BSBSMB406
MANAGE SMALL BUSINESS FINANCES

THEORY EXAM INSTRUCTIONS

- This exam will occur under standard assessment conditions.
  - An oral examination may be allowed under certain circumstances, whereby the Participant's answers will be documented by a party other than the Participant. This must be acknowledged in writing (e.g. Notes and Assessor Comments)
- Participants must provide enough detail in their responses to demonstrate their knowledge and skills.
- Please fill in the details below, providing your name, signature and date of assessment.
  - Your signature acknowledges that this is your own work.
- Assessors are to complete marking in pen of a different colour to the Participant.
- If a Participant initially answers a question incorrectly but modifies their response, they must follow the instructions below:
  - If a Participant changes their response in writing, they must put their initials next to the written change.
  - If a Participant changes their response verbally, this must be noted on the exam paper by the assessor.

Participant name ____________________

Participant signature ____________________

Date ____________________

Assessor name ____________________

Assessor signature ____________________

Date ____________________

Number of questions	Number of questions answered correctly	Task outcome (Tick)	
		Satisfactory	Not Yet Satisfactory
45		☐	☐

Assessor Comments:

Q1. **What does a financial plan enable you to do in your business?**

Answer

Assessor's discretion. Should resemble:

a) Measure the business's success

b) Control the finances of the business

c) Evaluate the success of the business to make profit or loss; and

d) Forecast profitability, financial needs and financial viability.

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Q2. **List five (5) types of financial information you might need to profitably operate and extend your business in accordance with the business plan.**

Answer

Assessor's discretion. May include: Asset registers; Balance sheets; Bookkeeping/accounting/stock/job costing records; Business Activity Statements; Cash book; Cash flow forecasts; Financial budgets; Financial indicators; Fixed costs; Payroll records; Profit and loss statements; Ratios; Start-up costs; Statements/forecasts; Taxation returns; Variable costs;

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Q3. **Match the following specialists and the services they can provide to a business by writing the appropriate letter next to each number in the centre column.**

Answer

	Specialist	Answers		Services
1	Accountant	1 - D	A	Provides assistance and direction across a variety of business areas, working closely with management.
2	Broker	2 - B	B	Works with clients to determine their borrowing needs and ability, selects a loan suited to their circumstances.
3	Financial advisor	3 - C	C	Provides advice and services in the form of investment and capital raising advice, insurance and income protection.
4	Legal advisor	4 - E	D	Keeps financial records for a business, traditionally in the form of ledgers and journals.
5	Mentor	5 - A	E	Can draft contract, provide advice of regulatory issues or protection of intellectual property.

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Q4. **Briefly explain how personal net worth calculated. Give an example.**

Answer

Personal net worth is the difference between what you own (assets), and what you owe (liabilities).

For example, if you own a house worth $350,000 and an investment unit worth $290,000 (assets), but have mortgages on the first and second properties of $300,000 and $310,000 respectively (liabilities), then your personal net worth in this case excluding any other assets or liabilities you may have is $30,000 = [(350,000+290,000) – (300,000 + 310,000)]. Personal net worth is also known as personal equity.

Q5. **Identify the information required when calculating a budget.**

Answer

Should resemble: Time frames; Fixed costs; Variable costs; Expected income

Q6. **Explain the process for preparing a cash flow forecast.**

Answer

Should resemble:

Starting cash balance +

Estimated cash inflows (income) -

Estimated cash outflows (expenses) =

Ending cash balance

Q7. **True or False (Tick your response): Cash flow forecasts are usually carried out at least once during a twelve month period.**

Answer

✓	True
	False

Q8. **Refer to the anticipated figures in the table below to calculate the break even sales amount. Determine whether this business is viable.**

Total sales	$180,000
Fixed costs	$ 64,800
Variable costs	$ 78,300
Total costs	$143,100

Answer

Contribution margin: [180,000 (Total sales) – 78,000 (Variable costs)] ÷ 180,000 (Total sales) = 0.565 or 56.5 cents in each dollar

Break even sales: 64,800 (Fixed costs) ÷ 0.56 (Contribution margin) = $115,714.28

The anticipated total sales of $180,000 exceeded the break even sales of $115,714. The business was profitable for the period.

