Business Studies
Course Code: BST315111

The comments and suggested solutions in this report are neither prescriptive nor exhaustive. They have been drawn from the Chief Marking Examiner and the subject marking team.

Main References used:


BST315111 uses the 1 mark = 1 minute rule. Lack of depth in answers is costing students marks across the whole paper. Many students are simply not writing enough accurate detail to earn the maximum marks available.

If students are asked to present information in a SWOT table they must ensure they draw a table to earn full marks.

If students are asked to calculate financial ratios, they must ensure they present their answer in the format required for that ratio and round to the nearest two decimal points to earn full marks.

If students are required to make a recommendation on a proposal they must make a clear decision to support or not support the proposal. Full marks will be possible for students who state their recommendation, and provide well-reasoned arguments for their decision.

Section A

Question 1
External influences on the business environment include: Economic, Financial, Geographic, Social, Legal, Political, Institutional, Technological, Competitive situation, Markets. For example:

Technological. The increasing use of online purchasing can affect a business positively by being available to customers 24 hours a day across the globe. This can increase sales and customer satisfaction.

(1 mark for identifying each of two external influences = 2 marks, and 2 marks for explaining how changes in each of these influences could affect a business = 4 marks)

Question 2
Challenges faced by a business during the growth phase of the product life cycle include:
• Maintenance of the quality of the product or product improvements to maintain appeal to customers
• Appropriate promotion as the market grows/widens
• Meeting demand and distribution requirements – perhaps managing the need to increase the number of outlets
• Dealing with competitors that may be entering the market
• Management of production costs
• Managing price to ensure customers remain willing to pay the price (if raised following a penetration pricing introduction, for example)
• Expanding the target market
• Managing economies of scale
• Attracting and maintaining quality staff as demand and production increases

(2 marks for each of three challenges outlined = 6 marks)
**Question 3**

<table>
<thead>
<tr>
<th>Difference</th>
<th>Private Company</th>
<th>Public Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shareholders</td>
<td>1 to 50</td>
<td>1 to unlimited</td>
</tr>
<tr>
<td>Name</td>
<td>Proprietary Limited (Pty Ltd)</td>
<td>Limited (Ltd)</td>
</tr>
<tr>
<td>Shareholders</td>
<td>Private individuals who can only sell shares to director approved investors</td>
<td>Shares listed on Australian Securities Exchange and available to the general public and easily transferable</td>
</tr>
<tr>
<td>Size</td>
<td>Small to medium and often family owned</td>
<td>Large</td>
</tr>
<tr>
<td>Finance</td>
<td>Less available than public company due to fewer shareholders</td>
<td>Can be more easily raised by offering more public shares</td>
</tr>
</tbody>
</table>

(2 marks for each of three differences, described)

**Question 4**

Advantages of starting a business from scratch as opposed to buying an existing business include:

- The owner has the freedom to set up the business exactly as they wish
- The owner is able to determine the pace of growth and change
- There is no goodwill for which the owner has to pay
- If funds are limited, it is possible to begin on a smaller scale
- There is no burden of previous bad owners/reputation
- Owner can establish personal stamp on the business
- All new staff can be chosen
- Owner can identify and satisfy a previously untapped target market with a new idea, product or service

(2 marks for each of three advantages, described)

**Question 5**

Non-monetary benefits are those that do not have a financial value such as:

- Social activities
- Retirement planning
- Interesting and challenging work
- Responsibility
- Recognition (eg employee of the month)
- Advancement or any other opportunities for learning and development
- Performance feedback
- Good HR policies and practices
- Competent supervision
- Congenial colleagues
- Safe and healthy work environment
- Fair treatment
- Open communication
- Career security

(2 marks for each of three benefits, described)

**Question 6**

A SWOT analysis involves the identification and analysis of the internal strengths and weaknesses of the business, and the opportunities in, and threats from, the external environment.

It provides the information needed to complete the situational analysis and gives a clear indication of the business’s position compared with its competitors.

It can be used as a planning tool by helping the business answer the following questions:
A business can plan to capitalise on its strengths, overcome its weaknesses, take advantage of its opportunities and mitigate its threats.

