

PRE-TRIAL EXAMINATION

BUSINESS STUDIES

2 UNIT

**Time allowed Two Hours.
(Plus 5 minutes reading time)**

Friday 1st April, 2012.

DIRECTIONS TO ALL CANDIDATES

- You may ask for extra writing booklets if you need them.
- Board – approved calculators may be used.

SECTION ONE – Multiple Choice (20 marks)

- Attempt Questions 1 - 20.
- Complete your answers in either blue or black pen on the answer sheet provided.

SECTION TWO – Short Answer Questions (40 marks)

- Attempt questions 21 - 24.
- Answer the questions in the spaces provided in this paper.

SECTION THREE – Business Report (20 marks)

- Attempt Question 25
- Answer the question in the booklets provided.

TOTAL VALUE 80 MARKS

STUDENT NUMBER:

Section I

20 marks

Attempt Questions 1-20

Allow about 20 - 25 minutes for this section

Answer the questions on the separate answer sheet.

1. Which of the following is an example of short term external debt finance?

- a) Retained earnings
- b) Leasing
- c) Bank bills
- d) Grants

Use the following information to answer question 2.

Current Assets	\$26 000
Non Current Assets	\$21 000
Non Current Liabilities	\$22 000
Current Liabilities	\$10 000
Net Profit	\$ 5 000
Capital	\$10 000

2. Calculate the gearing ratio?

- a) 15%
- b) 213%
- c) 130%
- d) 68%

King Yee is a retail hardware store that promises 'to beat all of our competitors' prices online and every time!

3. This is an example of which pricing method?

- a) Penetration pricing
- b) Price skimming
- c) Competition based
- d) Market based

4. Which of the following is a limitation of historical cost accounting?

- a) There is no readily acceptable method for valuing intangible assets
- b) It requires auditing of accounts
- c) It means that expenses should not be capitalised in the balance sheet
- d) The value of fixed assets is recorded at their cost of acquisition

5. What type of ratio is the Accounts Receivable Turnover Ratio?

- a) Liquidity
- b) Efficiency
- c) Profitability
- d) Solvency

The Italian car maker FIAT changes the types of its petrol and diesel engines for each country it sells its cars to.

6. This is an example of?

- a) Global branding
- b) E-marketing
- c) Standardisation
- d) Customisation

Tamagotchis are all the rage again. Every kid has to have one to be 'in the crowd'.
Jamie bought one with her birthday money.

7. What factor influenced her choice?

- a) Competitiveness
- b) Economic
- c) Psychological
- d) Socio-cultural

Use the financial information for Dani's Design Studio to answer questions 8 & 9.

Interest	\$	950
Closing Stock	\$	3 500
Bad Debts	\$	2 100
Petrol Expenses	\$	700
Wages	\$	28 500
Cartage In	\$	2 500
Sales	\$	190 000
Rent	\$	4 000
Purchases	\$	32 000
Electricity	\$	2 800
Advertising	\$	1 100
Opening Stock	\$	12 000

8. Calculate the level of COGS for Dani's Design Studio.

- a) \$37 000
- b) \$43 000
- c) \$40 000
- d) \$39 500

9. Calculate the net profit for Dani's Design Studio.

- a) \$109 850
- b) \$100 000
- c) \$109 110
- d) \$106 850

Koosh Hair recently introduced a program offering a free haircut for every nine haircuts purchased.

10. What type of promotional strategy is this?

- a) Personal selling
- b) Below the line promotions
- c) Advertising
- d) Selective

The Nike store asks customers for their postcodes when they are exchanging or returning goods.

11. Why do they do this?

- a) For selective distribution
- b) For intensive distribution
- c) For primary data collection
- d) For secondary data collection

The financial manager of a jewelry business has decided that improving the turnover of accounts receivable is a goal for the coming year.

12. Which of the following objectives of financial management are they addressing?

- a) Solvency and liquidity
- b) Profitability and liquidity
- c) Growth and profitability
- d) Liquidity and efficiency

13. Which of the following is a secondary data source?

- a) Questionnaires
- b) Surveys
- c) Focus Groups
- d) Government Reports

14. What is a major advantage of factoring?

- a) It makes available funds that otherwise are not immediately available
- b) It allows inventory to be used more efficiently
- c) It allows a business to reduce the level of its accounts payable
- d) It allows the business to increase its current ratio

15. Which of the following includes all four elements of the marketing mix?

- a) Packaging, positioning, segmentation, pricing
- b) Advertising, warranties, pricing, positioning
- c) Discounting, packaging, advertising, distribution
- d) Personal selling, branding, warehousing, publicity

Justin's Motor Vehicle Repairs has decided to use an overdraft facility to purchase a new hydraulic hoist in the workroom.

