

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

22 October 2024

Zone A morning | Zone B morning | Zone C morning

1 hour 45 minutes

Candidate session number

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**Instructions to candidates**

- 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]**.

1000	Non-current liabilities
2500	Sales revenue (year to 30 September 2024)
500	Stock

### Section A

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

**1. James and Juan Fencing Ltd. (JJF)**

James Mortim is the main shareholder of *James and Juan Fencing Ltd. (JJF)*, a privately held company that rents out temporary fencing. Businesses rent fencing for construction sites, demolition sites, outdoor events, and high-security events.

Since 2023, James has had financial efficiency issues, leading to increased debt. *JJF* offers a debtor period of 90 days. *JJF* aims to pay its own debts within 60 days.

**Table 1** shows selected financial data from *JJF*'s end-of-year (final) accounts.

**Table 1: Selected financial data from *JJF*'s end-of-year (final) accounts as at 30 September 2024, unless specified (all figures in \$000s)**

Cost of sales (year to 30 September 2024)	2000
Trade creditors	X
Debtors	800
Non-current liabilities	1000
Sales revenue (year to 30 September 2024)	2500
Stock	850

James is keen to improve *JJF*'s financial efficiency. In 2025, *JJF* plans to offer customers a discount for early payment of debt and operate *JJF* on stock levels at 20% lower than 2024.

(a) State **two** features of a privately held company.

[2]

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**(Question 1 continued)**

- (b) (i) Using the data in **Table 1**, calculate the debtor days ratio (number of days) for *JJF* (no working required).

[1]

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- (ii) *JJF*'s capital employed at year end was \$2 million. Using the data in **Table 1**, calculate the gearing ratio for *JJF* (no working required).

[1]

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- (iii) At the end of the financial year, *JJF*'s creditors are 50% of debtors. Using the data in **Table 1**, calculate the creditor days ratio (number of days) for *JJF* (show all your working).

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**(This question continues on page 5)**

Turn over

(Question 1 continued)

- (iv) *JJF's* opening stock (as of 1 October 2023) was \$750 000. Using the data in **Table 1**, calculate the stock turnover (number of days) ratio for *JJF* (show all your working).

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- (c) Explain the impact that **one** of James's planned changes for 2025 could have on an efficiency ratio.

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Forecasted cash revenue	January	February	March	April
	\$2000	\$2100	\$2000	\$1900

**2. Daniel Moon**

Daniel Moon works in a garden centre. He wants to open a garden (yard) design business as a sole trader in January 2025. He surveyed garden centre customers and learned that demand exists for garden designers. Daniel has obtained a \$3000 bank loan for his new business and will also inject \$2000 of his personal funds into the business.

Daniel has prepared forecasted figures (Table 2) and a cash-revenue forecast (Table 3) for his new business for the first four months of operation in 2025.

**Table 2: Daniel's forecasted figures for his new business for the first four months of operation in 2025 (all figures in \$)**

Personal funds	2000
Bank loan	3000
Van purchase in January	2000
Tools and equipment purchase in January	4000
Advertising every two months, starting in February	125
Cost of sales per month	400
Daniel's monthly salary, starting in March	800
Loan repayments per month	200

**Table 3: Daniel's cash-revenue forecast for his new business for the first four months of operation in 2025. These figures include some orders secured by Daniel**

	January	February	March	April
Forecasted cash revenue	\$2000	\$2100	\$2000	\$2500

(a) State **two** features of a sole trader.

[2]

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(Question 2 continued)

- (b) Using the information in **Table 2** and **Table 3**, complete the following cash-flow forecast, all figures in \$, for Daniel's new garden design business for the first four months of operation in 2025. [4]

