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90839



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## Level 1 Business Studies, 2016

### 90839 Apply business knowledge to an operational problem(s) in a given small business context

9.30 a.m. Friday 25 November 2016  
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Apply business knowledge to an operational problem(s) in a given small business context.	Apply detailed business knowledge to an operational problem(s) in a given small business context.	Apply comprehensive business knowledge to an operational problem(s) in a given small business context.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

**You should attempt ALL the questions in this booklet.**

Pull out Resource Booklet 90839R from the centre of this booklet.

Refer to relevant business knowledge and /or Māori business concepts in your answers.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–12 in the correct order and that none of these pages is blank.

**YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.**

Excellence

TOTAL

22

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Read ALL of the resources in Resource Booklet 90839R before you begin answering the questions in this booklet.

### QUESTION ONE: BAD DEBTS

Use the information in Resource A and your business knowledge to answer this question.

(a) Discuss how bad debts could affect Becca's Café.

In your answer:

- define the term "bad debts"
- identify how bad debts could affect the cash flow of Becca's Café
- fully explain TWO long-term impacts of bad debts on Becca's Café.

Bad debts is when a business has a customer or customers who aren't completing payments on time in exchange for goods or services, resulting in the customer owing them money (a debt). Bad debts ~~negatively~~ negatively affect the Cash Flow of Becca's café ~~as~~ because as her business isn't receiving payments on time from 'XYZ Accounting' and another corporate customer previously she is unlikely to have an adequate cash flow in her business. This is because she is <sup>still</sup> paying the costs of production for ~~producing~~ operating her café but not receiving revenue in return on time. If Becca's café doesn't have an adequate cash flow in her business (cash income exceeding her expenditure) it means that she will be very quickly unlikely to be able to cover her day to day operating costs and make potential investments into her café. A long term effect this is likely to result in is Becca's business not being able to survive as if there isn't a positive net cash flow she can't cover her day to day operating costs and operate the café which would result in her not being able to generate sales hence leading to her business closing down and not surviving. Alternatively, another long term effect of Becca's cash flow problems is that she may request a bank loan, increasing her cash flow, hoping that she would then generate enough revenue through sales to pay back the loan additionally to being able to cover her operating costs. Through doing this, she still has a chance for her business to survive but if she doesn't generate enough revenue to cover costs and pay back the loan she becomes highly financially vulnerable with a high risk of losing personal finances in order <sup>to</sup> to pay back the loan.

(b) Discuss TWO procedures that Becca's Café may use to reduce the risk of bad debts.

In your answer:

- describe TWO procedures Becca's Café may use
- fully explain how EACH procedure contributes to reducing the risk of bad debts for the café.

Becca may put procedures in place in order to reduce the risk of bad debts from her customers. A procedure that Becca could put in place is adding an imposition of financial penalties in her business's terms of payment to incline customers to pay on time as they wouldn't want to pay additional financial penalties if possible. This procedure would hence make it more likely that 'XYZ Accounting' would make their payments on time which would positively affect Becca's café ~~cash~~ cash flow. This is because she would be receiving revenue whilst also paying her operational costs and if the revenue exceeds the costs of production in a specified period her business would have a positive net cash flow. Her business could then cover day to day operating costs more consistently and make potential investments in order to increase <sup>the</sup> productivity of the business, for example. Another procedure that Becca could put in place in order to reduce the risk of bad debts is preparing a realistic, conservative and optimistic cash flow forecast prior to each month. This would help her understand the possibilities of the financial position she could be in the next period/month if ~~she~~ her business has a very successful month or if her customers owe her debts. Therefore she personally understands the severity of risk associated with customers not paying their debts and ~~that~~ if her cash flow would still be sufficient to continue operating the business daily through covering costs. In Becca's case, prior to the upcoming month she can make a conservative cash flow forecast.

More space for this answer is available on the next page.

\* A cash flow forecast is a prediction of the pattern of cash income and expenditure for a business in a specified period.

for her business and if any of her corporate customers don't pay her business on time for their catering services she will ~~know~~ <sup>have</sup> a fair understanding of what her cash flow will be and how her business financially stands.

If Becca chooses to start preparing cash flow forecasts she would also be incorporating the Maori concept of Putea. Putea ~~is a~~ <sup>represents</sup> financial accountability and undergoing accounting practices in a business scenario. Becca would successfully be incorporating Putea by preparing cash flow forecasts and hence being financially accountable. Therefore, Becca could apply <sup>some</sup> procedures in an attempt to reduce the risk of bad debts being owed to her cafe.

E7

## QUESTION TWO: SKILLS SHORTAGE

Use the information in Resources A and B, and your business knowledge, to answer this question.

