

2019

HSC SEMESTER 1 EXAMINATION
Business Studies

General Instructions

- **Reading time – 5 minutes**
- **Working time – 3 hours**
- Write using black pen
- Draw diagrams using pencil
- Use the multiple-choice answer sheet provided
- Write your name at the top of every page and on the multiple-choice answer sheet

Total marks – 100

Section I **20 marks**

- Attempt Questions 1-20
- Allow about 35 minutes for this part

Section II **40 marks**

- Attempt Questions 21-24
- Allow about 1 hour and 15 minutes for this part

Section III **20 marks**

- Attempt Question 25
- Allow about 35 minutes for this section

Section IV **20 marks**

- Attempt Questions 26 or 27
- Allow about 35 minutes for this section

This paper MUST NOT be removed from the examination room

Section I**20 marks****Attempt Questions 1–20****Allow about 25 minutes for this section**

Select the alternative A, B, C or D that best answers the question and indicate your choice with a cross (X) in the appropriate space on the grid below.

	A	B	C	D
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Section I**20 marks****Attempt Questions 1-20****Allow about 35 minutes for this part**

Use the multiple-choice answer sheet provided for Questions 1-20

Below is cash flow information for a business.

	January	February	March	April
Opening Balance	\$10 000			
Cash Receipts	\$2 500	\$1 500	\$7 000	\$500
Cash Payments	\$6 000	\$3 000	\$6 500	\$7 000

- 1 At the end of which month would this business need to organise a bank overdraft?
- (A) January
(B) February
(C) March
(D) April
- 2 A business is undertaking a review of its suppliers. This would be because of:
- (A) an increasing expense ratio
(B) a decreasing gross profit ratio
(C) a decreasing current ratio
(D) an increasing debt to equity ratio

Use the table below to answer question 3 and 4.

Sales	\$650 000
Cost of Goods Sold	?
Gross Profit	?
Expenses	?
Expense ratio (expenses / sales)	40%
Gross Profit Ratio (Gross profit / sales)	60%
Net profit ratio (Net Profit / Sales)	?

- 3 Which row in the following table shows the Gross Profit and Expenses for this business?

	Gross Profit	Expenses
A	\$750 000	\$562 500
B	\$562 500	\$247 500
C	\$315 000	\$247 500
D	\$390 000	\$260 000

- 4 What is the net profit for the business?

- (A) \$562 500
 (B) \$600 000
 (C) \$130 000
 (D) \$420 000

Use the table below to answer question 5.

Below is selected financial information for Steelworks Pty Ltd.

Cash	\$10 000
Mortgage	\$100 000
Accounts Payable	\$5 000
Building	\$250 000
Bank overdraft	\$3 000
Accounts Receivable	\$5 000
Credit Card	\$2 000
Inventory	\$20 000
Sales	\$40 000

- 5 The value of working capital (\$) for Steelworks Pty Ltd. is:

- (A) 2.6:1
 (B) 3.5:1
 (C) \$25 000
 (D) \$175 000

Use the financial information to answer Question 6 below:

	2016	2017
Sales	300 000	310 000
Expenses	15 000	25 000
Accounts Receivable	30 000	15 000

Additional information: Accounts receivable turnover ratio: Sales / Accounts receivable

- 6 The average number of days it takes for this business to collect its accounts receivable in 2016 is:
- (A) 10 days
 - (B) 17.7 days
 - (C) 20.7 days
 - (D) 36.5 days

- 7 Which of the following indicates a sound financial position for a small business?
- (A) High expense ratio and high accounts receivable turnover ratio
 - (B) High accounts receivable turnover ratio and high net profit ratio
 - (C) High net profit ratio and low gross profit ratio
 - (D) High gross profit ratio and low accounts receivable turnover ratio

- 8 *Newcrest Mining Ltd. aims to raise funds by using placements.*

What is an advantage of raising funds using placements?