(2 marks for definition + 1 mark for explaining how each of S, W, O and T can be used in planning = 6 marks)

**Question 7**

Budget incentives might include:

- **Accelerated depreciation:** All small business will get an immediate tax deduction for any individual assets they buy costing less than $20 000. (Currently, the threshold sits at $1 000).
- **Tax cuts:** The company tax rate for incorporated businesses with annual turnover of less than $2 million will be reduced by 1.5 percentage points to 28.5%.
- **Cutting red tape:** The Fringe Benefits Tax (FBT) exemption for work-related portable electronic devices will be expanded. There will be Capital Gains Tax (CGT) rollover relief when legal structure is changed but the same owners are kept.
- **Wage subsidies to support employment:** Employers who offer job seekers an ongoing job can receive a wage subsidy with flexible payment arrangements.
- **Doubling the cash incentives for Tasmanian companies to hire older workers on welfare.**
- **Local Benefits Test for Government tenders** which aims to see an increase in local companies winning these tenders.
- **Education forums for Tasmanian business to learn how better to quote for Government business.**
- **Small Business Jobs Bonus** saw Tasmanian small businesses paid $1 000 for each new full-time position they created between 1 July 2014 and 30 June 2015.
- **Small Business Jobs Package** also included a Buy Local campaign.

(3 marks for each of two incentives identified and explained)

**Question 8**

<table>
<thead>
<tr>
<th>Internal Recruitment</th>
<th>External Recruitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filling job vacancies with present employees, rather than looking outside the business.</td>
<td>Filling job vacancies with people from outside the business.</td>
</tr>
<tr>
<td><strong>Advantages:</strong></td>
<td><strong>Advantages:</strong></td>
</tr>
<tr>
<td>- Less risk because employee already familiar with the business environment, operations and other employees</td>
<td>- Larger pool of applicants, therefore potentially more talent, increases the chance of finding the ‘right’ person</td>
</tr>
<tr>
<td>- Lower cost because no advertising</td>
<td>- Fresh outlook giving the business a competitive advantage</td>
</tr>
<tr>
<td>- Lower cost because less training may be needed</td>
<td>- Motivate the current employees – new ideas</td>
</tr>
</tbody>
</table>

**FIGURE 12.8** A situational (SWOT) analysis

(page 390)
Section B

Question 9

(a)  
(i)  Record keeping include:
- Written documentation of warnings for poor performance
- Written records of payment, eg copies of payslips
- Evidence that support was provided (eg training or counselling)
- Written advice regarding the intended termination including reasons and the employee’s response to this
- Evidence that legislation has been adhered to

(2 marks for each of three things, described = 6 marks)

(ii)  Summary dismissal can arise from:
- Being drunk or under the influence of drugs at work
- Gross or serious misconduct such as theft
- Absenteeism
- Criminal activity

(2 marks for each of two actions, described = 4 marks)

(b)  
(i)  An award is a legal document that specifies the minimum working conditions that apply to all people employed in a common industry.

Features of an Award:
- Base pay rates
- Conditions and requirements for different types of employment (eg full-time, part-time or casual)
- Overtime and penalty rates
- Allowances (such as travel allowances)
- Leave and leave loading (holidays, bereavement, carers or sick leave)
- Hours of work (eg rosters, making changes to working hours)
- Requirements for annual wage or salary arrangements
- Superannuation entitlement
- Conditions and procedures for consultation, representation and settling disputes
- Outworkers
- Redundancy conditions
- Cover an industry
- Can be inflexible
- Can prevent the recognition of individual initiative

Enterprise Agreements offer broader terms and conditions than a modern award and are an alternative to a modern award. They may cover:
- Negotiated rates of pay
- Penalty rates and overtime
- Allowances
- Hours of work
- Personal and annual leave
- Any matters related to the relationship between the employer and the employees
- How the agreement will operate
- A nominal expiry date
- Can replace an award or add to an existing award but cannot pay less than the award.
- National employment standards still apply
- They are based on consultation so can foster greater employee empowerment/satisfaction
- Possible to link outcomes/productivity/performance to improved pay/conditions
- Can be costly in terms of administration and time (resource heavy)

(Students may briefly describe 5 features, or may describe fewer features (minimum two) in greater detail for full marks. 5 + 5 = 10 marks)

(ii) Choose either Award or Enterprise Agreement and justify selection with at least two reasons.

