Business Management Unit 1 practice
exam 2012 and suggested answers

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The practice examination covers Areas of Study 1 and 2 in VCE Business Management Unit 1 and has a mark allocation of 90 marks. Provision is made for teachers to add a section based on the optional area covered from Area of Study 3 ('Day-to-day operations'). The suggested mark allocation for an additional Area of Study 3 section is 10 marks, which will bring the total marks for the examination to 100.

The practice examination comprises five sections (plus the option of a sixth section for Area of Study 3) and is presented in the format of a question-and-answer book. All questions are compulsory and are to be completed under closed-book conditions.

The number of lines provided for answering each question and the number of marks allocated indicate the appropriate length for an answer. If required, additional space has been provided at the end of the question-and-answer book.

The practice exam and suggested answers are based on the author's interpretation of the VCE Business Management Study Design.

Teachers are advised to preview and evaluate all practice exam material before distributing it to students.

Disclaimer: This practice examination has been written by the author (Megan Jeffery) for use with students of VCE Business Management. This does not imply that it has been endorsed by the Victorian Curriculum and Assessment Authority (VCAA). While every care is taken, we accept no responsibility for the accuracy of information or advice contained in Compak. Teachers are advised to preview and evaluate all Compak classroom resources before using them or distributing them to students.
QUESTION AND ANSWER BOOK

Structure of book

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<th>Number of marks</th>
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Instructions

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners and rulers.
- Students are NOT permitted to bring into the examination room: blank sheets of paper and/or white-out liquid/tape.
- No calculator is allowed in this examination.
- All written responses must be in English.

Materials supplied

- Question and answer book.
- Additional space is available at the end of the book if you need extra paper to complete an answer. Clearly label all answers with the appropriate section and question number.

Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the examination room.
SECTION A—True/false questions

Complete the table below by stating whether each of the following statements is true or false.

<table>
<thead>
<tr>
<th>No.</th>
<th>Statement</th>
<th>True or false</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The main focus of a not-for-profit organisation is usually to provide a specific service to the community.</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>A for-profit organisation will not generally develop and strive towards the achievement of social objectives.</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>An incorporated business will always be recognisable by the letters Pty Ltd after its name.</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>The creditor of a small business, such as a bank, is a stakeholder from the operating environment.</td>
<td></td>
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<tr>
<td>5</td>
<td>Australian small businesses are under increasing pressure to reduce their levels of social responsibility.</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>A retail outlet is classified by the Australian Bureau of Statistics as being a part of the secondary industry sector.</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>A viable business idea has a significant chance of failure.</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Preparation of a business plan is highly advisable before business commencement.</td>
<td></td>
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<tr>
<td>9</td>
<td>Market research should be conducted immediately after the preparation of a marketing plan, which details the marketing strategy of a business.</td>
<td></td>
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<tr>
<td>10</td>
<td>Consumer Affairs Victoria holds a registry of Victorian business names.</td>
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</tbody>
</table>

10 marks

SECTION B—Multiple-choice questions

Circle the response that is correct or that best answers the question.

**Question 1**

Not all organisations:

A. are comprised of two or more people.
B. have a primary objective of making a profit.
C. have a distinct purpose.
D. have a formal structure.

**Question 2**

A not-for-profit organisation:

A. is always government owned.
B. will never make a significant contribution to the national Gross Domestic Product.
C. will focus on service to the community as a primary objective.
D. will not need to establish financial objectives.
**Question 3**

The achievement of social objectives for an organisation:

A. aims to create an image of an organisation as a ‘good corporate citizen’.
B. is extremely important to not-for-profit organisations, but is a secondary focus for for-profit organisations.
C. is less important now than in the past for all types of organisations.
D. will always have an adverse effect on the achievement of an organisation’s financial goals.

**Question 4**

A micro business:

A. employs five or fewer employees.
B. employs up to 20 people.
C. will always be based from home.
D. has fewer than five employees.

**Question 5**

A medium-sized business, as classified by the Australian Bureau of Statistics, would be which of the following?