16. How would this affect his Balance Sheet?

- a) Increase owners' equity and reduce cash at the bank
- b) Decreased retained profits and increase non-current assets
- c) Decrease cash at bank and increase non-current assets
- d) Increase current liabilities and increase non-current assets

17. Which of the following actions could a manufacturer take to become more environmentally sustainable in their products?

- a) Diversifying distribution networks
- b) Market research
- c) Introducing loyalty programs
- d) Reducing packaging

Janis is a designer of fashion handbags and she sells them to 4 expensive boutiques in the Eastern Suburbs

18. Which channel choice best describes the distribution of Janis's handbags?

- a) Intensive
- b) Extensive
- c) Exclusive
- d) Selective

19. A business charges different prices for students and pensioners.

Which of the following describes this practice?

- a) Price suggesting
- b) Engaging in resale price maintenance
- c) Price discrimination
- d) Violating intellectual property rights

20. What illegal practice involves charging different prices for a good or service?

- a) Bait and switch
- b) Price discrimination
- c) Implied conditions
- d) Penetration pricing

End of Section I

SECTION II

40 marks

Attempt Questions 21-24

Allow about 45 minutes for this section

Answer the questions in the spaces provided.

Question 21

Use the information below to answer question 21

McLaren supercar has sold out in Australia until mid 2012. Joshua Dowling, Asia-Pacific boss, says the car was sold out in Australia 18 months before the first car arrived in the showroom.

This year's first batch of 15 cars also sold out completely and more than half of next year's allocation of 40 cars is already spoken for, even though the price has not yet been announced.

Source: <http://www.carpaint.com.au/news/2011/prestige-and-luxury/mclaren-supercar-sold-out-in-australia-until-mid-2012-23696#>

Published : Friday, 18 February 2011

a) Outline ONE ethical issue in marketing

(2 marks)

b) Distinguish between consumer markets and industrial markets

(2 marks)

Question 21 continues over the page

Question 22

Use the information below to answer question 22

Statement of Financial Position for Chloe's and Nathan's Bar & Grill as at 30 June 2010			
Current Assets	\$	Current Liabilities	\$
Cash	15 000	Overdraft	45 000
Closing Stock	18 000	Accounts Payable	35 000
Accounts Receivable	40 000		
Non-current Assets		Non-current Liabilities	
Equipment	79 000	Mortgage	95 000
Company Car	40 000		
Fixture & Fittings	34 000		
Building	200 000		
		Owners Equity	
		Capital	130 000
		Net Profit	121 000
	<hr/>		<hr/>
	\$426 000		\$426 000

ADDITIONAL INFORMATION:

Financial figures for 2009:

- Liquidity was 1.3 : 1
- Profitability was 35%
- Solvency was 62% - *Industry Average is 60%*

a) Calculate and comment on the liquidity ratio for Chloe's and Nathan's Bar & Grill as at 30 June 2010. (2marks)

Question 22 continues over the page

b) Calculate and comment on the profitability for Chloe's and Nathan's Bar & Grill as at 30 June 2010 (2 marks)

c) What statement can be made about Chloe's and Nathan's solvency? (2 marks)

d) Recommend TWO strategies that Chloe and Nathan could use to improve their working capital position. (4 marks)

End of question 22

Question 23

Statement of Financial performance for Queens Park Pizzeria as at 30/06/10

	2009		2010	
	(\$)	(\$)	(\$)	(\$)
Sales		210 000		210 000
Less COGS				
Opening Stock	40 000		45 000	
Purchases	62 000		70 000	
Freight In	7 000		9 500	
Less closing stock	<u>10 000</u>	<u>99 000</u>	<u>8 500</u>	<u>116 500</u>
Gross Profit		111 000		93 500
Less Expenses				
General & Admin	16 000		20 000	
Selling & Distribution	49 000		60 000	
Financial	<u>6 500</u>	<u>71 500</u>	<u>8 500</u>	<u>88 500</u>
NET PROFIT		39 500		5 000

a) State and calculate the gross profit ratio for 2010.

(2 marks)

b) The net profit ratio has decreased from 18% in 2009 to 2% in 2010. Describe TWO possible reasons for the change in profitability.

