

External Assessment 2021

BUSINESS STUDIES

BST315116

Sections **A**, **B** and **C**

Pages	28
Questions	13
Answer Booklets	3
Information Sheet	1

Preparation time: 15 minutes

Suggested working time: 3 hours

Instructions

- There are **three (3)** sections to this exam paper:
 - **Section A** – answer **four (4)** questions in total comprising:
 - Part 1: Unit 1** The Business Environment: answer **two (2)** questions
 - Part 2: Unit 2** Operations Management: answer **two (2)** questions.
 - **Section B** – answer **two (2)** questions.
 - **Section C** – answer **one (1)** question.
- Use a **separate Answer Booklet** for each section.
- Answer **all** items within a question.
- You are encouraged to include **diagrams** where relevant.
- The suggested time to spend on a section is given in the instructions for that section.
- All answers must be written in **English**.
- You **must** make sure your answers address:
 - Criterion 1 describe and use business terms, concepts, principles and ideas related to the management of business in Australia.
 - Criterion 2 use tools, techniques and processes to assess data and information about business performance.
 - Criterion 3 analyse issues arising from business practices and management strategies.
 - Criterion 4 make recommendations to improve management practices and business performance.
 - Criterion 5 communicate business ideas and information.

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Guide to Exam Structure

		Parts	Questions available	How many questions to answer	Suggested working time	Marks available
Section	A	Part 1	4	2	20 minutes	20 marks and A+ to z rating
		Part 2	4	2	20 minutes	20 marks and A+ to z rating
Section	B		3	2	70 minutes	70 marks
Section	C		2	1	70 minutes	70 marks
Total			13	7	180 minutes (3 hours)	180 + alpha

Section A

- Answer **four (4)** questions in total comprising:
 - Part 1: Unit 1** The Business Environment: answer **two (2)** questions
 - Part 2: Unit 2** Operations Management: answer **two (2)** questions.
 - Use a **separate Answer Booklet** for this section
 - Make sure you answer **all items** within a question.
 - It is suggested that you spend approximately **40 minutes** on this section.
 - Each **question is worth a total of 10 marks** (4 x 10 = 40 Marks).
 - This section assesses **Criteria 1** and **5**.
-

Part 1: Unit 1 – The Business Environment

- Answer **two (2)** questions from this unit.

Question 1

A PESTLE analysis involves the analysis of the external influences on a business.

Choose **two (2)** of these external influences and for each:

- Describe the nature of the influence
- Describe **one (1)** impact that the influence may have on the business.

(4 + 6 = 10 marks)

Question 2

- Distinguish between the partnership form of business structure and the private company form.
- Explain the advantages and disadvantages that may accrue to the private company form.

(4 + 6 = 10 marks)

Question 3

- What is meant by business culture?
- Discuss the importance of business culture to employees and managers of a business.

(4 + 6 = 10 marks)

Question 4

- What is ethical behaviour?
- Explain **two (2)** business goals which may conflict with the requirements for behaviour to be ethical.

(4 + 6 = 10 marks)

Section A continues

Part 2: Unit 2 – Operations Management

- Answer **two (2)** questions from this Unit.

Question 5

- Define cost leadership and product differentiation.
- Outline, with suitable examples, how each contributes to competitive advantage.

(4 + 6 = 10 marks)

Question 6

- Describe the concept of just-in-time processing.
- Identify advantages and disadvantages to a business which makes the decision to move to just-in-time processing.

(4 + 6 = 10 marks)

Question 7

- Explain the distinction between operational decisions and strategic decisions.
- Describe **one (1)** operational decision and **one (1)** strategic decision that will be required of the operations manager.

(4 + 6 = 10 marks)

Question 8

- Explain what is meant by a business outsourcing elements of its operations.
- Describe **one (1)** ethical and **one (1)** environmental issue that may arise, particularly if the outsourcing is to an offshore business entity.

