FINANCE

Part A - Multiple Choice

1. Which of the following items are ‘current assets’?
   (a) Motor vehicles, land, owner’s equity
   (b) Stock, cash at bank, accounts receivables
   (c) Mortgage, cash at bank, accounts payable
   (d) Stock, motor vehicles, equipment

2. Which of the following financial ratios is used to measure efficiency?
   (a) Current Assets Ratio
   (b) Gross Profit Ratio
   (c) Inventory Turnover Ratio
   (d) Debt to Equity Ratio

3. A business has current assets worth $75,000 and current liabilities worth $150,000. What is the current ratio for their business?
   (a) 0.5:1
   (b) 1:0.5
   (c) 2:1
   (c) 2:5:1

4. Which of the following is considered as a test or measure of a business’ gearing/solvency?
   (a) Return on Owner’s Equity Ratio
   (b) Debt to Equity Ratio
   (c) Accounts Receivable Turnover Ratio
   (d) Current Ratio

5. Examine the following financial information in order to answer question 5:

   $    
   Opening stock 25,000
   Purchases 12,000
   Cartage inwards 3,000
   Sales 125,000
   Closing stock 30,000
   Mortgage 180,000

   What is the value of COGS in this business?
   (a) $7,000
   (b) $5,000
   (c) $10,000
   (d) $115,000

6. Which of the following statements is correct?
   (a) Assets = Liabilities – Owner’s Equity
   (b) Working Capital = Current Assets + Current Liabilities
   (c) Net Profit = Gross Profit – Expenses
   (d) Revenue = Sales Price ÷ (divided by) Quantity
7. When a business is said to be 'highly geared' this means that it is:
   (a) Returning high profits
   (b) Owner's Equity is on the increase
   (c) The business is experiencing a rapid growth rate
   (d) The business is taking a greater financial risk

8. Which of the following instruments are used to measure a business' liquidity?
   (a) Expenses
   (b) Accounts receivables
   (c) Current assets
   (d) Return on Owner's Equity

9. Question 9 is based on the following information from the Balance Sheet:

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivables</td>
<td>10,000</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>75,000</td>
</tr>
<tr>
<td>Owner's Equity</td>
<td>135,000</td>
</tr>
<tr>
<td>Stock</td>
<td>95,000</td>
</tr>
<tr>
<td>Cash at bank</td>
<td>40,000</td>
</tr>
</tbody>
</table>

What is the value of Current Assets for this hypothetical business?
   (a) $135,000
   (b) $40,000
   (c) $220,000
   (d) $145,000

10. Which of the following is a source of equity finance?
    (a) Mortgage
    (b) Retained profits
    (c) Debentures
    (d) Government securities

11. Which of the following best defines a 'Derivative market'?
    (a) Financial products that are used by a business as a form of hedging against future risks associated with exchange rates and/or prices of products;
    (b) Semi-finished products which businesses may purchase towards producing finished consumer products;
    (c) A market where the demand for a product is derived from the demand for a related product (e.g. cars and petrol);
    (d) A foreign exchange market, which deals with currency transactions across countries.

Balance Sheet for Hanna's Pty. Ltd. as at 30 June 2011

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>$</th>
<th>Current Liabilities</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at bank</td>
<td>4,500</td>
<td>Accounts payable</td>
<td>3,000</td>
</tr>
<tr>
<td>Stock</td>
<td>10,300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivables</td>
<td>5,800</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Current Assets</th>
<th>Current Liabilities</th>
<th>Non-Current Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>6,000</td>
<td>Mortgage</td>
</tr>
<tr>
<td>Land and buildings</td>
<td>70,000</td>
<td>Owner's Equity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Capital</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retained profit</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>96,600</strong></td>
<td><strong>96,600</strong></td>
</tr>
</tbody>
</table>
12. According to the Accounting Equation, which of the following corresponds with the balance sheet above:
   (a) $96,600 = 63,000 + 33,600
   (b) $20,600 = 63,000 - 42,400
   (c) $76,000 = 63,000 - 13,000
   (d) $96,600 = 63,000 - 33,600

13. What is the total debt owing by this business?
   (a) $85,000
   (b) $63,000
   (c) $60,000
   (d) $96,600

14. Which of the following is an example of a short-term borrowing instrument?
   (a) Factoring
   (b) Debentures
   (c) Venture capital
   (d) Bank bills

15. In order to slow down economic activity, the RBA has decided to issue a new series of government securities onto the financial market.

