

AUSTRALIAN ECONOMICS AND BUSINESS STUDIES COMPETITION

Business Studies Competition

Question Paper
Thursday, 14 May 2015

Instructions:

1. Do not open this booklet until instructed by your teacher.
2. You have **fifty minutes** to answer all **forty questions**.
3. Pencils and erasers only. No calculators or rulers are allowed.
4. Read all instructions in the Response Sheet provided.
5. Mark your answers using **pencil only** on the Response Sheet.
6. All questions are of equal value.
7. Choose the **most correct** option to the question and colour in the corresponding oval on the Response Sheet.
8. **One mark** will be awarded for each correct response.
9. Avoid random guessing, as **one quarter** of a mark will be deducted for each incorrect answer.
10. **Please make sure you fill in your name correctly on the response sheet. Any mistakes you make will appear on your certificate.**



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Question 1

Hermiz Ltd is a successful luxury jeweller operating globally across 148 countries whilst being based in Australia. Which of the following would be the best way to minimise foreign exchange risk for Hermiz Ltd?

- a. Purchasing Australian government bonds
- b. Debt financing
- c. Global branding
- d. Purchasing forward contracts

Question 2

Loyalty and reward cards are examples of which type of promotion?

- a. Advertising
- b. Personal selling
- c. Relationship marketing
- d. Sales promotion

Question 3

The local movie theatre charges less for senior citizens and students. Which of the following marketing strategies has the theatre employed?

- a. Price discrimination
- b. Bait and switch
- c. Search engine optimisation
- d. Product placement

Question 4

Which of the following organisational structure(s) places unlimited liability upon its owners?

- I. Sole Trader
 - II. Partnership
 - III. Limited Corporation
 - IV. Corporation
- a. I Only.
 - b. I and II.
 - c. III Only.
 - d. I, II and III.

Question 5

A business focuses on a strategy of cost leadership. Which of the following best describes this strategy?

- a. The business charges low prices in order to create demand for its products.
- b. The business aims to use the least amount of input to produce a given output.
- c. The business charges higher prices than its competitors, and then lowers them over time.
- d. The business produces low volumes of products that are customised.

Question 6

A customer places an order online for the currently out-of-stock zPhone and receives a notice that it could take up to 4 weeks for the product to be manufactured, assembled and delivered. Which of the following terms identifies, from the company's perspective, the time required for the order to be fulfilled from the time that the order is made?

- a. Transformation time
- b. Lead time
- c. Just-in-time
- d. Production Time

Question 7

An independent third party from Fair Work Australia has been brought in to resolve an industrial dispute at the workplace. They will deliver a legally binding decision that both parties must abide by. Which type of dispute resolution process is the company involved in?

- a. Negotiation
- b. Mediation
- c. Conciliation
- d. Arbitration

Question 8Infinitas Ltd

	Jan 2015	Feb 2015	Mar 2015
Cash receipts	\$10,000	\$6,000	\$7,000
Cash payments	\$8,000	\$5,000	\$13,000

The opening balance in January 2015 was \$2,000.

What is the closing balance for March 2015?

- a. - \$6,000
- b. - \$1,000
- c. \$2,000
- d. \$13,000

Question 9

The balance sheet of SAK Ltd. presented the following figures for 2014 and 2015.

2014	2015
Assets: \$100,000	Assets: \$120,000
Liabilities: \$60,000	Liabilities: \$70,000

What is the change in the value of owner's equity from 2014 to 2015?

- a. An increase of \$10,000.
- b. A decrease of \$10,000.
- c. An increase of \$20,000.
- d. A decrease of \$20,000.

Question 10

Which of the following financial ratios measures a firm's leverage?

- a. Revenue/Debt
- b. Cost of Goods Sold/Revenue
- c. Interest/Earnings before Interest and Taxation (EBIT)
- d. Debt/Equity

Question 11

Jack's auto parts company has just sold auto parts to a local mechanic. As per their agreement, the mechanic has 90 days until he has to pay for the parts. What risk is Jack's company most exposed to?

