Tasmanian Certificate of Education

BUSINESS STUDIES

Senior Secondary

Subject Code: BST315111

External Assessment

2013

Time: Three Hours

On the basis of your performance in this examination, the examiners will provide results on each of the following criteria taken from the course statement:

**Criterion 3** Communicate business information using appropriate formats.

**Criterion 4** Demonstrate knowledge and understanding of business principles, concepts and issues.

**Criterion 5** Apply a range of business and financial strategies to business situations.

**Criterion 6** Analyse and evaluate business information, data and current issues.

Pages: 20
Questions: 13

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CANDIDATE INSTRUCTIONS

You MUST ensure that you have addressed ALL of the externally assessed criteria on this examination paper.

There are THREE sections to this paper.

You must answer each section as follows:

- FIVE questions from Section A
- TWO questions from Section B
- ONE question from Section C

Answer each section in a separate answer booklet.

The 2013 External Examination Information Sheet for Business Studies can be used throughout the examination.

All written responses must be in English.
Answer **FIVE** questions from this section.

You should spend approximately **30 minutes** on this section.

Use a separate answer booklet for this section.

Each question is worth six marks.

This section assesses **Criterion 4**.

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**Question 1**

An entrepreneur will often start a new business rather than buying an existing one. Describe **two** advantages and **two** disadvantages of starting a new business.

**Question 2**

Give **two** reasons why an incorporated business might choose to re-structure as a franchise.

**Question 3**

List **three** external influences on a business and describe the effect each could have on the business.

**Question 4**

Unemployment has been increasing in recent years. Explain **two** effects this has on Australian businesses.

**Question 5**

Companies have limited liability. Explain the meaning of the term ‘limited liability’.

Section A continues opposite.
Section A (continued)

**Question 6**

‘Responsible management is vitally important to any organisation.’

List **three** benefits to an organisation of adopting ethical, socially and environmentally responsible management practices.

**Question 7**

State **two** functions of the Fair Work Commission and **two** functions of Work Place Standards Tasmania (WorkSafe).

**Question 8**

Give **two** different examples of where changing social media have led to changes in consumer demand or behaviour.
SECTION B

Answer TWO questions from this section.

You should spend approximately 90 minutes on this section.

Use a separate answer booklet for this section.

This section assesses Criteria 4, 5 and 6.

Question 9

(a) This part assesses Criterion 4.

(i) Explain the meaning of the term ‘external recruitment’. What is one disadvantage of recruiting externally? (3 marks)

(ii) Explain the meaning of the term ‘internal recruitment’. What is one disadvantage of recruiting internally? (3 marks)

(iii) Explain the meaning of the term ‘involuntary separation’. Discuss two kinds of involuntary separation. (4 marks)

The following information is to be used for parts (b) and (c).

Local clothing manufacturer Clarence Clothes is suffering as a result of high labour costs, increasing utility expenses such as water and electricity, competition from cheap overseas brands and difficulty in obtaining the material required to manufacture its clothes. In addition, its labour force has heard whispers about the imminent closure of the plant so is lacking motivation. This has led to increased absenteeism and an increase in workplace accidents, product defects and abuse of machinery.

The Company Manager is considering a major restructure of Clarence Clothes’ operation — and has not discounted the possibility of either closing the factory entirely or moving the whole operation overseas.

One of the first things he is looking at is how to improve the productivity and attitude of the staff. Another option he is considering is getting rid of the ‘dead wood’ — those unproductive employees (both normal workers and supervisors) who have been working there for years — and replacing them with new, more motivated employees whom he hopes will bring some fresh ideas to the business.

Question 9 continues opposite.
Question 9 (continued)

(b) This part assesses Criterion 5.

(i) What human resource practices and policies, could the Company Manager at *Clarence Clothes* use to improve motivation, increase productivity, reduce accidents and give the employees job security? (5 marks)

(ii) What monetary and non-monetary rewards might the Company offer employees to achieve these goals? (5 marks)

(iii) Explain what human resource practices and policies *Clarence Clothes* will need to keep in mind to ensure the rights and responsibilities of its employees are maintained during this period of change. (5 marks)

(c) This part assesses Criterion 6.

(i) Discuss the implications if the Company Manager pursues the option to get rid of the unproductive employees for the following stakeholders:

- the business
- the employees
- the local community.

(5 + 5 + 5 = 15 marks)

(ii) What legal considerations might arise when a business is planning to dismiss some of its staff? (5 marks)
Section B (continued)

Question 10

(a) This part assesses Criterion 4.

(i) Describe a current asset. List three examples of current assets. (6 marks)

(ii) What is ‘Owners Equity’? How is this calculated? (4 marks)

The following information is to be used for parts (b) and (c).