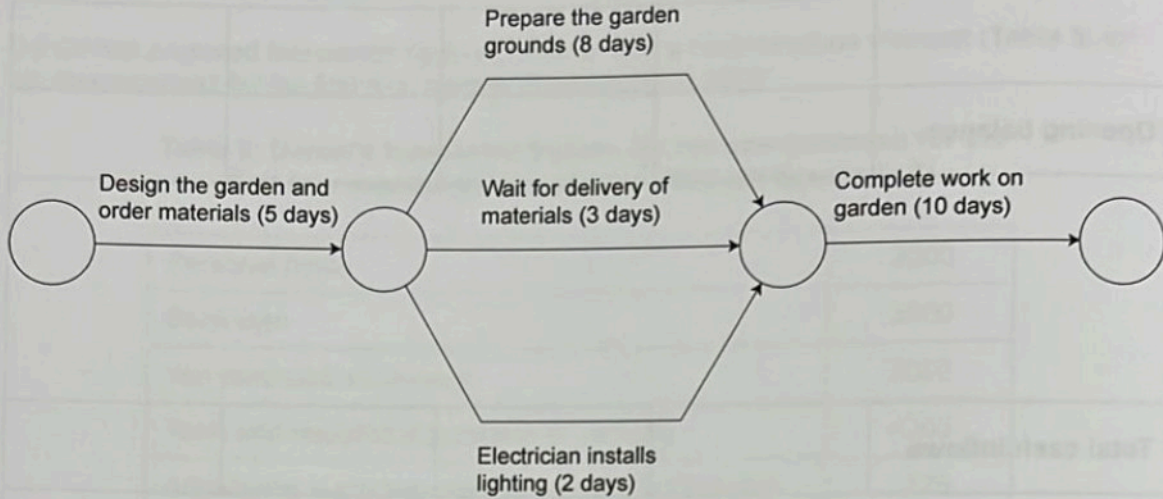
<b>Opening balance</b>				
<b>Total cash inflows</b>				
<b>Total cash outflows</b>				
<b>Net cash flow</b>				
<b>Closing balance</b>				

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(Question 2 continued)

Daniel also created a critical path diagram for a garden design project (Figure 1).

Figure 1: Daniel's critical path diagram for a garden design project



(c) Using Figure 1:

(i) determine the critical path and write the activities of the critical path in the boxes below;

[1]

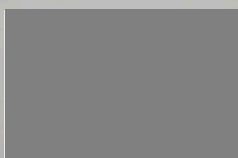
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(ii) calculate the minimum amount of time required for Daniel to finish a garden design project (no working required).

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(Question 2 continued)

- (d) Explain **one** advantage for Daniel of using critical path analysis for a garden design project.

[2]

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Financial variable	Budgeted figure	Actual figure	Variance
Sales revenue	4000	3750	250 (A)
Production costs	1500	1450	50 (F)
Management costs	Y	100	10 (A)
Profit for period	2000	1650	Z



3. Asia Coffee (AC)

Asia Coffee (AC) is a cooperative that supplies coffee in Cambodia. AC has over 500 members, and 90% of the production of the coffee it supplies is classed as fair trade. Fair trade coffee usually sells at a premium price.

Table 4 shows AC's budget, including production costs and other selected costs, for the year ended August 2023.

Table 4: Budget for AC for the year ended August 2023 (all figures in \$000s)

[A] = Adverse variance

[F] = Favourable variance

Financial variable	Budgeted figure	Actual figure	Variance
Sales revenue	4000	3750	250 [A]
Production costs	1200	1400	W
Marketing costs	100	X	20 [F]
Management costs	Y	100	30 [A]
Profit for period	2000	1650	Z

Since 2023, AC's board of directors have become concerned about declining levels of production. Selling prices have also fallen. Coffee growers and cooperative members are worried.

(a) State two features of a cooperative.

[2]

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(Question 3 continued)

(b) Using the data in Table 4:

(i) calculate, for AC, the production costs variance, **W**, and state if it is adverse or favourable (*no working required*); [1]

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(ii) calculate, for AC, the actual marketing costs, **X** (*no working required*); [1]

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(iii) calculate, for AC, the budgeted management costs, **Y** (*no working required*); [1]

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(iv) calculate, for AC, the profit for period variance, **Z**, and state if it is adverse or favourable (*no working required*). [1]

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(c) The coffee market in Cambodia has a total value of \$32 million per year. Calculate the total market share for AC's coffee in Cambodia based on actual sales revenue in Table 4 (*show all your working*). [2]

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(Question 3 continued)

- (d) Explain why AC's board of directors should be concerned by the information in Table 4.

