

## Chapter 1: Business activity

- 1 Which of these is the best definition of the 'economic problem'?
  - 1) People do not have enough money
  - 2) There are not enough resources to satisfy people's unlimited wants
  - 3) There are not enough wants for the unlimited resources to satisfy
  - 4) There are too many factors of production
- 2 Which of the following is **not** a factor of production?
  - 1) Oil reserves
  - 2) Factory buildings
  - 3) Skilled labour
  - 4) Music CDs
- 3 If I buy a book for \$10 then the opportunity cost is:
  - 1) everything else I could have bought with the \$10
  - 2) \$10
  - 3) the benefit lost from not being able to consume the next best option
  - 4) the benefit gained from buying the book
- 4 Making choices is necessary in all economic systems because:
  - 1) there are so many products that we cannot use them all at once
  - 2) the government has so much money that it does not know what to do with it
  - 3) there are so many resources compared to people's needs that we have to choose which ones not to use
  - 4) there are so many wants compared to scarce resources that we have to decide what to produce
- 5 Division of labour can be defined as:
  - 1) workers specialise on just one task and become more efficient at it
  - 2) workers become specialist in all jobs
  - 3) all firms only have one worker so jobs are divided between the firms
  - 4) no workers are employed as machines always do all the work
- 6 One of the drawbacks to specialisation is that:
  - 1) output and efficiency falls
  - 2) workers spend time on training to do several different jobs
  - 3) workers can become bored through only concentrating on one job
  - 4) no machinery is used and this slows down production
- 7 One of the benefits of specialisation is:
  - 1) output and efficiency increases
  - 2) workers are able to undertake a range of tasks
  - 3) no machinery is used which saves on business costs
  - 4) workers do not have to spend time training to do a particular task
- 8 The best definition of a business is an organisation that:
  - 1) is owned by the government
  - 2) buys products from other firms and sells them to consumers for a profit
  - 3) produces only those goods and services that satisfy people's basic needs
  - 4) combines the factors of production to make products that satisfy people's wants

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- 9 Which one of the following is the best definition of added value?
- 1) It is the difference between the prices of different products
  - 2) It is the difference between the total costs of a business and the total value of what it sells
  - 3) It is the difference between the price of a product and the cost of the bought in materials needed to make it
  - 4) It is the difference between the price of a product and the value of it
- 10 If a tailor buys in cloth for \$25 and makes a suit that he sells for \$65 then he has:
- 1) made a profit on the suit of \$40
  - 2) added \$40 of value to the material
  - 3) incurred no opportunity cost in making the suit
  - 4) used his own labour as the only factor of production in making the suit

## Chapter 2: Classification of businesses

- 1 The primary stage of production is concerned with:
  - 1) growing crops and extracting the earth's natural resources
  - 2) providing services to consumers and industry
  - 3) converting natural resources into finished goods
  - 4) transporting goods to the final consumer
  
- 2 The tertiary sector of industry tends to be the most important sector in high income (most developed) countries because:
  - 1) agricultural output is more important than services
  - 2) as consumers have little money to spend they use most of their income to buy manufactured goods
  - 3) most workers are employed in manufacturing products in these countries
  - 4) as consumers' incomes are high they spend more on services such as hotels and leisure
  
- 3 Which one of the following businesses would you classify as being in the secondary sector of industry?
  - 1) Oil exploration company
  - 2) Family run farm business
  - 3) Taxi operating business
  - 4) Shoe manufacturer
  
- 4 In a mixed economy, which of the following groups of industries are most likely to be controlled/owned by the government?
  - 1) Hotels and restaurants
  - 2) Health and public transport
  - 3) Building and taxi services
  - 4) Food shops and farming
  
- 5 Which of the following is the best definition of privatisation?
  - 1) When private limited companies convert into public limited companies
  - 2) When a partnership converts into a private limited company
  - 3) When a state owned industry is sold into the private sector
  - 4) When a private sector business is purchased by the government
  
- 6 Which one of the following is a claimed disadvantage of privatisation?
  - 1) Jobs might be lost as the private owners will try to cut costs and increase profits
  - 2) The government will raise large sums of money which could help to reduce taxes
  - 3) There will be less competition than when the industry was a nationalised monopoly
  - 4) Politicians will now influence business decisions
  