- (a) Discuss how Becca's Café is impacted by the skills shortage.

In your answer:

- define the term "skills shortage"
- fully explain TWO negative consequences for Becca's Café if the skills shortage continues.

A skills shortage is a shortage of adequate skills within the composition of a staffing team, to effectively carry out their jobs on hand. In Becca's case, a skill shortage occurred when one of her chefs recently informed her that he was moving to Australia in four weeks. ~~Assuming~~ <sup>Assuming</sup> the chef was skilled, Becca's business has now lost his expertise and will struggle to replace him with a chef as skilled as him in a time of increasing shortage of experienced chefs. The immediate effect for Becca's cafe if the skill shortage continues is that the quality of the goods being produced and the service being provided ~~to~~ will drop which would likely result in two major negative consequences. Firstly, if the quality of the purchased products is not up to the standard of bare satisfaction <sup>for the customer</sup> it could lead to negative publicity around the business. This negative publicity that could be in the form of reviews <sup>or</sup> word of mouth/rumours could result in potential customers no longer wanting to purchase the goods or services of Becca's cafe and alternatively go to a competitors of Becca's cafe. Subsequently, the negative publicity would result in decreased revenue for Becca's cafe with less people inclined to ~~visit~~ <sup>go</sup> there as well as a decreased market share with ~~some~~ of ~~their~~ <sup>Becca's</sup> customers or potential customers increasing her competitors market share. Another negative consequence of the quality of products not being as high due to a lack of adequately trained staff is that there is an increased likelihood of receiving more customer complaints resulting in Becca's cafe giving out refunds. This would mean that Becca would have reduced revenue due to having to give out refunds and it would also mean the unsatisfied customers are likely to go

to competitors cafe resulting in a decreased market share for Becca's cafe

(b) Discuss different solutions that Becca could use to resolve the issue of a skills shortage in her business.

In your answer:

- describe ONE short-term solution
- explain ONE advantage of this solution for Becca's Café
- fully explain TWO long-term solutions that Becca could implement in order to avoid skills shortages in her business in the future.

One short term solution that Becca could use to resolve the issue of a skills shortage is through having the well skilled staff <sup>members</sup> mentor and teach the less than adequately skilled staff how to ~~do~~ improve in carrying out their roles and responsibilities within the business. <sup>Assuming</sup> the less than adequately trained staff ~~are~~ are willing to learn and listen, this would rapidly help them become more skilled and understand what is required of them. It would also provide them with a mentor in which they can ask about any queries involving their jobs and if successful could increase staff morale. Therefore, the main advantage of this short term solution is that the less than adequately skilled staff could ~~learn~~ improve their skills quickly whilst also providing them with a mentor, increasing staff morale. This solution if successful could quickly reduce the risk of negative publicity and customer complaints as it would decrease the likelihood of the goods being purchased or the services being provided not being up to an acceptable standard, with the staffs collective increase in skill.

A long term solution that Becca could implement is improving the recruitment process. Becca would need to check a number of things: that the recruiting person understands the job specification, obtains no bias towards particular applicants, doesn't miss out any steps in the process or doesn't <sup>appropriately</sup> carry out a step in the process, checks references and so forth. If Becca checks these things on a regular basis through overlooking and perhaps sitting in on steps of the recruitment process the likelihood of selecting inadequately skilled staff for the job would decrease resulting in avoiding skill

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shortages in her business in the future. Another long term solution that Becca could put in place in order to avoid skill shortages in her business is introducing the 90 day trial period. The 90 day trial period is the time that a business is allowed to lay off a worker within if they have sufficient proof the newly recruited staff member hasn't be doing what they're obliged and required to do. This long term solution would help protect Becca's cafe as if she had any ~~staff~~ notable skill shortages within her staff and they don't improve after the application of various short term solutions such as mentoring or training they can release them before the 90 day period finishes so they don't have to go through a formal, time-consuming disciplinary process after 90 days to lay them off. This method if implemented could help Becca's cafe avoid skill shortages in the future which would result in satisfied customers, increased revenue which could lead to potential investment in the business. Becca's cafe could potentially then invest in technology to increase productivity. If this occurred, Becca would be implementing the Maori concept of ~~Whakawhaka~~ <sup>Whakawhaka</sup> Hangaaran which is using technology in order to increase productivity. Hence, through Becca implementing long term solutions to a skills shortage she can increase the success of her business via satisfied customers to increased revenue to potential investments. (/.)



Use the information in Resource C and your business knowledge to answer this question.

