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Business management
Higher level
Paper 2

1 May 2024

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

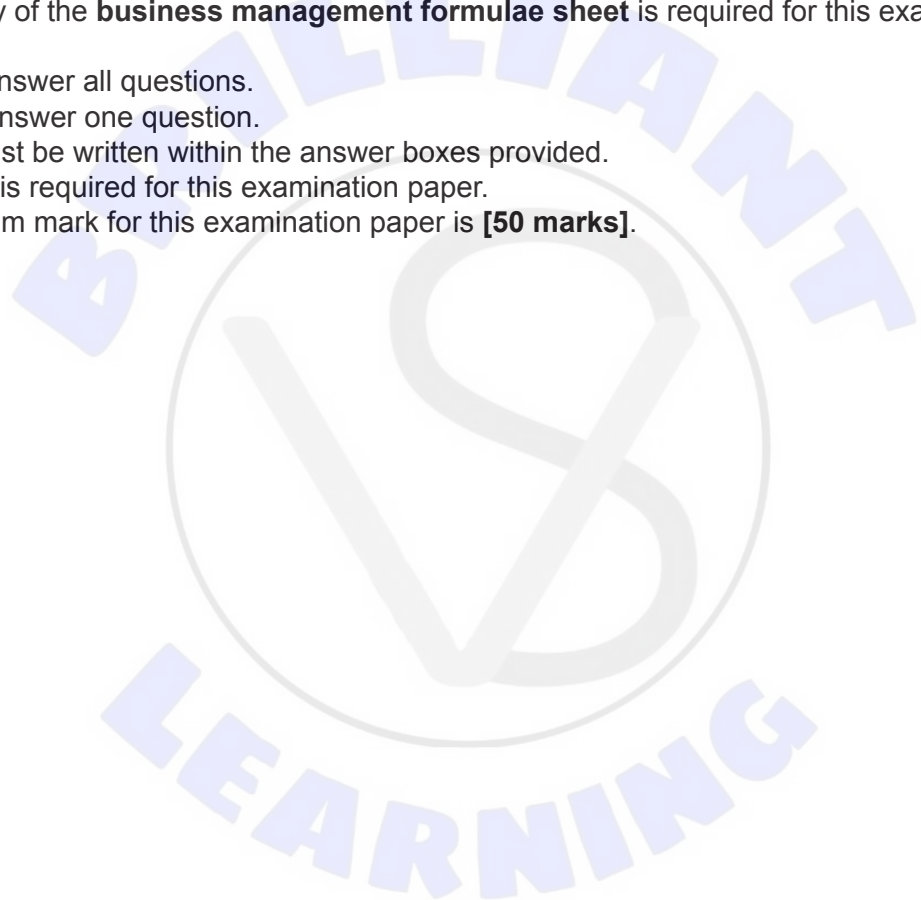
Candidate session number

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 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]**.



Section A

Answer **all** questions in this section.

1. Kimura Answers PLC (KA)

Kimura Answers PLC (KA), a public limited company, develops software and provides information technology solutions to businesses. *KA* has numerous intangible assets, including \$24 000 000 as at 31 December 2023.

Table 1 provides selected financial information from *KA*'s final accounts for the year ending 31 December 2023.

Table 1: Selected financial information for *KA* for the year ending 31 December 2023 (all figures in millions of \$)

Bank overdraft	24
Borrowing, long-term	47
Cash	21
Cost of sales	42
Creditors	2
Debtors	34
Expenses	183
Interest	5
Non-current assets	68
Retained earnings	48
Sales revenue	248
Share capital	2
Tax	3

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

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(Question 1 continued)

- (b) (i) Calculate *KA*'s profit **before** interest and tax for the year ended 31 December 2023 (*show all your working*).

[2]

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- (ii) Using your answer to part (b)(i), calculate *KA*'s profit margin for the year ended 31 December 2023 (*show all your working*).

[2]

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- (c) In 2024, *KA* will purchase 20 company cars for \$50 000 each, and each car will have a residual value of \$5000. *KA* will depreciate the cars over a five-year period.

Using straight-line depreciation, calculate *KA*'s total annual depreciation expense for the 20 company cars (*show all your working*).