Q9. **Refer to the anticipated figures in the table below to calculate the break even sales amount. Determine whether this business is viable.**

Total sales	$ 800,000
Fixed costs	$ 559,800
Variable costs	$ 243,300
Total costs	$ 803,100

Answer

Contribution margin: [800,000 (Total sales) – 243,300 (Variable costs)] ÷ 800,000 (Total sales) = 0.695 or 69.5 cents in each dollar

Break even sales: 559,800 (Fixed costs) ÷ 0.695 (Contribution margin) = $115,714.28

Comparing the anticipated total sales of $800,000 and the break even sales of $805,467, the business lost money and did not profit this period.

Q10. **The cost of goods sold (COGS) is the total expense associated with the goods sold in a reporting period.**

James has a business selling books on eBay. An inventory count at the beginning of November shows that he has $50,000 worth of inventory on hand. Over the month, he purchases another $14,000 worth of books. His inventory count at the end of November shows that he has $22,000 of inventory on hand.

Using the calculation for COGS (Beginning Inventory + Purchases - Ending Inventory = Cost of Goods Sold) determine the cost of goods sold for James' business.

Answer

50,000 + 14,000 – 22,000 = 42,000 (COGS = $42,000)

Q11. **Identify the three (3) main methods of pricing products/services by writing the appropriate letter next to each number in the centre column.**

Answer

Structure		Answers	Taxation requirements	
1	Competition-based pricing	1 - C	A	Adding together direct costs, indirect costs, profit margin and market price.
2	Cost-based pricing	2 - A	B	Consider how much customers are prepared to pay.
3	Demand-based pricing	3 - B	C	Charging a price as per market price.

Q12. **Name three (3) individuals/parties who should receive financial budgets/projections.**

Answer

Assessor's discretion. May include: Financial backers; Franchise agency; Owner/operator; Partners; Regulatory bodies; Trade or industry associations

Q13. **Provide three (3) reasons why you may need to raise business capital.**

Answer

Assessor's discretion. May include: Business is starting; New technology is required to increase production capacity; To develop and market new products and ideas; To enter new markets; To move premises; General running of the business; Payment of creditors

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Q14. **Which of the following could be a potential financial backer? Tick all that apply.**

Answer

Choice	Possible Answers
✓	Banks
✓	Family and friends
✓	Private investors
✓	Shareholders

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Q15. **Which of the following are relevant when negotiating, securing and managing business capital? Tick all that apply.**

Answer

Choice	Possible Answers
✓	Contingency plans
✓	Necessary experience
✓	Tested business model
✓	Tested marketing approach

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Q16. **True or False (Tick your response): Tax obligations will differ depending on your business structure.**

Answer

✓	True
	False

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Q17. **Identify two (2) strategies that could be implemented to make sure your taxation liabilities are met when they are due.**

Answer

Assessor's discretion. May include: Regular and accurate accounting procedures; Opening a designated bank account for taxation purposes to ensure that sufficient funds are available when the tax payment date comes around; PAYG instalments.

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Q18. **Tax obligations will differ, depending on the business's structure. Match the structures and their taxation requirements by writing the appropriate letter next to each number in the centre column.**

Answer

Structure		Answers	Taxation requirements	
1	Company	1 - B	A	Declare business income (or loss) in their personal income tax return and pay tax at individual tax rates.
2	Partnership	2 - C	B	A separate legal entity with its own income tax liability. No tax-free threshold.
3	Sole Trader	3 - A	C	Must lodge a tax return, but doesn't pay tax. Those involved pay tax on their share of the income according to individual tax rates.
4	Trust	4 - D	D	Holds income for the benefit of others. Generally has no tax liability where the whole of the net income is distributed to adult resident beneficiaries. Each beneficiary pays tax on their share of the income according to individual tax rates.

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Q19. **What is a credit policy? Identify three (3) points that may be included in a credit policy.**

Answer

Should resemble: A clear, written guideline that sets the terms and conditions for supplying goods or services on credit (before payment) and the steps taken in the event of default. It may include: Collateral; Credit limits; Credit references; Debt collection; Payment options; Payment terms

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Q20. **Explain how a credit policy can maximise cash flow.**

Answer

Should resemble: It can create a competitive business environment when clients do not have a cash payment culture.

