

2021 ASSESSMENT REPORT

BST315116 - BUSINESS STUDIES

Section A

Unit 1 The Business Environment

This year saw a return to the four questions format in Part A, with the questions being scaffolded (e.g. two-part questions).

Students who read and understood the question, and who constructed fluent responses including the appropriate course content, achieved a better result. Structuring answers to clearly address all the requirements of each question, and to ensure clarity of meaning was also important. Students should pay careful attention to the need to include suitable examples as marking schemes are based around the directions given in each question.

Feedback for Criterion 1

Question 1

This was one of the two most frequently answered questions, perhaps as the PESTLE acronym gave away the elements that students needed to consider in their answer. Based upon this, most students were able to identify two external influences.

A number of students identified all elements of PESTLE at the beginning of their answer and discussed these as being influences in the external environment that cannot be controlled. This was good but not necessary and did not result in any additional marks.

In the majority of cases, students were able to describe the impact that the two influences would have on business.

Students who were able to relate the influence of Politics on government attitudes and policy making (fiscal policy, taxation policy, income tax, GST) etc. received good marks. While students who were more focused more laws, received less marks.

Many students who chose the Environment influence failed to explain the outside influence in context, focussing more on how the business would look after the environment which we felt was more of an internal decision that the business would make around the internal influences of "Product" and "Resources". A better answer would have discussed environmental standards and addressed elements such as climate change, climate and weather. Few students discussed increased cost for business and price for consumers which could affect revenue and profitability.

Social and **sociocultural** trends tended to focus more on consumer trends but didn't not expand to include other social influences such as social norms and culture that influence these decisions.

Students who identified **Technological** influences mentioned the use of leading-edge and established technologies and were able to apply these in examples such as the use of self-checkout registers in Woolworths and online ordering platforms. Students in their discussion would conclude that new technologies provided greater productivity and efficiency and in return increase profitability.

When discussing the **Economic** influence, some students drew, labelled and referred to a diagram of the economic cycle. This was able to assist in their discussion of the impact of any given period identified in the graph.

In answers that addressed **Legal** influences, many students discussed the laws that impact the general day to day running of a business, and in particular, employment law.

Question 2

Most students were able to identify differences between a partnership and private company. Better answers referred to terminology such as incorporation, limited liability and perpetual succession and defined key terms.

Some students didn't identify the number of owners in a partnership or private company. Technically, a partnership can be more than 20 people.

Students answered Part (ii) better, with most students being about to identify at least 3 advantages and 3 disadvantages. While this was not specified, this part of the question was worth 6 marks and so markers were looking for six solid points or less if answered in more detail.

Question 3

Question 3 was another frequently answered question.

Given Part (i) was worth 4 marks, students were required to include four solid points, which could include an example or explain two ideas very well. Better answers involved student elaborating on the elements of business culture; values, symbols, rituals, rites and celebrations and heroes. Some students discussed management structures as they relate to establishing business culture. This included discussion on flatter management structures and fluid business structures.

In Part (ii) students were able to identify the importance of business culture – particularly the benefits for both the employer and employee. Some students also discussed the impact of a poor business culture. Some students used examples (such as Google) to explain the importance of a positive business culture although this was not necessary.

Question 4

Unless students had a good understanding of ethics, their definition of ethical behaviour was rather vague. More needed to be said than “it is the environment created”, “the feel/vibe of the business”. A good definition discussed practises that are socially responsible, morally right, honourable and fair – above and beyond legal duties and requirements. Students could also refer to Corporate Social Responsibility/Triple Bottom Line.

Part (i) was worth four marks, so it was expected that students include four solid points or two explained really well. Some students gave an example which further demonstrated their understanding.

Part (ii) required students to identify two business goals that may conflict with ethical practise. This section was completed rather poorly. Many students were not able to identify specific business goals (e.g. Maximise profitability, Increase efficiency etc.). Many answers discussed cutting costs by outsourcing manufacturing to unethically operated factories.

Students need to be mindful that all businesses are not necessarily of a company structure. A lot of students, when referring to businesses in general, call them companies which technically isn't correct.

Question 5

This was the most popular question in Unit 2 (approximately 2/3 of candidates chose to respond to this question). The first part of the question asked students to define cost leadership and product differentiation, with most students understanding that product differentiation involves a business somehow making their good or service different from that of their competitors (through branding, packaging and/or augmentation of product attributes). Fewer students recognised that cost leadership involves aiming to have the lowest costs in the production process, therefore providing a good or service to the market at the lowest possible (or most price competitive) price through the control of operational costs. Businesses that compete on cost, prioritise decision making based on reducing costs and improving productivity by:

- Achieving economies of scale
- Bulk buy inputs
- Eliminate waste
- Produce standardised products for larger markets
- Produce high volume output
- Use automated production systems

Many answers confused cost leadership with the price penetration pricing strategy (Marketing Management) including using examples of sales promotion techniques used by fast moving consumer goods (supermarket wars). Stronger answers recognised that although trading at the low cost, the overall business should still be profitable and that this means that operations managers must find ways to minimise costs through adjusting the transformation process (LEAN systems, technology, inventory controls)

To gain full marks in the second part of the question, students needed to provide relevant examples which they explained and linked to their discussion. In relation to cost leadership, students who discussed costs saving strategies such as economies of scale, total quality management, employing technologies and inventory controls gained higher marks. Students needed to include an example as it was requested in the question and when appropriate were rewarded for brief descriptions of competitive advantage.

In relation to product differentiation, many students struggled to explain how product differentiation contributes to competitive advantage. Stronger responses identified that product differentiation removes price as the primary selling point and attracts a broader consumer base (or more profitable target market), resulting in an increase in market share and profitability enabling businesses to gain a competitive advantage. Stronger answers detailed the many ways a product can be differentiated from those of competitors (branding, packaging and function/attributes) and its connection to customer loyalty. Connections to perceived quality and the possibility of charging higher prices was also rewarded but only when described correctly (i.e. not when cost leadership was associated with low quality and differentiation with high quality).

Question 6

This question was also popular. Most students were able to identify that just-in-time involves procuring items as they are needed, thus eliminating the need for storage. Stronger responses provided greater detail including a clear link to sales. Weaker responses provided circular explanations e.g. “Just-in-time processing involves ordering stock so it arrives just-in-time”. Many students focused their response on just-in-time inventory and these answers were not penalised.

Most students were able to identify some advantages and disadvantages of just-in-time, but few provided more than two of each. As the question did not specify the number of advantages and disadvantages required students were not penalised for this but strong explanations were needed in order to achieve full marks. Responses ranged from dot pointed lists to paragraphs with markers awarding full marks to two advantages and disadvantages explained well or an extensive lists of dot points.

Question 7

Few students chose this question, however around half of those who did scored highly. Stronger responses to the first part of the question focused on the difference between the time scale and breadth of the decision. Strategic decisions relate to longer term, big picture decisions relating to future business operations and directions. Operational decisions focus on how the strategic decisions will be achieved and are medium to short term. Better responses detailed that strategic decisions are likely to impact other business functions (HR, marketing or finance) and are clearly linked to the achievement of business objectives (profit, growth, market share).

There was a broad range of responses to part ii, depending on the decisions students chose as their example. Better responses clearly identified a specific decision. In relation to operational decisions responses which referred to an element of the transformation process achieved higher marks. Operational decisions include purchasing, dispatching, inventory control, scheduling, maintenance, quality control and the use of established and leading-edge technology. The operational decisions should relate to the operations function.

This question was answered by approximately half of students. Answers to the first part tended to lack detail with weaker responses suggesting that outsourcing involves buying supplies from overseas. Stronger responses mentioned that outsourcing is using an external party to complete elements of its operational activities, either onshore (domestically) or offshore (overseas) for the purpose of achieving lower costs, greater efficiency or increased capacity. Including a suitable example allowed students to demonstrate a greater level of understanding.

Some students confused ethical and environmental issues. Although there is a connection, a clear distinction between the two was required to achieve full marks. Stronger responses referred to the loss of control. Ethical issues tended to discuss working conditions and low pay in overseas locations, while environmental issues focused on pollution and the carbon footprint associated with transport. Students who identified the potential to harm business reputation gained higher marks. To gain full marks a clear distinction between offshore production and outsourcing was required.

Feedback for Criterion 5

Common issues in this section were students providing unstructured responses with no examples. Where students did not understand the question, their answers were often unclear and muddled, resulting in a lower rating being given.

1. Better responses clearly explained complex ideas using rich business terminology, in contrast to weaker responses, which used informal terms and where detailed knowledge of the theory was unclear.
2. Better responses incorporated more detail, generally 2/3 of a page to a full A4 page of written content – incorporating at least 10 facts on the topic (questions were out of 10 marks, so students can expect to incorporate 10 facts). Alternatively, 5 key points, explained well, provided sufficient detail.
 - i. Where students discussed the economic external influence in Q1, better responses included an appropriately ruled and labelled graph of the economic cycle. Better responses, went on to explain one impact of one stage of the economic cycle.
 - ii. Students chose to answer Q1 in two different ways:
 - a. Discussing each influence first and then the impact of each; and
 - b. Discussing *Influence 1* and its impact on the business and then in the next paragraph, *Influence 2* and its impact on the business.Both formats were acceptable providing the response was clear, well-structured and used rich business terminology.
3. Better responses did not rewrite the question; rather they started to respond to the question immediately.
4. Better responses used bullet points by explaining them fully, as opposed to weaker responses that simply used bullet points, without clearly explaining their relevance.
5. Students should practice writing bullet points that include the main point and then discussion. As a result, a sufficient level of detail will be provided.
6. This could also be said for information provided in a table format. Better responses included an explanation of each point.
7. Headings and paragraphs were useful particularly when questions required Two Concepts, for example:

Concept 1

Start with an explanation of the first concept (this is the What), explain how the concept links to the question (This is the How). Provide an example and link the example to the question (This is the Why/Impact).

Concept 2

Start with an explanation of the second concept (this is the What), explain how the concept links to the question (This is the How). Provide an example and link the example to the question (This is the Why/Impact).

8. Students underlined and/or highlighted text, to demonstrate their understanding of key business terminology.

Section B

In Section B, students were required to answer 2 questions. The majority of students followed the instructions. A small number answered all 3 questions. A general piece of advice it to be spend 35 minutes answering each question. Students should also look at the mark allocation besides each part, as many students did not write enough to quantify the allocated marks.

Students should make sure that they thoroughly read and underline key points in the stimulus and examine the financial statements to support their written answers.

Many students didn't refer to the stimulus much throughout their answers. The stimulus should be used to support your answers. It is also common for students to give a generic answer about a topic and not link their answer back to the stimulus. Offering a textbook definition of a concept alone will not attract full marks without providing a link back to the stimulus material and students demonstrating an understanding of how their knowledge of business concepts can be applied to the business in the stimulus material.