[2]

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- (d) Explain **one** disadvantage for *KA* of using a straight-line depreciation method for the 20 company cars.

[2]

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2. Novus Orbis PLC (NOP)

Novus Orbis PLC (NOP), a public limited company, manufactures virtual reality headsets using a flow production method. *NOP* buys components in bulk to produce the headsets. *NOP*'s factory is in the capital city of a developing country, where the rent for storage space is very expensive, public transport is limited, and traffic congestion is significant.

Seeking greater efficiency, *NOP*'s board of directors is considering introducing just-in-time (JIT) production.

NOP's chief executive officer (CEO) is concerned about the country's political and economic instability.

Figure 1 shows stock information for *NOP*, and **Table 2** shows selected financial information for *NOP* for 2024.

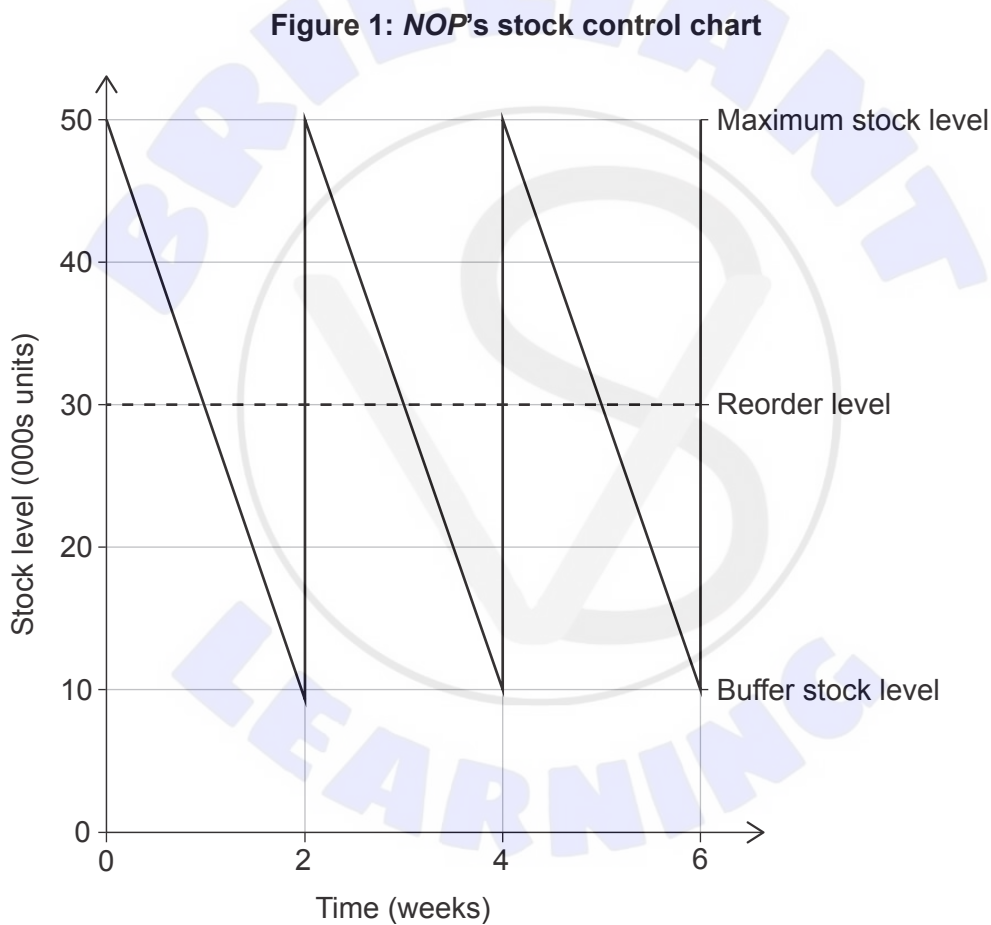


Table 2: Selected financial information for *NOP* for 2024 (all figures in millions of \$)

Cost of sales	8
Opening stock	1.5
Closing stock	2.5

(This question continues on the following page)



(Question 2 continued)

(a) State **one** advantage **and one** disadvantage of flow production. [2]

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(b) Referring to **Figure 1**, state:

(i) *NOP's lead time (no working required);* [1]

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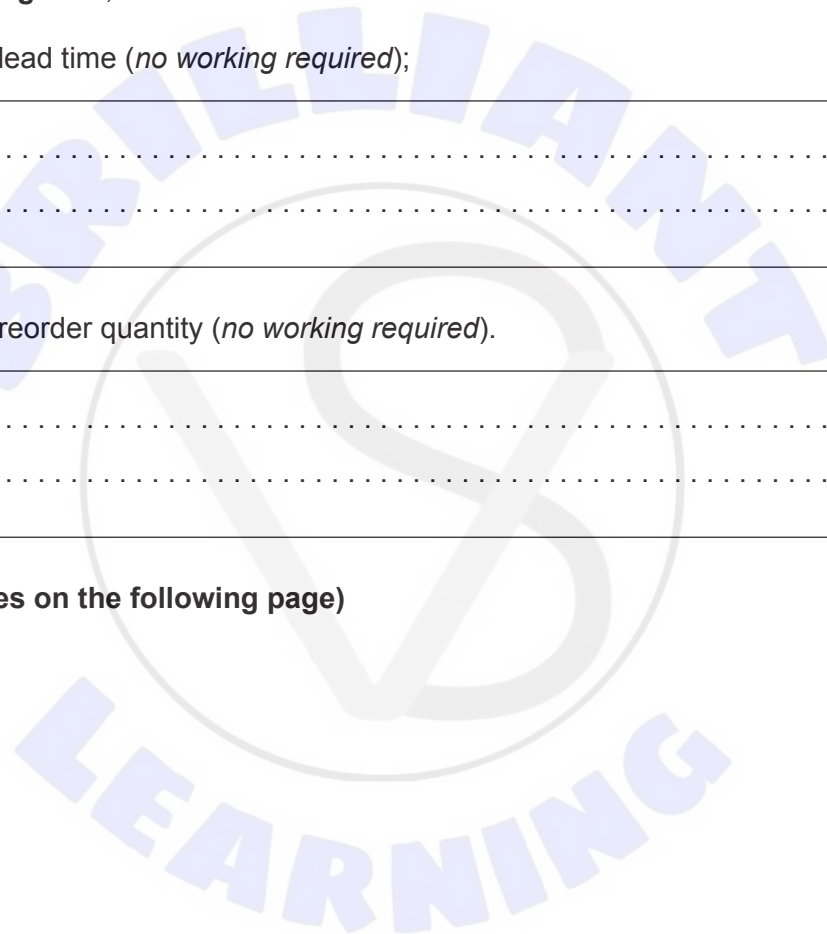
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(ii) *NOP's reorder quantity (no working required).* [1]

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(Question 2 continued)

(c) Using information from **Table 2**, calculate:

(i) the stock turnover (number of times) ratio (*show all your working*); [2]

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(ii) the closing stock *NOP* should have in order to increase its stock turnover (number of times) ratio by 100% (*show all your working*). [2]

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(d) Explain **one disadvantage** for *NOP* of implementing just-in-time (JIT) production. [2]

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3. Sengku Vacuum Cleaners (SVC)

Sengku Vacuum Cleaners (SVC) manufactures vacuum cleaners and sells them to wholesalers. *SVC* has a patent on one component that makes an *SVC* vacuum cleaner more powerful than competitors' comparably priced vacuum cleaners.



For 2025, *SVC* forecasts sales of 2500 vacuum cleaners per month. Each vacuum cleaner sells at an average price of \$50. **Table 3** and **Table 4** show *SVC*'s forecasted fixed and variable costs for 2025.

Table 3: SVC's forecasted fixed costs for 2025 (all figures in \$)

Rent	144 000
Insurance	27 000
Salaries	273 000
Lease on equipment	196 000
Cleaning services	60 000

Table 4: SVC's forecasted variable costs per vacuum cleaner for 2025 (all figures in \$)

Material	17.50
Labour	2.50
Delivery	5.00

(This question continues on the following page)



(Question 3 continued)

(a) Define the term *patent*.