(1 mark for recommendation + 2 marks for each of two reasons = 5 marks)

(c) (i) The Fair Work Act governs the employee/employer relationship in Australia. Its purpose:
- To encourage the prevention and settlement of IR disputes between employers and employees through conciliation/arbitration;
- To determine minimum wages through national wage case hearings;
- To arbitrate on unfair dismissal claims
- Apply the Better Off Overall Test – to certain wage agreements.
- To provide a safety net of minimum entitlements,
- To enable flexible working arrangements and fairness at work and
- To prevent discrimination against employees.

It covers industrial relations and sets the National Employment Standards. It covers things such as the nature of employment contracts, protection of rights, employer responsibilities, taxation and superannuation.

(2 marks for purpose + 2 marks for what it covers = 4 marks)

(ii) Equal employment opportunity recruitment requires a business to consider things such as:
- Recruitment must be transparent
- Equitable policies and practices must be transparent and clearly communicated to new staff
- Need to ensure no one is disadvantaged due to age, sex, race, marital status, disability, sexual orientation
- Pay rates are not discriminatory
- No other conditions are discriminatory
- Best person for the job must be chosen
- Clear avenue for appeal must be shown
- Line manager/contact person is allocated to the new staff member to support the transition

(Students may list eight for one mark each, or detail fewer features (minimum of two) for full marks = 8 marks)

(iii) Occupational Health and Safety (OH&S) or Work Health and Safety (WHS) considerations include:
- Providing safe systems of work eg in event of critical incident
- Adequate training and appropriate induction eg in relation to the use and handling of equipment and substances, requirements around protective clothing
- Clear communication
- Insurances must be in place (eg workers’ compensation)
- Regular inspections and monitoring
- Swift, effective dealings with issues as they arise
- Workers are not required to do tasks outside of the original role, without notification and training

(Students may list eight for one mark each, or detail fewer features (minimum of two) for full marks = 8 marks)

**Question 10**

(a) (i) A ‘brand logo’ is a graphic representation of name, term, symbol, design (for example) that identifies the business and distinguishes it from others. It is memorable and a unique identifier of the product/business.

It can affect the success of a business by creating instant recognition eg Coca-Cola. The logo can become so famous that words are no longer necessary eg Nike. It attracts customers.

It can also be an instant reminder to consumers about a company’s/product’s failings, eg: VW.

(ii) Benefits of using the internet for promotion and selling:
- Access to customers 24/7 which can increase sales/revenues/profits
- Global access – no time zones that would traditionally restrict sales
- Online/social media advertising such as facebook and twitter are effective, easy and inexpensive to create
- Wider reach – increased potential customer base

(2 + 2 = 4 marks)

(b) Pricing methods: Competition-based pricing, cost-based (mark-up), customised pricing, market-based pricing, market-customised pricing.

**Cost-based (mark-up) pricing:** Cost + (Cost x Mark-up percentage) = Price. Adding a percentage of the cost price to the cost price to get the selling price is often regarded as the simplest method. The business determines the total cost of producing one unit, adds any additional costs (eg overheads) and adds its desired profit margin (mark-up). Given the business idea is new, this may be the most appropriate for Kathryn to determine, and the mark up can be increased as required, depending on demand for mountain biking.

**Competition-based pricing:** The price needs to cover costs, but be comparable to competitors’ prices. This is a good method where there is a high degree of competition. The business might set their price below the competitors’ price, equal to it, or above, depending on the circumstances. For example, below to enter the market, equal to where no market research is necessary as there is a price leader in the market, above to give the perception of a superior product. Given there are probably no competitors at this stage, Kathryn would be unlikely to use this method.

**Customised pricing and market-customised pricing** are pricing methods associated with global marketing. Customised pricing occurs whenever consumers in different countries are charged different prices for the same product. This is the cost-plus method to take into account the added costs of exportation such as transportation, taxes, warehousing and tariffs. This pricing method may work for Kathryn if she has particular packages for certain tourists.
Market-customised pricing sets prices according to local market conditions. It is the market-based pricing method to account for the level of demand and competition within the overseas market. It can also be influenced by the exchange rate.

(2 marks for each of two pricing methods, described, relevant to Kathryn’s business = 4 marks)

Pricing strategies include: price skimming, loss leader, price penetration, bundle pricing and price points.