_Kerry’s Pizzas_ has been operating successfully in Huonville for more than 10 years and has gained an excellent reputation for making value-for-money pizzas. Last year, _Kate’s Kebabs and Pizzas_ started up just a few blocks away and Kerry has now decided that she needs to reposition the business to regain some of her lost customers. For example, she plans to rent or buy the vacant shop next door, knock down the dividing wall and expand her pizza shop. She estimates that the building work, furniture and new shop fittings will cost around $250 000.

Study the following financial information for both _Kerry’s Pizza_ and his nearby competitor, _Kate’s Kebabs and Pizzas_:

**Financial information for the year ending 30 June 2013**

<table>
<thead>
<tr>
<th></th>
<th><em>Kerry’s Pizzas</em></th>
<th><em>Kate’s Kebabs and Pizzas</em></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>300 000</td>
<td>340 000</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>140 000</td>
<td>150 000</td>
</tr>
<tr>
<td>Expenses</td>
<td>84 000</td>
<td>80 000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>76 000</td>
<td>110 000</td>
</tr>
<tr>
<td>Total Assets</td>
<td>600 000</td>
<td>500 000</td>
</tr>
<tr>
<td>Owner’s Equity</td>
<td>400 000</td>
<td>210 000</td>
</tr>
<tr>
<td>Debt Ratio</td>
<td>33.33%</td>
<td>58.00%</td>
</tr>
</tbody>
</table>

**Kerry’s Pizzas**

_Profit and Loss Statements for the years ended_ 30 June 2012, 30 June 2013

<table>
<thead>
<tr>
<th></th>
<th>30 June 2012</th>
<th>30 June 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>280 000</td>
<td>300 000</td>
</tr>
<tr>
<td>Less Cost of Goods Sold</td>
<td>100 000</td>
<td>140 000</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>180 000</td>
<td>160 000</td>
</tr>
<tr>
<td>Less Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delivery Vehicle Expenses</td>
<td>22 000</td>
<td>25 000</td>
</tr>
<tr>
<td>Wages</td>
<td>18 000</td>
<td>22 000</td>
</tr>
<tr>
<td>Interest on Loans</td>
<td>15 000</td>
<td>12 000</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>20 000</td>
<td>25 000</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>75 000</td>
<td>84 000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>105 000</td>
<td>76 000</td>
</tr>
</tbody>
</table>

Question 10 continues opposite.
Question 10 (continued)

(b) This part assesses Criterion 5.

(i) Calculate the Net Profit ratio for each business. (3 marks)

(ii) Calculate the Rate of Return on Owner’s Equity for each business. (3 marks)

(iii) For each business, draw one conclusion about the profitability of the businesses and one conclusion about its financial stability. (6 marks)

(iv) Calculate the Total Liabilities of both businesses. (3 marks)

(c) This part assesses Criterion 6.

You have been appointed as financial controller of Kerry’s Pizzas.

(i) Examine the Profit and Loss statements above and suggest three reasons why the profit dropped in 2013. (6 marks)

(ii) Examine two things that Kerry could do to achieve a successful repositioning of her business to make her more competitive with Kate’s Kebabs and Pizzas. (6 marks)

(iii) If Kerry decides not to reposition her business, what strategies could she use to increase its profit in 2014? (8 marks)
Section B (continued)

Question 11

(a)  *This part assesses Criterion 4.*

(i)  Describe the four stages of a product life cycle.  

(ii) What should the manager of a business be doing in each of these stages?  

(b)  *This part assesses Criterion 5.*

(i)  Explain three characteristics of the target market that Margaret needs to consider.  

(ii) There are two common elements for segmenting customer markets. Describe three of these that Margaret will need to analyse in order to assess the target market for her magazine.  

(c)  *This part assesses Criterion 6.*

(i)  Write a marketing plan on how you think Margaret should market the new magazine.  

You will need to consider:

- branding  
- positioning  
- packaging and publication  
- pricing methods  
- promotional strategies  
- distribution.  

(ii) List two environmental or ethical considerations Margaret might need to address in the production and marketing of her proposed magazine.
Answer **ONE** question from this section.

You should spend approximately **60 minutes** on this section.

Use a separate answer booklet for this section.

This section assesses **Criteria 3, 5 and 6.**
Section C (continued)

Question 12

*Big Waves* is a family owned surf shop that has operated at St Helens on Tasmania’s East Coast for many years. It is close to many popular surf beaches and has been very successful along the way, having gained an excellent reputation for providing quality, well-priced surf clothing, equipment and videos. In the past, surfing fanatics have been known to travel many kilometres just to visit the shop! In recent years however, *Big Waves* has come under increasing pressure from other surfing outlets whose marketing strategies have been much more effective.