Which section of the financial market will the RBA's action affect?
   (a) Share market
   (b) Primary market
   (c) Secondary market
   (d) Forex market

16. Which of the following is an example of a variable cost for a business?
   (a) Rent
   (b) Council rates
   (c) Advertising
   (d) Insurance premiums

17. Use the following information to answer Question 17:

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock</td>
<td>20,000</td>
</tr>
<tr>
<td>Sales</td>
<td>235,000</td>
</tr>
<tr>
<td>Closing stock</td>
<td>35,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>80,000</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>90,000</td>
</tr>
</tbody>
</table>

What is the Net Profit Ratio for this business?
   (a) 72%
   (b) 340%
   (c) 38%
   (d) 34%
18. In which of the following equations does the Balance Sheet not hold true?
   (a) \( OE = A - L \)
   (b) \( A = L + OE \)
   (c) \( L = A - OE \)
   (d) \( A = L - OE \)

19. Which of the following is not a financial intermediary in the financial market?
   (a) AMP insurance
   (b) Commonwealth Bank
   (c) The Reserve Bank of Australia
   (d) The Nurses Credit Union

20. Which of the following is an example of an ‘intangible’ asset?
   (a) Stock
   (b) Accounts receivables
   (c) Goodwill
   (d) Owner’s Equity

Short Answers

1. Lawrence & Associates Pty. Ltd. is a law firm with an established reputation. The management is considering the updating of computers in their three office outlets to a cost of around $45,000. Their business manager has recommended leasing as an option. The partners, however, are happy to buy them outright through a special deal, by arranging a short-term loan from their local bank.

   (a) Define what is meant by the term ‘leasing’. (1 Mark)

   (b) Outline ONE cost and ONE benefit of debt financing. (2 Marks)

   (c) Recommend a source of funding for Lawrence & Associates and justify your answer. (3 Marks)

   (d) Describe the financial considerations that the management of Lawrence & Associates Pty. Ltd. needs to make before they commit to a bank loan? (4 Marks)
2. Abdul’s Kebab Pty Ltd is interested in identifying reasons for the financial performance over the last two years. They present you with the following financial statement:

**Abdul’s Kebab Pty. Ltd. Financial Statement for the Year Ending 30th June 2011**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>155,000</td>
<td>194,000</td>
</tr>
<tr>
<td>Less COGS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening Stock</td>
<td>45,000</td>
<td>35,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>15,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Closing stock</td>
<td>20,000</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>115,000</td>
<td>149,000</td>
</tr>
<tr>
<td>Less expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>10,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Wages</td>
<td>25,000</td>
<td>23,000</td>
</tr>
<tr>
<td>Phone</td>
<td>850</td>
<td>800</td>
</tr>
<tr>
<td>Electricity</td>
<td>1,200</td>
<td>37,050</td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td>77,950</td>
<td>113,150</td>
</tr>
</tbody>
</table>

(a) Identify this type of financial statement. (1 Mark)

(b) State why it is important to compare a current year’s financial statement to previous years. (1 Mark)

(c) Outline the role and importance of this type of financial statement to a business. (2 Marks)

(d) Calculate the Net Profit Ratio for 2011 (show all working). (2 Marks)

(e) Explain TWO possible reasons for the change in profitability from 2010 to 2011. (4 Marks)

**Extended Response (use own paper to complete response)**

Outline the role of financial management in a business. Assess strategies that may be used by a business to ensure effective financial management.