- (A) Newcrest Mining Ltd. can raise an unlimited amount of capital
 - (B) Newcrest Mining Ltd. needs to obtain general shareholder approval
 - (C) Newcrest Mining Ltd. can buy back the placements after they are sold
 - (D) Newcrest Mining Ltd. does not have to issue a formal prospectus
- 9 *Tyler's Toys Pty. Ltd. aims to increase their export volumes to the USA.*
- Which is likely to increase *Tyler's Toys Pty Ltd's* exports to the USA?
- (A) The Australian dollar appreciates and there is a recession in the USA
 - (B) The Australian dollar depreciates and there is an expansion in the USA
 - (C) The Australian dollar appreciates and there is an expansion in the USA
 - (D) The Australian dollar depreciates and there is a recession in the USA

10 *Harry's Hairdresser aims to decrease its overall borrowing in relation its assets.*

Which financial objective is Harry's Hairdresser targeting?

- (A) Growth
- (B) Liquidity
- (C) Solvency
- (D) Efficiency

11. A business outsources its call centre service to a domestic contractor.

What is a risk to the business in making this decision?

- a. The business is able to focus on its core function.
- b. The business is able to access specialists in this area.
- c. The business will lose direct contact with customers.
- d. The business will be affected by language or cultural differences.

12. Cars 'N' Trucks has had problems with their inventory valuation. In recent years Cars 'N' Trucks has been overstating stock costs and understating their profits.

Which inventory valuation method could Cars 'N' Trucks use to reverse this?

- a. FIFO
- b. LIFO
- c. Just-in-time
- d. Weighted average cost

13. An Australian business has decided to purchase its supplies from Indonesia in order to reduce costs. What has the business engaged in?

- a. E-marketing
- b. Global sourcing
- c. Economies of scale
- d. Scanning and learning

14. What is the benefit of leading edge technology?

- a. Creates more waste
- b. Helps businesses operate more efficiently
- c. More expensive than established technology
- d. Helps businesses create products similar to previous products

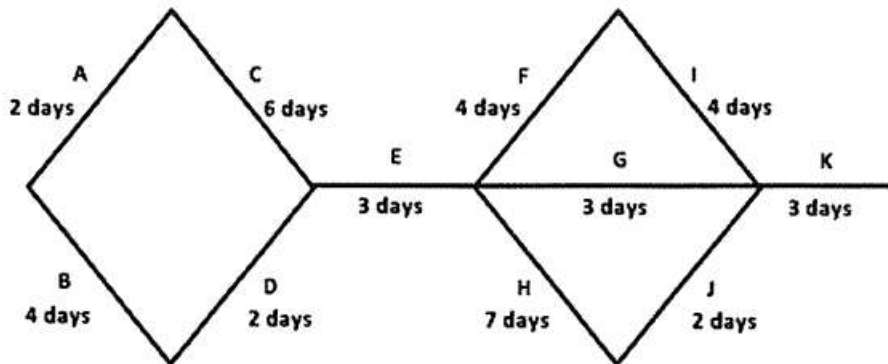
15. A restaurant owner has decided to use another business to print menus, leaflets and business cards.

Which operations strategy is this business using?

- a. Outsourcing
- b. Quality management
- c. Performance objectives
- d. New product or service design

16. Managers are reluctant to adopt new technology as they believe that the current system works well. What type of resistance to change comes from a fear of the unknown?
- Inertia
 - Retraining
 - Financial
 - Change agent
17. Which of the following is a transformed resource in a business manufacturing clocks?
- Clocks
 - Customers
 - Employees
 - Facilities
18. A business uses email to invoice customers. This is an example of which strategy?
- Outsourcing
 - Inventory management
 - Established technology
 - Leading edge technology
19. Congestion in the production process is most likely to affect which performance objective?
- Speed
 - Flexibility
 - Customisation
 - Quality

Refer to the diagram below for question 20.