A. a factory with 80 full-time and five part-time employees in total
B. a retail outlet with 25 part-time employees
C. a cleaning service with 15 employees
D. a restaurant with 19 employees

**Question 6**

Which of the following locations would be the most suitable in terms of physical location, exposure to target market, accessibility, size and cost per square metre for a business selling farm machinery and equipment?

A. an industrial estate in the outer suburbs of Melbourne
B. a large lot situated on a major highway on the outskirts of a large country town (regional centre)
C. next to a suburban shopping centre in the northern suburbs of Melbourne
D. in a store situated on the main street of a small country town

**Question 7**

Which statement is incorrect?

A. people who enter into small business generally do not do so because they can expect to work fewer hours for more money
B. a small business operator can expect to have to make decisions on behalf of the business on an ongoing basis
C. a generic business skills set required for success in most types of small business is communication skills
D. a successful entrepreneur will generally be less inclined to take risks than other people
Question 8
George has recently designed a new logo for his small business. Which of the following types of intellectual property rights would he apply for in order to protect his logo design from being copied?

A. trademark  
B. copyright  
C. patent  
D. trade secret

Question 9
A business idea that is deemed to be viable:

A. has a minimal chance of survival and success.  
B. is certain to succeed and survive in the long-term.  
C. has undergone a feasibility study in order to determine this.  
D. is likely to be insolvent within 12 months.

Question 10
A franchise operation:

A. will involve fewer ongoing costs than a completely new and original business operation.  
B. allows the business owner a greater degree of flexibility and autonomy in relation to business decision-making.  
C. generally involves a less risk than starting a business from scratch.  
D. guarantees business success.

Question 11
Which of the following businesses is a private company?

A. Mana, Tas and Bugalugs Private Detectives  
B. Murphy Image Makers Pty Ltd  
C. Kev’s Garbage Disposal  
D. Nerfkoot Ltd

Question 12
Voula establishes an objective to increase the sales of her business by 75 per cent over a period of four years. Which type of planning is correct for this objective?

A. strategic planning  
B. operational planning  
C. tactical planning  
D. forecasting
Question 13

A description of the quality management processes and strategies to be used by a business will be found in which section of the business plan?

A. the marketing plan  
B. the operational plan  
C. the business profile  
D. the mission statement

Question 14

Which statement is incorrect?

A. health regulations are established and enforced by local government  
B. state occupational health and safety laws are designed to protect employees from workplace risks and hazards  
C. all companies must be registered with ASIC  
D. federal government laws regulate business trading hours in Victoria

Question 15

An appropriate performance indicator that a small business might use to evaluate its level of social responsibility is:

A. profit.  
B. staff turnover.  
C. rate of greenhouse gas emissions generated over a period of time.  
D. results of a customer satisfaction survey.

SECTION C—Short-answer questions

Answer the following questions in the spaces provided.

Question 1

Explain what is meant by the following terms.

a. Mission statement
b. Manufacturing sector organisation

Question 2
Classify the following business organisation by circling the correct categories.

Dan’s Stylz Pty Ltd is a menswear retailer employing five part-time employees.

- a. Micro / small / medium / large
- b. Unincorporated / private company / publically listed company
- c. For profit / not for profit
- d. Primary industry / secondary industry / tertiary industry

Question 3
Define the following pairs of terms, then identify and provide an example of the link (relationship) between the terms in each pair.

- a. Sole trader AND unlimited liability
b. Business shareholder AND business stakeholder

Question 4
Identify and explain one difference and one similarity between a private company and a public (publically listed) company.
Question 5

a. Suggest an appropriate performance indicator that a small retail business could use to evaluate its performance in relation to each of the following areas.

i. level of business competitiveness

ii. customer satisfaction

b. Justify each of your suggestions (i. and ii.).

Total: 20 marks
SECTION D—Case study analysis (‘Introducing business’)  

Read the following case study and answer the questions below in the spaces provided.