(4 + 6 = 10 marks)

Section B

- Answer **two (2)** questions comprising:
 - Either:** Question **9 and 10**
 - OR** Question **10 and 11**
 - OR** Question **9 and 11**.
 - In your answers refer to the **stimulus material** provided.
 - Use a **separate Answer Booklet** for this section and record the question numbers you choose to answer on the cover.
 - Make sure you answer **all items** within a question.
 - You are encouraged to include **diagrams** where relevant.
 - It is suggested that you spend approximately **70 minutes** on this section.
 - Each **question is worth 35 marks** (2 x 35 = 70 Marks).
 - This section assesses **Criteria 3 and 4**.
-

Read both Stimulus 1 and 2.

Stimulus 1

Work well, wherever you are: Lessons from Australia's remote workforce

The way we work will never be the same after 2020.

In the space of a year, Australian businesses have had to adopt and master workforce trends that were once on the distant horizon.

Practically overnight, organisations had to shift to remote work, adopt new procedures and new tech, and digitally transform their businesses. Manual, outdated systems have been digitised, processes streamlined and decentralised, and remote working embraced as the new normal.

The change to full-time remote work was very different to working from home once a week.

The organisations that are proactive in adopting technology to enhance their workforce are the ones that are well-placed to adapt to whatever disruption the future holds.

Organisations should take advantage of this shift and foster a culture of trust and open communication, all underpinned by technology that allows people to do great work, no matter where they are.

Sourced and edited from: www.smartcompany.com.au/partner-content/articles/lessons-from-australias-remote-workforce/

Stimulus continues

Stimulus 2

Gert Olssen is a personal trainer. She owned and managed a fitness studio. Her business had been carried out from a small suburban gymnasium (which she leased), where she employed six trainers and one full time office administrator.

She structured the business as a private company with herself as the sole shareholder.

Articles such as that shown in Stimulus 1 led Gert to a decision to explore an alternative approach to personal fitness program delivery.

Gert's company registered the business name Fit by Fone in May 2020. She closed the gymnasium and commenced the new business undertaking on July 1, 2020.

The main features of her new business model are:

1. Fit by Fone delivers appropriately designed fitness programs via smart phone or other personal device to clients located in their home or office. Employed trainers deliver the program one-to-one from their homes using popular and freely available communications media. The trainers are casual employees.
2. Home equipment kits (fitkits), designed to suit each program, are packaged by Gert and purchased by the clients.
3. All communication between Gert and her trainers is online.
4. All financial transactions such as payments and receipts are completed by direct transfer to bank accounts.
5. Gert had a specified area in her apartment set aside for business purposes and was able to administer the program without the need for an office administrator.

Gert is convinced that Fit by Fone offers a product attractive to a market which has been forever changed – that her one-to-one delivery fits well with the increasing phenomena of working from home (remote work) and casualisation of the workforce.

She can also see cost advantages over the fitness studio-based model in that all the expenses of running a physical site (such as property insurance, rates and taxes, lease costs) are avoided. Gert has an existing business loan from her bank and those repayments continue.

Gert has found that she now has more of a co-ordinating, communicating and trouble-shooting role rather than the running of the physical site.

To date Gert has seen her customer numbers increase by word-of-mouth. She can see the need to carry out some research to ascertain the nature and size of her market; set some performance objectives; and devise strategies to reach those objectives. Gert has read about market segments and target markets but has not yet taken any action in this direction. She is also aware that her current pricing structure, based upon covering costs of the fitness studio, may not suit the new delivery model.

A new development

Gert is aware of competitors entering the market for home-based fitness programs and has decided that Fit by Fone must become more sophisticated in its delivery. This will involve the development of an application for mobile devices (an app), specifically to suit the requirements of Fit by Fone.

Stimulus 2 continued

The anticipated cost of this app development is \$85 000, funds which Gert doesn't have. She expects to generate sufficient revenue to recover the cost of the app over 5 years.

She must make a choice between borrowing from a financial institution or seeking capital from a new shareholder. Gert owns property which she can use as security.