- 7 Changes in the relative importance of different sectors of industry in a country is most likely to be caused by:
  - 1) exhaustion of the country's copper mines
  - 2) an increase in the country's population
  - 3) a long period of no increases in family incomes
  - 4) government grants being available to businesses in all sectors of industry
  
- 8 One reason why Zambia has a much higher proportion of its total national output produced by the primary sector of industry, compared to the United Kingdom, is:
  - 1) UK agriculture is very efficient
  - 2) the UK has a much greater area of its land covered in forests
  - 3) Zambia has much bigger reserves of natural resources than the UK
  - 4) Zambia's population is smaller than that of the UK

**Chapter 3: Enterprise, business growth and size**

- 1 One of the benefits of becoming an entrepreneur is:
  - 1) more money will always be earned than working for an employer
  - 2) there is more independence than when working for an employer
  - 3) there is no risk of the entrepreneur's business failing
  - 4) there is no opportunity cost involved in becoming an entrepreneur
- 2 One of the key characteristics of successful entrepreneurs is that:
  - 1) they are always rich
  - 2) they are risk takers
  - 3) they are usually shy
  - 4) they want to avoid hard work
- 3 All of the following are likely to be included in a business plan for a new business *except*:
  - 1) financial forecasts
  - 2) market research data
  - 3) details of the business owners
  - 4) accounts from previous years
- 4 One of the benefits of developing a business plan for a new start-up is:
  - 1) it shows exactly how much profit the business will make
  - 2) it makes sure that the bank will lend all the capital needed
  - 3) it means that the business start up has no risk of failure
  - 4) it assists in organising the resources needed for the new business
- 5 Which of the following is **not** an effective way of measuring the size of a business?
  - 1) number of employees
  - 2) value of sales
  - 3) value of capital employed
  - 4) profit level

**For questions 6–8 refer to the following information:**

There are four laundry companies in one town. They wash and iron sheets and tablecloths for hotels and restaurants. The following table shows data about these firms in 2012:

	Profits made \$	Capital employed \$	Value of sales turnover \$	Number of employees
Laundry A	2000	75 000	100 000	50
Laundry B	4000	100 000	125 000	35
Laundry C	1000	60 000	130 000	40
Laundry D	6000	90 000	120 000	45

- 6 Using capital employed as a measure, which appears to be the largest firm?
  - 1) A
  - 2) B
  - 3) C
  - 4) D
- 7 Using the number of employees as a measure, which appears to be the largest firm?
  - 1) A
  - 2) B
  - 3) C
  - 4) D

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- 8 Using the value of sales turnover as a measure, which appears to be the largest firm?
- 1) A
  - 2) B
  - 3) C
  - 4) D
- 9 Which of the following is the most likely reason for owners wishing to expand their businesses?
- 1) To keep control of the business
  - 2) To make higher profits
  - 3) To encourage competition
  - 4) To avoid publicity
- 10 Which of the following is an example of horizontal integration between two businesses?
- 1) An oil company and an insurance company merge
  - 2) A shoe shop buys out the factory making shoes
  - 3) A steel firm takes over a coal mine that supplies coal
  - 4) *Coca-Cola* takes over a small soft drink business
- 11 One of the reasons for vertical integration between two businesses could be to:
- 1) diversify into a completely different industry
  - 2) reduce competitors supplying the same product
  - 3) control the supply of raw materials needed for production
  - 4) obtain higher market share
- 12 In some industries there are many successful small firms. One of the reasons for this could be that:
- 1) some consumers demand specialist products or services
  - 2) there are great opportunities for economies of scale
  - 3) the industry is owned by the state
  - 4) the market is very large
- 13 One of the most common reasons for new business start-ups not surviving is:
- 1) too much time spent on developing the business plan
  - 2) no competitors in the industry
  - 3) no financial planning leading to lack of cash
  - 4) consumers prefer to deal with small scale businesses offering a personal service
- 14 If the risks of starting up a business are so high, why do entrepreneurs create new businesses?
- 1) The rewards are not greater than the opportunity cost
  - 2) The rewards can be very high
  - 3) The risks of a new business can be eliminated if the entrepreneur is lucky
  - 4) There is much greater job security than when working for a large employer
- 15 One way of overcoming the problems that often result from rapid business growth is to:
- 1) integrate with a much larger business
  - 2) reduce the amount of capital invested in the business
  - 3) reduce communications between people in the business as they are all so busy
  - 4) operate the business in smaller units