The regional town of Sealton has the following businesses situated in a prominent section of the main street:

- Oscar Clarke’s Newsagency
- Goldie’s Real Estate Ltd
- Ted and Fred’s Family Hotel
- Shaz and Chook’s Coffee Shop
- Eddies Family Medical Centre Ltd
- Sparkles Jewellery Pty Ltd
- Smith’s Pharmacy Ltd
- Cawley’s Ltd (supermarket).

During the previous three months the following changes have occurred at the following businesses due to stakeholder pressures:

- **Sparkles Jewellery Pty Ltd** has retrenched two employees because of reduced sales due to increased competition from online traders.
- **Shaz and Chook’s Coffee Shop** has adopted a policy of only purchasing coffee from ethical and socially responsible (fair trade) suppliers that do not exploit growers in Third World countries. This change occurred as a result of customer enquiries about where the shop sources its coffee.
- **Ted and Fred’s Hotel** has decided to sponsor the local football club.
- **Smith’s Pharmacy** has introduced a new staff uniform following complaints from several sales assistants that the previous uniform was uncomfortable.
- **Cawley’s Supermarket** has reported a significant decline in sales. This has been attributed to a reduction in farm incomes and hence disposable incomes due to the poor wheat crop in the previous year (as a result of floods) and because of the negative impact of the high Australian dollar on wheat prices. As a result, staff hours have been cut.
- **Goldie’s Real Estate** has outsourced all of its accountancy work to an accountancy firm.

**Question 1**

Define the following terms.

- a. Outsourcing
b. Stakeholder groups

Question 2
Identify two complementary businesses from the list in the case study. Explain how these businesses would be complementary.

Question 3
Identify two stakeholder groups from the external operating environment of the coffee shop. Describe how one of these stakeholder groups has pressured this business to change an aspect of its operations.
Question 4

Identify two pressures from the external macro environment that have resulted in changes in any of the small businesses listed. Analyse how each pressure caused each change.

__________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________

Question 5

The majority of the businesses listed in the case study would be classified as small by the Australian Bureau of Statistics. Identify and describe two criteria that a business would need to satisfy in order to be classified as a small organisation.

________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________

4 marks

2 marks
Question 6

One of the listed businesses has the letters Pty Ltd after its name. Explain what this indicates in terms of the legal structure of the business. Discuss the implications for the business owners of adopting this type of legal structure.

3 marks

Question 7

Identify and outline one action or change undertaken by one of the businesses that would be regarded as ethical or socially responsible. Discuss the potential effects of undertaking socially responsible actions like this one in terms of the following factors.

i. financial outcomes for the business

ii. effect on the image of a business and its levels of competitiveness
SECTION E—Case study analysis (‘Small business decision-making, planning and evaluation’)

Read the following case study and answer the questions below in the spaces provided.

Renee has recently been made redundant from her job as a bus driver after five years of employment. (Prior to this she was employed as the manager of an indoor cricket centre.) She is now considering establishing a small business and working for herself.

Renee is considering the following options:

A the purchase of a franchise outlet of called ‘Scootas Delivery and Courier Services’
B undertaking a TAFE Diploma of Fitness course, with a view to establishing a personal training business in 12 months’ time
C purchasing a small cafe in the local shopping centre—the owners of this business recently declared bankruptcy.

Question 1

Define the following business terms.

a. franchise

b. bankrupt
Question 2

In light of Renee’s work history, identify two skills or competencies that she is likely to possess that would assist her in undertaking any of the three business options under consideration by Renee.

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__________________________________________________________________________
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2 marks

Question 3

Which of the options under consideration is likely to be the most risky in your view? Justify your response. (Give reasons for your answer.)

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2 marks
Question 4

Discuss two advantages and two disadvantages of each option referred to in the case study.

a. Option A

b. Option B

c. Option C
Question 5

Renee decides to purchase a Scootas Delivery and Courier Services franchise. Identify two location requirements that she would have for this business. Suggest and describe an appropriate location for her business.
Question 6

a. Renee has decided that she will prepare a business plan for her proposed business venture. Explain what a business plan is and describe the purpose of writing one.

b. Outline any two sections of a business plan.