Few students referred to the financial data that was provided in the stimulus and this would have shown higher level answers when answering questions about business performance. Answers would have been much enhanced if business performance as shown in the financial figures had been mentioned.

Many students when asked to link answers together and discuss potential outcomes of their suggestions from a previous answer are not doing so and providing new, standalone answers that do not link to their previous suggestions. Students need to show that they are attempting to make this link in order to maximise their chance of being awarded full marks on a question.

E.g. Question 10 (b) Assess the impact of One (1) of the issues described above on:

- Employees
- Community

Question 9

Question 9: **Financial Management** was answered by approximately 200 students.

In part (a) many students found it difficult to provide enough detail to reach 12 marks. Part (a) was divided into 3 parts, so students should aim to provide 4 valid points for each part. Student understanding of debt finance and equity finance varied where students were able to identify some issues.

Part(i) & (ii) Students should be aware that the unsecured 5-year loan would expect to have a very high interest rate and expense paid, where the secured mortgage would expect a lower interest rate and may be an overall smaller expense even over the 12-year repayment schedule. Students generally didn't know which loan would have the higher rate or total interest expense.

Many students were able to correctly identify that Gert risked the loss of her house if she were to secure the loan against her home in part (ii) where Gert has on-leased money she has borrowed to the company but responses about the risks associated with the unsecured loan in part (i) were mixed where many students seemed unsure about the structure of the entity and few students correctly identified that Gert risked the loss of her business (not her house or personal bankruptcy) due to the limited liability of the company structure.

Better answers for part (i) identified the expectation that repayments for the 5-year loan would be higher than the 12-year mortgage, increasing the negative cashflow, therefore creating additional pressure to achieve sales growth. Additionally, better answers for part (ii) made a direct link between the loan repayments in the Cash Budget, being the secured mortgage over 12 years, creating a negative cashflow, and the risks associated with not achieving forecast sales growth.

Part (iii) Many students demonstrated an understanding of the risks associated with introducing a new business part owner.

Part (b) Students were required to provide responses to both the importance of cashflow for business viability and consequences for Gert if she did not meet debt obligations. Many students were able to identify that business needed cashflow to pay debts, but a better answer went further to say, 'to pay debts as they fall due'. Many students demonstrated a good understanding of potential consequences for business and Gert of poor cashflow.

Part (c) Many students demonstrated a good understanding of stakeholders and how they can be impacted by faulty financial decision making in a business.

Part (d) Most students had a good go at answering why the statements might be useful, but few provided insight into what the numbers were telling them. A few students noticed the negative cashflow which they used to answer Part (a) but failed to use again to answer Q(d).

It would have been nice to see students identify trends in the cashflow and how these trends might influence their finance decisions, for example, Customer fees growth was budgeted to grow substantially which suggests higher loan repayments and the cashflow required to meet them could be achieved in the long term. Additionally, some students made financing recommendations in Q(d) instead of Q(e), which caused them to miss out on valuable marks in Q(d).

Part e) Most students were able to make a recommendation from the 3 options provided and provide their reasons.

Part (f) Most students were able to identify and explain an obstacle or risk for their given recommendation.

A general note for Question 9: It is recommended students read all questions from parts a to f before writing any answers. This may have avoided students providing answers in the incorrect parts and missing out on valuable marks. It should also be noted that parts (e) and (f) required a recommendation made from the 3 options provided in part (a). A few students misunderstood this and provided creative recommendations but missed out on valuable marks due to this misunderstanding.

Question 10

Question 10: **Human Resource Management** was answered by approximately 180 students.

Part (a) required an understanding of legal responsibilities under the National Employment Standards, Work Health and Safety legislation and Equal Employment Opportunities legislation. Students need to apply their understanding of legislation to the stimulus. Students were most comfortable with Gert's legal responsibilities with regards to Work Health and Safety and also Equal Employment Opportunities. Many students found it challenging to apply the NES to the stimulus.

Part (b) the word 'assess' requires students to make a judgement. Students mostly did this well, however, several students misread the question and assessed the impact of one of the issues on one of the stakeholders only, instead of both.

Part (c) Many students preferred to explain one social and one environmental implication of the remote workplace structure, rather than the increased use of casual labour. This aspect was well done.

Part (d) Many students demonstrated an understanding of the development stage of the employment cycle and maintenance stage. Better answers were able to recommend a relevant management strategy relating to each of these stages and clearly explain how these strategies would promote productivity.

Part (e) Better answers clearly identified the strategy from the previous answer and applied it to short term and long-term benefits, rather than benefits in general. Short term relates to a period of less than 12 months. Better answers addressed their contribution to improving management effectiveness and business performance.

Part (f) Many students demonstrated a good understanding of economic implications.

Question 11

Question 11: **Marketing Management** was answered by approximately 285 students.

Part (a) It was challenging for students to provide enough points for 8 marks relating to word of mouth and 4 marks relating to the cost-plus pricing method.

Students should choose issues that they can expand on and incorporate business terminology. Better answers showed an understanding of the stimulus.

Part (b) Better answers identified which issue from (a) the student was analysing. Many answers were quite vague and skirted around the impact on business performance without mentioning key indicators such as revenue, profit, staff turnover etc.

Part (c) A number of students mis-read the question and discussed other stakeholders (such as owners and customers) as well as or instead of employees.

Part (d) Many students did not discuss the 4 segments potentially available to Gert. Many only discussed promotional strategies without mentioning market segmentation. Others discussed the process of Market Research in some detail with only a vague reference to market segmentation. Many responses included no examples or examples outside of the Fit by Fone business.

Part (e) Many students appeared to be confused by the wording of the question as they were being asked to replace a pricing method with a pricing strategy. Either pricing methods or strategies were accepted as answers.

Part (f) Again, there was a significant number of students who discussed impacts on stakeholders other than the client having possibly mis-read the question. Discussion was needed which ties strategy identified in d) and e) to impacts on the clients.

Section C

Question 12

Part A – assessed Criterion 2

Strengths and **weaknesses** are internal, that is, within the control of the business. Students are encouraged to use the internal business environment factors to help focus their answers. (Product, Location, Management, Resources, Business Culture)

Opportunities and **threats** are external, that is, outside of the control of the business. Students are encouraged to use the external business environment factors to help focus their answers. (PESTLE: Political, Economic, Social, Technological, Legal, Environmental)

Students should clearly demonstrate their understanding by writing more than one-word responses.

Part B – assessed Criterion 2

i. Calculations must be rounded to 2 decimal places.

The % sign must be shown on the answer.

Students are encouraged to double-check their calculations. Often, the figures stated in the ratio were correct, however, the calculated answer was incorrect.

Calculating the Rate of Return on Owner's Equity requires the calculation of Average Owner's Equity, as per the External Exam Information Sheet.

ii. Students should ensure they respond fully to the question that has been asked. Many students provided recommendations; however, this was not a part of the question, nor a part of Criterion 2.

- This question was worth eight marks.
- Students were prompted to use the calculations and other information in their answer: students should refer to the financial statement information, and any other relevant information from the stimulus, in their answers.
- All three ratios calculated in i. should be discussed. Using sub-headings will help students organise their answer more clearly and ensure they position themselves to access the full mark allocation. For example, Gross Profitability since eat-in added, Net Profitability since eat-in added, Rate of Return on Owner's Equity since eat-in added.
- The question did not ask for recommendations to improve ratios.

iii. The current ratio is expressed as a ratio to 1. That is, x:1.

Students are encouraged to double-check their calculations. Often, the figures stated in the ratio were correct, however, the calculated answer was incorrect.

iv. Many students did not understand that an increase in this ratio indicates an improvement in liquidity.

Many students discussed total assets and total liabilities, rather than current assets and current liabilities.

This question was worth four marks, therefore, students needed to explain their answer. Students are reminded to use the calculated figures in their answers and identify and comment on the change in the ratio over the two-year period.

Many students provided recommendations; however, this was not a part of the question, nor a part of Criterion 2.

Part C – assessed Criterion 2

i. Contribution margin equals selling price per unit minus variable costs per unit.

Students are encouraged to double-check their calculations.

Students are reminded to show the \$ sign.

ii. Most students did not calculate 80% of the fixed costs.

Many students did not correctly calculate the weekly break-even point: 52 weeks in a year.

iii. Students are reminded that desired profit is added to total fixed costs.

iv. This question was well done by most students who attempted it.

Part D – assessed Criterion 4

a) i. This part was well done by most students who attempted it.

ii. This part was well done by most students who attempted it.

iii. This part was well done by most students who attempted it.

b) i. Students are encouraged to respond to all parts of the question, noting how many marks the question is worth.

Two actions were required. **How** the actions would assist the situation was required.

Many students addressed the first part of the question but not the second part of the question. Students are encouraged to use sub-headings to organise their answer and ensure both components are addressed. For example, Action 1: How it will assist:, Action 2:, How it will assist:.

- ii. Many students did not clearly demonstrate their understanding of the difference between cash flow (receipts and payments) and profit (revenue and expenses).

Students are encouraged to respond to all parts of the question, noting how many marks the question is worth.

Two actions were required. **How** the actions would assist the situation was required.

Many students addressed the first part of the question but not the second part of the question. Students are encouraged to use sub-headings to organise their answer and ensure both components are addressed. For example, Action 1:, How it will assist:, Action 2:, How it will assist:.

- iii. Students needed to demonstrate their understanding of how the measure they identified would show the effectiveness of the suggestions.
- iv. Most students performed better when identifying an economic implication than a social implication. Students are reminded that an economic implication is something that will affect the productive ability in the region. A social implication is where the actions of the business affect variables like the values, demographics or economic condition of the families/community in the region.

Question 13

Part A – assesses Criterion 2

Strengths and **weaknesses** are internal, that is, within the control of the business. Use the Internal business environment factors (Products, Location, Management, Resources, Business Culture) to help focus your answer.

Opportunities and **threats** are external, that is, outside of the control of the business. Use the External business environment factors (PESTLE: Political, Economic, Social, Technological, Legal, Environmental) to help focus your answer.

Students should clearly demonstrate their understanding by writing more than one-word responses.

Part B – assesses Criterion 2

- i.
 - Calculations must be rounded to 2 decimal places.
 - The % sign must be shown on the answer.
 - Students are encouraged to double-check their calculations. Often, the figures stated in the ratio were correct, however, the calculated answer was incorrect.
- ii. Students should ensure they fully respond to the question that has been asked and use the two calculations from part i) in their answer, including the identification of and comparison

between the two years. Many students provided recommendations, but this was not part of the question, nor part of Criterion 2.