**Chapter 4: Types of business organisation**

- 1 The best definition of a sole trader form of business organisation is:
  - 1) the business only employs one person
  - 2) the business is owned by one person
  - 3) the firm has a single customer
  - 4) there is a single firm in the industry
- 2 One of the claimed advantages of a sole trader business is that:
  - 1) owners have limited liability
  - 2) shares can be sold to raise capital
  - 3) decisions and responsibilities can be shared
  - 4) the owner has complete control
- 3 One of the disadvantages of a sole trader business is that:
  - 1) capital is limited to owner's savings and bank loans
  - 2) decisions take too long to make
  - 3) as they are government owned there is no profit motive
  - 4) the owners may disagree
- 4 One of the advantages of a partnership form of business organisation is that:
  - 1) all partners always have limited liability
  - 2) shares can be sold on the Stock Exchange
  - 3) the business survives the death of the partners
  - 4) the business has access to more capital than a sole trader
- 5 Which of the following is **not** a feature of a private limited company?
  - 1) Shares can be issued to raise capital
  - 2) Shares can be bought and sold on the Stock Exchange
  - 3) All owners of the business have limited liability
  - 4) The business continues after the death of shareholder
- 6 Which of the following statements best applies to a public limited company (plc)?
  - 1) It is owned by the government and is in the public sector
  - 2) It is owned by shareholders who can sell their shares in the Stock Exchange
  - 3) It is quick and easy to set up with few legal formalities
  - 4) Its accounts can be kept private and it receives little coverage in the business press
- 7 The main reason why the owners of many private limited companies convert their businesses into public limited companies is because:
  - 1) they do not want to remain in the private sector
  - 2) they want to gain the benefits of limited liability
  - 3) they want to keep the annual accounts secret
  - 4) they want to raise additional capital to expand the business
- 8 One of the main drawbacks of many public limited companies is that:
  - 1) there can be a loss of control by the original owners as additional shares are sold
  - 2) firms in the public sector are often less efficient
  - 3) if the company were to fail the shareholders could lose all of their assets
  - 4) workers have to be asked for their opinions before major decisions are taken
- 9 Which of the following statements about most public limited companies is true?
  - 1) They are owned and controlled by the workers
  - 2) They are owned by the directors but controlled by the shareholders
  - 3) They are owned by shareholders but controlled by directors
  - 4) They are owned and controlled by the government

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- 10** One of the reasons for a business buying a franchise is because:
- 1) it is always much cheaper than setting up a new business venture
  - 2) there is complete control over important decisions
  - 3) the business can use its own name in advertisements
  - 4) the risks of failure are lower as it is buying a well known business idea
- 11** One of the advantages to a business of selling a franchise licence to franchisees is that:
- 1) the business can expand more quickly
  - 2) the franchisor owns all of the shops
  - 3) the businesses buying the franchises are certain to be successful
  - 4) the products sold in each shop will be different
- 12** One of the limitations for an entrepreneur of setting up a new business as a franchise is:
- 1) the profits of the franchised business will be lower than if it was not a franchise
  - 2) a share of the costs will have to be paid to the franchisor
  - 3) some decisions will be taken by the franchisor not the franchisee
  - 4) consumers will be less likely to have heard of the franchisor than the entrepreneur
- 13** All of the following are claimed advantages of joint ventures except:
- 1) the costs of a new project can be split between the companies involved
  - 2) manufacturing costs will be divided between the firms in the venture
  - 3) joint ventures between firms in different countries can create new market opportunities
  - 4) management of the joint venture will never lead to disagreements
- 14** All of the following are claimed advantages of public corporations except:
- 1) in cases where monopolies are likely to occur, public corporations will be best for consumers
  - 2) in declining industries, public corporations, with government subsidies, would attempt to avoid job losses
  - 3) by aiming to maximise profits public corporations will always make money for the government
  - 4) a public corporation television service could make non-profitable programmes