(1 mark for recommending one strategy)

(ii) Promotional methods may include:
- Advertising: print or electronic mass media
- Personal selling: sales representatives attempting to make a sale
- Relationship marketing: developing long-term loyalty eg frequent shoppers, flybuys
- Publicity: free news stories
- Public relations: activities aimed at creating and maintaining favourable relations with customers
- Sales promotion: to attract interest and support eg free samples, coupons.

(Students may suggest 5 methods, or may describe fewer methods (minimum two) in greater detail for full marks. Discussion must be relevant to Kathryn’s business. 5 marks)

(iii) Markets can be segmented according to demographic, geographic, psychographic and behavioural characteristics.
- Demographic segmentation is the process of dividing the total market according to particular features of a population including the size of the population, age, sex, income, and family size.
- Geographic segmentation is the process of dividing the total market according to geographic locations eg regional, urban, suburban, rural.
- Psychographic segmentation divides the total market according to personality characteristics, motives, opinions, socioeconomic group and lifestyles.
- Behavioural segmentation dives the total market according to the customer’s relationship to the product.

(A minimum of two elements relevant to Kathryn must be discussed for full marks = 5 marks)

(c) (i) Environmental issues include:
- Impact of trails/bikes/people
- Carbon footprint, ecological sustainability
- Waste removal
- Harm minimisation
- Eco toilets
- Set quotas for visitor numbers

(3 marks for each of two issues discussed = 6 marks)

(ii) Ethical issues include:
- Honouring commitments to customers – providing the experience that is promised to the standard and quality advertised, on time and for the price quoted.
- Not participating in misleading advertising or deceptive conduct
- Provide appropriate and safe working environment for employees
- Respect for people – treat all stakeholders with respect
- Codes of conduct for employees

(3 marks for each of two issues discussed = 6 marks)

(iii) Implications if she fails to consider these:
- Negative public perspective/bad reputation
- Permission and approval not granted by Government
- Customers not willing to support unethical business
• Workplace accidents
• Ultimate failure of her business
• Employees will be unhappy/disgruntled and business culture will suffer
• Employees may leave, requiring Kathryn to find new employees, which could be time consuming and expensive.

(Students may list eight for one mark each, or detail fewer implications (minimum of two) for full marks = 8 marks)

Question 11
(a) (i) Income Statement (Revenue Statement, Profit and Loss Statement, Statement of Financial Performance) is a summary of the income earned and expenses incurred over a period of trading. It shows the resultant profit or loss for a business.

Balance Sheet (Statement of Financial Position) represents a business’s assets, liabilities and owner’s equity at a particular point in time. It shows the net worth or financial position of the business.

Cash Flow Statement (Statement of Cash Flows) shows cash inflows and outflows from operating activities, investing activities and financing activities over a period of trading. It shows the cash position of the business.

(1 mark for name + 1 mark for purpose of each of the three statements = 6 marks)

A Cash Budget is not one of the three end-of-year financial reports.

(ii) A current asset is an item of value owned by a business which will be converted to cash within one accounting period. For example, cash at bank, accounts receivable, inventories.

A non-current asset is an item of value owned by a business which will be kept by a business for longer than one accounting period for the purposes of revenue generation. For example, motor vehicles, machinery, equipment, goodwill, shares.

(1 mark for definition + 1 mark for example of each = 4 marks)

(b) | | Sporting Den | Bat ‘n Ball | Marks |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Gross Profit Ratio</td>
<td>190 000*/380 000 x 100 = 50%</td>
<td>240 000/490 000 x 100 = 48.98%</td>
<td>3 marks (1.5 marks for each business)</td>
</tr>
<tr>
<td></td>
<td>Or</td>
<td>210 000*/380 000 x 100 = 55.26%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>*either Gross Profit figure could be used</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Total Liabilities</td>
<td>370 000 – 220 000 = $150 000</td>
<td>420 000 – 170 000 = $250 000</td>
<td>3 marks (1.5 marks for each business)</td>
</tr>
<tr>
<td>(iii) Rate of Return on Owner’s Equity</td>
<td>60 000/220 000 x 100 = 27.27%</td>
<td>120 000/170 000 x 100 = 70.59%</td>
<td>3 marks (1.5 marks for each business)</td>
</tr>
<tr>
<td>(iv) Comment on profitability</td>
<td>GPR is good. Better management of their COGS compared to SD. Good balance between GPR and RROE.</td>
<td>GPR is good</td>
<td>6 marks (3 marks for each business including 1 mark for GPR comment, 1 mark for RROE comment and 1 mark for GPR comment)</td>
</tr>
</tbody>
</table>
revenues and costs.

