(e) Using **Table 7** and other information in the stimulus, examine whether *SM* should reshore its operations to Country X. [10]

**(This question continues on the following page)**

**(Question 4 continued)**

**References:**

**1.** [image of hot dog] Yeti Studio, 2019. *Hot dog on white - stock photo*. [image online] Available at: https://www.gettyimages.co.uk/detail/photo/hot-dog-on-white-royalty-free-image/1131775824 [Accessed 25 April 2025]. Source adapted.