## Chapter 5: Business objectives and stakeholder objectives

- 1 One of the claimed benefits for a business of having clear objectives is:
  - 1) all customers know what the business is trying to achieve
  - 2) the managers will have a sense of direction when taking decisions
  - 3) the business will always make a profit
  - 4) there will be no arguments between the managers about the objectives of the business
- 2 Which one of the following is **not** likely to be a common business objective?
  - 1) To make profits
  - 2) To provide a service to the community
  - 3) To pay as much tax as possible
  - 4) To increase market share
- 3 A business might have growth as one of its objectives because:
  - 1) it will be able to benefit from diseconomies of scale
  - 2) it will be more likely to increase its market share
  - 3) shareholders always prefer growth to increased profits
  - 4) all businesses have to grow in order to survive
- 4 Most businesses are likely to put survival as their main objective when:
  - 1) competition is becoming weaker
  - 2) the economy is becoming weaker
  - 3) the government is planning to increase grants to existing businesses
  - 4) consumers are increasing their demand for most products
- 5 Which one of the following statements about stakeholder groups is accurate?
  - 1) Stakeholders are people who are interested in business
  - 2) Stakeholder groups have a direct interest in the business and its decisions
  - 3) The shareholders of a limited company are the only stakeholder groups that matter
  - 4) Shareholders of a limited company are not a stakeholder group
- 6 Social enterprises are likely to have which combination of objectives?
  - 1) Maximum returns for owners and increased market share
  - 2) Community service, profits and protection of the environment
  - 3) Survival and increased share price
  - 4) Increased profits for owners and protection of the community
- 7 Which one of the following is the most likely reason why a business might change its objectives over time?
  - 1) The owner of recently formed business that has survived for two years now wants to aim for growth
  - 2) A public sector business that has offered a service to the community now aims to maximise returns for its shareholders
  - 3) The directors of a public limited company decide that returns to shareholders are too high and now aim to protect the environment and offer a public service
  - 4) An economic recession leads to a business owner focusing less on survival and more on growth and profits

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**For questions 8–10 refer to the following information:**

A construction business is planning to build a large shopping centre on park land 5 kilometres from the town centre. The park is currently used by many families. There is high unemployment in the town.

- 8 Which one of the following stakeholder groups is most likely to be in favour of this new shopping centre?
- 1) Owners of existing town centre shops
  - 2) Families with small children
  - 3) Environmental groups who want less car use
  - 4) Trade Unions
- 9 Which one of the following stakeholder groups is most likely to be against the new shopping centre?
- 1) Central government
  - 2) Suppliers of goods to the retail industry
  - 3) Shoppers
  - 4) Local primary schools
- 10 One way in which possible conflict between stakeholder groups about the new shopping centre might be reduced is:
- 1) the new shops pay taxes to help pay for the creation of a new leisure park
  - 2) the owners of the new shops bring in workers from other towns
  - 3) shoppers are allowed free parking for their cars in the new centre
  - 4) the government increases taxes on existing shops to pay for new roads to the new centre
- 11 The main objective of a newly formed business is most likely to be:
- 1) survival
  - 2) maximum profit
  - 3) rapid growth
  - 4) providing a service to the community.
- 12 The managers of a business decide to increase output of a profitable product from a polluting factory. This decision is most likely to cause conflict between which groups of stakeholders?
- 1) Workers and owners
  - 2) Government and the community
  - 3) Owners and the community
  - 4) Managers and the owners

## Chapter 6: Motivating workers

- 1 The best definition of worker motivation is:
  - 1) employees working hard because they fear losing their jobs
  - 2) employees working hard because they want to do the best for themselves and their business
  - 3) employees travelling a long way to get to work each morning
  - 4) employees working hard just when they are watched by their supervisors
- 2 All of the following are likely reasons why people work except:
  - 1) to earn money
  - 2) to have social contact
  - 3) to gain recognition
  - 4) to watch TV
- 3 Taylor's views on worker motivation suggested that:
  - 1) workers will work hard when they have clean and hygienic conditions
  - 2) workers will work hard when they enjoy social contact at work
  - 3) workers will work harder when they are paid more
  - 4) workers work harder when they are given extra responsibility
- 4 According to Maslow's hierarchy of needs, workers' self-fulfilment will be reached when:
  - 1) they are given challenging and interesting work to do and are recognised for it
  - 2) they are paid a salary that is higher than that of other workers in the business
  - 3) they work in groups and are given the chance to take some limited decisions for themselves
  - 4) they have job security
- 5 The best definition of job satisfaction is:
  - 1) being happy when work is finished
  - 2) being happy when more jobs come in, as this means more security
  - 3) an unemployed person being satisfied when he finds a job
  - 4) being happy at work because of the type of job being done
- 6 According to Herzberg, which of the following is the best example of job enrichment at work?
  - 1) The worker is given more work to do and is paid more
  - 2) The worker is allowed to change jobs with other workers doing similar tasks
  - 3) Giving the worker more jobs that need more physical effort
  - 4) Encouraging workers to take more responsibility at work
- 7 The best definition of wages calculated by time rate is:
  - 1) multiplying an hourly wage rate by the hours worked
  - 2) multiplying the amount produced by a rate per unit of output
  - 3) a salary paid each month
  - 4) adding the wages to the fringe benefits
- 8 One of the claimed advantages of the time rate system is that:
  - 1) it encourages workers to produce as much as possible
  - 2) it is easy to calculate if a time sheet is filled in
  - 3) it encourages workers to get the job finished quickly
  - 4) income tax does not have to be paid

