

# Markscheme

**November 2025**

**Business management**

**Standard level**

**Paper 2**

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The markbands on page 3 should be used where indicated in the markscheme.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptor.
1–2	<ul style="list-style-type: none"> <li>• Little understanding of the demands of the question.</li> <li>• Little use of business management tools and theories; any tools and theories that are used are irrelevant or used inaccurately.</li> <li>• Little or no reference to the stimulus material.</li> <li>• No arguments are made.</li> </ul>
3–4	<ul style="list-style-type: none"> <li>• Some understanding of the demands of the question.</li> <li>• Some use of business management tools and theories, but these are mostly lacking in accuracy and relevance.</li> <li>• Superficial use of information from the stimulus material, often not going beyond the name of the person(s) or name of the organization.</li> <li>• Any arguments made are mostly unsubstantiated.</li> </ul>
5–6	<ul style="list-style-type: none"> <li>• The response indicates an understanding of the demands of the question, but these demands are only partially addressed.</li> <li>• Some relevant and accurate use of business management tools and theories.</li> <li>• Some relevant use of information from the stimulus material that goes beyond the name of the person(s) or name of the organization but does not effectively support the argument.</li> <li>• Arguments are substantiated but are mostly one-sided.</li> </ul>
7–8	<ul style="list-style-type: none"> <li>• Mostly addresses the demands of the question.</li> <li>• Mostly relevant and accurate use of business management tools and theories.</li> <li>• Information from the stimulus material is generally used to support the argument, although there is some lack of clarity or relevance in some places.</li> <li>• Arguments are substantiated and have some balance.</li> </ul>
9–10	<ul style="list-style-type: none"> <li>• Clear focus on addressing the demands of the question.</li> <li>• Relevant and accurate use of business management tools and theories.</li> <li>• Relevant information from the stimulus material is integrated effectively to support the argument.</li> <li>• Arguments are substantiated and balanced, with an explanation of the limitations of the case study or stimulus material.</li> </ul>

**Section A**

1. (a) Describe **one** feature of a paternalistic leadership style. **[2]**

- Acts as patriarch or matriarch and treats employees as though they were part of their family in exchange for loyalty.
- Prioritizes employee needs and wellbeing and provides emotional support.

*Accept any other relevant feature.*

*Award [1] for a partial description.*

*Award [2] for a full description.*

(b) Using **Table 1**, prepare a cash-flow forecast for *LL* for the first four months of operations. **[6]**

All financial figures are in \$	Month 1	Month 2	Month 3	Month 4
<b>Opening balance</b>	20 000	24 000	17 600	24 040
<b>Cash inflows</b>				
Revenue from charities	20 000	22 000	24 200	26 620
<b>Total cash inflows</b>	20 000	22 000	24 200	26 620
<b>Cash outflows</b>				
Storage rental	8000	8000	8000	8000
Electricity, gas and water	500	500	500	500
Mia’s salary	5000	5000	5000	5000
Promotion expenses	2500	2500	2500	2500
Insurance	0	10 000	0	0
Homeless charity donation	0	2400	1760	2404
<b>Total cash outflows</b>	16 000	28 400	17 760	18 404
<b>Net cash flow</b>	4000	(6400)	6440	8216
<b>Closing balance</b>	24 000	17 600	24 040	32 256

*Accept slightly different headings / format.*

**N.B.** Allow candidate own figure rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast that is only one error. This provision includes both mathematical errors and conceptual errors (for example, if a candidate has the insurance in the incorrect month then candidates should only lose [1] for that error).

*If a candidate misclassifies an item, like storage rental, as an inflow, consider that as one error.*

*Award [1] if the candidate conveys some understanding of what a cash flow forecast is, but otherwise the forecast is largely inaccurate, incomplete, or illegible.*

If the candidate produces a cash flow as below:

All financial figures are in \$	Month 1	Month 2	Month 3	Month 4
<b>Opening balance</b>	20 000	24 000	17 600	24 040
<b>Total cash inflows</b>	20 000	22 000	24 200	26 620
<b>Total cash outflows</b>	16 000	28 400	17 760	18 404
<b>Net cash flow</b>	4000	(6400)	6440	8216
<b>Closing balance</b>	24 000	17 600	24 040	32 256

Award a maximum of **[5]** if otherwise fully correct. Deduct any further marks according to the guidance above for mathematical and conceptual errors.