(2 marks)

Question 23 continues over the page

- c) Evaluate ONE appropriate cost control and ONE appropriate revenue control strategy that Queens Park Pizzeria could adopt to improve their profitability. (6 marks)

End of Question 23

End of Section II

Question 24

Statement of Financial performance for Queens Park Pizzeria as at 30/06/10

	2009		2010	
	(\$)	(\$)	(\$)	(\$)
Sales		210 000		210 000
Less COGS				
Opening Stock	40 000		45 000	
Purchases	62 000		70 000	
Freight In	7 000		9 500	
Less closing stock	<u>10 000</u>	<u>99 000</u>	<u>8 500</u>	<u>116 500</u>
Gross Profit		111 000		93 500
Less Expenses				
General & Admin	16 000		20 000	
Selling & Distribution	49 000		60 000	
Financial	<u>6 500</u>	<u>71 500</u>	<u>8 500</u>	<u>88 500</u>
NET PROFIT		39 500		5 000

a) What is the purpose of a Statement of Financial Performance? (2 marks)

b) State and calculate the gross profit ratio for 2010. (2 marks)

Question 24 continues over the page

c) The net profit ratio has decreased from 18% in 2009 to 2% in 2010. Describe TWO possible reasons for the change in profitability. (2 marks)

d) Evaluate the importance of comparative ratio analysis for financial planning and management. (4 marks)

End of Section II

Section III

20 Marks

Attempt Question 25

Allow about 45 minutes for this section

Answer the question in a separate writing booklet. Extra writing booklets are available.

In your answer you will be assessed on how well you:

- Demonstrate knowledge and understanding relevant to the question
 - Use the information provided
 - Communicate using relevant terminology and concepts
 - Present a sustained, logical and cohesive response in the form of a business report
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QUESTION 25

Somdong Ltd is an Australian electronics company that has developed a PC Tablet called the 'Dong 1' to take on the might of Apple and the new iPad 3.

Somdong Ltd claims that their product is far superior to Apple's iPad 3 and will eventually dominate the global market once it has conquered the Australian market.

Projected PC Tablet sales for Somdong Ltd in Australia for its first 12 months of operations is 3 million units and their forecast financial ratios are as follows:

- net profit ratio of 12%
- liquidity of 2:1
- gearing of 80%
- efficiency ratio of 48%

You have been employed as a consultant to prepare a report of Somdong Ltd. In your report you should:

- outline how the two business functions are interdependent
- describe ONE financial risk that Somdong Ltd may face if they expand overseas
- explain one ethical and one legal aspect of marketing OR finance that Somdong Ltd may need to address
- propose and justify TWO effective financial management strategies that will help Somdong Ltd achieve their financial objectives

End of Exam

MULTIPLE CHOICE

BUSINESS STUDIES

STUDENT NUMBER:

TEACHERS NAME:

1	A	B	C	D
2	A	B	C	D
3	A	B	C	D
4	A	B	C	D
5	A	B	C	D
6	A	B	C	D
7	A	B	C	D
8	A	B	C	D
9	A	B	C	D
10	A	B	C	D
11	A	B	C	D
12	A	B	C	D
13	A	B	C	D
14	A	B	C	D
15	A	B	C	D
16	A	B	C	D
17	A	B	C	D
18	A	B	C	D
19	A	B	C	D
20	A	B	C	D

Marking Criteria & Suggested Answers

Question 21

a) Outline ONE ethical issue in marketing

(2 marks)

Marking Criteria	Mark
• Sketch in general terms ONE ethical issue in marketing	2
• Lists an ethical issue in marketing	1

Suggested Answer:

The ethics of sponsorship deals
The ethics of product placement
The ethics of marketing to children
Environmental products
Creation of needs
Impact of retail developments

b) Distinguish between consumer markets and industrial markets (2 marks)

Marking Criteria	Mark
• Indicates as being different between consumer markets and industrial markets	2
• Lists characteristics of consumer markets and industrial markets	1

Suggested Answer:

Consumer markets consist of individuals that is members of a household who plan to use or consume the products they buy

Industrial markets include industries and businesses that purchase products to use in the production of other products or in their daily operations.

c) Recommend ONE appropriate pricing method for the McLaren super car. (2 marks)

Marking Criteria	Mark
• Provide reasons in favour of ONE appropriate pricing method for the McLaren super car	2
• Describes ONE appropriate pricing method for the McLaren super car	1

Suggested Answer:

Cost plus margin, Market Competition – based

d) Discuss TWO suitable promotion strategies that the McLaren supercar could use. (4 marks)

Marking Criteria	Mark
• Provides reasons for and against TWO suitable promotion strategies that the McLaren supercar could use	4

<ul style="list-style-type: none"> Provides some reasons for and against ONE suitable promotion strategies that the McLaren supercar could use and for against ONE suitable promotion strategy. 	3
<ul style="list-style-type: none"> Provides reasons for or against TWO suitable promotion strategies that the McLaren supercar could use or Provides reasons for and against ONE suitable promotion strategies that the McLaren supercar could use 	2
<ul style="list-style-type: none"> Sketches in general terms a promotion strategies that the McLaren supercar could use 	1

Suggested Answer:

Personal Selling
Advertising
Below the line promotions
Publicity and public relations
Opinion Leaders
Word of mouth

Question 22

a) Calculate and state on the liquidity ratio for Chloe’s and Nathan’s Bar & Grill as at 30 June 2010. (2marks)

Criteria	Marks
<ul style="list-style-type: none"> Correctly calculates and makes a statement about the liquidity ratio for Chloe’s and Nathan’s Bar & Grill 	2
<ul style="list-style-type: none"> Correctly calculates OR makes a statement about the liquidity ratio for Chloe’s and Nathan’s Bar & Grill 	1

Answer:

CA:CL, 73000: 80 000, 0.91:1.

This means that the business is not liquid, ie for every \$1 of CL, they only have \$0.91 of CA. liquidity has deteriorated and liquidity has declined from 2009.

Had to say that there is less CA than CL. Business is NOT liquid & they cannot pay short term debts as they fall due.

b) Calculate and comment on the profitability for Chloe’s and Nathan’s Bar & Grill as at 30 June 2010 (2 marks)

Criteria	Marks
<ul style="list-style-type: none"> Correctly calculates and makes a statement about the profitability ratio for Chloe’s and Nathan’s Bar & Grill 	2

<ul style="list-style-type: none"> • Correctly calculates OR makes a statement about the profitability ratio for Chloe's and Nathan's Bar & Grill 	1
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Answer:

$$\text{ROE} = \frac{\text{NP}}{\text{OE}} \times 100 = \frac{121\,000}{251\,000} \times 100 = 45.2\%$$

ROE shows the return on investment, this means that for every \$ of OE, the return was 45.2c. this is a significant improvement in profitability from 2009 which was 35%.

c) What statement can be made about Chloe's and Nathan's solvency? (2 marks)

Criteria	Marks
<ul style="list-style-type: none"> • Provides a detailed account of Chloe's and Nathan's solvency 	2
<ul style="list-style-type: none"> • Provides an outline of Chloe's and Nathan's solvency 	1

Answer:

$$\text{Solvency} = \frac{175\,000}{251\,000} \times 100 = 70\%$$

Shows that the solvency has deteriorated slightly than 2009 at 62% and the industry average of 60%, but still seems moderately geared and has a low risk of insolvency.

d) Recommend TWO strategies that Chloe and Nathan could use to improve their working capital position. (4 marks)

Criteria	Marks
<ul style="list-style-type: none"> • Clearly proposes & justifies TWO strategies that Chloe and Nathan could use to improve their working capital position. 	2
<ul style="list-style-type: none"> • Clearly proposes & justifies ONE strategy that Chloe and Nathan could use to improve their working capital position and ONLY outlines another strategy. 	1
<ul style="list-style-type: none"> • Clearly proposes & justifies ONE strategy that Chloe and Nathan could use to improve their working capital position 	2
<ul style="list-style-type: none"> • Lists a strategy that Chloe and Nathan could use to improve their working capital position 	1

Answer:

First you had to provide reasons for why you would do it.

1. Sales & lease back of buildings (NOT EQUIPMENT) – would convert NCA to cash (even after repayment of mortgage) this would increase CA by \$105 000 and so WC would improve from \$-7000 to \$ 98000

2. Factoring - would involve selling their acc rec – this will not improve their working capital but will improve the quality of working capital. As they can repay their current liabilities.
3. Leasing rather than purchasing equipment/ cars would free up cash upfront.
4. Discount sale of inventory
5. Sale of non of current assets eg cars (if not essential)

NOTE: the sale of equity/ownership in the business because this is long term financing, it would not be appropriate to finance working capital which is short term financing needs.