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- 9 One of the claimed disadvantages of the piece rate system of wages is that:
- 1) workers have to fill in detailed time sheets
  - 2) high output is discouraged as workers will receive higher pay
  - 3) quality may be a problem if workers work too fast
  - 4) little time is wasted by workers
- 10 One of the claimed benefits of a profit sharing scheme is:
- 1) workers are encouraged to work harder as the shareholders will receive higher dividends
  - 2) workers are encouraged to increase output as pay is now directly linked to output
  - 3) workers are encouraged to take a long term interest in the performance of the business
  - 4) it motivates workers without increasing their total payments
- 11 One of the claimed advantages to workers of being paid a salary rather than piece rate is:
- 1) there is more security of payment
  - 2) higher pay results from higher output
  - 3) workers will always receive a higher salary than they could have earned from piece rate
  - 4) working longer hours always means that a higher salary will be received
- 12 Which of the following is an example of a fringe benefit (non-monetary reward)?
- 1) Higher pay
  - 2) Free health care
  - 3) Annual bonus
  - 4) Commission

**Chapter 7: Organisation and management**

- 1 The best definition of a firm's organisational structure is that:
  - 1) it shows exactly what job everyone does
  - 2) it shows a plan of the offices and factory
  - 3) it shows the levels of management and division of responsibilities
  - 4) it refers to the way in which products are made and pass through the factory
- 2 As an organisation expands, it is usual for managers to delegate. Which of the following is the best definition of delegation?
  - 1) Giving authority to junior managers to do particular tasks
  - 2) Passing down full responsibility to subordinates
  - 3) Ordering workers to do certain jobs
  - 4) Keeping full control in the hands of senior managers
- 3 One of the advantages of delegation is that:
  - 1) workers have less work to do
  - 2) managers can concentrate on more important tasks
  - 3) managers lose some of their responsibilities
  - 4) managers are able to control the work of staff more closely
- 4 One of the potential disadvantages of delegation is that:
  - 1) workers are given more authority and job enrichment
  - 2) there is less control over the work done by staff
  - 3) managers have more work to do
  - 4) there is less trust shown between workers and managers
- 5 The chain of command in an organisation is:
  - 1) the links that exist between different departments
  - 2) the method of communication used in the organisation
  - 3) the line of authority which allows orders to be passed down the organisation
  - 4) the lines of communication that exist between workers in one department
- 6 The span of control is:
  - 1) the number of subordinates directly controlled by one manager
  - 2) the number of departments in a business
  - 3) the number of managers who report directly to each worker
  - 4) the number of levels of hierarchy in the organisation structure
- 7 One of the benefits of wider spans of control is that:
  - 1) delegation is encouraged as a large number of people are answerable to each manager
  - 2) it will lead to a longer chain of command and better communication
  - 3) staff will be able to spend more time with their manager having their work checked
  - 4) there will be more managers in the organisation
- 8 If a business 'delayered' its organisation structure (i.e. removed a layer of management) then spans of control would:
  - 1) fall and the chain of command would lengthen
  - 2) increase and the chain of command would shorten
  - 3) fall and the chain of command would shorten
  - 4) increase and the chain of command would lengthen