2 + 1 = 3 marks
Total: 25 marks

SECTION F—{INSERT NAME OF SECTION} (‘Day-to-day planning’—optional area)

Total: 10 marks
Extra space for responses
Clearly number all responses in this space.
Suggested answers to Unit 1 practice exam 2012

SECTION A—True/false questions

1  T
2  F
3  F
4  T
5  F
6  F
7  F
8  T
9  F
10  T

SECTION B—Multiple-choice questions

1  B
2  C
3  A
4  D
5  B
6  B
7  D
8  A
9  C
10  C
11  B
12  A
13  B
14  D
15  C
SECTION C—Short-answer questions

Question 1

Explain what is meant by the following terms.

a. Mission statement (1 mark)
   A global statement that reflects an organisation's reason for being or its purpose. It also refers the way it will be managed.

b. Manufacturing sector organisation (1 mark)
   A secondary sector organisation that undertakes the manufacture and construction of goods.

Question 2

Classify the following business organisation by circling the correct categories.

Dan's Stylz Pty Ltd is a menswear retailing employing five part-time employees. (4 marks)

a. Small
b. Private company
c. For profit
d. Tertiary industry

Question 3

Define the following pairs of terms, then identify and provide an example of the link (relationship) between the terms in each pair.

a. Sole trader AND unlimited liability (3 marks)
   A sole trader is the single owner of an unincorporated business. The owner operates the business in their own name and has sole rights to all capital and profits. A sole trader also has unlimited liability. This is a legal term that means that the sole trader is personally responsible for all actions and debts of the business.
   1 mark for each definition, 1 mark for identifying and illustrating the connection between the two terms

b. Business shareholder AND business stakeholder (3 marks)
   A stakeholder is a person or group with a vested interest in an organisation. Shareholders are a type of stakeholder. Shareholders are part owners of an incorporated business.
   1 mark for each definition and 1 mark for identifying and illustrating the connection between the two terms

Question 4

Identify and explain one difference and one similarity between a private company and a public (publically listed) company. (4 marks)

Differences:

- Public companies have an unlimited number of shareholders; private companies may only have between two and 50 shareholders.
- Shares of a public company can be bought and sold on the stock exchange by anyone. Private company shares can only be bought and sold with the permission of other shareholders.
Public companies are subject to far more conditions in regard to reporting and government regulation than private companies.

Public companies are recognisable by the letters Ltd after their name. Private companies have the letters Pty Ltd.

_Similarities (all companies):_

- Both types offer limited liability to owners/shareholders
- Both are registered with the Australian Securities and Investments Commission (ASIC) and operate under a registered company name.
- Both have an ABN and an ACN.
- Both have a separate legal existence that is distinct from their owners.

1 mark for naming a point of difference, 1 mark for explaining a point of difference, 1 mark for naming a point of similarity, 1 mark for explaining a point of similarity

**Question 5**

_**a. Suggest an appropriate performance indicator that a small retail business could use to evaluate its performance in relation to each of the following areas.**_

_i. level of business competitiveness (2 marks)_

Appropriate performance indicators include: market share, sales figures, customer survey, market research survey.

_ii. customer satisfaction (2 marks)_

Appropriate performance indicators include: the results of customer surveys, the number of returning customers, the number of returned products or the number of refunds, the number of customer complaints.

_**b. Justify each of your suggestions (i. and ii.). (2 marks)**_

Students need to explain each performance indicator suggested and justify how it would relate to business competitiveness and customer satisfaction.

**SECTION D—Case study analysis (‘Introducing business’)**

**Question 1**

_Define the following terms._

_a. Outsourcing (1 mark)_

Outsourcing is the process of using another organisation to undertake a particular task or work process.

_b. Stakeholder groups (1 mark)_

Any group that has a vested interest in the activities of an organisation.
Question 2
Identify two complementary businesses from the list in the case study. Explain how these businesses would be complementary. (2 marks)

- Medical centre and pharmacy. Patients would collect prescriptions from the doctor and have them filled at the pharmacy.
  
  OR

- Coffee shop and supermarket. Customers might stop for a coffee after finishing their supermarket shopping.