She has the Income Statement and Balance Sheet for the 2021 financial year and a Cash Budget for the first 6 calendar months of 2022 to put before potential lenders or shareholders.

The cash budget factors in a new 12 year mortgage loan (a loan which has property as a security).

Fit by Fone Cash Budget For the period January 1, 2022 to June 30, 2022			
	<u>Jan/Feb</u>	<u>Mar/Apr</u>	<u>May/Jun</u>
Cash inflows			
Customer fees	25 200	32 600	42 000
Fitness kits	670	1 000	1 700
Proceeds of mortgage loan (12 years)	85 000		
Total cash received	110 870	33 600	43 700
Cash Outflows			
App development	60 000	25 000	
Instructor wages	9 000	13 000	17 680
Drawings	8 000	9 000	9 000
IT/communications costs	1 700	4 550	6 900
Light and power	620	670	710
Cost of kits	325	410	805
Share of rent	720	720	720
Share of rates	400	400	400
Loan repayments	8 700	8 700	8 700
Total cash paid	89 465	62 450	44 915
Cash balance at beginning	5 500	26 905	-1 945
Add net cash flow	21 405	-28 850	-1 215
Cash balance at end	26 905	-1 945	-3 160

Stimulus 2 continues

Stimulus 2 continued

Fit by Fone Income Statement for period ended 30 June, 2021	
Client fees	167 300
Sale of fitkits	7 200
Total Revenue	174 500
Less Expenses	
Casual wages	60 000
Cost of fitkits	3 000
Other expenses	9 000
Total expenses	72 000
Net profit	102 500

Fit by Fone Balance Sheet as at 30 June, 2021	
Current assets	
Cash at bank	2 200
Fees receivable	28 500
Inventory of fitkits	13 000
Total Current Assets	43 700
Non-current assets	
Computer equipment	20 000
Mobile phones	3 400
Total non-current assets	23 400
Total assets	67 100
Current liabilities	
Accounts payable	650
Accrued wages	180
Non-current liabilities	
Business loan	3 800
Total liabilities	4 630
Net assets	62 470
Owners' Equity	
Capital	25 000
Add net profit	<u>102 500</u>
	127 500
Less distribution to owner	<u>65 030</u>
	62 470

Question 9

Financial Management

Parts (a) to (c) assess Criterion 3

- a) Gert sees three options available to her to finance the app development.
- i. Take out another business loan from a bank over 5 years.
 - ii. Take out a mortgage loan (secured with property) with the bank over 12 years.
 - iii. Seek equity funding through capital introduced by a new business part owner.

Explain the issues that arise from **each** of these options.

(**note**: the cash budget is constructed assuming option ii above – a mortgage loan over 12 years)

(3 x 4 = 12 marks)

- b) Evaluate the importance of cash flow to business viability. What consequence may arise for Gert if cash is not available to meet debt obligations?
- (4 marks)
- c) Identify the consequences for **two (2)** stakeholders of faulty financial decision making in a business.

(4 marks)

Parts (d) to (f) assess Criterion 4

- d) Describe how completion of the Cash Budget and Income Statement assists Gert in deciding an appropriate source of finance to fund the app development.
- (8 marks)
- e) Recommend, with reasons, the source of finance that will best support the performance of Fit by Fone in the short and long term.
- (4 marks)
- f) Identify and briefly explain an obstacle or risk involved with the implementation of your recommendation.

(3 marks)

Question 10

Human Resource Management

Parts (a) to (c) assess Criterion 3

a) As an employer, Gert has legal responsibilities under the:

- National Employment Standards
- Work Health and Safety legislation
- Equal Employment Opportunities legislation.

Describe **one (1)** human resource management issue from **each** of these areas of responsibility that Gert may confront, particularly as an outcome of the remote work-place business structure.

(3 x 4 = 12 marks)

b) Assess the impact of **one (1)** of the issues described in a) above on:

- Employees
- The community

(4 marks)

c) Identify and explain **one (1)** social and **one (1)** environmental implication of the remote workplace structure **and/or** the increased use of casual labour.