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- 9 An advantage of a short chain of command is that:
  - 1) there are many different layers of management to share responsibilities
  - 2) communication tends to be inaccurate as there are so many people involved in passing a message on
  - 3) spans of control tend to be narrower than with a long chain of command.
  - 4) communication between the top management and the other staff levels is quicker
- 10 Which of the following is **not** an advantage of an organisational chart?
  - 1) The chart shows how everybody is linked in the organisation
  - 2) Every member of staff can see their own position in the organisation
  - 3) It shows the chain of command and how authority passes down the organisation
  - 4) It indicates the detailed job description of each employee
- 11 Which of the following is **not** an example of a functional department in most businesses?
  - 1) Finance
  - 2) Marketing
  - 3) Decision-making
  - 4) Production
- 12 With which type of leadership style do senior managers take all the decisions and workers are given orders?
  - 1) Autocratic leadership
  - 2) Democratic leadership
  - 3) *Laissez-faire* leadership
  - 4) Centralised leadership
- 13 With which type of leadership style do leaders take little control, leaving employees to control their own work?
  - 1) Autocratic leadership
  - 2) Democratic leadership
  - 3) *Laissez-faire* leadership
  - 4) Centralised leadership
- 14 With which type of leadership style are employees encouraged to become involved in decision-making?
  - 1) Autocratic leadership
  - 2) Democratic leadership
  - 3) *Laissez-faire* leadership
  - 4) Centralised leadership
- 15 The most appropriate leadership style depends on all of the following *except*:
  - 1) the level of skill and training of the workers
  - 2) the type of work undertaken by the business
  - 3) whether the business is facing a crisis situation or not
  - 4) the sector of industry the business operates in
- 16 All of the following are claimed benefits to workers from joining a trade union *except*:
  - 1) advice and support for workers who feel poorly treated by employers
  - 2) strength in numbers when talking to employers about pay and conditions
  - 3) a guaranteed pay increase each year with longer holidays
  - 4) improved communications between workers and managers.

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- 17 Which one of the following is **not** an important reason for having good managers in the business?
- 1) Motivating employees
  - 2) Inspire employees to work hard
  - 3) Keep costs under control
  - 4) Friendly to workers
- 18 Which one of the following is an important quality of being a good manager?
- 1) Want to tell people what to do
  - 2) Having good communication skills with subordinates
  - 3) Want to be paid a high salary
  - 4) Doing as little work as possible by getting others to work harder

## Chapter 8: Recruitment, selection, training of workers

- 1 All of the following are tasks of the Human Resources Department (Personnel) *except*:
  - 1) allocating workers to jobs on the production line
  - 2) induction training of new staff
  - 3) advising managers on the best pay and salary systems for staff
  - 4) disciplining staff who break company rules
- 2 In recruiting and selecting new staff, which is the correct order of tasks?
  - 1) interviews, job adverts, selection, prepare job description
  - 2) job description, job adverts, interviews, selection
  - 3) Selection, job description, job adverts, prepare job description
  - 4) Job adverts, selection, interviews, prepare person specification
- 3 The main difference between a job description and a person specification is that:
  - 1) job description outlines the qualities and qualifications of the applicant; person specification outlines the duties of the job
  - 2) job description describes the type of business; person specification outlines the qualities and qualifications of the applicant
  - 3) person specification gives precise details of the duties; job description outlines the people that the applicant will be working with
  - 4) job description outlines the duties of the job; person specification outlines the qualities and qualifications of the applicant
- 4 Which of the following will not appear on a job description?
  - 1) Title of the job
  - 2) Main duties of the job
  - 3) Qualifications needed
  - 4) Department the job is in
- 5 Which of the following is a claimed disadvantage of internal recruitment for a Management position?
  - 1) It saves time and money compared to external recruitment
  - 2) No new ideas or experience is brought into the business
  - 3) The recruit will already know how the firm operates
  - 4) It can encourage existing workers and supervisors if they feel that there is a chance of promotion
- 6 Each of the following is a method of external recruitment *except*:
  - 1) notice on staffroom noticeboard
  - 2) local newspaper advertisement
  - 3) recruitment agencies
  - 4) advert in a specialist magazine
- 7 When advertising a job vacancy, it is usual to include all of the following information *except*:
  - 1) the wage rate for the job
  - 2) duties to be carried out by the person appointed
  - 3) the name of the chief executive
  - 4) conditions of employment
- 8 One of the advantages of using a recruitment agency is that:
  - 1) it is cheaper than if a business recruited staff directly
  - 2) they always select the right person for the job
  - 3) the agency train the newly appointed worker
  - 4) agencies only send suitable candidates for interview by the business