- a. Foreign exchange risk
- b. Counterparty risk
- c. Interest rate risk
- d. Market risk

Question 12

Which method of international payment would an exporting business use to minimise the risk associated with an importer's unknown creditworthiness?

- a. Letter of credit
- b. Bill of exchange
- c. Clean Payment
- d. Payment in advance

Question 13

Which of the following is most likely to be outsourced for a motor vehicle insurer?

- a. Human Resources
- b. Customer Service
- c. Finance Department
- d. Executive Management

Question 14

Which of the following contains only indicators of effective human resource management?

- a. Low absenteeism, low staff turnover, low worker satisfaction
- b. Rich corporate culture, low levels of disputation, high levels of accidents
- c. High worker satisfaction, high staff turnover, low levels of disputation
- d. Low levels of accidents, high worker satisfaction, low absenteeism

Question 15

Use the following information to answer the question:

Sales: \$20,000	Assets: \$400,000
Gross Profit: \$15,000	Liabilities: \$300,000
Net Profit: \$12,000	Shareholder's Equity: \$100,000

What does the gearing ratio indicate about this company?

- a. The company is at a risk of failure if the business does not generate sufficient cash to meet its debt repayments.
- b. The company is relying too much on equity financing and should implement policies to reorganise its capital structure.
- c. Potential investors would be highly encouraged to invest in the company.
- d. The company only has short-term debt.

Question 16

John is an investment manager and decides to buy the bonds of DiamCo. A few months later, after the latest DiamCo annual report, he is worried it might go bankrupt. John enters into the following agreement with his friend Steve, who has no vested interest in DiamCo: John pays Steve a fixed amount today, and in exchange Steve will compensate John for the value of the bonds if DiamCo goes bankrupt.

John's actions are an example of:

- a. Hedging
- b. Diversification
- c. Market manipulation
- d. Fraud

Question 17

For which set of the following set of complementary goods is a loss-leader pricing strategy most common?

- a. Pens and paper
- b. Inkjet printers and ink cartridges
- c. TV's and gaming consoles
- d. Matching scarves and gloves

Question 18

Which of the following measures, when benchmarked against industry averages, gives the best indication of the effectiveness of a business's credit policy?

- a. Current Ratio
- b. Solvency Ratio
- c. Working Capital
- d. Accounts receivable turnover

Question 19

Katrina purchases a toaster from a department store, declining to buy the warranty she is offered. When she returns home, she finds that it does not heat up enough to toast her bread, thus rendering the product useless. She returns the toaster the next day and the department store accepts the product. This is because consumer law protects consumers in relation to which of the following?

- a. Explicit warranties
- b. Implied conditions
- c. Deceptive and misleading advertising
- d. Price discrimination

Question 20

Directly after Christmas, Company XYZ took out a bank overdraft of \$10,000 and purchased \$80,000 worth of inventory on credit. However, \$20,000 worth of inventory was not fit for use, and was returned to the suppliers. The company also followed up on its debtors and collected \$50,000 of receivables. Later in the year, joint venture capitalists decided to invest \$100,000 into the company. Since Christmas, the company's total assets have increased by:

- a. \$220,000
- b. \$240,000
- c. \$190,000
- d. \$170,000

Question 21

Which of the following about the Last-In-First-Out (LIFO) method of inventory valuation is true?

- a. This method is a lean production method which aims to minimise waste, storage and costs.
- b. This method aims to create lower net income in times of rising prices.
- c. This method is a commonly used and legal valuation method in Australia.
- d. This method allows stock to remain fresh for customers.

Use the following information about a company's activities over the most recent quarter to answer questions 22 to 24.

Sales	\$950,000
Opening Stock	\$350,000
Purchases	\$50,000
Closing Stock	\$100,000
Expenses	\$50,000

Question 22

What is the company's gross profit?

- a. \$550,000
- b. \$600,000
- c. \$650,000
- d. \$700,000

Question 23

What is the company's net profit?

- a. \$550,000
- b. \$600,000
- c. \$650,000
- d. \$700,000

Question 24

Which of the following can be determined using the given information?

- a. Current Ratio
- b. Gross profit ratio
- c. Accounts receivable turnover
- d. None of the above

Question 25

Which of the following are examples of covert industrial action?