- iii. The current ratio is expressed as a ratio to 1. That is, x:1.

Students are encouraged to double-check their calculations. Often, the figures stated in the ratio were correct, however, the calculated answer was incorrect.

- iv. Many students did not understand that, despite a slight decrease in this ratio, the strong results in the calculations indicate the business still has a very solid liquidity.

Many students discussed total assets and total liabilities, rather than current assets and current liabilities.

Many students provided recommendations, but this was not part of the question, nor part of Criterion 2.

- v. The gearing ratio is expressed as a percentage to 2 decimal points, using a % sign in the answer.

Students are encouraged to double-check their calculations. Often, the figures stated in the ratio were correct, however, the calculated answer was incorrect.

- vi. Students should ensure they fully respond to the question that has been asked and use the calculations from part v) in their answer, including a discussion of the comparison between the two years. Many students provided recommendations, but this was not part of the question, nor part of Criterion 2'.

Part C – assesses Criterion 2

- i. Contribution margin equals selling price per unit minus variable costs per unit.

Students are encouraged to double-check their calculations.

- ii. Many students did not correctly calculate the weekly break-even point: 52 weeks in a year. A number of students used 4 weeks for 12 months, resulting in 48 weeks per year, which was incorrect.

- iii. Students are reminded that 'annual return' is the same as a desired profit and needs to be added to the total fixed costs.

- iv. This question was well done by most students who attempted it.

Part D – assessed Criterion 4

- i. This part was well done by most students who attempted it.

- ii. This part was well done by most students who attempted it.

- iii. This part was well done by most students who attempted it.

- iv. Students are encouraged to respond to all parts of the question, noting how many marks the question is worth. A **description** of the forecast trend of cash was required. **ONE** action was required. **How** the action would have the desired result was required.

Many students addressed only the first part of the question but not the second and third parts of the question.

Many students addressed only the second part, but not the first and third parts.

- v. Many students did not clearly demonstrate their understanding of why sales might be stronger but net profits are weaker in a year, which showed a lack of conceptual knowledge of the difference between gross and net profits.

Students are encouraged to respond to all parts of the question, noting how many marks the question is worth.

ONE action was required. **How** the action would have the desired result was required.

Many students addressed the first part of the question but not the second part of the question.

- vi. Students are encouraged to address the number of items required in the question, noting how many marks the question is worth.

TWO obstacles to a successful expansion if market research was not done was required. Each one needed to be clearly explained.

- vii. This question's focus was on the effect on SUPPLIERS and on COMMUNITY of a failure to overcome the obstacles outlined in part vi. Many students spoke broadly about the obstacles and did not link them specifically to either suppliers or community.

- viii. Students are encouraged to address the number of items required in the question, noting how many marks the question is worth.

TWO recommendations to improve sales were required. Each one needed to be clearly explained.

- ix. This part was well done by most students who attempted it.

Suggested Answers – Section A

Unit 1 The Business Environment

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:

- i. Describe the nature of the influence (*4 marks*) (4 marks)
- ii. Describe **one (1)** impact that the influence may have on the business. (6 marks)

Part (i) Better answers included naming and explaining two external influences.

Part (ii) Better answers discussed the impact each of the two influences would have on business, in depth. Markers looked for three strong points for each influence, one of which could include an example, or two points discussed well. Students who chose to discuss the economy, could also provide a graph depicting the economic cycle.

Politics Better answers discussed government attitudes and policy making (fiscal policy, taxation policy, income tax, GST) rather than focussing on laws, which related more to the legal influence. COVID regulations, implemented by the government, were often used as an example here.

Environment Better answers focussed on external environmental factors such as climate, climate change, pollution, effects of non-renewables usage, noise, greening of the environment... natural disasters such as tropical cyclones and how these have an impact on the running of a business. Impacts could be derived from these various aspects – the requirement for business to comply with environmental standards, sourcing raw materials from 'green' suppliers, clean production techniques, control over emissions, impact of natural disasters on supply of raw materials and increased cost for business and price for consumers which could affect revenue and profitability.

Social or Sociocultural - relates to influences arising from the nature of society and our culture. The business operates within this society which provides both customers and employees and will both reflect social norms and culture and react to changes in them to remain relevant. Various social trends, influences and attitudes.

There are a wide range of impacts stemming from such aspects as family size, working parents, education levels, consumer lifestyle, tastes and fashion, buying habits, use of social media, shopping habits e.g. online shopping vs traditional shopping.

Social influences such as changes in tastes, fashions and culture can impact a business significantly in terms of their sales and profits. Failure to respond to social changes can threaten the business stability and viability.

Examples of social influences can include:

- changing work patterns – eg. greater flexibility in the workplace, casualisation of labour
- Growing awareness of the environment
- family friendly workplaces
- increased workplace diversity
- career flexibility and job mobility
- increased participation rates for women
- consumer trends. e.g. veganism, changes in fashions, healthy eating

The increased participation of women in the workforce has contributed to more flexible and family friendly workplaces. Also, many employers have the view that employees will be more productive if they have a good work/life balance, happy workplaces with perks and greater flexibility in the workplace. Can impact employees, managers, owners – happy workers with work/life balance can improve their productivity and have a more profitable outcome for businesses.

Technological - relates to the impact of the development and use of machinery, specific technologies (for example nuclear energy) and most relevant today-digital technologies. Examples could relate to business use of, and reaction to social media and online trading, robotics, and alternative power generation and storage. New and emerging technologies.

Managers need to decide whether to introduce new technologies. Financial cost. Employees will need to be retrained or may be made redundant. Owners may receive increased profits/shareholders receive a greater dividend.

Legal - relates to the impact of laws and government regulations upon business. A very broad spectrum of examples included employment law, corporation law, environmental laws, consumer protection laws, council regulations, state tax laws.

Economic – better answers discussed the impact of various stages in the economic cycle – Recovery, Peak, Trough, Recession – and their impact on interest rates, level of inflation, level of unemployment, economic growth, expectations of future economic conditions, position in business cycle (level of aggregate demand). Some students drew and labelled a diagram and referred to this in their discussion.

Question 2

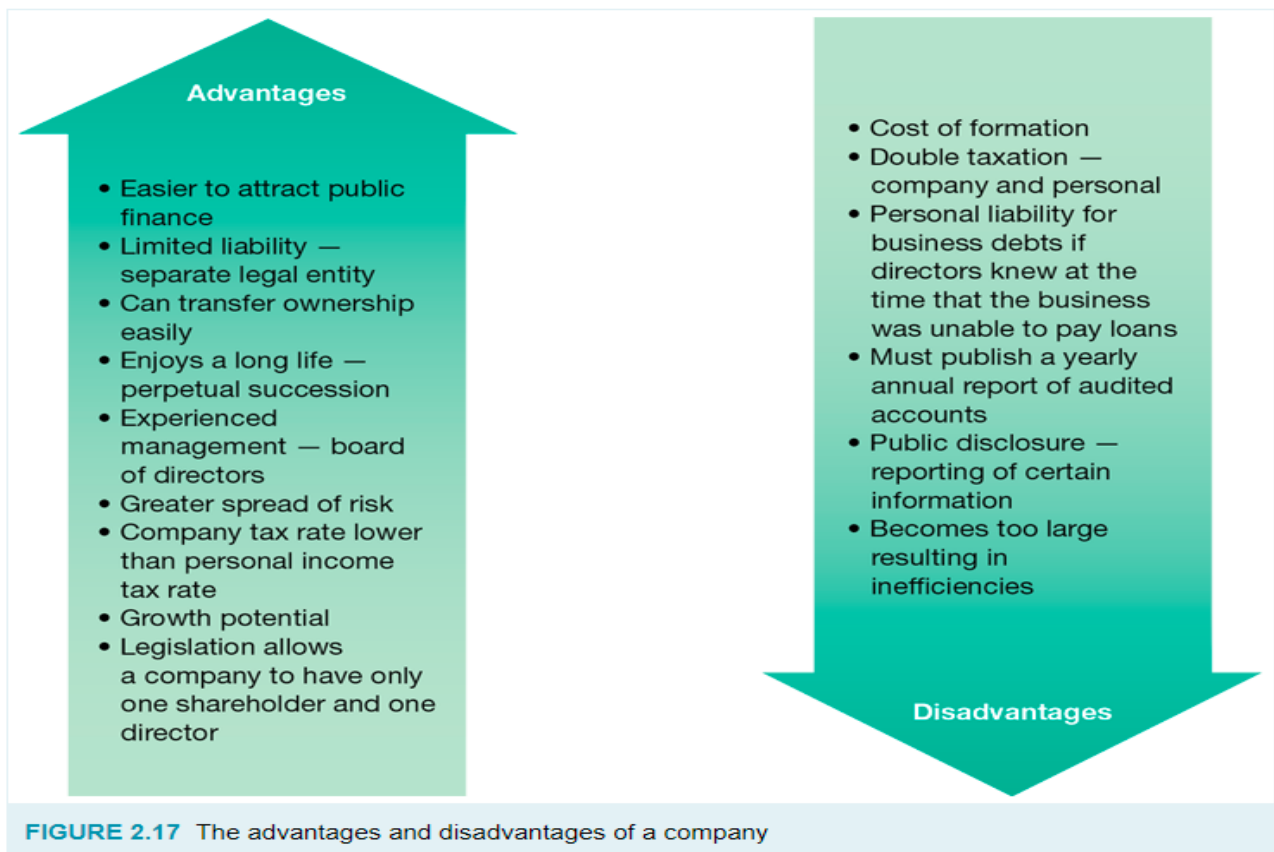
- i. Distinguish between the partnership form of business structure and the private company form. (4 marks)
- ii. Explain the advantages and disadvantages that may accrue to the private company form. (6 marks)

Part (i) Better answers provided two strong features of a partnership and a private company. Students should discuss the concepts of unincorporated and incorporated structures and unlimited and limited liability.

Part (ii) Better answers provided six strong advantages/disadvantages or if harder concepts were used, they might refer to two detailed explanations of each.

Partnership- A business structure where two or more people have agreed to operate a business undertaking with the intention of making profit.

- Generally restricted to 20 people (but exceptions). No separate legal entity is created, and no written agreement necessary.
- A partnership is an unincorporated legal structure, where the owners have unlimited liability for the debts incurred through the running of the business.
- A private company is a common structure in Australia, usually having between two and 50 private shareholders, where a separate legal entity is created through the process of incorporation.
- Private companies tend to be small to medium-sized, family-owned businesses.
- Shares are only offered to people the business wishes to have as part-owners.
- Not listed on the stock exchange.
- A private company must have the words 'proprietary limited', abbreviated to 'Pty Ltd', after its name.
- The main advantage of a private company is that shareholders have limited liability protection.