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- 9 All of the following methods are likely to be used to help select a new worker *except*:
  - 1) asking them to write their own reference
  - 2) interviewing the applicants
  - 3) asking for a curriculum vitae (CV)
  - 4) asking all applicants to perform tests to check their abilities
- 10 Which of the following is one reason for a business using induction training for new workers?
  - 1) To see who is staying and who is leaving the business
  - 2) To check the standard of work of all workers
  - 3) To help select the workers that will be employed by the business
  - 4) To explain the firm's procedures and methods of working
- 11 Training for existing workers is often used for which of the following reasons?
  - 1) To keep skills up-to-date and to improve efficiency
  - 2) To check to see which workers should be made redundant
  - 3) To explain the firm's procedures and methods of working
  - 4) To increase the level of supervision needed
- 12 One of the most likely disadvantages of training workers is that:
  - 1) workers will become too efficient at their work
  - 2) the level of supervision of the workers will have to increase
  - 3) workers will become less prepared to accept new machines
  - 4) more highly trained workers might find better paid jobs with other firms
- 13 Which of the following is a possible disadvantage of on-the-job training?
  - 1) There will be additional expenses from travel costs
  - 2) Workers will not gain from experience of people outside of the business
  - 3) The worker will not be able to do any work for the firm at all during the training period
  - 4) The business will not have to employ its own training staff
- 14 Which one of the following reasons is most likely to explain why a business uses off-the-job training?
  - 1) Workers need to be trained in operating completely new machinery
  - 2) The training staff in the business have all the necessary skills
  - 3) The firm wants the cheapest training course possible
  - 4) There is no benefit from meeting people outside of the business
- 15 Which of the following is an example of redundancy?
  - 1) A worker is asked to leave the business as the quality of his or her work is low
  - 2) The worker is often late for work although he or she claims it is because the train is always late.
  - 3) The firm is going through a period of declining sales and fewer workers are needed
  - 4) Several workers decide to leave the firm as they have been offered higher paid jobs in other businesses
- 16 A business might downsize its workforce in all of the following situations *except*:
  - 1) increased automation
  - 2) customers switch demand to competitors' products
  - 3) a recession in the economy reducing demand
  - 4) a reduction in prices of businesses products

(continued)



- 17** All of the following are common legal controls over the employment of workers *except*:
- 1) minimum wage rate
  - 2) maximum wage rate
  - 3) unfair dismissal
  - 4) health and safety
- 18** One of the benefits to businesses of legal controls over the employment of workers is:
- 1) the cost of employing workers is likely to be lower
  - 2) workers will not be able to apply for jobs with other businesses
  - 3) workers may feel more secure and be better motivated
  - 4) productivity is likely to fall but production will rise
- 19** One of the possible drawbacks to a legal minimum wage is that:
- 1) it will lead to lower wages for all employees
  - 2) unemployed people will be discouraged from looking for work
  - 3) it could raise business costs and therefore prices
  - 4) it will encourage more employers to exploit their workers
- 20** A factory has to follow all of these Health and Safety regulations *except*:
- 1) machinery must be well protected and regularly checked
  - 2) workers must have clean working conditions and some work breaks
  - 3) workers must be given off-the job training
  - 4) workers should be given instruction in handling dangerous materials

**Chapter 9: Internal and external communication**

- 1 The best definition of effective communication is:
  - 1) when the message is loud enough for everyone to hear it
  - 2) when the message has been written clearly for the receiver to read
  - 3) when the sender thinks the message has been received by the right person or group
  - 4) when the receiver shows that the message has been received and understood
- 2 All of the following are methods (media) of internal communication within a business *except*:
  - 1) telephone call to a customer
  - 2) letter to a worker about low attendance rates
  - 3) e-mail to a supervisor
  - 4) notice on the staff restroom noticeboard
- 3 Two-way communication is often more effective than one-way communication because:
  - 1) it is likely to be quicker
  - 2) there is an opportunity to confirm or discuss the message
  - 3) more than one person will receive the message
  - 4) more than one way of sending the message is used
- 4 One example of poor external communication is:
  - 1) a supplier misunderstands a message
  - 2) a worker fails to follow a safety instruction
  - 3) managers do not receive a message about a machine failure
  - 4) office staff fail to tell workers about new overtime rates
- 5 All of the following could be important for effective internal communication *except*:
  - 1) a clear message that can be understood
  - 2) the receiver should be the right person to send the message
  - 3) the intranet should be in good working order
  - 4) there should be feedback from the receiver
- 6 One of the advantages of verbal communication is that:
  - 1) there will be a permanent record of the meeting
  - 2) as it is one-way communication it will be faster than written forms of communication
  - 3) it makes sure that everyone has fully understood the message
  - 4) there is an opportunity for immediate feedback
- 7 Each of the following are examples of written communication media *except*:
  - 1) notice about company holiday dates
  - 2) letter of resignation
  - 3) TV advertisement
  - 4) business report on marketing
- 8 One of the advantages of written communication such as e-mail is that:
  - 1) there is always feedback
  - 2) it allows the sender of the message to check that it has been understood
  - 3) a permanent record allows it to be looked at and checked again
  - 4) e-mails are always read immediately
- 9 One of the claimed disadvantages to using e-mails for communication is:
  - 1) some workers may not be able to hear them
  - 2) some people receive so many e-mails it is difficult to identify the important ones
  - 3) verbal communication is less effective than written communication as there is no permanent record
  - 4) the message can only be sent to one person at a time