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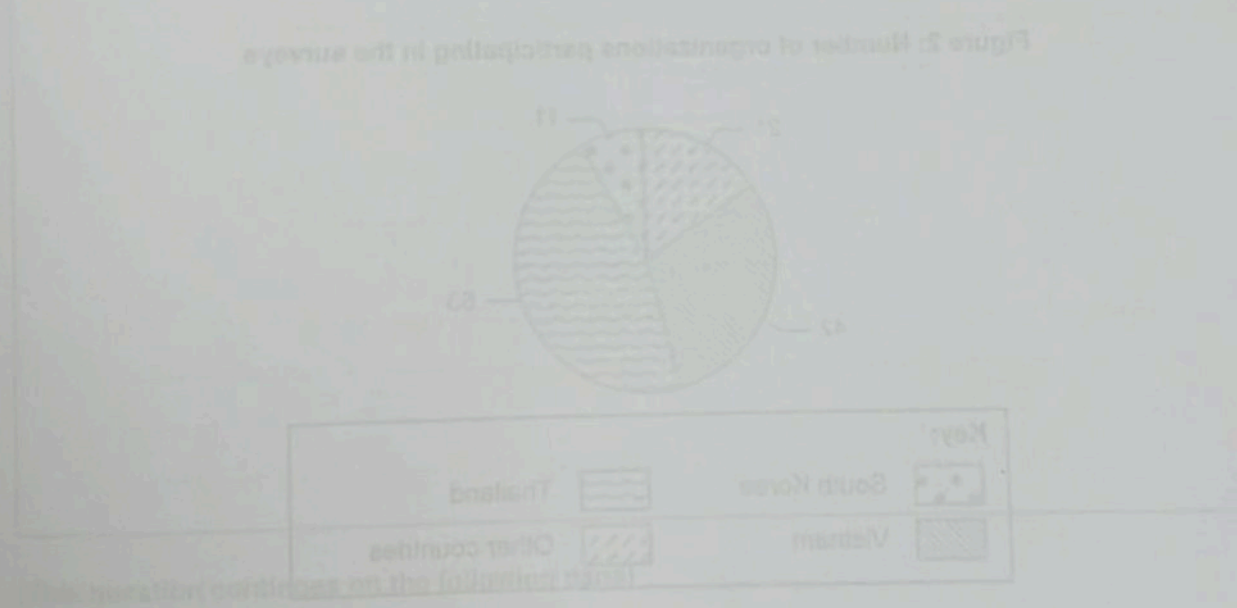
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CLX has given significantly more COVID-19 pandemic. It now has several large contracts to provide training courses to government departments in South Korea, Thailand and Vietnam, where it hopes to further develop its services. The training CLX provides is tailored to the needs of each organisation. CLX seeks feedback from training course participants through surveys that are completed at the end of training events.



Turn over

**Section B**

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

**4. Chaltex PLC (CLX)**

Eunju Kwak is the recently appointed chief executive officer (CEO) of *Chaltex PLC (CLX)*, a publicly held company. *CLX* specializes in recruitment and training services for large organizations throughout Southeast Asia.

Eunju has an autocratic leadership style. She sees herself as being in charge and as the only person capable of making important decisions. She plans for everything that might happen at *CLX*.

- (a) Describe **one** disadvantage of an autocratic leadership style. [2]

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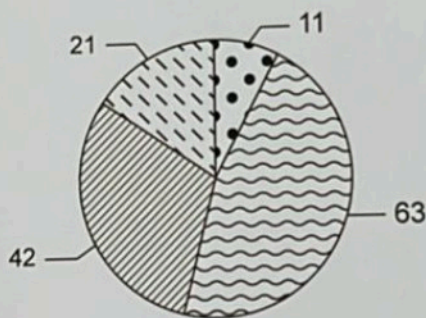
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*CLX* has grown significantly since the COVID-19 pandemic. It now has several large contracts to provide training courses to government departments in South Korea, Thailand, and Vietnam, where it hopes to further develop its services. The training *CLX* provides is customized to the needs of each organization. Eunju seeks feedback from training course participants through surveys that are completed at each training event.

**Figure 2** and **Table 5** provide extracts from the latest survey results (March 2024–September 2024).

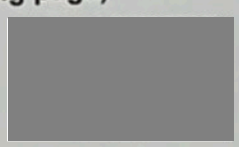
**Figure 2: Number of organizations participating in the surveys**



**Key:**

South Korea	Thailand
Vietnam	Other countries

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(Question 4 continued)

Table 5: Survey questions (average marks out of 10)

	South Korea	Thailand	Vietnam	Other countries
Quality of the presentation	7.7	8.9	8.4	7.3
Quality of the course materials	7.2	7.9	8.1	7.1
Usefulness of the training to the job role	7.8	8.8	8.2	7.6
Trainer enthusiasm	6.8	9.5	8.7	8.6

(b) Using Figure 2 and Table 5, comment on the survey carried out by Eunju. [2]

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(c) Explain two methods/techniques of primary market research, other than surveys, that Eunju could use to gather information to help her assess the training provided by CLX. [4]

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(Question 4 continued)

At a recent board meeting, concerns were raised about CLX's falling sales in South Korea. In 2023, CLX had an adverse sales variance in South Korea. Sales were below the detailed sales forecasting that Eunju had carried out for the whole business. A further fall in sales in South Korea would severely impact any further growth.