Question 3

- i. What is meant by business culture? (4 marks)
- ii. Discuss the importance of business culture to employees and managers of a business. (6 marks)

Business Culture: The values, expectations and practices guiding and informing members of the business- its owners and its employees. Shared values, beliefs and assumptions about how a business operates and is perceived. How people should behave, assumptions behind decision-making processes and how work is done.

Discussion around how a fluid business structure may enhance business culture could be included, along with flatter management structures.

The discussion on the importance of business culture could include:

- better performance outcomes from contented employees.
- positive culture is supportive of implementing strategic changes by management which conforms with that culture.
- positive culture should make business more attractive to stakeholders
- a strong company culture attracts better talent and, more importantly, retains that talent.

- open communication helps employees work and collaborate better together towards achieving company goals
- improved productivity and efficiency
- lower absenteeism
- higher staff job satisfaction (and hence, lower staff turnover)
- pride in work
- effective decision making
- high community appreciation of the business
- increased sales due to community support and good repeat custom from reputation.

Question 4

- What is ethical behaviour? (4 marks)
- Explain **two (2)** business goals which may conflict with the requirements for behaviour to be ethical. (6 marks)

Ethical behaviour: ethics are standards that define what is acceptable and unacceptable behaviour. Ethics involves the study of moral issues and choices. It is concerned not with legal obligations but with what is morally right or wrong — and all the shades of grey in between. In many decisions involving ethical questions, it is sometimes difficult to give a definitive answer as to what is ‘right’ and what is ‘wrong’. It often depends upon the individual circumstances surrounding the situation. **Business ethics** is the application of moral standards to business behaviour.

Business goals are likely to relate to financial goals such as maximising profit and growth. Two business goals which may conflict:

Examples could include but aren't limited to:

- Maximising profits could conflict with the social goal of employing people / donations / sponsorships.
- Maximising profits could lead to outsourcing manufacturing to unethically operated factories.

Question 5

- Define cost leadership and product differentiation. (4 marks)
- Outline, with suitable examples, how each contributes to competitive advantage. (6 marks)

Part (i) – better answers provided clear definitions of cost leadership and product differentiation. Cost leadership definitions should focus on the goal to reduce costs involved in production of a product so that they are then able to set their prices competitively. The focus should be about cost rather than price. At least two strong points should be provided in each definition.

Part (ii) – In relation to **cost leadership** students who discussed costs saving strategies such as economies of scale, total quality management, employing technologies and inventory controls gained higher marks. Stronger answers detailed the many ways a **product can be differentiated** from those of competitors (branding, packaging and function/attributes) and its connection to customer loyalty. Connections to perceived quality and the possibility of charging higher prices was also rewarded but only when described correctly (i.e. not when cost leadership was associated with low quality and differentiation with high quality).

Cost leadership involves aiming to have the lowest costs or to be the most price-competitive in the market. A key aspect to cost leadership is that although trading with the lowest cost, the overall business should still be profitable. This means that operations managers must find ways to minimise costs. (Chapman, 2018).

The gaining of competitive advantage through reducing and minimizing costs of production and hence the ability to both maintain profit and be more competitive in pricing. All sources of cost advantage are pursued.

Example relating to cost leadership

May involve a range of cost saving strategies - LEAN systems analysis, employing technologies, inventory controls such as just-in-time. Actual example is Toyota (not necessary) relocating manufacturing. E.g. Samsung relocating to Vietnam.

Product differentiation is the conscious activity by a business to make its product appear different from otherwise similar or identical products of its competitors. How businesses differentiate may include packaging, logo, trademark, branding... Some expansion of how these elements work to differentiate the product is expected.

Offering a unique product which attracts a broader consumer base. Which in turn, will result in an increase in market share and profitability enabling businesses to gain a competitive advantage.

Question 6

- i. Describe the concept of just-in-time processing. (4 marks)
- ii. Identify advantages and disadvantages to a business which makes the decision to move to just-in-time processing. (6 marks)

Part (i) – strong answers provided a detailed description of JIT, including four strong points.

Part (ii) – strong answers described 3 advantages and 3 disadvantages of JIT processing.

Just in Time Processing is a processing system where production responds to orders for the final product. Intermediate goods are sourced and brought into inventory as they are required in order to meet demand for the final product. There is no or limited inventory of final goods.

Advantages	Disadvantages
Avoids overstocking due to lower than planned sales levels	Requires accurate planning,
Reduces costs as the business does not need to spend money on storing raw materials.	Issues in meeting unanticipated surges in demand
There is a lower chance of obsolescence and damage to inventory	Ordering systems must be capable of task
It enables flexibility in that there can be quick response to changing circumstance when there is no substantial stock to be dealt with.	Reliance on an efficient inventory ordering and dispatch system
Less investment in the raw materials as they order the quantity that they need to meet current production process	Capacity of suppliers to meet orders as they flow through
Speeds up the manufacturing as the business has the raw materials ready	If inputs not available exactly when needed, then process fails
Eliminates lead time and, at the same time, deliveries	Risk of running out of stock/materials
Ordering stock as and when it's needed helps to maintain a healthy cash flow.	Lack of control over time frame

Question 7

- i. Explain the distinction between operational decisions and strategic decisions. (4 marks)
- ii. Describe **one (1)** operational decision and **one (1)** strategic decision that will be required of the operations manager. (6 marks)

Part (i) Stronger responses to the first part of the question focused on the difference between the time scale and breadth of the decision. Strategic decisions are longer term, big picture decisions relating to future business operations and directions. Operational decisions focus on how the strategic decisions will be achieved and are medium to short term. Better responses detailed that strategic decisions are likely to impact other business functions (HR, marketing or finance) and are clearly linked to the achievement of business objectives (profit, growth, market share).

Part (ii) Stronger responses identified one operational decision and one strategic decision and then provided a description of that decision. Some students were able to use examples.

- *Strategic refers to long-term, broad aims affecting all key business areas. Longer term 'big picture' decisions relating to future business operations and directions. They will be specific and measurable. (could use SMART acronym here). They will relate to future success. For example, which markets to target, whether to engage with product development, the place of the business in the industry.*

- *Operational decisions include: Purchasing, dispatching, inventory control, scheduling, maintenance, quality control and the use of established and leading-edge technology. They should relate to the operations function.*
- An example may include:
- Purchasing – buying ready made goods for sale or ingredients / raw materials / parts to transform into products

An operations manager will need to decide on who and where they will source their products from. Sourcing higher quality inputs from suppliers could lead to a higher quality output. Buying in bulk reduces costs / bulk buy inputs / generates economies of scale. Kmart, Target and Big W bulk buy inputs.

Question 8

- Explain what is meant by a business outsourcing elements of its operations. (4 marks)
- Describe **one (1)** ethical and **one (1)** environmental issue that may arise, particularly if the outsourcing is to an offshore business entity. (6 marks)

Part (i) Stronger answers provided a definition of outsourcing, a discussion of why businesses outsource and an example.

Outsourcing relates to the contracting out of business functions to external parties rather than carrying out the function in-house. Examples may include the accounting function, marketing function, employment function; parts or all of the production process.

Can include global outsourcing as long as it was answered in the context.

Part (ii) Stronger answers identified an issue related to ethics and an issue related to the environment. Students explained each issue and provided an example (although not necessary).

Ethical issues centred around lack of direct oversight of other business entities activities that may engage in unethical practices. Another ethical issue of outsourcing is to save costs of looking after their work force. Other ethical issues could include:

- Security Concerns: concern of outsourcing ethics is confidential information security.
- Fall in Service Quality: There is concern that services delivered from half-way across the globe might not meet quality standards.
- Poor Work Environment at Vendor Location: Companies need to impose stringent standards on the work conditions

Environmental issues may arise if the outsourced activity takes place where environmental standards are low and therefore production is cheaper than if in-house.

- There may be concern that the outsourced company may practice environmentally damaging processes
- Carbon emissions created through the transport of offshore production back to Australia

Section B

Question 9 - Financial Management

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

Explain the issues that arise from each of these options.

(3 x 4 = 12 marks)

i) Term loan over 5 years

The main issue with a short-term loan is the level of repayment required. The cash budget shows the situation if a 12-year mortgage loan is used to purchase the App development and under this situation there is a negative cash balance in March/April and May/June. The additional repayment required to repay the loan over a 5-year period must make the cash position significantly worse. Short term loan may incur high interest costs.

- increased loan repayments will have an impact on cash flow i.e. higher deficits
- higher interest payments will impact on profit
- predictions of increased revenue may not pan out (still have to pay the loan)
- higher interest rates may increase payments
- cash budget includes predictions for a 12-year loan – 5-year loan will have a much greater impact

Gert's prediction that she can cover this cost with additional revenue over 5 years may or may not be realised as the budget is a plan and may not be realistic.

ii) Mortgage loan over 12 years

Because the mortgage loan involves security of real property, Gert is risking her personal asset. Also, the repayment period of 12 years may not match the life of the asset being purchased (the App). Gert does not want to be in the situation of having significant outstanding debt on an asset no longer useful to the business. Other issues include:

- interest rate rises / increased debt finance
- loan repayments will have an impact on cash flow
- higher interest payments will impact on profit
- predictions of increased revenue may not pan out
- higher interest rates may increase payments
- App may be useless in 2 – 3 years. Life of the asset does not match the loan/type of finance.
- if the business fails, Gert will lose any money that she has invested in the business

- Gert has secured the loan with her house; therefore, the bank has rights to her property if the business fails.

iii) Equity funding

There are costs involved with seeking capital from a new owner (shareholder). Gert is risking her independence in decision making for the business. It is also likely that a new shareholder will require a return from their investment and thus a share in future profits. Finding a person acceptable to Gert may also be an issue.

- costs involved in bringing in an extra shareholder (insignificant). Evaluation costs. Potentially legal costs/consultation fees.
- loss of independence. Potential for disagreement. Split up of roles/delegation of tasks.
- new shareholder will expect a return on their investment
- finding the right person can be problematic i.e. someone who shares her vision

-
- 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)

Students should be encouraged to make a judgement on the importance of cash flow to business survival.

A business must be able to pay its debts as they fall due. Failure to do so may result in legal action to recover and a requirement to sell up assets of the business, or to undertake some kind of repayment arrangement. If asset sales are insufficient to cover debt, the company may be wound up. Therefore, cash flow is of critical importance to the business, and must form part of the planning process – hence, the cash budget.