Award **[2–3]** if a cash flow forecast is drawn, but either it is not in a generally accepted format or it is untidy, and/or the forecast contains three or more errors, which could include, in addition to number placement problems and mathematical errors, conceptual errors (using the word “profit” rather than “net cash flow”) or omissions, such as not having a line like “closing balance” or totals.

Award **[4–5]** if the cash flow forecast is drawn essentially correctly and neatly in a generally accepted format, but there is one error for **[5]** or two errors for **[4]**.

Award **[6]** if the cash flow forecast is drawn accurately and neatly in a generally accepted format and is error free. If the candidate provides a heading of total cash inflow/total cash outflow without using another heading above of cash inflow or cash outflow – do not penalize as an omission.

- (c) Explain **one** reason why LL will donate 10 % of every month’s closing cash balance to a charity. **[2]**

Mia’s intention to donate 10 % of every month’s closing cash balance to the homeless charity might help her raise crowdfunding investment, as LL would be perceived as a socially responsible business.

The percentage donation does not over-commit LL as it relates to the closing balance, ensuring it is in line with the ability of the business to pay. This proportional donation will help maintain adequate liquidity and cash flow. If the cash balance falls, the donation will fall in line with this. For example, in month 2, the cash-flow position worsens due to a one-off insurance charge. This reduces the charity donation from \$2400 in month 2 to \$1760 in month 3, which helps compensate for LL’s reduced liquidity the previous month.

The decision to donate 10% each month may improve LL’s brand image and consequently increase the number of charities that want to work with LL.

Accept any other relevant comment.

Award **[1]** for a relevant comment and an additional **[1]** for application to LL.

2. (a) Describe **one** feature of internal growth. **[2]**

Internal growth occurs when an organization aims to expand by investing to grow existing productivity capacity and increasing the scale of operation without the help of any external firm through merger and/or acquisition or financing.

*Award [1] for a partial description.*

*Award [2] for a full description that includes both increasing the scale of operation through existing capacity or without the help of a merger and/or acquisition or finance.*

- (b) (i) Calculate CGD's profit margin for 2024 (*show all your working*). **[2]**

$$\text{Profit margin} = (\text{profit before interest and tax} / \text{sales revenue}) \times 100$$

$$(\$70\,000 - \$60\,000) / \$150\,000 \times 100 = 6.667\%$$

Accept 6.67 % or 7 %

**N.B.** Do not award 6% as correct answer.

*Award [1] for a correct answer with % sign and an additional [1] for correct working.*

- (ii) Calculate the payback period for the new machine (*show all your working*). **[2]**

Machine cost = \$350 000

Year	Net cash flow (\$) after subtracting \$10 000	Cumulative cash flow (\$)
1	130 000	130 000
2	100 000	230 000
3	90 000	320 000
4	80 000	400 000
5	70 000	470 000

The payback period is between year 3 and year 4  
 30 000 more would come from 80 000 of year 4  
 $30\,000 / 80\,000 \times 12 = 4.5$  months  
 3 years and 4.5 months.

*Award [1] for a correct answer with units and an additional [1] for correct working.*

- (iii) Calculate the average rate of return (ARR) for the new machine (*show all your working*). **[2]**

Machine cost = \$350 000

Year	Net cash flow (\$) after subtracting \$10 000	Cumulative cash flow (\$)
1	130 000	130 000
2	100 000	230 000
3	90 000	320 000
4	80 000	400 000
5	70 000	470 000

$$\begin{aligned} \text{Net return} &= \$470\,000 - \$350\,000 \\ &= \$120\,000 \end{aligned}$$

$$\text{Net return per annum} = \$120\,000 / 5 = 24\,000$$

$$\begin{aligned} \text{ARR} &= \text{net return per annum} / \text{capital cost} \times 100 \\ &= 24\,000 / 350\,000 \times 100 \\ &= 6.85\% \text{ or } 6.9\% \text{ or } 7\% \end{aligned}$$

*Award [1] for a correct answer with % sign and an additional [1] for correct working.  
OFR to be applied.*

- (c) Explain **one** possible source of finance that *CGD* could use to fund the operation of the new machine. **[2]**

Relevant sources have to be long-term and suitable for *CGD*. These could include loan capital, leasing, raising share capital, retained profit, and sale of assets.