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Q21. **Describe one (1) method you may use to address debtors in default.**

Answer

Assessor's discretion. May include: Reduce or eliminate the credit terms you offer that customer until they re-establish a good payment record with you; Engage a debt collector.

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Q22. **What purpose do Key Performance Indicators (KPIs) play in managing and monitoring a business?**

Answer

Should resemble: Key Performance Indicators (KPIs) used to identify key results and will enable monitoring progress of the business's targets both internally and externally. KPIs are predetermined measurements that reflect the critical success factors of a business/company.

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Q23. **True or False (Tick your response): Financial plans, strategies and objectives develop over time, so it is inappropriate to continue reporting on the same KPIs as in previous periods.**

Answer

✓	True
	False

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Q24. **Explain the seven (7) general characteristics of an effective KPI.**

Answer

Characteristic	Explanation
Non-Financial	Non-financial measures, not expressed in dollars
Timely	Measured frequently
Management Focus	Acted upon by management
Simplicity	All staff understand the KPI and what corrective action is required
Team Orientated	Responsibility can be assigned to a team who work closely together
Significant Impact	Has a noteworthy effect on the business's outcomes
Encourage Appropriate Action	Has been tested to ensure it has a positive impact on performance

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Q25. **Why should you consult with relevant stakeholders when developing financial procedures?**

Answer

Should resemble: It ensures that the procedures are relevant and they are understood.

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Q26. **Explain how you should communicate financial procedures to facilitate implementation of the business plan.**

Answer

Should resemble: Put your procedures in writing and make them available to your entire workforce; Develop a training program that all persons have to undertake to learn the procedures of the business.

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Q27. **True or False (Tick your response): The best way to maintain control of your business is to continuously monitor its financial performance targets.**