- need cash to pay for loan/debt repayments
- need cash to pay for general expenses such as rent, wages, phone, superannuation, etc
- may have to liquidate assets to stay afloat
- liquidation of assets may impact on future cash flow
- bank may foreclose on a loan
- penalties for late payments of invoices
- late payment can impact on your credit rating
- business may need to take out further loans to cover expenses leading to a debt cycle and possibly insolvency

-
- c) Identify the consequences for two stakeholders of faulty decision making in a business.

(4 marks)

Stakeholders may include employees, suppliers, lenders, governments, managers, customers, community, owners, environment

Examples of the consequences of faulty decision making:

Employees	a loss of job security and income, underpayment. Loss of potential workplace
Suppliers	businesses are their customers. Faulty decision making may result in the total loss of custom and cancelled orders/ lost revenue, or late payments
Lenders	faulty decision making in a business may lead to default on loan payments by the business. This affects the lending institution.
Governments	loss of tax revenue
Managers	loss of employment. Unlikely to get another job at the same level
Community	loss of employment provider which has knock-on effects
Environment	less pollution generated by freight of fit-kits
Owners	loss of investment, loss of income, loss of secured assets, loss of reputation

d) Describe how completion of the Cash Budget and Income Statement assist Gert in deciding an appropriate source of finance to fund the app development.

(8 marks)

The **Income Statement** provides Gert with a picture of how viable the business is from the point of view of profitability- that is the excess of revenues received over expenses. It allows Gert to assess the effect of each of the borrowing strategies upon profitability of the business. Each financing option has different levels of interest expense and repayment terms and will therefore affect profit in different ways and for different lengths of time. She can assess the suitability of each option from this perspective.

The **Cash Budget** provides information on the availability of cash resources to pay debts as they fall due. The various financing options can be incorporated in the Cash Budget to compare how each option impacts the cash position.

(Please note that the above answer is assuming that the income statement is projected which does not match the question...)

- Income statement shows that **Fit by Fone** shows a net profit of \$102,500 which means that the business has the capacity to pay a loan
- The income statement reveals that most of the business's income is from the online fitness classes which will benefit greatly from an improved platform.
- The income statement also reveals that wages are the biggest expense which will likely increase in the future (predicted by the cash budget) reducing borrowing capacity.
- Cash budget is for the 12-year mortgage. Loan repayments will be significantly higher for a 5-year loan – greater deficits.

- If Gert bring in an additional shareholder there will be no loan repayments BUT she will have to share the profits.
- The cash budget reveals an increase in predicted revenue for the May/June period
- The cash budget reveals large increase in instructor wages
- The cash budget reveals large increase in IT expenses
- The cash budget reveals that shareholders are taking too much money out of the business in the form of drawings (director wages etc) considering that the cash budget is in deficit
- The cash budget, which incorporates an interest payment assuming a 12-year mortgage loan in addition to her existing term loan, shows a negative cash balance in April and June. This suggests that Gert should not take that financing option unless she is able to address the cash shortfall by taking other actions.

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)

The recommendation should reflect these points.

- The cash budget assumes the 12-year mortgage loan has been taken out.
- The cash issue evidenced by the cash budget appears temporary in that the net cash flow deficit decreases in size in both April and June and whilst the cash balance deficit has increased in May/June, the negative situation is likely to reverse in the next months if cash inflow continues to improve.
- A loan with a 5-year term will involve higher periodic repayments and would likely worsen the cash flow position and increase the period of negative cash flow. This suggests that the mortgage loan or capital introduction are most appropriate.
- However, the mortgage loan option still results in a predicted cash shortfall in March/April and May/June despite the apparent improvement in net cash flow.
- This suggest the need for Gert to arrange a bank overdraft for this short period if the mortgage loan option is taken.
- From a cash point of view, the introduction of new capital in the short term, is clearly superior. Increase equity by seeking capital from a new shareholder. There are no monthly repayments required and the negative cash flow does not arise so the short- term situation is addressed. However, the long-term implications of this course of action are the loss of independence and the sharing of future profits may make this option less attractive, despite the clear financial advantages. Also, it may be difficult to find a suitable person.

f) Identify and briefly explain an obstacle or risk involved with the implementation of your recommendation.

(3 marks)

- Mortgage loan: existence of debt after benefit from expenditure expires; risk personal property if business fails. Interest rate rises
- New owner: loss of independence; share of profit. If she seeks capital from a new shareholder
- Term loan: high repayments because of shorter term may put business under pressure.
- Risk that the bank won't lend Gert money
- Risk to Gert's credit rating if she can't pay the loan
- Problem for Gert if she can't find someone to invest in the business
- Conflict of opinions between the owners

Question 10 - Human Resource Management

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

- National Employment Standards (NES)
- Work Health and Safety legislation
- Equal Employment Opportunities legislation

Describe one 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)

There was a wide scope for answers in this part. Students should show a general understanding of the legal responsibility involved through an issue relating to the stimulus material. The issues mentioned below are examples only.

National Employment Standards

Better answers incorporated a specific NES and applied it one human resource management issue relevant to the stimulus.

There are now 11 minimum entitlements (note more recent changes regarding casuals). See below. Sourced from www.fairwork.gov.au

- Maximum weekly hours of work
- Requests for flexible working arrangements
- Parental leave and related entitlements
- Annual leave
- Personal/carer's leave, compassionate leave and family and domestic violence leave
- Community service leave
- Long service leave

- Public holidays
- Notice of termination and redundancy pay
- Provision of a Fair Work Information Statement and the Casual Employment Information Statement
- Casual conversion

Work Health and Safety legislation

Better answers incorporated a clear understating of WH&S legislation and applied it to one human resource management issue relevant to the stimulus.

- WH & S legislation is particularly important for Gert as she has a lack of direct supervision through the home-based work structure.
- Gert has strong obligations to have a safe workplace under both State and Federal legislation.
- Particularly important for Gert's business as workplaces of employees are their homes and clients will also be in their homes. It could be difficult for Gert to ensure a safe workplace, but the obligation remains.
- Employees are responsible for ensuring their own safety and the safety and health of others.
- Gert must provide WH & S training and ensure safety in the workplace including the provision and use of equipment.

Equal Employment Opportunity

Better answers incorporated a clear understating of Equal Employment Opportunity legislation and applied it to one human resource management issue relevant to the stimulus.

Equal Employment Opportunity (EEO) refers to equitable policies and practices in recruitment, selection, training and promotion.

- Gert must ensure that the best person is chosen and that there is no discrimination in employment on the basis of a number of grounds, such as age, gender, family responsibility, race and religious faith.
- Gert could face fines or meetings with the Fair Work Commission for breaches of EEO legislation.

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

(4 marks)

- Employees
- The community

A wide range of impacts was accepted. Answers were not limited to the examples below. Students need to relate the issues they have identified to the impacts on:

Employees- obligation to meet requirements in their dealings with clients. Clients should be treated equally. Employees have direct responsibility for the safety of their

home/workplace. They are required to report any unsafe practices and this may extend to the clients situation should it become known. Employees should know their rights under the NES and other legislation.

Community: answers should relate to their safety, opportunities and/or legal protections for the community at large

- c) Identify and explain one social and one environmental implication of the remote workplace structure and/or the increased use of casual labour. (4 marks)

Social: casualisation issues (lack of permanence, uncertain incomes and hours, cessation of hours and work from home) and issues lack of person-to-person relationship, loneliness, etc

Environmental: less travel to work required, lower vehicle emissions, greenhouse gases from vehicles contributing to global warming, higher use of home heating / cooling / devices.

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

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

(8 marks)

Strategies identified must relate to the characteristics of the **development** and **maintenance stages** of the employment cycle. A broad range of answers was accepted and is not limited to the examples below.

- **Development Stage:** the process of improving the skills, abilities and knowledge of staff. It refers to the activities that prepare staff to take greater responsibility in the future.
- **Induction and training:** teaching employees new skills and helping them learn tasks associated with their job. Induction also helps an employee to start to learn about the organisation. Training is teaching staff to perform their job more efficiently and effectively by boosting their knowledge and skills. Better answers referred to specific types of training, incorporating business terminology.
- Training and development will promote productivity of employees. A big benefit for the employer is that the employee is more productive and more likely to reach their goals. Employees are likely to have improved job satisfaction, opportunities for promotion and adaptability and are more likely to be retained.
- **Maintenance Stage:** relates to motivating the employees to remain in the business. It relates to the conditions of employment or employee progression. Aspects such as monetary and non-monetary rewards, performance appraisal, flexible, family friendly workplaces were commonly mentioned.

- **Performance management:** helps to develop the goals of an employee and organisation. Employees can be rewarded or supported to improve. Can include performance appraisals, feedback, ongoing support, etc.)
- **Monetary benefits:** rewarding employees' efforts through financial compensation; pay rates
- **Non-monetary benefits:** rewards such as conditions; interesting work, responsibility, performance feedback. Monetary and non-monetary benefits are a significant way to motivate employees.

Source: Business Studies in Action: HSC Course 6th edition 2018 Chapman, Dhall, Gallina, Devenish, Doherty, Norris

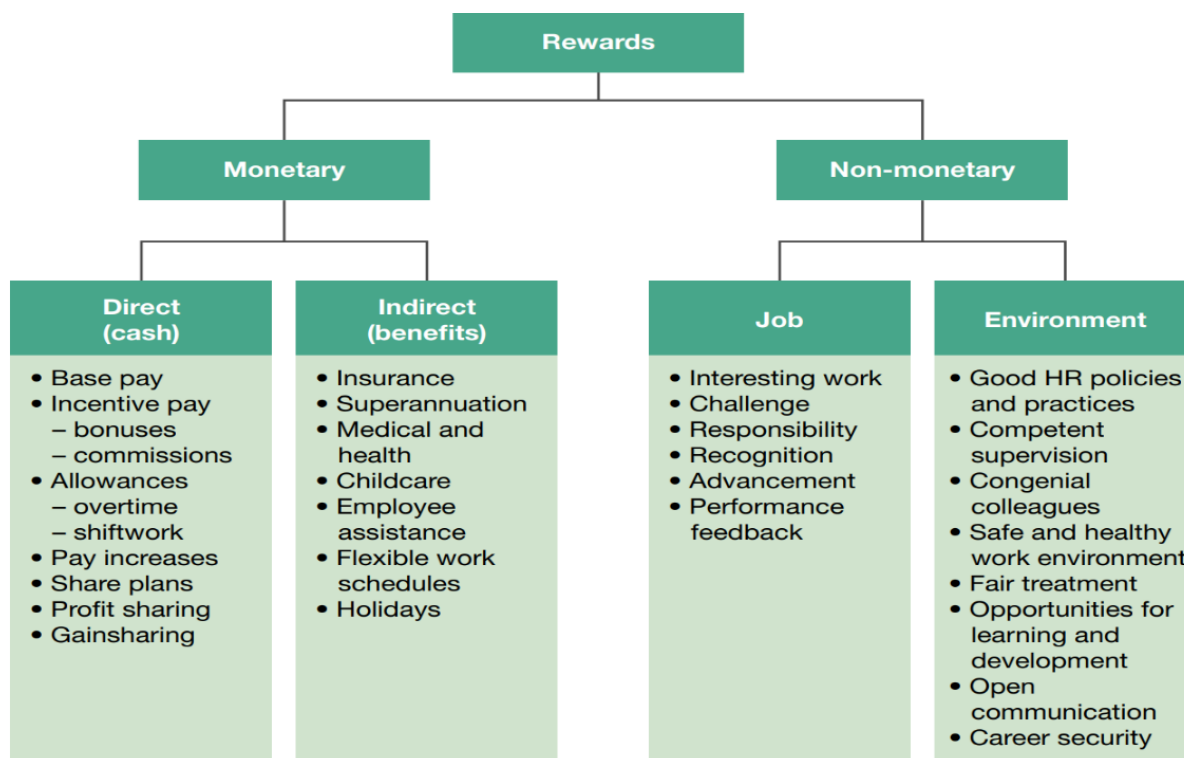


FIGURE 16.8 Types of employee rewards

Many students confused some of these aspects and need to develop a better understanding of non-monetary benefits.