Question 24:

a) What is the purpose of a Statement of Financial Performance? (2 marks)

Criteria	Marks
<ul style="list-style-type: none"> • Clearly describes the function of a Statement of Financial Performance 	2
<ul style="list-style-type: none"> • Sketches in general terms function of a Statement of Financial Performance 	1

Answer:

The function of a Statement of Financial Performance is to summaries the flows of revenues and expenses in and out of a business over a period of time, calculating the business profits and is therefore a tool that measures a business's profitability.

b) State and calculate the gross profit ratio for 2010. (2 marks)

Criteria	Marks
<ul style="list-style-type: none"> • Correctly states and calculates the GPR for 2010 	2
<ul style="list-style-type: none"> • Correctly states the GPR for 2010 OR ONLY correctly calculates the GPR for 2010 	1

Answers:

$$\frac{GP}{Sales} \times 100 = \frac{93\,500}{Sales} \times 100 = 44.5\%$$

c) The net profit ratio has decreased from 18% in 2009 to 2% in 2010. Describe TWO possible reasons for the change in profitability. (2 marks)

Criteria	Marks
<ul style="list-style-type: none"> • Provides characteristics and features of the possible reasons for the change in profitability 	2
<ul style="list-style-type: none"> • Sketches in general terms features of the possible 	1

reasons for the change in profitability	
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Answers:

Sales have stayed the same while COGS and expenses have increased.

Cogs have increased by \$17, 500

Expenses have increased by \$17 000

d) Evaluate the importance of comparative ratio analysis for financial planning and management. (4 marks)

Criteria	Marks
<ul style="list-style-type: none"> Makes a judgment based on criteria of the importance of comparative ratio analysis for financial planning and management. 	4
<ul style="list-style-type: none"> Makes a judgment based on criteria of the importance of comparative ratio analysis for financial planning and ONLY provides characteristics & features of the importance of management. OR <ul style="list-style-type: none"> Vice versa 	3
<ul style="list-style-type: none"> Provides characteristics & features of the importance of financial planning OR management. OR <ul style="list-style-type: none"> Lists features of the importance of financial planning and management. 	2
<ul style="list-style-type: none"> Lists a feature of importance for financial planning OR management. 	1

Answer could include:

Judgments are made by comparing a company's figures and ratio's with other similar companies. Ratio analysis can be made by a business over a number of years and compared with similar businesses in the same industry using benchmarks. Ratio's are a snapshot and need to be used along with other information to help make judgments. Budgeted figures might also be used against actual figures. These judgments can with effective financial planning and management like being able to plan cashflow management using cash flow statements

Question 25

CRITERIA	MARKS
<ul style="list-style-type: none"> • Presents a sustained, logical and cohesive response in the form of a business report • Demonstrates extensive knowledge and understanding relevant to the question, using relevant terminology, concepts and information provided • Indicates in detail how the two business functions are interdependent • Provides detailed characteristics and features of ONE financial risk that Somdong Ltd may face if they expand overseas • Provides detailed cause and effect of one ethical and one legal aspect of marketing OR finance that Somdong Ltd may need to address • Recommends in detail TWO effective financial management strategies that will help Somdong Ltd achieve their financial objectives 	17-20
<ul style="list-style-type: none"> • Presents a well organised response in the form of a business report • Demonstrates detailed knowledge and understanding relevant to the question, using relevant terminology, concepts and information provided • Indicates the main features of TWO marketing strategies that could have been used to regain market share • Provides characteristics and features of managing change effectively and its importance for Bormocks • Relates cause and effect of various methods of finance that would be appropriate to finance each of the three changes being considered 	13-16
<ul style="list-style-type: none"> • Presents a response using various features of a business report • Demonstrates some knowledge and understanding relevant to the question, using relevant terminology, concepts and information provided • Indicates the main features of at least ONE marketing strategy that could have been used to regain market share • Indicates the main features of managing change effectively and may refer to its importance for Bormocks • Provides characteristics and features of various methods of finance that would be appropriate to finance each of at least two of the changes being considered 	9-12
<ul style="list-style-type: none"> • Includes some features of a business report • Demonstrates limited knowledge and understanding relevant to the question, using limited terminology, concepts and information provided • Refers to a marketing strategy that could have been used • Refers to managing change effectively and may refer to its importance for Bormocks • Sketches in general terms at least one method of finance that would be appropriate to finance one of the changes being considered 	5-8
<ul style="list-style-type: none"> • Uses basic terminology • Refers to the information provided • May make reference to a marketing strategy • May refer to managing change • May refer to finance 	1-4