(4 marks)

Parts (d) to (f) assess Criterion 4

d) Gert wants to ensure that her casual employees working remotely from home are as productive as possible.

Recommend and explain **one (1)** management strategy relating to the development stage of the employment cycle and **one (1)** management strategy relating to the maintenance stage of the cycle that will promote productivity.

(8 marks)

e) For **one (1)** of these strategies identify the short term and long term benefits and contribution to improving management effectiveness and business performance.

(4 marks)

f) Analyse the economic implications of successful implementation of your strategies in support of the remote workplace structure.

(3 marks)

Question 11

Marketing Management

Parts (a) to (c) assess Criterion 3

- a) Explain **two (2)** issues arising from Gert relying on word of mouth for gaining clients, and **one (1)** issue with her reliance on her old cost plus pricing method.

(3 x 4 = 12 marks)

- b) Analyse how **one (1)** of these issues impacts upon business performance.

(4 marks)

- c) Analyse the impact of **one (1)** of the issues identified in **a)** above, on current employees as stakeholders in the business.

(4 marks)

Parts (d) to (f) assess Criterion 4

- d) Explain using examples how Gert can use market segmentation strategies to better promote her business to potential clients?

(8 marks)

- e) Recommend, with reasons, **one (1)** new pricing strategy to replace the cost plus approach taken by Gert.

(4 marks)

- f) Explain how the strategies discussed in **d)** and **e)** above will impact clients as stakeholders in the business.

(3 marks)

Section C

- Answer **one (1)** question from this section, **either** Question 12 **or** 13.
 - In your answers refer to the **stimulus material** provided.
 - Use a **separate Answer Booklet** for this section and record the question numbers you choose to answer on the cover.
 - Make sure you answer **all items** within a question.
 - You are encouraged to include **diagrams** where relevant.
 - It is suggested that you spend approximately **70 minutes** on this section.
 - Each question is worth **70 marks**.
 - This section assesses **Criteria 2** and **4**.
-

Question 12

Stimulus – Cchange Cafe (for use in Question 12 only)

Cchange Café is a small business set up by Bob and Mali Green in July 2018 in the coastal village of Seaside.

They had identified the growing trend for city dwellers to seek a more relaxed lifestyle outside the urban conglomerations, and set up the Cchange café in anticipation of an expanding local market.

Initially the café served takeaway food and beverages only, with a focus on traditional fish and chips.

Seaside has a local fishing fleet, and fresh fish is readily available, avoiding expensive transport costs. Bob and Mali could also personally select for quality.

As predicted, Seaside experienced a mini population boom and there was a surge in home building. This was supported by record low home loan interest rates and a willingness of banks to lend.

Distance from the city was a two-edged sword however, with transport costs increasing costs of most products and an issue with finding tradespeople when needed.

By January of 2020 it was obvious that the population of Seaside and surrounds had grown to such an extent that there would be sufficient customer support for an eat-in area to be developed in the Cchange Café.

The development, involving a kitchen upgrade and building extension, was opened for the first customers on July 1, 2020.

By far the most popular product sold for sit down customers was the Fishnchips Special which accounted for 80% of sales.

Question 12 continues

Question 12 continued

The costs involved with the development were:

Building extension	120 000
Furniture	23 000
Kitchen upgrade	4 350
Equipment	<u>15 670</u>
Total	163 020

The following summary Income Statements and Balance Sheets show the financial performance of Cchange Café from its commencement in 2018 until 2021 – the end of its first year of operation with the eat-in area.

The accounting reports for 2021 have raised some concerns, and Bob and Mali seek assistance from a business advisor.

The advisor suggests that a cash budget be prepared to ascertain whether sufficient funds will be available in the near future, and a break-even analysis to assess whether product pricing is acceptable.