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

(4 marks)

Short-term (less than 12 months)

Long-term (after 12 months)

Better answers named the strategy they were addressing and clearly identified short-term and long-term benefits. Long-term benefits most likely revolve around improved employee morale, staff retention, less staff turnover and quality and reputation of the business.

For example, if the development stage strategy relates to the provision of an induction program for new employees, benefits may be identified as:

Short-term: instantly useful and a productive employee; easier introduction of new employee to other team members

Long-term: increased profit for business through improved efficiency of workforce; better customer relations through knowledgeable workforce, etc

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

(3 marks)

Economic implications:

Good to focus on the following aspects but answers weren't limited to these.

- Employment and income for employees and Gert
- Increased spending
- Increased taxes for the Government
- Stimulation of other businesses through spending
- Less people leaving their homes for work, might impact on surrounding businesses/cafes

Question 11 – Marketing Management

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

(3 x 4 = 12 marks)

Better answers included:

- **Word of mouth** limits reach particularly with less movement and verbal contact due to COVID
- It can spread misinformation
- Unreliable as Gert has no control over what is said/promoted
- It isn't targeted – undirected to specific segments
- Difficult to measure – does not identify or quantify potential market
- Impact on employees of negative word of mouth
- Impact on business reputation of negative word of mouth
- **Reliance on Cost Plus pricing method** could mean that resulting price is significantly different from the market rate
- If too high, can discourage buyers
- If too low can result in losses

- Cost Plus pricing method does not encourage business to make efforts to control cost
 - Misses opportunity to better match pricing to target market customers
 - Doesn't factor in competitor pricing
 - Opportunity cost of neglecting other methods of promotion
-

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

(4 marks)

Better answers included:

- Capacity to increase revenue
- Profitability
- Market share
- Business expansion
- Staff turnover
- Customer retention
- Increased costs associated with countering negative publicity

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

(4 marks)

Better answers included:

- Current employees rely on business success for their continual employment
 - As casual employees may rely on new clients to increase hours of work if so desired
 - Failure to attract new clients and revenue may require Gert to reduce expenses
 - Pressure to reduce expenses may require reduction in staff numbers
 - Loss of employment means loss of income for employee
 - Loss of income impacts on employee's family
 - Employee morale may drop if there are job losses or need to increase workload through less staff
 - Loss of job security
 - Employees may be 'targeted' if business reputation has been tarnished from negative word of mouth and poor business culture may develop leading to reduced employee morale
-

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

(8 marks)

Better answers included an understanding and discussion of:

- Demographic
- Psychographic
- Geographic or
- Behavioural segments
- Gert's target market will include any or all of these segments
- Design marketing mix so that it targets a particular segment
- Price and Promotion tailored to situation
- Product varied as to target specific clients
- Examples pertaining to Fit by Fone would include age, lifestyle, tech savvy

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

(4 marks)

Better answers included an understanding and discussion of:

- Penetration pricing for a highly competitive market
- Will provide customers and sales volume initially
- Need to have developed customer loyalty for when prices do eventually rise
- Price Skimming to take advantage of new approach to provision of fitness services
- Will need to lower prices as more competitors enter the market
- Bundle pricing
- Price Points / Price lining
- Loss Leader
- Premium pricing
- Accepted competitive based pricing as a pricing method due to some confusion with the wording in the question.

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

(3 marks)

Better answers included an understanding and discussion of:

- For competitive pricing clients getting value for money and potentially paying less for a similar fitness experience

- Price Skimming and Premium Pricing – perception of quality/elite service
- May find too expensive
- Competitive Pricing – more income available for other wants and needs
- More likely to become a loyal customer due to perception of fairness
- Brand Loyalty
- Bundle Pricing/ Price Points – customer choice

Section C

Change Café

Part A – assesses Criterion 2

1 mark for each of two strengths, 1 mark for each of two weaknesses, 1 mark for each of two opportunities, 1 mark for each of two threats = 8 marks.

Part marks allocated when brief responses provided.

<p>Strengths</p> <ul style="list-style-type: none"> • Good location for type of business: fresh fish • Eat-in and takeaway • Focus on popular, traditional fish and chips • Good quality control by owners – personally select fresh fish • Sales are increasing • Small business operating since 2018 • Development of eat-in area in 2020, including a kitchen upgrade and building extension • Fishnchips Special accounted for 80% of sales for sit down customers – popular product 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Declining profit from 2020-2021 • Significant increase in costs, especially insurance, casual wages, motor vehicle costs, interest and bank fees • Predicted negative bank balance at end of June 2022 • Predicted negative cash flow for first six months of 2022 • Increased debt finance to cover expansion • Limited menu • Location – distance from the city poses challenges
<p>Opportunities</p> <ul style="list-style-type: none"> • Growing trend for city dwellers to seek more relaxed lifestyle • Expanding local market • Local fishing fleet with fresh fish available • Mini population boom in Seaside • Surge in home building 	<p>Threats</p> <ul style="list-style-type: none"> • Transport costs due to distance to the city, leading to increasing costs of most products • Issue of finding tradespeople when needed • Interest rates will rise in the future • Weather – may impact tourism

<ul style="list-style-type: none"> Record low interest rates Willingness of banks to lend Business advisors available to make suggestions 	<ul style="list-style-type: none"> Weather – may impact fishing fleet Lack of availability of fresh fish Decline in population numbers Competition arising Change in tastes for fish and chips Economic downturn leading to unemployment/less disposable income/less spending on eating out Lockdowns impacting on hospitality businesses and tourist numbers
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Part B – assesses Criterion 2

i. 1 mark for each correct response = 6 marks.

Deduct ½ mark if answers not rounded to 2 decimal places. Maximum deduction of ½ mark per ratio.

Deduct ½ mark if % sign not included. Maximum deduction of ½ mark per ratio.

If ratio is partially correct, ½ mark given.

If correct working is shown and calculated answer is incorrect, ½ mark given.

	2020		2021	
Gross Profit Ratio				
$\text{GPR} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$	$\frac{107\,000}{170\,000} \times 100$	62.94%	$\frac{126\,000}{197\,000} \times 100$	63.96%
Net Profit Ratio				
$\text{NPR} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$	$\frac{76\,800}{170\,000} \times 100$	45.18%	$\frac{55\,010}{197\,000} \times 100$	27.92%
Rate of Return on Owner's Equity				
$\text{RROE} = \frac{\text{Net Profit}}{\text{Average Owners Equity}} \times 100$	$\frac{76\,800}{81\,550} \times 100$	94.18%	$\frac{55\,010}{80\,867.50} \times 100$	68.02%
Markers also accepted:				
$\text{RROE} = \frac{\text{Net Profit}}{\text{Total Owners Equity}} \times 100$	$\frac{76\,800}{82\,700} \times 100$	92.87%	$\frac{55\,010}{79\,035} \times 100$	69.60%

- ii. 2 marks for assessment of each ratio and other information + 2 marks for assessment of success or otherwise (in terms of profitability) of the development of the "eat-in" section of the restaurant.

The gross profit ratio has slightly increased and improved, from 62.94% in 2020 to 63.96% in 2021. This is because net sales have increased at a faster rate than cost of goods sold.

The net profit ratio has decreased and worsened, from 45.18% in 2020 to 27.92% in 2021. This is because the increase in expenses in 2021 has been proportionately greater than the increase in sales revenue generated by the development. The casual wages of \$36 000 in 2021 and the increase in interest and bank fees from 2020 to 2021 have been the major expense increases.

The rate of return on owner's equity has decreased and worsened, from 94.18% in 2020 to 68.02% in 2021. This is still a strong return on the owner's investment. The decline has been caused by the decrease in net profit.

The steady gross profit ratio indicates good management of sales and costs of goods sold during the first year of operation of the eat-in area. The increase in the other operating expenses incurred as a result of the eat-in section has led to lower net profit and, therefore, a much lower net profit ratio and rate of return on owner's equity. The business is less profitable in 2021 than it was in 2020.

- iii. 1 mark for each correct response = 2 marks.

Deduct ½ mark if answer not expressed as a ratio, that is, x:1. Maximum deduction of ½ mark per ratio.

If ratio is partially correct, ½ mark given.

If correct working is shown and calculated answer is incorrect, ½ mark given.

	2020		2021	
Current Ratio				
CR = $\frac{\text{Current Assets}}{\text{Current Liabilites}}$	$\frac{6\,000}{15\,500}$	0.39:1	$\frac{7\,000}{16\,965}$	0.41:1

- iv. 2 marks for identifying the slight strengthening of the liquidity of the business.

2 marks for explaining the risky liquidity position of the business.

The development has slightly strengthened the liquidity of the business. In 2020, the business had 39c of current assets for every \$1 of current liabilities, and in 2021, the business had 41c of current assets for every \$1 of current liabilities. Whilst this is a slight improvement, the business has a liquidity problem. Current assets do not cover current liabilities by a significant amount. The business would be unable to repay its current liabilities; they are well below the generally accepted ratio of 2:1. This was not caused by the development as this situation existed in 2020.