*Big Waves* is considering some strategies to regain some of its lost market share, including better utilisation of its large, spacious premises and enormous area of beachfront land. The owners of the business are also keen to tap into the new social network marketing opportunities available these days.

The business has undertaken some market research which indicates that their potential customers are not aware of exactly what the shop offers. It has also been noted that the interior and exterior of the buildings are in need of a new paint job and the shop fittings are looking old, dated and badly in need of replacement.

The owners of *Big Waves* have not updated their business plan for several years so they have decided to engage you to prepare a new plan, incorporating ideas on repositioning the business.

Copies of the latest Balance Sheet and Profit and Loss Statement have been provided:
Question 12 (continued)

Balancing Sheet as at 30 June 2013

<table>
<thead>
<tr>
<th>Current Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at Bank</td>
<td>214 700</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>43 100</td>
</tr>
<tr>
<td>Stock</td>
<td>83 000  340 800</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Current Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Premises</td>
<td>2 200 000</td>
</tr>
<tr>
<td>Plant and Equipment</td>
<td>36 700</td>
</tr>
<tr>
<td>Furniture and Fittings</td>
<td>183 000</td>
</tr>
<tr>
<td>Vehicles</td>
<td>90 000  2 509 700</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>2 850 500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>53 000</td>
</tr>
<tr>
<td>Bank Overdraft</td>
<td>61 000  114 000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Current Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Loan</td>
<td>1 600 000</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>1 714 000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets</td>
<td>1 136 500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Owner’s Equity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>1 027 700</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>108 800</td>
</tr>
<tr>
<td><strong>Total Owner’s Equity</strong></td>
<td>1 136 500</td>
</tr>
</tbody>
</table>

Profit and Loss Statement for the year ended 30 June 2013

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>969 000</td>
<td>887 400</td>
</tr>
<tr>
<td>Less cost of sales</td>
<td>438 600</td>
<td>420 000</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>530 400</td>
<td>467 400</td>
</tr>
<tr>
<td>Less Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td>260 100</td>
<td>263 000</td>
</tr>
<tr>
<td>Advertising</td>
<td>30 600</td>
<td>40 300</td>
</tr>
<tr>
<td>Administration expenses</td>
<td>67 000</td>
<td>76 200</td>
</tr>
<tr>
<td>Interest</td>
<td>39 000</td>
<td>31 500</td>
</tr>
<tr>
<td>Other overheads</td>
<td>31 000</td>
<td>33 600</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>427 700</td>
<td>444 600</td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td>102 700</td>
<td>22 800</td>
</tr>
</tbody>
</table>

Net Profit Ratio 2012 – 10.60%  2013 – 2.60%
Rate of Return on Owner’s Investment 2013 – 2.00%
Debt Ratio 2013 – 60.00%
Liquidity Ratio 2013 – 3:1

Question 12 continues opposite.
Question 12 (continued)

(a)  *This part assesses Criterion 5.*

(i) Using the information above and other general knowledge of business and current events, analyse the current situation and future prospects of *Big Waves* by constructing a SWOT table.  

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
</table>

(ii) Using your SWOT analysis, suggest two strategies to address two weaknesses. (3 marks)

(iii) Using your SWOT analysis suggest one strategy to address one threat. (2 marks)

(b)  *This part assesses Criterion 3.*

Write a report which suggests some strategies that will assist to reposition *Big Waves* in the marketplace. Your report should include:

- an examination of the new marketing ideas proposed by the owners
- three original marketing ideas of your own
- two methods of undertaking customer research into the new proposals
- three strategies for marketing the new proposals
- three ways of evaluating the success of the proposals. (20 marks)

(c)  *This part assesses Criterion 6.*

As the accountant for the business, you have been asked to prepare a report on the current financial position of the *Big Waves* based on the information shown in the Balance Sheet and Profit and Loss statements. Your report should include the following:

(i) Comment on the Net Profit ratios for the business in both 2012 and 2013 (6 marks)

(ii) Comment on the Rate of Return on Owner’s Equity for the business in 2013 (3 marks)

(iii) Comment on the Debt Ratio for the business in 2013 (3 marks)

(iv) Comment on the financial liquidity of the business in 2013 (3 marks)

(v) Three reasons for the fall in profits from 2012 to 2013 (6 marks)

(vi) One suggestion for the reason for the change in administration expenses from 2012 to 2013 and one suggestion for the change in interest payments from 2012 to 2013 (4 marks)

(vii) Three recommendations and strategies, with justifications, which are based on the financial statements and ratios, as well as your comments above. (15 marks)

Section C continues over the page.
Section C (continued)