Answer

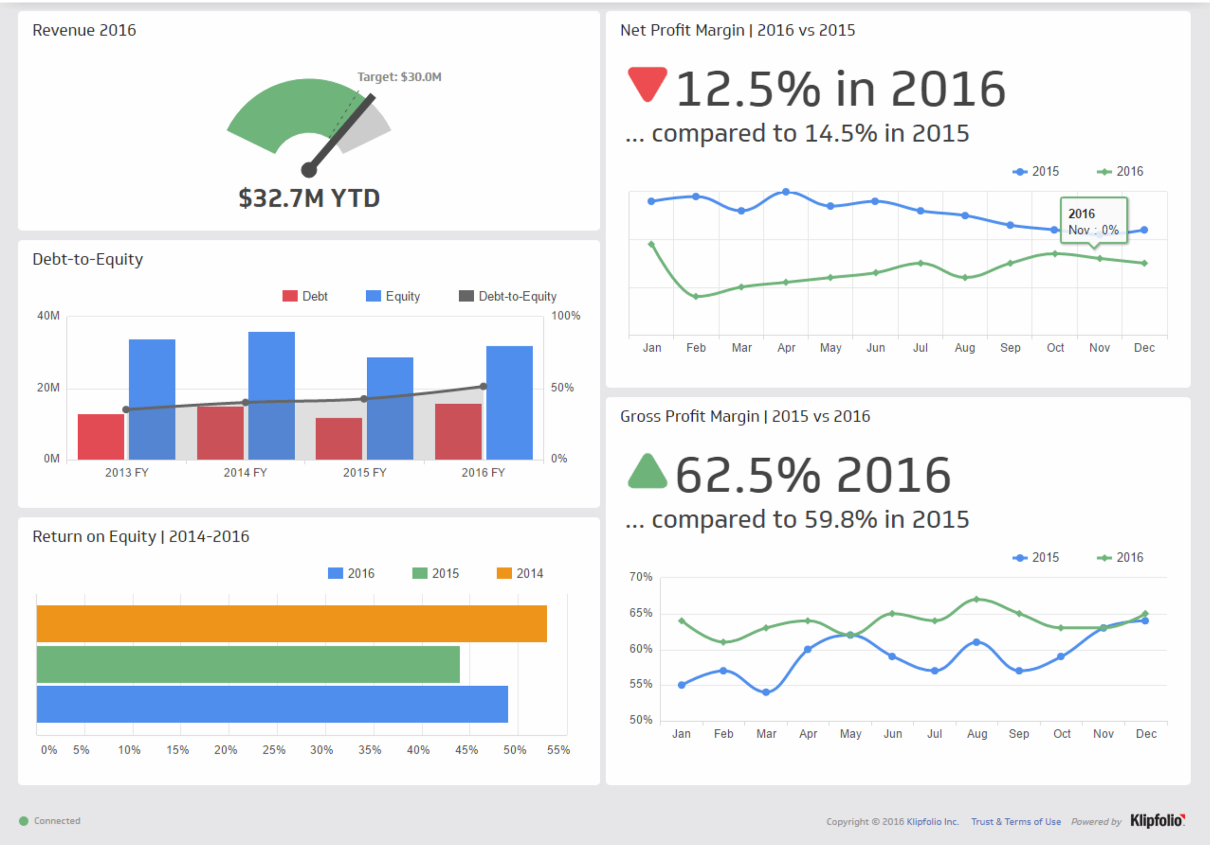
✓	True
	False

Q28. **Identify four (4) points that a financial report should be able to address.**

Answer

Assessor's discretion. May include: Amount of profit or loss and associated cash flow; Whether all profit has been reinvested; How assets stack up against liabilities; Source of capital and whether it is being used effectively; Whether there is enough capital for future growth

Refer to the following financial report to respond to Q29. to Q31.



Source: https://www.klipfolio.com/resources/dashboard-examples/executive/kpi-dashboard

Q29. **True or False (Tick your response): The target revenue in 2016 was met.**

Answer ☐

✓	True
	False

Q30. **True or False (Tick your response): The gross profit margin for 2016 is better than 2015.**

Answer ☐

✓	True
	False

Q31. **True or False (Tick your response): The net profit margin for 2016 is better than 2015.**

Answer ☐

	True
✓	False

Q32. **How is gross profit determined for a profit and loss statement?**

Answer ☐

Should resemble: Total sales less cost of goods sold

Q33. **Name six (6) expenses considered in a profit and loss statement.**

Answer ☐

Assessor's discretion. May include: Accountant fees; Advertising and marketing; Bank fees and charges (including credit cards); Bank interest; Utilities (electricity, gas, water, telephone); Property fees (lease/loan payments, rent, rates); Motor vehicle expenses; Repairs and maintenance Stationery and printing; Insurance; Superannuation; Income tax; Wages (including PAYG)

Q34. **How is net profit calculated on a profit and loss statement?**

Answer

Should resemble: Gross profit minus total expenses

Q35. **Name two (2) current assets and two (2) fixed assets that would be considered when compiling a balance sheet.**

Answer

Asset	Examples
Current	Assessor's discretion. May include: Cash; Petty Cash; Inventory; Pre-paid expenses
Fixed	Assessor's discretion. May include: Leasehold; Property and land; Renovations/improvements; Furniture and fitout; Vehicles; Equipment and tools

Q36. **Name two (2) long-term liabilities and two (2) short-term liabilities that would be considered when compiling a balance sheet.**

Answer

Liability	Examples
Long-term	Assessor's discretion. May include: Loans; Hire-purchase liabilities
Short-term	Assessor's discretion. May include: Credit cards payable; Accounts payable; Interest payable; Accrued wages; Income tax

Q37. **How are net assets calculated on a balance sheet?**

Answer

Should resemble: Total assets minus Total liabilities

Q38. **True or False (Tick your response): You may be legally obligated to perform an annual stocktake based on the stock and size of your business.**

Answer

✓	True
	False

Q39. **You should be able to track in item in your stock by which of the following details? Tick all that apply.**

Answer

Choice	Possible Answers
✓	Applicable tax
✓	Cost
✓	Point-of-sale details
✓	Quantity
✓	Selling price
✓	Source of supply
✓	Stock number
✓	Stored location
✓	Unique item number

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Q40. **Describe the effects that marketing strategies can have on the financial plan.**

Answer

Assessor's discretion. Should resemble: A good marketing plan can help you reach your target audience, boost your customer base, and ultimately, increase your bottom line.