Part C – assesses Criterion 2

i. 2 marks for correct calculation

½ mark deducted if \$ sign left off

1 mark deducted if variable costs were calculated incorrectly with correct process shown

$$\begin{aligned}\text{Contribution Margin} &= \text{Selling price per unit minus variable costs per unit} \\ &= 17.20 - (5.50 + 0.20 + 0.02 + 2.80 + 1.95) \\ &= 17.20 - 10.47 \\ &= \$6.73\end{aligned}$$

ii. 4 marks for correct calculation

1 mark deducted if 80% of fixed costs not calculated

1 mark deducted if weekly quantity not calculated (52 weeks in a year)

½ mark deducted if not rounded up to next full unit

½ mark deducted if units not shown

$$\begin{aligned}\text{Fixed costs} &= 84\,000 + 3\,300 + 970 + 6\,600 + 1\,450 + 1\,890 + 1\,000 \\ &= \$99\,210\end{aligned}$$

$$80\% \text{ of } \$99\,210 = \$79\,368$$

$$\begin{aligned}\text{Breakeven point} &= \frac{\text{Total Fixed Costs}}{(\text{Selling price per unit} - \text{variable cost per unit})} \\ &= \frac{79\,368}{6.73} \\ &= 11\,794 \text{ meals per year} \\ &= 227 \text{ meals per week}\end{aligned}$$

iii. 4 marks for correct calculation

No marks were deducted for carry-through errors

1 mark deducted if weekly quantity not calculated (52 weeks in a year)

½ mark deducted if not rounded up to next full unit

½ mark deducted if units not shown

Part marks allocated for some correct working shown

$$\begin{aligned}&\frac{(\text{Total Fixed Costs} + \text{Desired Profit})}{(\text{Selling price per unit} - \text{variable cost per unit})} \\ &= \frac{(79\,368 + 82\,000)}{6.73} \\ &= 23\,978 \text{ meals per year} \\ &= 462 \text{ meals per week}\end{aligned}$$

iv. *2 marks for explaining one way that break-even analysis supports management decision making*

Break-even analysis is a very useful tool for management in making decisions about matters such as:

- the number of units that must be sold to cover fixed costs
- the number of units that must be sold to cover total costs (i.e. to break-even)
- the number of units that must be sold to make a certain level of profit
- the selling price required to break-even
- the selling price required to make a certain level of profit
- how the break-even point is affected by changes in costs, volume or selling price
- how profit is affected by changes in costs, volume or selling price.

It is also a very useful decision-making tool if management needs to decide

- between a number of alternatives
- whether to make or buy a particular product
- whether to close down a department or section, or continue operating

Part D – assesses Criterion 4

a) i. *Carry through errors from Part A were accepted*

1 mark for strategy

1 mark for its use

Answers were dependent on the strength identified in Part A

Some sample responses:

A strength of the business is that the owners personally select the fresh fish. This could be used in marketing the business to promote 'local' and 'fresh' to increase sales.

A strength of the business is their focus on the traditional fish and chips. A loyalty program could be introduced, for example, the fifth meal free, to increase the sales of fish and chips.

A strength of the business is the 2020 development. The business could offer discounts to customers for the first time that they dine in to attract new customers.

ii. *Carry through errors from Part A were accepted*

1 mark for strategy

1 mark for how it will address the weakness

Answers were dependent on the weakness identified in Part A

Some sample responses:

A weakness is the declining profit from 2020 to 2021. The business could introduce low- or no-cost methods of advertising to increase the number of customers which will improve sales.

A weakness is the predicted negative bank balance at the end of June 2022. The business could reduce the level of owners' drawings to avoid the negative bank balance.

A weakness is the limited menu. The business could undertake market research to determine other products that customers may desire.

iii. *Carry through errors from Part A were accepted*

1 mark for strategy

1 mark for how it will meet the threat

Answers were dependent on the threat identified in Part A

Some sample responses:

A threat is the possibility of competition arising. The business could market their popular fish and chips, highlighting the freshness of their local product and their quality control, to increase loyalty of customers.

A threat is increasing interest rates. The business should prepare the cash budget to account for future interest rate increases.

A threat is changing consumer tastes. The business could ensure the menu caters for diverse tastes of customers by offering a wider range of products.

b) i. *2 marks for each of two actions*

2 marks for how the actions would assist

The situation presented by the income statement can be addressed by increasing revenue and/or decreasing expenses. Profit equals revenue minus expenses, therefore, increasing revenue and/or decreasing expenses will improve profitability.

Revenue can be increased by:

- Increasing selling price, as long as the increase in price does not deter customers
- Increasing the number of units sold through, for example, low- or no-cost advertising, offering discounts (as long as the increase in sales revenue outweighs the cost of the discount) or loyalty programs

Expenses can be decreased by:

- Finding cheaper suppliers to lower the cost of goods sold
- Investigating insurance companies to ensure the best deal is secured
- Assessing whether office wages are being used productively and making changes where necessary
- Assessing the requirement for the number of casual staff: how many are needed, could they be employed part-time or full-time instead?

- Using low- or no-cost advertising. Advertising is necessary to ensure customers know about the business, particularly the new development.
- Ensuring the business has secured the best interest rate and bank fees

ii. *2 marks for each of two actions*

2 marks for how the actions would assist

The situation presented by the cash budget can be addressed by increasing cash inflows and/or decreasing cash outflows, or sourcing finance to cover the predicted negative bank balance. These actions will improve the cash position of the business.

Cash inflows can be increased by increasing cash sales of either or both takeaways and eat-in meals. Low- or no-cost advertising, offering discounts (as long as the increase in cash sales outweighs the cost of the discount) or loyalty programs could increase cash sales.

Cash outflows can be decreased by:

- Delaying the purchase of the replacement furniture
- Reducing owners' drawings
- Investigating the 'payments for sundries' to ensure that they are necessary
- Assessing the costs of wages and making changes where necessary

Funds can be sourced through:

- Debt finance, for example, a bank overdraft or a short-term loan
- Equity finance, for example, owners' contributions to cover the expected cash shortfall

iii. *2 marks for each of two measures*

- Set targets for reported net profit over future periods and measure actual performance against targets
- Redo the cash budget incorporating the proposed changes to determine the difference they would make
- Prepare a budgeted profit and loss statement incorporating the proposed changes to determine the difference they would make
- Measure performance against KPIs
- Ratio analysis – compare past profitability/liquidity ratios to those calculated after the suggestions have been implemented

iv. *2 marks for the social implication*

2 marks for the economic implication

Social implications: failure or down-sizing of the business resulting in loss of employment opportunities in the region, loss of a community meeting place, loss of an eat-out option, unemployment in the area could lead to crime

Economic implications: failure of business resulting in loss of employment in the region, loss of market for fish suppliers, loss of market for frozen goods, reduced market for other businesses in the area as visitor numbers fall, less spending in other businesses if less disposable income is available, less taxation revenue for the government to spend.

Section C

Question 13

2Ks Compost

Part A – assesses Criterion 2

1 mark for each of two strengths, 1 mark for each of two weaknesses, 1 mark for each of two opportunities, 1 mark for each of two threats = 8 marks. Part marks allocated when only brief responses where provided.

<p>Strengths (Internal positive factors)</p> <ul style="list-style-type: none"> • Available raw materials which are currently free to access • Product has a strong demand • Private company legal structure provides limited liability and protection to owners' assets • Support from by-product producers • Government support and grant of \$50K • Conservationist support • Environmental practice / sustainability/reduction of waste in landfill • Using technology in the manufacturing process • Strong and increasing sales/revenue/income • Have already applied for permits as part of expansion plans 	<p>Weaknesses (Internal concerning factors)</p> <ul style="list-style-type: none"> • No formal contracts with suppliers • Lack of market research • No sales directly to the public or retail outlets are can't meet the perceived demand of them with current supply • Location is in proximity to urban area which may lead to difficulties due to limitations in expansion capacity • Produces an odour which is upsetting nearby growing community • Loan has not yet been approved • Final product is currently unbranded • Declining profit from 2020-2021 • Steady increase in costs • Forecasting a decreasing and low bank balance at end of June 2022
<p>Opportunities (External positive aspects relating to PESTLE) Political, Economic, Social, Technological, Legal and Environmental)</p> <ul style="list-style-type: none"> • More technologically advanced packing facility 	<p>Threats (External problems relating to PESTLE) Political, Economic, Social, Technological, Legal and Environmental)</p> <ul style="list-style-type: none"> • Potential competitors have contacted suppliers and want to source the raw materials

<ul style="list-style-type: none"> • New markets: general public / retail nurseries • Online sales • Rapidly developing urban centre • Increased conservation groups /growing support • Increased expectations by society of environmental practices • Formal contracts with suppliers to guarantee supply • Growing trend for people to be involved in gardening • Record low interest rates • Willingness of banks to lend • \$50K government grant shows belief in the idea and support for expansion 	<ul style="list-style-type: none"> • Increased interest rates in future • Local community objection leading to rejection of expansion plan permit • Petition generated in local community • Expansion requires council approvals that might be rejected • Increased cost of raw material • Economic downturn in area • Stricter lending policies from financial institutions that could limit access to debt finance
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Part B – assesses Criterion 2

i. 1 mark for each correct response = 4 marks.

Deduct ½ mark if answers not rounded to 2 decimal places. Maximum deduction of ½ mark per ratio.

Deduct ½ mark if % sign not included. Maximum deduction of ½ mark per ratio.

If ratio is partially correct, ½ mark given.

If correct working is shown and calculated answer is incorrect, ½ mark given.

	2020		2021	
Gross profit ratio $\text{GPR} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$	258900 <hr/> 303500	85.30%	250400 <hr/> 312400	80.15%
Net profit ratio $\text{NPR} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$	92920 <hr/> 303500	30.62%	79300 <hr/> 312400 NB: Balance sheet says 79 400 so both answers were accepted 79 400 <hr/> 312400 x 100	25.38% OR 25.42%

- ii. 2 marks for assessment of GP ratios + 2 marks for assessment of NP ratios. Students should refer to both years and include data figures.

Gross Profit margin

Sales have increased each year from 2019 to 2021, however the gross profit margin has decreased from 85.30% in 2020 to 80.15% in 2021. This suggests that cost of goods sold has increased relative to sales / sales revenue has fallen relative to cost of goods sold.

Net profit ratio

Net profit has fallen from \$97810 in 2019 to \$79400 or \$79300 in 2021. The net profit ratio has fallen

from 30.62% in 2020 to 25.42% or 25.38% in 2021. This suggests that other operating expenses have not been controlled as well as they previously were and are currently less covered by gross profit.

- iii. 1 mark for each correct response = 2 marks.

Deduct ½ mark if answer not expressed as a ratio, that is, x:1. Maximum deduction of ½ mark per ratio.

If ratio is partially correct, ½ mark given.

If correct working is shown and calculated answer is incorrect, ½ mark given.