Question 12 continues

Question 12 continued

Cchange Cafe			
Income Statements for the years ended 30 June			
	2019 (\$)	2020 (\$)	2021(\$)
Sales Revenue	157 540	170 000	197 000
Less cost of goods sold	61 000	63 000	71 000
Gross Profit	96 540	107 000	126 000
Less other operating expenses			
<i>Administrative</i>			
Insurance	1 280	1 400	2 300
Office wages	21 000	23 000	23 000
Casual restaurant wages	0	0	36 000
Motor vehicle costs	2 000	4 000	3 800
<i>Selling and distribution</i>			
Advertising	1 400	1 340	2 050
Fliers	0	0	490
<i>Financial</i>			
Interest	420	420	3 100
Bank fees	40	40	250
Total expenses	26 140	30 200	70 990
Net Profit	70 400	76 800	55 010

Question 12 continues

Cchange Cafe			
Balance Sheet for the years ended 30 June			
	June 30 2019	June 30 2020	June 30 2021
Current assets			
Cash on hand	1 250	1 400	1 700
Cash at bank	2 300	2 000	1 100
Inventory	2 500	2 600	4 200
Total current assets	6 050	6 000	7 000
Non current assets			
Equipment	10 010	12 000	45 000
Furniture	7 670	8 000	23 700
Buildings	82 000	82 000	167 000
Total non-current assets	99 680	102 000	235 700
Total assets	105 730	108 000	242 700
Current liabilities			
Accounts payable	12 450	15 420	16 900
Aust. Tax Office	80	80	65
Total current liabilities	12 530	15 500	16 965
Non current liabilities			
Term loan	12 800	9 800	6 700
Secured loan	0	0	140 000
Total non-current Liabilities	12 800	9 800	146 700
Total liabilities	25 330	25 300	163 665
Net assets	80 400	82 700	79 035
Owners' equity			
Capital	90 000	80 400	82 700
Add Net profit	70 400	76 800	55 010
	160 400	157 200	137 710
Less drawings	80 000	74 500	58 675
	80 400	82 700	79 035

Question 12 continued

Cchange Café			
Cash Budget for the 6 months ending June 30, 2022			
	Jan/Feb (\$)	Mar/Apr(\$)	May/Jun(\$)
Cash inflows			
Cash sales of takeaways	9 000	9 800	11 900
Cash sales from eat-in	27 000	28 700	32 000
Total cash receipts	36 000	38 500	43 900
Cash outflows			
Payment for fish supplies	11 000	12 800	14 000
Payment for frozen products	2 300	3 500	3 750
Payments for sundries	400	500	500
Insurance	0	2 400	0
Casual office wages	4 000	400	4 000
Casual restaurant wages	7 000	8 000	8 000
Advertising	1 200	800	200
Interest and bank charges	550	550	550
Replacement furniture	0	0	2 700
Power	890	0	940
Sundry equipment replacement	200	200	350
Owners drawings	10 000	10 000	10 000
Total cash payments	37 540	39 150	44 990
Net cash flow	-1 540	-650	-1 090
Opening cash balance	2 450	910	260
Closing cash balance	910	260	-830

Question 12 continues

Question 12 continued

Part A – assesses Criterion 2

Use all of the provided information to complete a SWOT diagram for Cchange Cafe.

There must be **two (2)** items in each section of your diagram.

(8 marks)

Part B – assesses Criterion 2

- i. Calculate the gross profit ratio, net profit ratio and rate of return on owners equity for 2020 and 2021 and enter into the grid provided in the answer book.

(6 marks)

- ii. Use your calculations and other information provided to write an assessment of the success or otherwise (in terms of profitability) of the development of the “eat-in” section of the restaurant.

(8 marks)

- iii. Calculate the current ratio for 2020 and 2021 and enter into the grid provided in the answer book.

(2 marks)

- iv. Has the development of the restaurant strengthened or weakened the liquidity of Cchange Café? Explain your answer.

(4 marks)

Question 12 continues

Question 12 continued

Part C – assesses Criterion 2

The following tables relate to costs of production.

It is decided that revenue from sales of the Fishnchips Special should cover 80% of the annual (overhead) costs and takeaways the remaining 20%.