(d) Explain **one** advantage of sales forecasting for CLX. [2]

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Eunju wants to introduce contingency planning throughout CLX. The management of CLX presently deals with serious issues as they arise. Eunju has several concerns that she feels CLX should be planning for. These issues include changes in technology that may reduce the need for CLX to provide training in its current format, threats arising from CLX working internationally, and political unrest in the countries in which CLX operates.

Eunju believes that a move from crisis management to contingency planning would be beneficial to CLX.

(e) Using the information provided in the stimulus and in **Figure 2** and **Table 5**, recommend whether CLX should continue to focus on crisis management or engage in contingency planning. [10]

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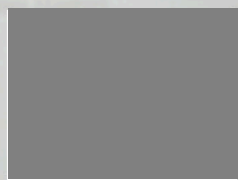
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5. De Soto Paint Company (DSP)

De Soto Paint Company (DSP) manufactures paint for commercial and residential use. The founder, who once owned 100% of the share capital, had a paternalistic leadership style. Despite the company's growth, a paternalistic leadership style has been characteristic of DSP's management ever since.

DSP's founder believed in corporate social responsibility (CSR) long before it was popular. DSP is now a publicly held company and has six factories in the United States (US) and Mexico. DSP matches the location of production to regional demand for different paint colours. Paints are sold through franchises across the US and Mexico.

- (a) State one advantage and one disadvantage to a franchiser of retailing through franchises.

[2]

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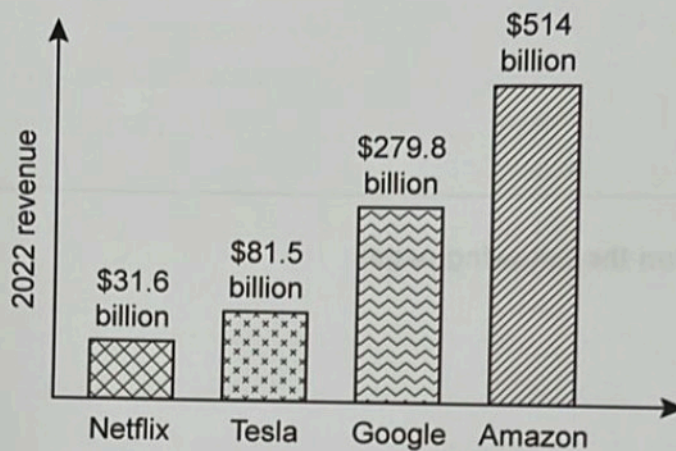
(Question 5 continued)

Many factors, including culture and weather, influence where different paint colours sell. In 2023, DSP required all franchisees to connect their computer systems to that of DSP. This process was expensive for DSP, as franchise contracts did not specify software requirements. DSP paid for the cost of integrating systems.

Once the software integration was completed, DSP collected big data based on every tin of paint sold – colour, size, location, customer, even the time of day it was sold. DSP quickly became more competitive and more efficient and switched from just-in-case (JIC) production to just-in-time (JIT) production. Sales for DSP and the franchisees increased.

DSP's chief financial officer (CFO) had read that many companies, including some famous ones, relied on big data to boost sales (Figure 3). He wanted DSP to do the same.

Figure 3: Four companies making almost \$907 billion using big data



- (b) Explain how DSP's collection of big data could impact **two** of DSP's stakeholder groups **other than** employees, management, and shareholders.

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**(Question 5 continued)**

The chief operating officer (COO) immediately saw the benefits of big data. He set up a cost centre and hired a data mining expert to run it. The data mining cost centre's purpose was to help *DSP* extract even more information from the operations and marketing of both the company and the franchisees. The data mining expert also suggested that this cost centre become a profit centre. The profit centre would sell data to companies in related industries, such as construction services and home decorating services.

Because *DSP* had a profit-related pay scheme for all employees, the idea of having a big data profit centre appealed to many employees. The data mining cost centre was converted into a profit centre.

- (c) With reference to *DSP*, distinguish between a cost centre and a profit centre. [4]

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**References:**

**Figure 3.** Leo, 2023. *4 Companies Making Almost \$907 Billion Using Big Data*. [blog] Consult Port, April 29. Available at: <https://consultport.com/for-companies/4-companies-making-almost-907-billion-using-big-data/> [Accessed 19 February 2024]. SOURCE ADAPTED.