[2]

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(b) Calculate:

(i) SVC's break-even level of output for 2025 (*show all your working*);

[2]

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(ii) the number of vacuum cleaners SVC needs to sell at a price of \$50 to make a target profit of \$25 000 (*show all your working*);

[2]

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(Question 3 continued)

(iii) SVC's break-even quantity if it increases its selling price by 20% (*show all your working*).

[2]

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(c) Despite the greater power of SVC vacuum cleaners, the price elasticity of demand is -2.

Referring to price elasticity of demand, explain **one** impact on SVC's sales revenue if it increases the selling price of each vacuum cleaner by 20%.

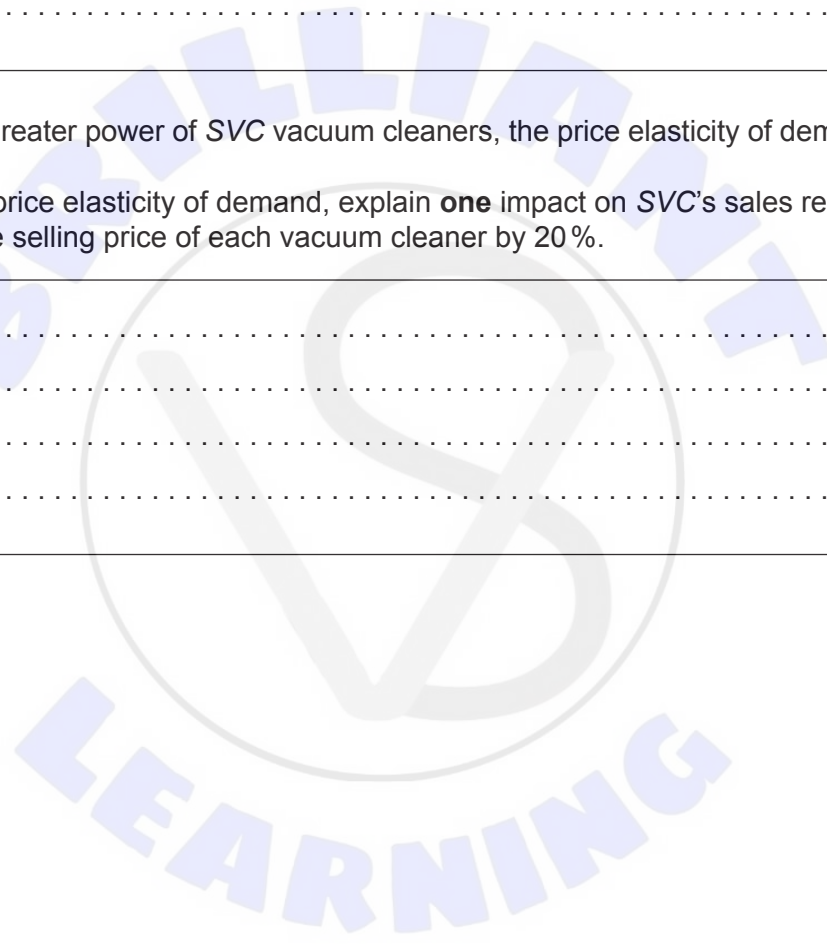
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Section B

Answer **one** question from this section.

4. Avuela PLC (AV)

Avuela PLC (AV), a public limited company, is a low-cost airline that offers cheap flights in South America. *AV* operates all over the continent flying to small cities and remote areas. Its target market is travellers who like difficult-to-reach destinations. *AV* charges \$5 for each 20-kilogram piece of luggage, a charge that is 80% lower than luggage charges from its competitors. *AV*'s customer satisfaction and brand loyalty are strong. *Backpackers* magazine named *AV* the customers' favourite airline for five years in a row.

(a) Define the term *target market*.

[2]

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AV employs only 50 pilots, of which 20 are captains. Each of *AV*'s flights has two pilots: the captain, with overall responsibility for flight safety and punctuality, and a first officer, who is less experienced. Captains also carry out the training of first officers.

AV's fleet of aircraft is one of the oldest in the region. The maintenance director recently said, "Unless new aircraft are purchased or leased, it is likely that safety issues may occur." Several captains have resigned. The pilots' union is in conflict with *AV* and argues that:

- flying into remote and secluded airports is dangerous and stressful
- salaries are below the industry average
- captains should be better paid for training first officers.