Table 1 contains the total fixed annual (overhead) costs and Table 2 contains the variable (direct) costs for each FishnChips Special.

Table 1		Table 2	
Annual costs		Direct costs – FishnChips Special	
	(\$)		(\$)
Wages	84 000	Fish	5.50
Equipment repair	3 300	Flour	0.20
Replacement utensils	970	Salt	.02
Gas and electricity	6 600	Potato chips	2.80
Rates and Taxes	1 450	Salad	1.95
Cooking oil	1 890		
Other sundries	1 000		

- i. Calculate the contribution margin of each FishnChips Special meal makes towards covering annual costs if the price is set at \$17.20 per meal. (2 marks)
- ii. What is the break even quantity of meals **per week** at this price? (4 marks)
- iii. How many meals would need to be sold **per week** at \$17.20 per meal, if the owners wanted an annual return from the FishnChips Special of \$82 000? (4 marks)
- iv. Explain one way that break even analysis supports management decision making. (2 marks)

Question 12 continued

Part D – assesses Criterion 4

- a) i. For **one (1)** of the **strengths** identified in your SWOT analysis, suggest a strategy to use the strength.
- (2 marks)
- ii. For **one (1)** of the **weaknesses** identified in your SWOT analysis, suggest a strategy to address the weakness.
- (2 marks)
- iii. For **one (1)** of the **threats** identified in your SWOT analysis, suggest a strategy to meet the threat.
- (2 marks)
- b) Bob and Mali are concerned with the reduction in net profit evident in the income statement for the period ended June 30, 2021. Their cash budget for January to June 30, 2022 is also of some concern.
- i. Suggest **two (2)** actions that can be taken to address the situation presented by the income statements. Explain **how** these actions would assist the situation.
- (8 marks)
- ii. Suggest **two (2)** actions that can be taken to address the situation presented by the cash budget. Explain **how** these actions would assist the situation.
- (8 marks)
- iii. Identify **two (2)** measures by which you could assess the effectiveness of your suggestions in **b) (i)** and **(ii)** above.
- (4 marks)
- iv. Identify **one (1)** social and **one (1)** economic implication if Cchange Café fails to generate sufficient cash to meet debts as they fall due.
- (4 marks)

Question 13

Stimulus – 2Ks Compost (for use in Question 13 only)

2Ks Compost Pty. Ltd. is a business that manufactures compost mulch from by-products from the grain growing, vegetable growing, intensive dairy, cattle and poultry farming of northern Tasmania.

The company was started by Ken & Karen Walker who were aware of the great quantity of the by-products ending up in landfill. They formed a private company, and are the sole shareholders of 2Ks Compost Pty Ltd.

The business is operated on a semi-rural property with shed which is on the outskirts of a rapidly developing urban centre.

The manufacturing process involves collection of by-product such as vegetable foliage, barley straw, manure, and excess hay from surrounding districts. This material is processed outside until it has broken down to a clean friable soil-like consistency. The final stage is to transfer the bulk compost to the packing shed where it is mechanically packed into plain unbranded 10 kg bags and onto shipping pallets for distribution. Sales are so strong that there is virtually no inventory of final product on hand. 2Ks employ one worker on a fulltime basis, and two casual workers.

All of the product is sold locally to intensive horticultural businesses but there are increasing enquiries from the general public and from retail nurseries. 2Ks has not researched this market and currently there are no sales directly to the public or to retail outlets.

By-product suppliers are currently allowing collection of the by-product on the basis of a hand-shake. 2Ks does not pay for most by-product, nor do they charge the supplier for its removal. However they have been advised of contact being made with their suppliers by potential competitors and understand that they will need to make formal contracts with suppliers.

They expect to have to pay some suppliers for material, but also expect to partially offset this by charging others for its removal. Two of their largest suppliers of raw material – a cattle feedlot and a poultry producer – have indicated an intention to charge for the product (manure) in future.

2Ks' plans to expand their operation on the existing site by increasing the area available to spread compost and having a second, more technologically advanced, packing facility built.