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Q41. **Describe the effects that operational strategies can have on the financial plan.**

Answer

Assessor's discretion. Should resemble: Operations strategies drive a company's operations, they underlie the overall business strategy, and are critical for a company to compete in an ever-changing market. With an effective operations strategy, you can optimise the use of resources, people, processes, and technology – which ultimately affect finances.

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Q42. **There are some common financial ratios used which allow the financial position of a business to be compared over time. Three (3) of these are working capital, current ratio and quick ratio (or acid test ratio).**

The equations and explanations for these follow in the table below:

Financial ratio	How to calculate It	What it tells you
Working Capital	= Current Assets - Current Liabilities	An indicator of whether the company will be able to meet its current obligations (i.e. pay its bills & meet its payroll, make a loan, etc.) If a company has current assets exactly equal to current liabilities. The greater the amount of working capital the more likely it will be able to make its payment on time
Current Asset Ratio	= Current Assets ÷ Current Liabilities	This tells you the relationship of current assets to current liabilities. A ratio of 3:1 is better than 2:1. A 1:1 ratio means there is no working capital
Quick Asset Ratio (Acid Test)	= (Cash + Temp. Investments + Accounts Receivable) ÷ Current Liabilities : 1	This ratio is similar to the Current Asset Ratio except that Inventory, Supplies and Prepaid Expenses are excluded. This indicates the relationship between the amount of assets that can be quickly turned to cash versus the amount of liabilities

Using the example company balance sheet on the following page, determine:

- **Working Capital**
- **Current Asset Ratio**
- **Quick Asset Ratio (Acid Test)**

Answer

Item	Calculations
Working Capital	89,000 – 61,000 = 28,000
Current Asset Ratio	89,000 ÷ 61,000 = 1.46
Acid Test	((2100 +100 +10,000 + 40,500) ÷ 61000) :1 = 0.86:1

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Example Company
Balance Sheet
December 31, 2014

ASSETS		LIABILITIES	
Current assets		Current liabilities	
Cash	$ 2,100	Notes payable	$ 5,000
Petty cash	100	Accounts payable	35,900
Temporary investments	10,000	Wages payable	8,500
Accounts receivable - net	40,500	Interest payable	2,900
Inventory	31,000	Taxes payable	6,100
Supplies	3,800	Warranty liability	1,100
Prepaid insurance	1,500	Unearned revenues	1,500
Total current assets	89,000	Total current liabilities	61,000
Investments	36,000	Long-term liabilities	
		Notes payable	20,000
Property, plant & equipment		Bonds payable	400,000
Land	5,500	Total long-term liabilities	420,000
Land improvements	6,500		
Buildings	180,000		
Equipment	201,000	Total liabilities	481,000
Less: accum depreciation	(56,000)		
Prop, plant & equip - net	337,000		
		STOCKHOLDERS' EQUITY	
Intangible assets			
		Common stock	110,000
Goodwill	105,000	Retained earnings	229,000
Trade names	200,000	Less: Treasury stock	(50,000)
Total intangible assets	305,000	Total stockholders' equity	289,000
Other assets	3,000		
Total assets	$ 770,000	Total liabilities & stockholders' equity	$ 770,000

Q43. **Name and describe the two (2) types of benchmarks provided by the Australian Tax Office.**

Answer

Benchmark	Explanation
Performance benchmarks	Financial ranges for your industry to help you work out how you compare to other businesses in your industry and if you need to make any improvements. There are two ranges: Income tax and Activity Statement data.
Input benchmarks	These show an expected range of income for tradespeople based on the labour and materials they use to undertake domestic projects. They are developed using information provided by industry participants and trade associations.

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Q44. **True or False (Tick your response): Comparing your ratios to the benchmark will give you a better idea of how your business is tracking and whether change might be required.**

Answer

✓	True
	False

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Q45. **Provide two (2) reasons that might cause you to alter your financial plan.**

Answer

Assessor's discretion. May include: Change in market; Change in customers; Change in competitors; Change in business goals.

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