<table>
<thead>
<tr>
<th>revenues and costs</th>
<th>mark for comparative comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginally higher than BnB.</td>
<td>Better answers included NP ratio in their discussion and omitted discussion of Total Liabilities.</td>
</tr>
<tr>
<td>Return to owner very good compared to alternate investments such as putting money in the bank.</td>
<td></td>
</tr>
<tr>
<td>Compare ratio to previous years or industry averages</td>
<td>General Comment: a total of 15 marks was possible for part (b). Marks were deducted for incorrect ratio format and incorrect rounding.</td>
</tr>
</tbody>
</table>

(c) (i) Factors that caused the profit to drop between 2014 and 2015 and why this might have occurred:

- Sales decreased from $420 000 to $380 000: could be due to entry of new competitor (Bat 'n Ball), changes in consumer preferences
- Wages increased from $39 000 to $49 000: employed new staff (which didn’t translate into increased sales), change in employment conditions or types which increased wages (eg higher award rates or more full-time and less part-time employees)
- Marketing/sponsorship has decreased by $5000 and therefore this may have negatively affected sales because the business name isn’t being as widely circulated.
- Lease on premises increased from $28 000 to $34 000: perhaps due to change of contract or increased costs
- Utilities increased from $31 000 to $37 000: perhaps due to greater use of utilities or higher rates (eg electricity costs rising)

(1 mark for factor (1/2 for naming and 1/2 for stating figure) + 1 mark for reason for each of three factors = 6 marks)

(ii) Actions the business could take to increase its profits in 2016:

- Increase sales through better stock management
- Advertising campaign to increase sales (as long as increased sales outweighs cost of marketing)
- Employ well-known sports person to increase exposure (similar to Bat ‘n Ball)
- Restructure workforce to decrease wages. For example, change rosters, use casual staff, reduce staff numbers
- Negotiate cheaper premises to decrease lease costs
- Investigate alternate premises (although this will be a costly exercise)
- Audit utilities use and make cuts where possible (eg turn lights off overnight)
- Continue to pay down loans so that interest expense continues to decline
- Any reasonable explanation of any reduction in expenses or increase in revenue is acceptable

(2 marks describing each of three actions = 6 marks)

(iii) The source of finance chosen needed to match the use of the finance in relation to Norman’s business.

Sources of finance to reposition the business and reasons:

- Debt finance eg bank loan. Debt equity is beneficial if the owner doesn’t have savings. Norman’s interest expense is decreasing therefore his liabilities must be decreasing therefore he may have capacity for further borrowing. Choosing debt finance also allows Norman to remain the sole owner of his business.
- Equity finance eg owner’s equity, seeking partners, selling private shares. Advantages include no interest, owners can maintain control of his business (ie higher equity ratio). Equity does not need to be repaid.
Short term finance, such as a bank overdraft, was selected by some students and earned marks if clear reasons for selecting a short term source of finance were given.
(1 mark for recommendation + 1.5 marks for each of two reasons = 4 marks)

(iv) Possible negative effects on profitability if the store closes weekends:
- Sales could decrease: access restricted, availability restricted, customers disadvantaged and therefore choose competitor
- Slip behind competitor even further: enable Bat ’n Ball to gain market share

Possible positive effects on profitability:
- Decreased wages bill could improve profitability due to no weekend penalty rates
- Increased staff satisfaction may improve performance and therefore sales
(2 marks for each of two effects = 4 marks)

Section C

Question 12

(a)  

(i)  

STRENGTHS – Internal
(markers will mark the first 3 ONLY)
- Loyal customer base
- Good reputation in the community – goodwill
- Skilled loyal staff
- Been in business successfully for years
- Products known
- Financially sound
- Passionate owners

WEAKNESSES – Internal
(markers will mark the first 3 ONLY)
- Staff resistant to change
- Recent reductions in turnover
- Business not keeping pace with product changes
- Already existing bank loans
- Limited cash available for expansion