In your answer:

- define “negative publicity”
- fully explain TWO consequences for the business if Becca decides to ignore the negative publicity.

Negative publicity is the attraction of negative public attention to a product or business, ~~that~~ <sup>from a customer</sup> that results in several negative consequences for the business. Becca has recently received negative publicity through a bad review that "there looked like ~~it~~ there was ~~price~~ <sup>price</sup> dropping on the floor" of the toilet. The customer then stated she "would not go back again", this is negative publicity for Becca's Cafe. A consequence for Becca's business if she decides to ignore the negative publicity is that potential customers may no longer want to purchase the goods or services sold at Becca's cafe. This would <sup>maybe</sup> result in those potential customers going to a competitor of Becca's cafe therefore reducing her potential revenue if she hadn't received bad publicity and additionally decreases her market share in whichever industry her and her competitors businesses are in. Another consequence is that her decrease in revenue from the decline in attraction for customers of Becca's goods and services after the negative publicity is that she may develop a pattern of a negative net cash flow for that month with expenditure exceeding the cash income. This would then subsequently result in Becca not having a sufficient cash flow to cover day to day operating costs and make potential positive investments which would be another negative consequence of ~~the~~ the negative publicity Becca's cafe has received!!

In your answer:

- describe TWO appropriate solutions
- choose the better solution and fully explain how it would resolve the issue
- fully explain ONE long-term consequence of the better solution. *✓ Res = minor*

A possible solution to deal with the negative publicity is to ensure that if the review is true, that there is a system in place to prevent that problem from occurring again so that if it occurred again Becca's cafe doesn't suffer from reputational damage for having mice droppings in their toilet areas. Another solution to deal with the negative publicity would be if there is sufficient cash flow available to increase advertising and ~~start~~<sup>perhaps</sup> start a new advertising campaign to <sup>increase customer interest and</sup> cover the lost customers potential revenue that would've been received without the negative publicity. This solution could potentially increase the revenue received during the time period of the negative publicity. I think the better solution is putting an effective system in place to prevent mice droppings being left in the toilets occurring. They could potentially bring in an exterminator on a monthly basis to exterminate all the pests. They could also buy window jams that allow fresh air but tighten the gap <sup>the</sup> mice can fit through to get into the toilet area. Through finding a sufficient way to prevent mice from entering the toilet area, there is a massively reduced likelihood of Becca's cafe receiving negative publicity regarding mice activities in the toilets which would mean they ~~could~~<sup>could</sup> operate as normal aware that they wouldn't receive negative publicity from a related mice incident. Therefore, this solution would resolve the issue of receiving negative publicity for a mice dropping

**More space for this answer is available on the next page.**

incident for the future. A long term consequence of this solution is that without receiving any <sup>further</sup> negative publicity around mice droppings in the toilets, Becca's cafe can operate as normal and attempt to increase their revenue and market share in their industry. They can also try to apply an innovative and entrepreneurial mindset to the business to help them achieve their business objectives. This would be the integration of the Maori concept of Whakawhiti Whakaro-which is having an entrepreneurial and innovative mindset. Therefore, the solution of putting appropriate systems in place to prevent mice from entering the premises, ~~heavily~~ decreases the chance of receiving negative publicity again and allows them to persevere and do their best to achieve their business goals-whether its increasing revenue or increasing market share. //

E7

Extra space if required.

Write the question number(s) if applicable.

QUESTION  
NUMBER

Excellence exemplar for 90839 – 2016		Total score: 22
Q	Grade score	Annotation
1	E7	<p>This is an E7, as full explanations in context were provided by the candidate. The candidate clearly understood the impacts and issues. Fully explained solutions that integrated other business knowledge were also provided.</p> <p>In terms of subject matter, it was clear from the response that the candidate had a comprehensive understanding of the concept of bad debts and how a business could minimise this issue. This question was not awarded an E8, as the response to the latter part of (b) was weaker.</p>
2	E8	<p>The candidate was able to comprehensively explain the solutions and a consequence, using business terminology and sound business knowledge. The response showed that the candidate had an overall sense of business and how the concepts all integrate.</p> <p>In terms of the subject matter, the candidate was able to provide a response relating to the topic of skills shortages and come up with fully explained consequences, as well as relevant and feasible solutions.</p>
3	E7	<p>The score of E7 was awarded to the candidate for this question, as the response was well thought out and integrated business knowledge with reference to other areas or functions within the business.</p> <p>While the candidate addressed the issue of negative publicity, there was not enough detail for E8, as some parts of (b) were weaker. The candidate was not definitive in their approach to exterminating the mice, and never mentioned dealing with the specific negative publicity in terms of the bad reviews.</p>