20. What is the minimum number of days after the commencement of the project that the business can begin working on Task G?
- 9 days
 - 11 days
 - 15 days
 - 23 days

b) Discuss the influence of ONE financial institution on the financial management of Steelworks Pty Ltd.

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c) Define liquidity.

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Question 22 (10 marks)

The following is an extract from financial reports for Simon’s Furniture Company as at 30 June, 2017.

<i>Current assets</i>		<i>Current liabilities</i>	
Accounts receivable	4 000	Accounts payable	5 000
Cash	3 000	Overdraft	2 500
Inventory	4 000		
<i>Non-current assets</i>		<i>Non-current liabilities</i>	
Plant	30 000	Loan from bank	30 000
Machinery	12 500		
		<i>Owners equity</i>	
		Capital	10 000
		Retained profits	6 000

- a) Calculate the debt to equity ratio (total liabilities / owners’ equity) of this business. Show all working. **2**

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- b) Explain why Simon’s Furniture Company may prefer debt financing rather than equity financing. **4**

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Simon's Furniture Company has decided to import goods from America in 2020.

- c) Explain the impact of exchange rate fluctuations on Simon's Furniture Company. **4**

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Question 23 (10 marks)

Bright Sparks Pty Ltd is an innovative electrical bicycle manufacturer located in the Sydney region. It is establishing its brand name “ebike” in the Australia and aims to be the market leader. To do this it is engaging in economies of scale and cost leadership however it has a number of problems with increasing inventory costs. Management are concerned that the initial low demand for the “ebike” may result in Bright Sparks Pty Ltd producing too many e bikes which may result in having to discount stock.

- a) Outline two transforming resources that Bright Sparks Pty Ltd use in the production process. **2**

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- b) Explain the influences of volume and variation in demand on Bright Sparks Pty Ltd. **4**

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- c) Discuss the implications of utilising technology in meeting performance objectives for Bright Sparks Pty Ltd. 4

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Question 24 (10 marks)

Juice Box Pty Ltd employs 100 people in its NSW factory and supplies juice to large supermarket chains in Asia and North America. Customers have recently complained that the product has been damaged and bottles have been wrongly labelled.

- a) Describe the benefits of customisation for Juice Box Pty Ltd in their operations management. 2

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Section III

20 marks

Attempt Question 25

Allow about 35 minutes for this section

Answer the questions 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

Answers should be approximately 800 words (6 booklet pages).

Question 25 (20 marks)

Brics and Pieces is a large transnational toy manufacturer. It is experiencing difficulties with its operations due to the rapidly changing nature of global markets.

This has led to declining sales and increasing expenses as well as cash flow problems for Brics and Pieces.

The owners of the company have decided to bring in a new management team to overcome these problems.

You have been hired as a consultant to write a report to the management team. In your report:

- Describe TWO influences on the operations management of Brics and Pieces.
- Discuss appropriate strategies to improve operations in the business.
- Recommend appropriate cash flow management strategies to address the cash flow issues.

Section IV

20 marks

Attempt Questions 26 OR 27

Allow about 35 minutes for this section

Answer the questions in a 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 relevant business case study/studies and contemporary business issues
 - communicate using relevant business terminology and concepts
 - present a sustained, logical and cohesive response
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Question 26 (20 marks)

Assess the response of operations management strategies in improving the transformation process.

OR

Question 27 (20 marks)

Evaluate the financial management strategies used by businesses to achieve their financial objectives.

End of Paper

Question 21 (a)

- cash flow management
 - cash flow statements
 - distribution of payments, discounts for early payment, factoring

Item A	Define strategy	1
Item B	Advantage of strategy	1
Item C	Disadvantage of strategy	1
Item D	Judgment	1
Item E	Refers to stimulus AND relates suitability	1

Item A- Cash flow management strategies refer to strategies that businesses can utilise to improve their cash inflows and minimise their cash outflows. Steelworks Pty Ltd can implement factoring which involves the cash sale of a business's accounts receivable to a factoring company at a discounted price.