OPPORTUNITIES – External
(markers will mark the first 2 ONLY)
- New technologies
- Economic conditions
- Low interest rates for borrowing
- Possible new markets
- Tax concessions and incentives

THREATS – External
(markers will mark the first 1 ONLY)
- Access to cheap home printers
- Online ordering – cheap overseas competition
- Social media has reduced the need for printed materials

(ii) Answers could include, for example:
- Staff resistant to change: provide incentives and training to motivate employees
- Recent reductions in turnover: market and product research to improve sales
- Business not keeping pace with product changes: research to update
- Already existing bank loans: investigate capital injections (equity finance) or restructure the ownership (eg partners/shareholders)
- Limited cash available for expansion: source cheap finance, invite investment

Students must make it clear which weaknesses they are addressing in their answer
(2 marks for each of two strategies)

(iii) Answers could include, for example:
- Access to cheap home printers: source cheaper suppliers, marketing strategy to highlight benefits of this business eg expert customer service
- Online ordering – cheap overseas competition: develop an online presence to enable online ordering
- Social media has reduced the need for printed materials: change product strategies to include online presence
Students must make it clear which threat they are addressing in their answer

(2 marks for strategy)

(b) Mission

It must reflect the unique character of the business. It must refer to the case study, eg

Prints Charming is a total solution provider for printer related services. It is a well-run, passionate locally-owned business which has been meeting the needs of its loyal customers with high quality products and outstanding customer service and aims to remain a premier printing service.

(For full marks it should contain reference to customers, service, products and aims = 4 marks)

It must fulfil the requirements of a mission statement:

“An effective mission statement is concise, to the point, realistic, operational, inspirational, informative, and even emotional. It is forward-thinking, positive, and describes success.

Your Mission Statement Should:

• Express your organisation’s purpose in a way that inspires support and ongoing commitment.
• Motivate those who are connected to the organisation.
• Be articulated in a way that is convincing and easy to grasp.
• Use proactive verbs to describe what you do.
• Be free of jargon.”

Operations

Comments could include things such as:

• Production costs are predicted to remain relatively consistent throughout the year.
• In relation to proceeds from sales, production costs seem very high.
• Fluctuations in production costs match the fluctuations in proceeds from sales.
• Even with the high production costs and little change in predicted sales, the cash balance remains positive throughout the year and continues to improve.
• Gross Profit Ratio

(A minimum of two comments discussed was expected for full marks = 4 marks)

Marketing

Marketing objectives should be measurable with specific timeframes:

• Increase market share: eg to secure at least one Government contract by June 2016
• Expand the product range: eg add three new products within the next 12 months
• Maximising customer service: eg upskill all sales staff within the next 6 months

Financial objectives are not appropriate responses to this question

(2 marks for each of two strategies; must be measurable and specific eg timeframe = 4 marks)

Strategies could include:

• Online marketing social media marketing, online banners, pop-ups, facebook, twitter
• Direct marketing eg sending exemplars and information regarding new products/services to current customers and potential prospects through mail, email, texts, flyers and other promotional materials
• Distribution strategies eg trade shows, exhibitions, give-aways, free trials, working with business partners
• Pricing strategies such as loss leader or prestige pricing

(2 marks for each of two strategies = 4 marks)

Finance

Current ratio = 91 000/65 000 = 1.4:1
This reveals the liquidity of the business. For every one dollar of current debt there is $1.40 in current assets to cover. This is barely satisfactory. The business should be aiming for 2:1, so this ratio suggests improvement is needed.

Rate of Return on Owner's Equity:
If retained profits from Balance Sheet are used to calculate: \( \frac{15\ 000}{671\ 000} \times 100 = 2.24\% \)
If net profit of $84 000 is used to calculate: \( \frac{84\ 000}{671\ 000} \times 100 = 12.52\% \)
Either calculation is accepted.

Debt to Equity Ratio = \( \frac{340\ 000}{671\ 000} \times 100 = 50.67\% \)
This reveals the solvency of the firm. Prints Charming relies more heavily on debt for finance than it does on equity. Just less than half the business is controlled by the owner. Whilst this is not dire, it is a position the owner will want to address by decreasing debt or increasing equity. The business is quite highly geared.

Many students provided the correct calculation but lost marks because they did not provide their final answer in the required ratio format or round to the nearest two decimal places.