	2020		2021	
Current ratio	34770	3.91: 1	36490	3.21: 1
	<u>8900</u>		<u>11380</u>	
$CR = \frac{\text{current assets}}{\text{current liabilities}} : 1$				

- iv. 2 marks for identifying the slight change of the liquidity of the business.

2 marks for showing an understanding of the solid but inefficient liquidity position of the business.

Liquidity

Current ratio falls from 3.91:1 in 2020 and to 3.21:1 in 2021. In 2020, for every \$1 of current liabilities the business has \$3.91 of current assets to cover those short-term financial obligations, and \$3.21 to every \$1 of current liabilities in 2021.

The business has strong cover for their current liabilities / good liquidity, despite the fact that there has been a decrease in the current ratio from 3.91:1 to 3.21:1 from 2020 to 2021. The general rule of thumb is to have around 2: 1. Given this business is at 3.21: 1 in 2021, this might indicate the business has cash assets that are not being used to their optimum advantage.

- v. 1 mark for each correct response = 2 marks.

Deduct ½ mark if answer was expressed as a ratio, that is, x:1. Deduct ½ mark if no % sign. Maximum deduction of ½ mark per ratio.

If ratio is partially correct, ½ mark given.

If correct working is shown and calculated answer is incorrect, ½ mark given.

	2020		2021	
Gearing (debt equity)	46990	10.21%	43780	9.68%
	460150		452260	
$\text{Gearing} = \frac{\text{total liabilities}}{\text{total equity}} \times 100$				

vi. **Stability**

2 marks for describing the change in the gearing ratios over the two years

2 marks for showing an understanding of financial stability and what it means for 2Ks Compost.

Students should refer to both years and include data. They need to show an understanding of gearing / solvency.

In 2020, for every \$1 of equity, the business has sought 10.21 cents of debt. This decreased (and improved) between 2020 and 2021. In 2021, for every \$1 of equity, the business has sought 9.68 cents of debt.

The business is very lowly geared. They are very solvent and have a very strong ability to meet long term financial obligations.

Gearing ratio falls marginally, so what appears to be an already low level of debt is lessening further. Industry average would be required to ascertain whether this low level of debt was typical.

Part C – assesses Criterion 2

i. 2 marks for correct calculation

½ mark deducted if \$ sign left off

1 mark deducted if variable costs were calculated incorrectly with correct process shown

$$\begin{aligned} \text{Contribution Margin} &= \text{Selling price per unit minus variable costs per unit} \\ &= 6.00 - (1.60 + 0.55 + 0.05 + 0.67) \\ &= 6.00 - 2.87 \\ &= \$3.13 \end{aligned}$$

ii. 4 marks for correct calculation

1 mark deducted if weekly quantity not calculated (52 weeks in a year)

½ mark deducted if not rounded up to next full unit

½ mark deducted if units not shown

$$\begin{aligned} \text{Fixed costs} &= 125\,000 + 3\,400 + 800 + 8\,000 + 18\,000 + 1\,600 + 1\,500 \\ &= \$158,300 \end{aligned}$$

$$\text{Breakeven point} = \frac{\text{Total Fixed Costs}}{(\text{Selling price per unit} - \text{variable cost per unit})}$$

$$= \frac{158\,300}{3.13}$$

= 50 575.08 bags per year

= 50 576 bags per year (rounded up to nearest whole unit)

Then divide by 52 weeks

= 972.61

= 973 bags per week

iii. *4 marks for correct calculation*

No marks were deducted for carry-through errors from previous questions.

1 mark deducted if weekly quantity not calculated (52 weeks in a year)

½ mark deducted if not rounded up to next full unit

½ mark deducted if units not shown

Part marks allocated for some correct working shown

$$\frac{(\text{Total Fixed Costs} + \text{Desired Profit})}{(\text{Selling price per unit} - \text{variable cost per unit})}$$

$$= \frac{158\,300 + 120\,000}{3.13}$$

= 88,913.73 per year

= 88,914 bags per year (rounded up to nearest whole unit)

Then divide by 52 weeks

= 1709.88

= 1710 bags per week

iv. *2 marks for explaining one way that break-even analysis supports management decision making*

Breakeven analysis is a very useful tool for management in making decisions about matters such as:

- the number of units that must be sold to cover fixed costs
- the number of units that must be sold to cover total costs (i.e. to break-even)
- the number of units that must be sold to make a certain level of profit
- the selling price required to break-even
- the selling price required to make a certain level of profit
- how the break-even point is affected by changes in costs, volume or selling price
- how profit is affected by changes in costs, volume or selling price
- It is also a very useful decision-making tool if management needs to decide:
- between a number of alternatives
- whether to make or buy a particular product

- whether to close down a department or section, or continue operating

Part D – assesses Criterion 4

i. *Carry through errors from Part A were accepted*

1 mark for strategy

1 mark for its use/how they would action the strength

Answers were dependent on the strength identified in Part A

Some sample responses:

A strength of the business is that the business has strong sales and increasing demand for stock. This could be used as an incentive to broaden their scope of supplies from other parts of the state, knowing that there is already the demand for the product.

A strength of the business is their support from conservation groups. This could be broadened by including them in any future marketing and spring-boarding from the conservation groups to raise awareness using their own channels.

A strength of the business is their private company structure which protects their personal assets. This could be used moving ahead by bringing in more owners (and therefore more equity investment) to fund the expansion plans.

ii. *Carry through errors from Part A were accepted*

1 mark for strategy

1 mark for how it will address the weakness

Answers were dependent on the weakness identified in Part A

Some sample responses:

A weakness is the declining profit from 2020 to 2021. The business could raise the price of bags given they are experiencing high levels of demand to thereby increase sales revenues (without any increase in expenses) OR they could introduce low- or no-cost methods of advertising to increase the number of customers which will improve sales revenues.

A weakness is the predicted negative bank balance at the end of June 2022. The business could reduce the level of owners' drawings to avoid the negative bank balance.

A weakness is the lack of market research. The business could undertake market research to determine what customers' needs/wants are.

A weakness is the product is unbranded. The business could put bright labels/printing on their bags to increase awareness and raise the profile of the business's product.

iii. *Carry through errors from Part A were accepted*

1 mark for strategy

1 mark for how it will meet the threat

Answers were dependent on the threat identified in Part A

Some sample responses:

A threat is the possibility of competition arising. The business could lock in longer-term contracts with current suppliers at an appealing rate to ensure access and consistency of supply.

A threat is increasing interest rates. The business should prepare the cash budget to account for future interest rate increases.

A threat is the community petition that might increase negative publicity of the business. The business could undertake community forums to listen to concerns of people and look at ways of reducing the odour of the compost that is causing offence.

iv. *1 mark for identification and description of the cash balance forecast*

1.5 marks for one action

1.5 marks for how the action would reverse the situation and have the desired result.

Description of cash balance trend:

The cash balance is forecast to be decreasing over the 6 months ending June 30, 2022 but is not yet predicted to enter negative territory.

Action to reverse situation:

To reverse the situation must either increase inflows or reduce expenses. Most obvious is for owners to reduce drawings. Cash inflows can also be increased by raising the price of bags which will increase sales revenues.

Alternatively, they could take action to deal with a negative balance if and when it occurs by, say, arranging finance with their bank. Funds can be sourced through:

- Debt finance, for example, a bank overdraft or a short-term loan
- Equity finance, for example, owners' contributions to cover the expected cash shortfall

Cash outflows can be decreased by assessing the costs of wages and making changes where necessary

v. *2 marks for one action to address net profit decline*

2 marks for how the action would have the desired result.

Action to address the net profit decline:

The situation presented by the income statement can be addressed by increasing revenue and/or decreasing expenses. Profit equals revenue minus expenses, therefore, increasing revenue and/or decreasing expenses will improve profitability.

Revenue can be increased by:

- Increasing selling price, as long as the increase in price does not deter customers

- Increasing the number of units sold through, for example, low- or no-cost advertising, offering discounts (as long as the increase in sales revenue outweighs the cost of the discount) or loyalty programs

Expenses can be decreased by:

- Finding cheaper suppliers to lower the cost of goods sold – perhaps look at bulk buying large lots of raw materials (securing a lock-in contract with suppliers and negotiating bulk buy discounted rates could ensure consistency in supply)
- Investigating insurance companies to ensure the best deal is secured
- Assessing whether factory wages are being used productively and making changes where necessary
- Using low- or no-cost advertising. Advertising is necessary to ensure customers know about the business, particularly the new expansion plans.
- Investigation of the track running expenses and fuel/oil and maintenance expenses to see if reductions can be made.
- Look at administrative expenses to see if costs savings can be made.

vi. *1 mark for each identification of TWO obstacles to expansion if market research is not carried out*

1 mark for each explanation of the obstacle

Without market research the managers of 2K's Compost will not know the potential size of the market; the product preferences of potential buyers, the nature of competition in the market, all the elements of best market mix (4 P's) will not be known. 4Ps – price, product, promotion, place

Customers won't know about the product and won't know they need it, so they won't purchase it.

Customers that are already being supplied by other business won't know about 2Ks Compost and therefore won't be interested in changing their supplier

Without market research, 2Ks will fail to recognise a change in consumer demand and it will be hard to find the right pricing without market research (the appetite and capacity of the target market to buy the compost at certain prices).

vii. *2 marks for effect on SUPPLIERS and 2 marks for effect on COMMUNITY if the business does not overcome obstacles (outlined from vi.)*

If obstacles are not overcome then the planned expansion of 2Ks will not be as successful as it could be. This will lead to:

Suppliers- less sales to 2Ks than would otherwise be the case and therefore less revenue and perhaps less profit. May lose a vital source of income. Lose a place for the disposal of their by-product and they might need to spend additional funds on the removal of it from their own sites.

Community- loss of job opportunities with 2Ks and supplier businesses.;income not created for spending in local community. Community loses a supplier of compost.

viii. *2 marks for each recommendation that improves sales.*

Any two ways to draw in more customers/increase revenue could include:

- Expand locations statewide/interstate to broaden market size and sell to more people (if supply can be met)
- Conduct market research and base new promotion and marketing methods off target market interests
- Change pricing strategy or method if this is identified as an issue – perhaps there is wiggle room for the bag price to be increased?
- Advertise (low cost) but ensure cost is outweighed by increased sales revenues to offset the increased expense item.

ix. 2Ks needs to have community support if it is to be seen as a good corporate citizen. Acceptance of their product may depend upon it. Therefore, direct effect on levels of sales and quality of employee.

There may be boycotts against 2K leading to decreased sales and decreased profits.

Bad reputation and negative brand recognition – they might even get shut down.

If petition becomes widespread, government support and the grant may be lost.

If they don't resolve the issues, it might lead to the business expansion not going ahead which will limit production in the future.