- I. Absenteeism
 - II. Sabotage
 - III. Strikes
 - IV. Lockout
- a. I only.
 - b. I and II
 - c. I, II, and III
 - d. I, II, III, and IV

Question 26

Fast food restaurants Accas and BFC are well established businesses with relatively strong stable revenue streams. Yet in recent years their market share has come under sustained pressure from restaurants referred to as "fast casual". Based on this information, what stage of the company lifecycle are fast food restaurants Accas and BFC in?

- a. Establishment
- b. Growth
- c. Maturity
- d. Decline

Question 27

Who is most likely to be negatively affected by an appreciation in the AUD?

- a. An iron ore exporter.
- b. A clothing manufacturer importing textiles.
- c. An Australian going on holiday to Hawaii.
- d. An Australian hedge fund looking to invest in the United States.

Question 28

The following amounts were taken from a balance sheet.

Patrick's Gym Pty Ltd

Net Profit: \$50,000	Accounts Payable: \$15,000
Furniture and Fittings: \$10,000	Mortgage: \$50,000
Owner's Equity: \$200,000	Buildings: \$180,000
Equipment: \$20,000	Accounts Receivable: \$30,000
Cash: \$75,000	

What is the value of Patrick's Gym Pty Ltd's non-current assets?

- a. \$240,000
- b. \$210,000
- c. \$200,000
- d. \$180,000

Question 29

Stella has just been recruited to work for Company X. After a few weeks of working and familiarising herself with the company's workplace culture, Stella feels uncomfortable continuing to work for the business because she senses a misalignment of her skills with the requirements of the job. Which stage of Company X's human resource management process was the source of Stella's problem?

- a. Acquisition
- b. Development
- c. Maintenance
- d. Separation

Question 30

Key Performance Indicators (KPIs) can assist in gauging the performance of a business against targeted levels. Which of the following can not be a Key Performance Indicator?

- a. Lead and wait times.
- b. Turnover
- c. Defect rates, repair rates and warranty claims.
- d. SWOT matrix and analysis.

Question 31

Recovery rates refers to the percentage of the total value of a security recovered by the investor in the event of bankruptcy. Emron Co. had the following capital structure prior to bankruptcy:

Senior Debt	Junior Debt	Equity
\$400mm	\$500mm	\$500mm

Emron Co. is eventually liquidated for \$700mm. If there is seniority in the order in which debt is repaid, what is the recovery rate for an investor in Junior Debt?

- a. 10%
- b. 30%
- c. 50%
- d. 60%

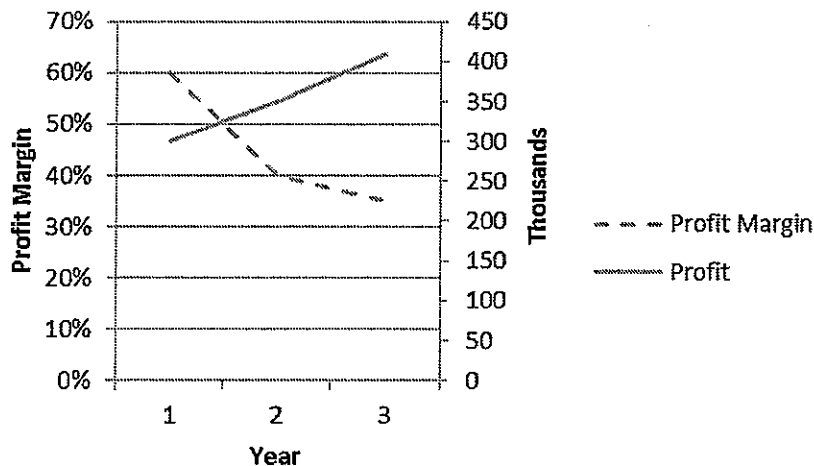
Question 32

Company Z declares and pays an interim dividend. What effect would this transaction have on the accounting equation and the company's profit?