**Answers**

**Part A: Multiple choice**

**Part B: Short Answers/ Question 1**
(a) Leasing is where a business is able to access an asset without having to give up its own funds or to borrow from external sources.
(b) Costs of debt financing may include:
- Higher risk is involved
- Interest costs are a drain on business funds and/or profits
- Greater burden on business in times of economic downturn etc.
The benefits of debt financing may include:
- Easy to arrange a loan
- Interest payments are declared against the business' profits thereby reducing the tax bill
- Management has greater freedom in taking financial decisions.

(c) It is probably best for this firm if they seek equity finance for the purchasing of their computers. Retaining some of the profits generated in the current year can allow for this. This lessens their financial risk and keeps their debts at a reasonable level.

(d) The management of Lawrence & Associates needs to consider:
- Are the funds needed in some other area of the business which may have a higher priority
- What interest rate is to be paid and other banking charges
- The debt to equity ratio: Can they afford to accumulate more debt?

**Question 2**
(a) Revenue statement.
(b) This is important in order to see how the business is performing now compared to previous years. In doing so, a business may be able to appreciate its strengths and weaknesses.
(c) This financial statement allows a business to ascertain their sales revenue over time and to know the bottom line of whether they are making a profit or loss at the end of a period.
(d) NPR = 113,150 x 100 = 58%
   194,000

(e) Expenses have been reduced in 2011 and their sales have increased considerably.

**Extended response**
The role of financial management is planning and monitoring of a business’s financial resources.

Strategies for effective financial management include:
- Cash flow management
- Working capital management (current assets and current liabilities)
- Profitability management (cost controls, revenue controls)
- Global financial management (exchange rate fluctuations, interest rates, hedging and derivatives)
More Questions on Human Resource Management and Finance

Question 1  How does the HRM process assist the rest of the key business functions?
   a. It provides strategic goals for each function
   b. It provides human capital for each function
   c. It provides financial assistance for each function
   d. It determines the profitability of the firm

Question 2  What is a disadvantage of using a global contractor for HRM?
   a. It is less costly
   b. It grants access to cheaper labour
   c. They may speak a different language
   d. They can provide experience from other countries

Question 3  The HR department at Virgin decides to send its employees on a holiday to Fiji because of their strong performance. This would involve the HR department working together with:
   a. Finance
   b. Marketing
   c. Operations
   d. All of the above

'Every business employs people. These are its ‘human resources’. The term covers not only the physical labour they contribute, but their knowledge and skills. Human workers perform a variety of tasks within a business, such as making products, operating machinery, implementing marketing strategies, and keeping track of the financial situation of the business.' CREATIVE BUSINESS STUDIES TEXTBOOK

Question 4  Identify the FOUR human resources functions.

'The business may decide to outsource some or all of the HR functions. This means that some or all of the HR tasks are carried out by an outside company or individual. Like outsourcing in general, this can allow the business to better focus on its core tasks.' CREATIVE BUSINESS STUDIES TEXTBOOK

Question 5  Describe how the human resources function impacts on the operations function.

Question 6  Explain cost associated with outsourcing aspects of the human resources function.

Question 7  Describe the problems associated with using global contractors.
Extended Response

Woof Pty Ltd is a dog food manufacturing business with production plants located in four states of Australia. It has come to the attention of the CEO, Roland Over, that the performance of his business has slipped in recent months compared with its main competitor, Al Sation Pty Ltd.
A business consultant identified that Al Sation has outsourced a number of key business functions and adopted a minimal inventory approach in order to achieve large cost reductions.
Roland has decided that in order to remain competitive, Woof must adopt similar practices. Furthermore, in order to gain a competitive edge of Al Sation, Woof has decided to alter its physical distribution approach.
Prepare a report for the CEO. This report must include the following:
Answer only the first dot point.

* Explain ONE advantage and ONE disadvantage of outsourcing.