(1 mark for CR calculation + 2 marks for comment on liquidity; 3 marks for RROE calculation (no comment requested in question and no comment penalty applied); 1 mark for DtE calculation + 2 marks for comment on solvency = 9 marks)

Prints Charming's stakeholders might include:

- Employees: will not have confidence in the stability of their job. They might not be willing to tackle new technologies or embrace innovation if their job is threatened because of financial instability.
- Creditors/suppliers: will not want to extend further credit due to short-term liquidity problems.
- Lenders/banks/finance providers: will want to know that Prints Charming can service the loan for the purchase of the new equipment and printers
- Government: if the business expands Government contracts may be secured which would benefit the government

(1 mark for naming + 1 mark for describing the interest of each of four relevant stakeholders = 8 marks)

**Recommendation**
For example:

Yes.
The purchase of the new equipment:
- The high volume printer
- The computer imaging request
- The 3D printer

is absolutely essential if Prints Charming is to continue in business and meet its mission of expanding its market share and increasing sales volume. It needs to be competitive with other printers both on the local and global stage. The cash forecast would indicate that the loans can be afforded, although there is already a loan of $275 000 on the balance sheet ending June 2015 so the business would need to ensure it didn’t over extend itself. It might consider leasing some of the new equipment if outright purchase was too costly.

No.
There is risks associated with changes in the external environment such as increases in interest rates, costs of production/materials and political changes to any ongoing incentive programs. While the asset base will increase as a result of the purchases of new equipment this comes at the cost of a considerable outlay totalling $1 350 000. It is not clear how much government incentives will contribute to this but the likelihood is the business will be funding a considerable part of this. Cash flow is only just managing to be positive as indicated in the budget and impact of borrowings on this could be significant. Proceeds from sales are a major source of cash inflow and if figures are correct, the proposition would appear to be high risk, the business potentially becoming financially overextended, further compounded by lack of guarantee that government contracts will be secured.
Question 13
(a)  

(i)

<table>
<thead>
<tr>
<th>STRENGTHS – Internal (markers will mark the first 3 ONLY)</th>
<th>WEAKNESSES – Internal (markers will mark the first 3 ONLY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Location is near Hobart</td>
<td>• Cabins old and tired</td>
</tr>
<tr>
<td>• Loyal customer base</td>
<td>• Lack of facilities for disabled guests</td>
</tr>
<tr>
<td>• Plenty of room to expand</td>
<td>• Accessing funds to cover costs of upgrade</td>
</tr>
<tr>
<td>• High value of assets</td>
<td>• Profits have dropped from 2014 to 2015</td>
</tr>
<tr>
<td>• 15 existing cabins 3½ star ratings</td>
<td>• Very little cash on hand</td>
</tr>
<tr>
<td></td>
<td>• Bank overdraft</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES – External (markers will mark the first 1 ONLY)</th>
<th>THREATS – External (markers will mark the first 2 ONLY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Growing tourism industry</td>
<td>• Local regulations governing expansion and land use</td>
</tr>
<tr>
<td>• Shortage of caravan and motor home parks</td>
<td>• Community acceptance of additional cabins, game room</td>
</tr>
<tr>
<td>• Few competitors</td>
<td></td>
</tr>
</tbody>
</table>

(ii) Answers could include, for example:
• Cabins old and tired: refurbishment needed to be competitive
• Lack of facilities for disabled guests: upgrade facilities to cater for diverse clientele
• Accessing funds to cover costs of upgrade: seek equity finance from investors
• Profits have dropped from 2014 to 2015: address declining sales and increasing costs
• Very little cash on hand: audit non-current assets to sell unproductive assets or lease instead of owning to free up cash. Renegotiate terms with creditors
• Bank overdraft: audit non-current assets to sell unproductive assets or lease instead of owning to free up cash. Renegotiate terms with creditors

(2 marks for each of two strategies)

(iii) Answers could include, for example:
• Local regulations governing expansion and land use: extensive research to ensure that business plan will be accepted
• Community acceptance of additional cabins, game room: keep the community informed, be prepared to address their issues as they arise, extend job offers to local community members, foster a clean, green reputation

(2 marks for strategy)

(b) Mission
It must reflect the unique character of the business. It must refer to the case study, eg

Home Suite Home offers the best value, family friendly holiday destination in the greater Hobart area. Through customer care of the highest order, quality products and best practice, Home Suite Home will maintain its place as a most sought after retreat.