Item B- One advantage that this strategy presents for Steelworks is that it increases the cash inflow and improves its overall liquidity position.

Item C- However, factoring can be disadvantageous for Steelworks as a small amount of working capital is sacrificed in the form of a discount.

Item D- Despite this, Steelworks should implement the cash flow management of factoring as it is extremely effective in improving the cash inflow as well as the overall liquidity position of the business.

Question 21 (b)

- financial institutions – banks, investment banks, finance companies, superannuation funds, life insurance companies, unit trusts and the Australian Securities Exchange

Item A	Defines/ identifies institution	1
Item B	Advantage of institution	1
Item C	Disadvantage of institution	1
Item D	Refers to stimulus AND relates suitability	1

Item A- Banks can influence the financial management of Steelworks Pty Ltd through the provision of funds.

Item B- One advantage of banks is that they can provide a quick source of debt finance to Steelworks to be used in their financial management.

Item C- However, one disadvantage is the cost of borrowing associated with the amount borrowed. The interest paid by Steelworks is an added expense.

Question 21 (c)

Item A	Defines liquidity	1
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Liquidity refers to the ability of a business to **convert their current assets** into **cash** in order to meet their **short term obligations**.

Question 22 (a)

Item A	Correct final answer	1
Item B	Shows all working out	1

Question 22 (b)

– debt and equity financing – advantages and disadvantages of each

Item A	Defines/ identifies debt and/or equity	1
Item B	Cause (Reason why the company would prefer to use debt)	1
Item C	Effect (What is the result of using debt over equity)	1
Item D	Refers to stimulus AND relates suitability	1

Item A- Debt financing refers to obtaining funds from an external source such as a financial institution.

Item B- Simon's Furniture Company may prefer debt financing rather than equity finance as it allows the business to maintain ownership over the business.

Item C- In effect, Simon's Furniture Company will have full control over the business functions and decisions as ownership will not be diluted as would be the case by using equity finance.

Question 22 (b)

- global financial management
 - exchange rates

Item A	Defines exchange rates	1
Item B	Cause- Appreciation	1
Item C	Effect- Cheaper	1
Item D	Refers to stimulus	1

OR

Item A	Defines exchange rates	1
Item B	Cause- Depreciation	1
Item C	Effect- More expensive	1
Item D	Refers to stimulus	1

	2	2	3	3	3	3	2	2
			3.3 Provides points for the use of the strategy in improving operations	4.3 Provides reasons in favour for first cash flow management strategy	5.3 Provides reasons in favour for second cash flow management strategy	6.3 Structures report to include recommendations		
	1.2 Provides characteristics & features of influence on operations	2.2 Provides characteristics & features of influence on operations	3.2 Provides points against the use of the strategy in operations	4.2 Explains first cash flow management strategy	5.2 Explains second cash flow management strategy	6.2 Uses transition words/phrases to develop logical arguments throughout the business report	6.2 Integrates components of stimulus throughout body paragraphs to support arguments	8.2 Relates business terminology and concepts relevant to the questions
	1.1 Identifies influence on operations	2.1 Identifies influence on operations	3.1 Identifies operations management strategy	4.1 Identifies first cash flow management strategy	5.1 Identifies second cash flow management strategy	6.1 Writes an executive summary articulating key ideas presented in the report	6.1 Acknowledges stimulus	8.1 Integrates graphic organisers that support the articulation of ideas.
	Insufficient evidence	Insufficient evidence	Insufficient evidence	Insufficient evidence	Insufficient evidence	Insufficient evidence	Insufficient evidence	Insufficient evidence
	1. Describes first influence on operations	2. Describes second influence on operations	3. Discusses appropriate operations management strategy	4. Recommends first cash flow management strategy	5. Recommends second cash flow management strategy	6. Structures response in the form of a business report	6. Supports arguments with reference to the stimulus	8. Uses appropriate visual aids + linguistic structures and features
	Responds to the questions (Content)						Writes a formal Business Report (Form)	