1 mark for naming two complementary businesses, 1 mark for an explanation of the connection/relationship

Question 3
Identify two stakeholder groups from the external operating environment of the coffee shop. Describe how one of these stakeholder groups has pressured this business to change an aspect of its operations. (2 marks)

Stakeholders from the operating environment include: customers, suppliers, competitors and neighbouring businesses.

Customers have pressured the coffee shop owners to use ethical suppliers (fair trade) through enquiries about where the coffee is sourced from. Some customers may have taken their custom elsewhere if the responses to the enquiries were ignored or unsatisfactory to them.

Suppliers of standard coffee might have put pressure on the business by increasing prices, justifying the move to fair trade coffee.

Competitors might have pressured the business by changing to fair trade suppliers themselves, advertising the change, and increasing their market share as a result.

1 mark for naming two different stakeholder groups from the operating environment, 1 mark for showing how one of these would have pressured the business

Question 4
Identify two pressures from the external macro environment that have resulted in changes in any of the small businesses listed. Analyse how each pressure caused each change. (4 marks)

Falling sales as a consequence of increased competition from online sales has pressured Sparkles Jewellery Pty Ltd to downsize and reduce staffing. This is an example of increased competition due to globalisation.

Decreased farm income (and hence disposable income) due to economic pressures stemming from the effect of the high Australian dollar on wheat prices and the impact of floods on wheat production has resulted in falling sales at Cawley’s Supermarket, which has been forced to cut staff hours.

Two x 1 mark for naming economic and globalisation pressures, two x 1 mark for an analysis of how these pressures have resulted in changes in the businesses
Question 5

The majority of the businesses listed in the case study would be classified as small by the Australian Bureau of Statistics. Identify and describe two criteria that a business would need to satisfy in order to be classified as a small organisation. (2 marks)

All businesses are non-manufacturing businesses; therefore, they would need to have fewer than 20 employees in order to be classified as small businesses. They must also be independently owned and operated, with the owner being the principal decision-maker and contributing most of the working capital.

Two of these points for 2 marks

Question 6

One of the listed businesses has the letters Pty Ltd after its name. Explain what this indicates in terms of the legal structure of the business. Discuss the implications for the business owners of adopting this type of legal structure. (3 marks)

Pty Ltd indicates that a business is a private company. This means that the business is subject to the Corporations Act. The shareholding will be limited to 50 shareholders. Shares can only be sold privately with the permission of other shareholders. Private businesses are often run as a family business. Pty Ltd indicates that the owners have limited liability for the debts and actions of the company.

Three x 1 mark for any of these features. Limited liability must be discussed

Question 7

Identify and outline one action or change undertaken by one of the businesses that would be regarded as ethical or socially responsible. Discuss the potential effects of undertaking socially responsible actions like this one in terms of the following factors. (5 marks)

i. financial outcomes for the business

ii. effect on the image of a business and its levels of competitiveness

Social responsibility refers to the duty of the organisation to society as a whole and actions taken to fulfil this. It is a commitment beyond legal requirements to improving the quality of relations with key stakeholders, particularly the community.

The new coffee shop policy of only purchasing fair trade coffee could be interpreted as socially responsible as the aim is to ensure that Third World coffee producers are paid a fair price for their produce. Similarly, the sponsorship of the local football club by the hotel is also socially responsible as it is supporting a community organisation.

Socially responsible actions have two potential financial effects on a business. First, they may involve an increase in costs; for example, the fair trade coffee is likely to be more expensive than non-fair trade coffee. These costs may be passed on to consumers, thereby reducing business competitiveness. On the other hand, socially responsible actions improve the reputation of a business within the community and consumers may choose to patronise such a business in preference to others. This means that an enhanced reputation may make a business more financially viable through increased competitiveness and therefore higher sales. Businesses often regard it as being in their interests financially to gain a reputation for being ethical and socially responsible as it improves their image and, in turn, their sales figures.