(For full marks it should contain reference to customers, service, products and aims = 4 marks)

It must fulfil the requirements of a mission statement:
“An effective mission statement is concise, to the point, realistic, operational, inspirational, informative, and even emotional. It is forward-thinking, positive, and describes success.

Your Mission Statement Should:

- Express your organisation’s purpose in a way that inspires support and ongoing commitment.
- Motivate those who are connected to the organisation.
- Be articulated in a way that is convincing and easy to grasp.
- Use proactive verbs to describe what you do.
- Be free of jargon.”

**Operations**

**Advantages of partnership:**

- Shared responsibility and workload
- Greater access to capital, talent, skills
- Ability to take time off as other people can share the load
- Shared risk/losses
- Shared discussions and decision-making

**Disadvantages of partnership**

- Loss of autonomy
- Sharing profits
- Issues can arise especially if no binding agreement established
- Liability for debt of partner

(1 mark for each of two advantages + 1 mark for each of two disadvantages = 4 marks)

**Marketing**

Jason’s ideas are:

- Infrastructure to cater for up to 30 caravans or motor homes
- Building 20 additional cabins
- Market it as an economical place to stay
- Upgrading existing cabins
- Make the park more family friendly

(3 marks for evaluation of one of Jason’s ideas + 3 marks for evaluation of one of your own = 6 marks)

**Marketing strategies for own idea.** The strategy could be linked to product, place, price or promotion.

(3 marks for strategy)

**Finance**

Current ratio = 27,000/35,000 = 0.77:1

This reveals the liquidity of the business. For every one dollar of current debt there are only 77 cents in current assets to cover. This is unsatisfactory and could cause serious liquidity issues if current debt commitments were required to be paid quickly. The business should be aiming for 2:1, so this ratio suggests improvement is needed.

Debt to Equity Ratio = 465,000/452,000 x 100 = 102.88%

This reveals the solvency of the firm. Home Suite Home is very highly geared and at high risk, relying too heavily on debt finance.

Rate of Return on Owner’s Equity:

This measures profitability of the business.

If net profit of $37,000 is used to calculate: 37,000/452,000 x 100 = 8.19%

If net profit of $39,000 is used to calculate: 39,000/452,000 x 100 = 8.63%

Either calculation is accepted.
This is seen as a reasonable investment return to the owner compared to alternative investments. Other information such as interest rates, previous years’ data and industry averages would need to be known, but it appears sound.

Net Profit Ratio:
This measures profitability of the business.
If net profit of $37,000 is used to calculate: 37,000/435,000 x 100 = 8.51%
If net profit of $39,000 is used to calculate: 39,000/435,000 x 100 = 8.97%
Either calculation is accepted.

Obviously the higher the NPR the better. The ratio appears to be a little low – it must be high enough to cover all expenses and provide healthy profits to the owners. Perhaps expenses could be examined to see if reductions could be made.

Many students provided the correct calculation but lost marks because they did not provide their final answer in the required ratio format or round to the nearest two decimal places.

(1 mark for CR calculation + 2 marks for comment on liquidity; 1 mark for DtE calculation + 2 marks for comment on solvency; 1 mark for RROE calculation + 2 marks for comment on profitability; 1 mark for NPR calculation + 2 marks for comment on profitability = 12 marks)

A financier might require any information to prove capacity to repay debt such as:
• Business plan
• Cash Budget and other forward projections (sales v profits)
• Personal asset list
• Previous financial records of the business
(A minimum of two relevant pieces of information described was expected for full marks = 4 marks)

Recommendation
For example:

Yes and take the risk
No and not take the risk

Whilst it is imperative that Jason undertakes some redevelopment (to remain competitive) he needs to proceed cautiously or he will overextend the business. He desperately needs an injection of capital. He should give serious consideration to reviewing his business structure and inviting in additional partners. The bank loan of $430,000 as at 30 June 2015 could not be extended too much further given the decreasing profits, high gearing and generally poor financial position.

(1 mark for recommendation (yes or no) + 6 marks for supporting arguments, a minimum of two reasons was expected for full marks = 7 marks)