AV plans to recruit pilots externally to fill the captains' vacancies. *AV* will hire an agency to manage the recruitment process, which will take six months. Some of *AV*'s first officers are expressing strong interest in applying for the vacancies.

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(Question 4 continued)

(b) Explain **one** advantage **and one** disadvantage for AV of recruiting captains externally. [4]

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New low-cost airlines offering discounts and loyalty programmes are entering the South American market. AV now faces some challenges:

- It relies on low prices to sell tickets.
- Its customer database is limited, and data collected is not used.
- It wants to develop a customer loyalty programme but lacks experience.

(c) Explain **one** advantage **and one** disadvantage for AV of creating a customer loyalty programme. [4]

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FL, a European airline that operates internationally, wants to increase its operations in South America. It has a modern aircraft fleet and numerous highly qualified departments including human resources (HR), marketing, IT, and safety and security. FL has a customer loyalty programme, but its customer satisfaction is low. FL does not deal with customer complaints successfully, and flight cancellations and delays are above the industry average.

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(Question 4 continued)

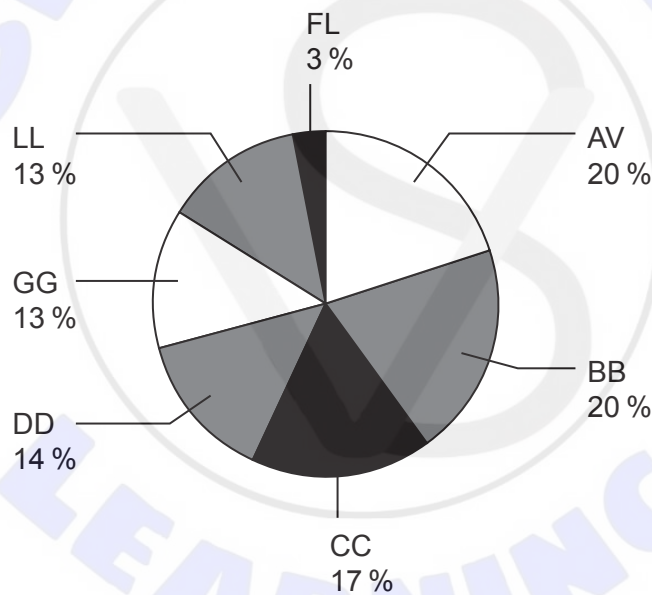
Acquisitions and mergers are increasing in the airline industry. *FL* has proposed to *AV* a joint venture. *AV*'s shareholders are unsure about the deal. *AV*'s chief executive officer (CEO) has written a report on both airline companies. Selected financial information from this report is shown in **Table 5**.

Table 5: Selected financial information from the CEO's report (all figures in %)

	AV		FL		Industry average	
	2022	2023	2022	2023	2022	2023
Increase in aircraft repair costs	7	9	0.5	0.5	3	4
Profit margin	-1	-2	0.5	1	0.2	1.5
Gearing ratio	1.6	1.5	16	18	6	5

Figure 2 shows the market share for airlines operating in South America.

Figure 2: Market share for airlines operating in South America



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5. Airport Services (AS)

Airport Services (AS) is a supplier of baggage handling and general security services to six small local airports across Europe.

AS's 400 employees are given extensive training, including a three-week induction training programme.

(a) Describe **one** feature of induction training.

[2]

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Many of AS's longest-serving employees left during the COVID-19 pandemic. The employees moved into other jobs and have not returned to AS. New employees had to undergo training, and Brian Garbett, the chief executive officer (CEO), feels that they do not show the level of commitment to the role compared to previous employees.

Since 2021, there has been increasing tension between managers and employees at AS.

Between February and March 2024, Brian decided to carry out an employee survey. Only 35% of employees responded. He wonders whether he should offer performance-related pay (PRP) to improve relations between managers and employees.

A summary of the key findings from the employee survey is shown in **Table 6**.