1 mark for identifying one socially responsible action, 2 marks for a discussion of the potential positive and financial negative effects, 2 marks for an explanation of the effects on the image of a business of adopting socially responsible polices and how this will affect business performance generally
SECTION E—Case study analysis (‘Small business decision-making, planning and evaluation’)

Question 1

Define the following business terms.

a. franchise (1 mark)
   A business that is based on the purchase of a franchise licence from a franchisor. It allows the franchisee to use the business system owned by the franchisor. This includes the logo, systems, products and shared advertising and marketing. Regular fees and charges are paid by the franchisee in return for exclusive rights to use the business model within a designated area.

b. bankrupt (1 mark)
   A legal term for bankruptcy. It refers to a person declared bankrupt by the courts. A person declared bankrupt is required to sell their assets in order to discharge unpaid debts.

Question 2

In light of Renee’s work history, identify two skills or competencies that she is likely to possess that would assist her in undertaking any of the three business options under consideration by Renee. (2 marks)

Renee possesses an endorsed licence and would be able to drive a delivery truck. As the manager of a fitness centre she would have developed communication and organisational skills. This would help her with all three options. She may also have developed financial skills that will assist with all options. Time management skills would apply to the three options. Marketing and promotional skills would also assist with the three options and she would have gained these at the fitness centre.

Question 3

Which of the options under consideration is likely to be the most risky in your view? Justify your response. (Give reasons for your answer.) (2 marks)

The purchase of the small cafe could be the most risky as the previous owners have been declared bankrupt. This may indicate that the business is currently unprofitable. On the other hand, it could be argued that the establishment of the new personal training business from scratch is the most risky as the business has no existing customer base or reputation. Also, economic conditions in 12 months’ time are unknown.

1 mark for suggesting one of the two options above, 1 mark for a logical justification

Question 4

Discuss two advantages and two disadvantages of each option referred to in the case study.

a. Option A (4 marks)

Franchises offer several advantages including: exclusive rights being guaranteed within a designated boundary; fewer decisions need to be made; an already established reputation; and an already established marketing plan. Reduced risk of business failure is an important factor and greater levels of support and assistance are available. An established and usually reliable system can operate from day one. As a result, franchises are more likely to become profitable more quickly. Franchises, however, offer the business owner far less independence and less scope to implement their own ideas. After paying the initial up-front costs, there are also ongoing fees and costs.
b. Option B (4 marks)

Starting a new business from scratch offers the business owner greater autonomy and the ability to put their own stamp on a new business. They may also avoid buying the mistakes of others and do not have to purchase goodwill. However, establishing a new business from scratch is riskier and more uncertain as there are no previous sales figures and no existing customer base. There is also more initial work and greater time and energy is required to establish a positive business reputation.

c. Option C (4 marks)

The purchase of an existing business offers the owner fewer ongoing costs than a franchise but more certainty than starting a new business from scratch, as sales figures and an existing customer base is available. It is usually easier to obtain finance and the business is likely to become profitable more quickly compared with a completely new business. However, there is a significant danger of buying someone else’s failed business. Goodwill is also difficult to value; as the business has failed you would not expect to pay for goodwill.

For each option students need to suggest and discuss two advantages and two disadvantages

Question 5

Renee decides to purchase a Scootas Delivery and Courier Services franchise. Identify two location requirements that she would have for this business. Suggest and describe an appropriate location for her business. (4 marks)

Any two of:

- large space required in order to store items for deliveries
- large area for parking
- easy access to major roads and freeways
- possibly nearby access to an airport
- near suppliers such as a motor mechanic
- office space with Internet access.

2 marks for identifying two location features, 2 marks for a description of a specific location that would be appropriate, describing at least two features

Question 6

a. Renee has decided that she will prepare a business plan for her proposed business venture. Explain what a business plan is and describe the purpose of writing one. (2 marks)

A business plan is a formal statement that outlines the goals of a business, the reasons why they are considered attainable, and a plan for reaching those goals. It may include background information about the business and is completed periodically.

b. Outline any two sections of a business plan. (1 mark)

Any two of:

- executive summary
- mission statement
- business profile
- products and services
- marketing plan
- operational plan
- financial plan.