Question 13

Charlie has been working with two other hairdressers at a small five day per week hairdressing salon in Burnie for the past seven years. He is now a fully qualified hairdresser. His boss is about to retire and will place the salon on the market. Charlie has always dreamed of the opportunity to operate his own salon and is considering purchasing the business. He has already had preliminary discussions with the retiring owner who is very supportive and encouraging of Charlie’s plans to take over the business. They have talked about a price of around $100 000 for the goodwill, lease, furniture and fittings, equipment and stock. Charlie has the following ideas for what he might do if he buys the business:

- expand the services offered by the salon to include body piercings and beautician services
- offer discounts to seniors one day a week
- stay open later two nights a week to cater to working people
- open seven days a week
- employing additional staff to visit aged care facilities to offer basic hairdressing services to residents
- employing his friend who is about to complete a nail care course
- entering hairdressing competitions
- offer free haircuts one day each month to needy people referred by the Salvation Army
- participate in local school and college career expos to promote hairdressing as a career
- advertise in school and college newsletters prior to end-of-year leavers’ dinners and school formals offering discount hairdressing services to students.

Other observations:

- the salon is located in an area of the city where many locals are struggling financially and reducing their spending on their few luxuries such as hairdressing services
- the age demographic of the suburb is slowly changing, with more younger people moving into the area as the nearby university campus expands
- Charlie has savings of around $30 000 only in the bank
- he owns his own home, valued at $180 000, outright
- the interior of the salon is badly in need of sprucing up with a paint job and new décor.

Details of the expected profit and loss budget for the existing salon are provided below:

| Coastal Hairdressing Salon |
|-----------------------------|---|
| **Profit and Loss Budget for the year** | **2013** |
| Total income (including sale of products) | 330 000 |
| Less cost of product sales | 33 000 |
| **Gross Profit** | **297 000** |
| **Less Expenses** |  |
| Advertising | 7 000 |
| Insurance, Electricity, Cleaning etc | 38 000 |
| Rent | 41 000 |
| Wages | 127 000 |
| **Total Expenses** | **213 000** |
| **Expected Net Profit** | **84 000** |

Question 13 continues opposite.
Question 13 (continued)

(a) *This part assesses Criterion 5.*

(i) Using the information above and other general knowledge of business and current events, analyse the purchase of the salon by constructing a SWOT table. 

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
</table>

(ii) Using your SWOT analysis, suggest two strategies to address two weaknesses. 

(iii) Using your SWOT analysis suggest one strategy to address one threat.

(b) *This part assesses Criterion 3.*

Charlie has asked you to prepare a 12-month business plan for his proposed purchase of the salon.

Using your knowledge of business planning, you are required to write the following sections of a business plan for the salon for Charlie. The section must include:

- the legal structure for the ownership of the business
- the staffing requirements of the small salon, including full-time and part-time staff
- the management structure, given that Charlie doesn’t want to be working at the salon seven days a week as he plays sport on Saturdays and trains one evening during the week
- possible future plans for the business.

You are permitted to make assumptions as long as you document them in the plan.

(c) *This part assesses Criterion 6.*

(i) For five of the marketing ideas Charlie has, explain why you think they will or will not work.

(ii) Using your knowledge of business planning, you are required to write the Marketing sections of a business plan for the salon for Charlie. This section must include:

- how he should go about implementing three of his marketing ideas
- three original marketing ideas of your own
- a brief outline of how Charlie should set his prices
- details of how you think Charlie should advertise his business
- an analysis of the risks associated with Charlie’s repositioning of the business to cater for the changed age demographic.

You are permitted to make assumptions as long as you document them in the plan.

Question 13 continues over the page.
Question 13 (continued)

(iii) Here are some names that Charlie is considering: ‘Charlie’s Salon’, ‘Hairway to Heaven’, ‘A Cut Above the Rest’, ‘Curl Up and Dye’. Which name would you choose for the salon and why would you use this name? (5 marks)

(iv) Analyse the options Charlie has for raising the finance he is going to need to purchase and commence the business. (5 marks)
Profitability Ratios

Gross Profit Ratio  =  \( \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 \)

Net Profit Ratio  =  \( \frac{\text{Net Profit}}{\text{Net Sales}} \times 100 \)

Rate of Return on Owner’s Equity  =  \( \frac{\text{Net Profit}}{\text{Total Owner’s Equity}} \times 100 \)

(Ratios calculated to the nearest two decimal places)

Solvency Ratio

Debt to Equity Ratio  =  \( \frac{\text{Total Liabilities}}{\text{Total Owner’s Equity}} \times 100 \)

(Ratio calculated to the nearest two decimal places)

Liquidity Ratio

Current (or Working Capital) Ratio  =  \( \frac{\text{Current Assets}}{\text{Current Liabilities}} \)

(Expressed as a ratio to 1)

Break-even

Break-even point  =  \( \frac{\text{Total Fixed Costs}}{\text{Selling Price per unit} - \text{Variable Costs per unit}} \)

(Round up to the next full unit)