Table 6: Findings from the employee survey for AS

Employee opinions about:	Happy	Acceptable	Unhappy
Hours of work	15%	70%	15%
Salary	5%	20%	75%
Support from management	5%	15%	80%
Do managers listen?	7%	14%	79%
Do you feel valued?	4%	9%	87%

(This question continues on the following page)



(Question 5 continued)

(b) Comment on the employee survey carried out by Brian.

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(c) With reference to expectancy theory **and Table 6**, explain **one** reason why Brian should be concerned by the results of the employee survey.

[2]

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After the survey was completed, Brian noticed that manager–employee relations worsened.

An employee representative approached Brian and demanded a 15% increase in pay. The employee representative highlighted that the employees' living standards had fallen over the last two years. Brian was worried by the pay increase demanded and was hoping to agree a 6% increase, plus an extra 2% for overtime work. He informed the representative of his proposed percentage.

The employees are unhappy with a 6% pay increase and have threatened industrial action, including work-to-rule and strikes. This industrial action would target the upcoming summer holiday period at airports that AS serves.

(This question continues on the following page)



(Question 5 continued)

(d) Explain **two** disadvantages for AS of its employees implementing a work-to-rule. [4]

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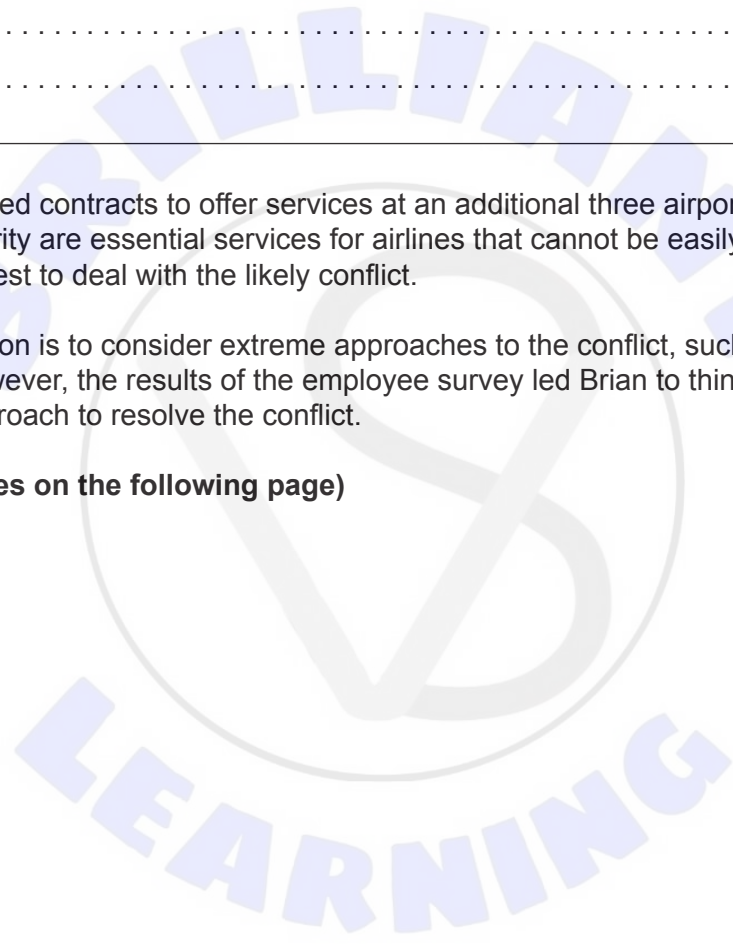
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AS recently accepted contracts to offer services at an additional three airports. Baggage handling and security are essential services for airlines that cannot be easily replaced. Brian is unsure of how best to deal with the likely conflict.

Brian's initial reaction is to consider extreme approaches to the conflict, such as threats of redundancies. However, the results of the employee survey led Brian to think he needed to use a different approach to resolve the conflict.

(This question continues on the following page)





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References:

3. Eleganza, n.d. *Man cleaning house with wireless vacuum cleaner – stock photo*. [image online] Available at: <https://www.gettyimages.co.uk/detail/photo/man-cleaning-house-with-wireless-vacuum-cleaner-royalty-free-image/1411886517?phrase=vacuum+cleaners&adppopup=true> [Accessed 5 October 2023]. Source adapted.

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