- a. Assets will decrease, liabilities will remain the same, shareholder's equity will decrease and there is no effect on profit.
- b. Assets will decrease, liabilities will remain the same, shareholder's equity will decrease and there is an increase in profit.
- c. Assets will decrease, liabilities will decrease, shareholder's equity remains the same and there is no effect on the profit.
- d. Assets will decrease, liabilities will decrease, shareholder's equity remains the same and there is an increase in profit.

Question 33

The graph below shows the profit and profit margin for Shoe Co. over 3 years. Which of the following would not help to explain the trends in the graph?



- a. Shoe Co. has experienced increased sales volume.
- b. Shoe Co. has reduced its overhead costs.
- c. Shoe Co. costs have risen more than its prices.
- d. All of the above could help explain the graph.

Use the following end-of-year balance sheet for Mining Co. to answer **Questions 34 and 35**.

Assets		Liabilities	
Cash	\$100 mm	Short Term Borrowings	\$200mm
Mining Equipment	\$300mm	Long Term Borrowings	\$300mm
Other Assets	\$400mm		

Question 34

At the start of the year, Mining Co.'s directors decide to purchase some new mining equipment for \$100mm using cash only. What is the new book value of equity after this transaction occurs?

- a. \$200mm
- b. \$300mm
- c. \$400mm
- d. \$600mm

Question 35

Mining Co.'s directors believe that with the new equipment, they will return a net profit of \$30mm. If this were to occur, what would the firm's Return on Equity (ROE) be?

- a. 15%
- b. 10%
- c. 7.5%
- d. 5%

Use the following information to answer **Question 36 to 38**.

Financial information for Karen's Jigsaws Ltd.

Ratio	2013	2014	Industry Average
Current ratio	2	1.5	1.5
Return on equity ratio	15%	14%	17%
Accounts receivable turnover ratio	2	3.5	3
Debt to equity ratio	1	0.5	1.1

Question 36

During 2013, Karen's Jigsaws Ltd's current assets and current liabilities increased by equal amounts. What is true about the business's current ratio at the start of 2013?

- a. It was higher than the current ratio at the end of 2013.
- b. It was lower than the current ratio at the end of 2013.
- c. It was the same as the current ratio at the end of 2013.
- d. Its relation to the current ratio at the end of 2013 cannot be determined from the information given.

Question 37

Which of the following statements about the above financial information is true?

- a. The improvement of the profitability ratio from 2013 to 2014 indicates that the business owner should invest more into the business.
- b. The change in the business's current ratio from 2013 to 2014 indicates that there was a net increase in working capital during 2014.
- c. The data on the accounts receivable turnover ratio indicates that there has been an improvement in the business's debt collection efficiency.
- d. Potential investors of the business may be deterred due to the highly geared nature of the business.

Question 38

Karen's accountant is conducting a break-even analysis for the firm. Karen's Jigsaw Ltd incurs fixed rent and electricity bills of \$50,000 and variable production costs of \$10 per box of jigsaw puzzles. The firm sells each box of jigsaw puzzles for \$15. What is the break-even point in sales dollars?

- a. \$100,000
- b. \$150,000
- c. \$200,000
- d. \$250,000

Question 39

At the beginning of 2013, a total of 100 DVDs were bought by JC Hi-Fi. The first 30 cost \$5 per DVD, the second 40 cost \$2 per DVD and the last 30 cost \$3 per DVD. At the end of 2013, 20 DVDs remained unsold. If JC Hi-Fi uses the last-in-first-out (LIFO) inventory valuation method, what is the value of cost of goods sold at the end of 2013?

- a. \$220
- b. \$260
- c. \$270
- d. \$320

Question 40

Public companies will often raise funds through what is known as a "placement", where a select investor will be allowed to buy newly issued shares at a discount relative to their current market price. Assume that Company M has 900 shares trading at \$10 per share. Overnight, it raises funds using a placement by issuing 100 shares to a new investor at \$9 per share. What is the new theoretical share price for the firm?

- a. \$9.00
- b. \$9.50
- c. \$9.90
- d. \$10.00

2015

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About the Organisers

This Competition is run annually by a non-profit organisation within the UNSW Business School. The aim is to stimulate high school students' interest in business and economics, and lay the path for potential careers in the business world, government and academia.

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