The profit margin is only 6.67%. Raising finance through loan capital would increase the cost of borrowing and hence reduced returns to *CGD*. Interest rates are also predicted to rise.

The cost of investing in the machine is \$350 000 and the value of non-current assets is only \$90 000. This makes raising funds through sale of non-current assets limited to support the new machinery opportunity.

*Award [1] for the identification and explanation of relevant source of finance to CGD.*

*Award [1] for clear application to CGD.*

## Section B

3. (a) State **two** features of a social enterprise. **[2]**

Features of a social enterprise include:

- It has a clear public mission, that is, a mission to perform some social good.
- It engages in business-like activities to generate funds to cover expenses.
- It is mostly not for profit or, if for profit, retains most earnings to further support the public mission of the enterprise.
- It is mostly socially progressive, not just in economic matters but also in matters of diversity, inclusion and social justice.

*Accept any other relevant feature.*

*Award [1] for each feature stated up to a maximum of [2].*

- (b) Comment on **one row** from 1–4 of the dataset in **Table 3**. **[2]**

*Award [1] if a candidate restates a dataset in words such as, In **2024 more social enterprises** had “**improving a community**” as an **objective than any other objective**”.*

*Award an additional [1] if the candidate provides some reasonable interpretation, that is, the candidate goes beyond restating the data set in words. E.g. “And **this objective has increased significantly since 2017** when it ranked only 3rd out of 4 objectives”*

- (c) (i) Calculate *KZT*'s margin of safety in 2023 (*no working required*). **[1]**

Total output was 80 000 pies.

Break-even output was 50 000 pies.

Therefore, **margin of safety** = 80 000 – 50 000 = **30 000 units / pies**

*Award [1] for a correct answer. No working required.*

- (ii) Calculate *KZT*'s total variable costs in 2023 (*show all your working*). **[2]**

Variable costs per unit = BE total variable costs / BE quantity

Variable costs per unit = \$100 000 / 50 000

Variable costs per unit = \$2

Total variable costs for 2023 = Variable costs per unit × output for 2023

Total variable costs in 2023 = \$2 × 80 000

**Total variable costs in 2023 = \$160 000**

*Award [1] for the correct answer and [1] for correct working, up to a maximum of [2].*

*A correct answer must include the **sign \$**.*

*Award [1] for correct workings/steps but an incorrect answer from something such as a mathematical error.*

*If candidates do not show any working but correctly write \$160 000, award [1].*

- (iii) Label the y- and x-axes on the break-even chart (**Figure 1**). **[1]**

*Award marks as follows:*

**[1]** for **both** appropriately labelled axes – y-axis must include both costs and revenue (\$). The x-axis can be any suggestion of quantity: units.

- (d) Explain how the increase in variable costs in 2023 affected KZT’s total contribution. **[2]**

Considering that the **Total contribution = total sales revenue less total variable costs**, an increase in variable costs would **decrease** the **total contribution**.

**N.B.** Candidates **are not** expected to produce any calculations.

Award **[1]** if the candidate states that an increase in variable costs would decrease total contribution.

Award an additional **[1]** if the candidate explains that this decrease arises because total contribution is the difference between total sales revenue and total variable costs. Award a maximum of **[2]**.

- (e) Using **Table 4** and other information in the stimulus, discuss whether shareholders should vote in favour of implementing the production director’s plan to increase pie production. **[10]**

**Arguments for:**

**Profits will increase** – if the forecasts are correct then these will be:

Profits = sales revenue – total  
 2025 \$122 000  
 2026 \$163 250  
 2027 \$207 000

These years show an **increase when compared to 2024** (profits in 2024 were \$100 000).

The **increased profits** may **enable KZT** to **meet** its **objective** of providing **free meals** in vacations **to older school children**.

Payback is reasonably fast: 2 years – the cost of the plan is \$207 000  
 Investment \$207 000

Year 0	(207 000)	(207 000)
Year 1	100 000	(107 000)
Year 2	122 000	15 000

**Arguments against:**

The **closure** of one **training room** will **affect KZT’s** ability to **train unemployed people**. In **2023**, it had **2 training rooms** and trained **140 unemployed** people – this **might drop to 70** people after closure of the training room, which this goes **against** one of KZT’s **objectives (train the local community)** and is **not in** line with their **mission statement** either.