The expansion requires permits from the local council, and the health and environmental authorities. These have been applied for but not yet received.

They have support from the farmers and producers creating the by-product, and the government is so impressed they have offered a grant of \$50 000 to support the expansion. Conservation groups are also showing strong support for the project.

There is some objection in the local community regarding odour and flies, and a petition has been circulated to gather support for a challenge to the issue of a permit.

2Ks has approached their bank for a loan to fund the expansion and have presented the following documents requested by the bank.

Question 13 continues

Question 13 continued

2Ks Compost Pty Ltd			
Cash Budget for the 6 months ending June 30, 2022			
	Jan/Feb (\$)	Mar/Apr(\$)	May/Jun(\$)
Cash inflows			
Cash sales	1 300	1 650	2 100
Receipts from accounts receivable	42 260	43 000	45 000
Total cash receipts	43 560	44 650	47 100
Cash outflows			
Wages	20 800	20 800	20 800
Rates	-	560	-
Fuel and oil	1 720	1 940	2 010
Equipment maintenance	860	3 500	1 145
Owners drawings	16 000	16 000	16 000
Insurance	-	-	3 400
Packaging materials	2 000	2 170	2 520
Power	-	1 450	1 580
Other payments	400	500	500
Total cash payments	41 780	46 920	47 955
Net cash flow	1 780	-2 270	-855
Opening cash balance	1 680	3 460	1 190
Closing cash balance	3 460	1 190	335

Question 13 continued

2Ks Compost Pty Ltd			
Income Statement for the years ended 30 June			
	2019 (\$)	2020 (\$)	2021(\$)
Sales revenue	298 300	303 500	312 400
Less cost of goods sold	42 100	44 600	62 000
Gross profit	256 200	258 900	250 400
Less other operating expenses			
<i>Administrative</i>			
Insurance	2 970	3 000	3 250
Factory wages	118 430	120 400	123 500
Fuel and oil	6 700	7 200	7 800
Maintenance	11 450	14 800	15 200
Other administrative	1 700	1 950	2 350
<i>Selling and distribution</i>			
Truck running expenses	15 000	16 800	17 300
<i>Financial</i>			
Interest	2 100	1 790	1 650
Bank fees	40	40	50
Total expenses	158 390	165 980	171 100
Net profit	97 810	92 920	79 300

Question 13 continues

Question 13 continued

2Ks Compost Pty Ltd			
Balance Sheet for the years ended 30 June			
	2019 (\$)	2020 (\$)	2021(\$)
Current Assets			
Cash on hand	540	620	590
Cash at bank	1 300	2 550	2 320
Accounts receivable	26 400	30 100	32 780
Inventory	2 000	1 500	800
Total current assets	30 240	34 770	36 490
Non current assets			
Packing equipment	18 900	15 600	11 250
Excavator	75 780	71 600	68 400
Truck	46 700	40 000	35 300
Storage bins	7 800	8 300	8 100
Shredder	7 490	6 870	6 500
Land and building	330 000	330 000	330 000
Total Non-current Assets	486 670	472 370	459 550
Total Assets	516 910	507 140	496 040
Current liabilities			
Accounts payable	5 600	8 340	10 900
Accrued expenses	720	560	480
Total current liabilities	6 320	8 900	11 380
Non current liabilities			
Bank term loan	43 730	38 090	32 400
Total Liabilities	50 050	46 990	43 780
Net assets	466 860	460 150	452 260
Owners' Equity			
Owners capital	465 050	466 860	460 150
Add retained (net) profit	97 810	92 920	79 400
	562 860	559 780	539 550
Less distribution to owners	96 000	99 630	87 290
	466 860	460 150	452 260

Question 13 continues

Question 13 continued

Part A – assesses Criterion 2

Read all the stimulus material carefully, and in the answer booklet complete a SWOT analysis for 2Ks Compost. Include **two (2)** items in each category in your SWOT diagram.

(8 marks)

Part B – assesses Criterion 2

- i. Calculate the gross profit ratio and the net profit ratio for 2020 and 2021 and enter the values in the table provided in the answer book.

(4 marks)
- ii. Comment on the **profitability** of 2Ks Compost.

(4 marks)
- iii. Calculate the **current ratio** for 2020 and 2021 and enter the values in the table provided.

(2 marks)
- iv. Comment on the **liquidity** of 2Ks Compost.

(4 marks)
- v. Calculate the **gearing ratio** for 2020 and 2021 and enter the values in the table provided.

(2 marks)
- vi. Comment on the **financial stability** of 2Ks Compost.

(4 marks)

Question 13 continues

Question 13 continued

Part C – assesses Criterion 2

The owners of 2Ks Compost are aware that if they intend to enter the retail market for compost they will need to be price competitive and thus understand more about production costs.

The following data relates to their costs of production.

Annual fixed (overhead) costs (\$)		Production (variable) costs per bag (\$)	
Wage-permanent	125 000	Materials	1.60
Insurance	3 400	Casual wage	0.55
Sundry administration	800	Water charges	0.05
Fuel and oil	8 000	Bags	0.67
Machinery running	18 000		
Interest	1 600		
Rates	1 500		

- i. Calculate the contribution margin that each bag of compost makes towards covering annual costs if the price is set at \$6.00 per bag.
(2 marks)
- ii. What is the break-even quantity of bags per week at this price (\$6.00)?
(4 marks)
- iii. How many bags of compost would need to be sold per week at \$6.00 per bag, if the owners want an annual return to them of \$120 000?
(4 marks)
- iv. Explain one way that break-even analysis supports management decision making.
(2 marks)

Question 13 continues

Question 13 continued

Part D – assesses Criterion 4

- i. For **one (1)** of the **strengths** identified in your SWOT analysis, suggest a strategy to use the strength.
(2 marks)
- ii. For **one (1)** of the **weaknesses** identified in your SWOT analysis, suggest a strategy to address the weakness?
(2 marks)
- iii. For **one (1)** of the **threats** identified in your SWOT analysis, suggest a strategy to meet the threat.
(2 marks)
- iv. Describe (as shown in the cash budget) the forecast trend of the cash balance of 2Ks Compost over the first 6 months of 2022. Suggest **one (1)** action available to reverse this situation. Explain **how** that action will have the desired result.
(4 marks)
- v. The Income Statements show an increase in sales revenue from 2019 financial year to the 2021 financial year, yet net profit is declining. Suggest **one (1)** action that management can take to address this situation. Explain **how** that action will have the desired result.
(4 marks)
- vi. Identify and explain **two (2)** obstacles to a successful expansion into the retail market that may arise with continued failure to carry out market research.
(4 marks)
- vii. What effect may failure to overcome these obstacles have on suppliers and on the community in general.
(4 marks)
- viii. Prepare **two (2)** recommendations to 2Ks Compost to improve sales.
(4 marks)
- ix. Why is it important that 2Ks Compost resolve the issues relating to the local community petition.
(4 marks)



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External Assessment 2021

BUSINESS STUDIES

BST315116

Section **A** Answer Booklet

Pages 12

Questions 8

Answer **four (4)** questions in total from this section.

Part 1: Unit 1 The Business Environment – answer **two (2)** questions.

Part 2: Unit 2 Operations Management – answer **two (2)** questions.

CANDIDATE: record the question numbers you are answering from each unit in the table below:

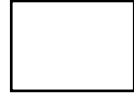
Part 1: UNIT 1			Part 2: UNIT 2		
Candidate	Marker use		Candidate	Marker use	
Question number answered	C1	/ 10	Question number answered	C1	/ 10
	C5			C5	
Question number answered	C1	/ 10	Question number answered	C1	/ 10
	C5			C5	

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TOTAL C1	/ 40
TOTAL C5	

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Part 1: Unit 1 The Business Environment

Answer **two (2)** questions



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Unit 1 continues

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Unit 1 The Business Environment

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Part 2: Unit 2 Operations Management

Answer **two (2)** questions

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