*Marks should be allocated according to the markbands on page 3.*

*Note: An option is considered to have a balance of it has two advantages and two disadvantages.*

*However, these must be explained, not just stated eg. “so profit margins will increase” cannot be credited unless an explanation is provided as to why they will increase.*

4. (a) State **two** features of above-the-line promotion. **[2]**

Features could include:

- Is paid for
- Uses mass media
- Is controlled by the business but difficult to gauge immediate consumer reaction
- Can reach a large audience
- Generally untargeted.

*Accept any other relevant feature.*

*Award [1] for each relevant feature up to a maximum of [2].*

b. (i) Comment on the standard deviation calculated by *DND*. **[2]**

A standard deviation measures how dispersed that data is in relation to the mean. In this case, a score of 1.2 means that the focus group members' purchases are clustered around the mean, i.e., they all / the majority purchase a similar amount of Nut Blocks in a three-month period.

*Award [1] for a relevant comment and [1] for application to DND, up to a maximum of [2].*

(ii) Explain **two** disadvantages for *DND* of using a focus group. **[4]**

- Biased results, as all members are long-standing *DND* customers.
- More expensive, as the meetings take place every month.
- The focus group comprises of women only, so it is unrepresentative as 20% of Nut Block customers are not women.
- May not be representative of the Nut Block's target market, as the focus group meetings are online so exclude customers unfamiliar with online meetings.

**Mark as [2+2].**

*Accept any other relevant disadvantage.*

*Award [1] for a relevant disadvantage and [1] for application to DND, up to a maximum of [2].*

(c) Using **Table 5**, calculate the break-even quantity/point for *DND* for 2024 (*show all your working*). **[2]**

$$\begin{aligned} \text{Break-even quantity/point} &= \text{TFC} / \text{unit contribution} \\ &= \$750\,000 / 2.50 - 2.18 \\ &= -\$750\,000 / 0.32 \\ &= 2\,343\,750 \text{ units} \end{aligned}$$

*Award [1] for working and [1] for the correct answer, up to a maximum of [2].*

- (d) Using the information in the stimulus, discuss **two** possible product life cycle extension strategies that *DND* could implement to increase sales of the Nut Block by 20 %. **[10]**

**Possible extension strategies:**

**Find new markets.** Lots of potential (not an SL requirement but accepted) so will require heavy and expensive marketing and transport costs will increase. If successful in finding new markets, this could be a sound policy but may take more than one year before sales rise sufficiently to offset increased marketing costs.

**Lower prices.** May increase sales, as *DND* currently uses a premium pricing method. However, it may harm *DND*'s image amongst its target market. Also, little room to make price cuts – in 2024, its unit contribution was only \$0.32. A 10% cut in the selling price from \$2.50 would reduce this to \$0.07, and unless sales rise significantly, profits will fall. A further issue is the prediction that variable costs will increase by 15% in 2025 – this would increase total variable cost by \$0.327, which would lead to losses.

**Change its advertising strategy.** Currently, *DND* only uses above-the-line promotion, which is expensive. In 2024, above-the-line promotion accounted for 80% of fixed costs, which is equal to \$600 000. *DND*'s core customers are getting older. *DND* could switch to below-the-line promotion and make greater use of social media, which would be less expensive and more likely to appeal to a new demographic, younger consumers – the average age of *DND*'s consumers was over 50 in 2024. However, *DND* has no experience of using social media or below-the-line promotion and may need to employ additional staff to develop this form of advertising / promotion.

**Update its packaging.** It was last updated more than 20 years ago in 2004, and *DND*'s focus group saw it as boring and outdated. A new design might breathe more life into the product and would be a relatively low-cost method of giving the product an image boost. However, on its own, changing packaging is unlikely to grab the attention of new demographics unless the new packaging is linked to a new advertising and promotion campaign. Hence, *DND* may need to link the new packaging with below-the-line promotion.

*Marks should be allocated according to the markbands on page 3.*

*Note: This question requires two strategies.*

*A strategy is considered balanced if it has one advantage and one disadvantage.*

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