*(continued)*

- 10 The term 'grapevine' in communication refers to:
- 1) the formal communication net in a business
  - 2) the sending of emails to as many people as possible at the same time
  - 3) the passing of messages informally between people in an organisation
  - 4) the way messages are sent from managers to staff in a business
- 11 Which one of the following is **not** a barrier to effective communication?
- 1) Poor body language from the sender gives the receiver a bad impression
  - 2) The message is too long
  - 3) The receiver does not provide feedback and the sender does not know if the message has been understood
  - 4) There are short and direct lines of communication between the sender and the receiver
- 12 What one of the following is the best method of communication if you want to inform a member of staff of a discipline warning – repeating the offence could lead to dismissal?
- 1) Staff meeting
  - 2) Facebook
  - 3) Letter
  - 4) Noticeboard
- 13 What is the best method of communication if you want to give members of staff an opportunity to discuss views about a new business plan?
- 1) Staff meeting
  - 2) E-mail
  - 3) Letter
  - 4) Noticeboard
- 14 What is the best method of communication if you want to give information to large numbers of staff about important new health and safety rules?
- 1) Twitter
  - 2) Telephone call
  - 3) TV advertisements
  - 4) Intranet
- 15 A business could reduce possible barriers to internal communication by:
- 1) using e-mails for all messages
  - 2) insisting on feedback after sending important messages
  - 3) using technical language and jargon in all messages
  - 4) using social networking sites for confidential messages

## Chapter 10: Marketing, competition and the customer

- 1 Which of these is **not** a function of the Marketing Department?
  - 1) Find out consumer requirements
  - 2) Try to forecast future demand
  - 3) Satisfy consumer demand profitably
  - 4) Make the products that consumers want to buy
  
- 2 Which one of the following is the best definition of marketing?
  - 1) The process of selling products to many customers as cheaply as possible to maximise sales
  - 2) Promoting products to consumers who may have heard of them before
  - 3) Predicting accurately what customers will want to buy in the future
  - 4) Using market knowledge to assess what products will best meet customer requirements
  
- 3 One claimed benefit for a business if it increases consumer loyalty is:
  - 1) the business will never have to advertise again
  - 2) it will help to maintain market share
  - 3) consumers will buy the products of the business at any price
  - 4) competitors will not be able to achieve consumer loyalty as well
  
- 4 Which one of the following is a way of helping to maintain consumer loyalty?
  - 1) Establish relationships with the consumers which give them confidence about products
  - 2) Replace all existing brands with new, heavily promoted brands
  - 3) Reduce product quality but keep prices high
  - 4) Offer promotional prices to new consumers
  
- 5 Which of the following are reasons why consumer spending patterns in a country might change over time?
  - i) Ageing population
  - ii) Higher consumer incomes
  - iii) New products
  - iv) Increased immigration
  - 1) i), ii) and iii) only.
  - 2) ii) and iv) only
  - 3) All of them
  - 4) i), iii) and iv) only
  
- 6 Which one of the following is the most likely response of a business to an increase in competition?
  - 1) Reduce quality and but keep prices stable
  - 2) Cut back on advertising
  - 3) Develop different products
  - 4) Increase output of existing products
  
- 7 One of the claimed benefits of niche marketing is:
  - 1) it leads to high levels of output and low production costs
  - 2) marketing can be focused on a distinct part of the market
  - 3) consumer demand will always remain high
  - 4) there will be no competitors selling into the same part of the market

(continued)

- 8 A business sold 20 000 units last year. The total size of the market was 80 000 units. The percentage of the market share did the businesses have?
  - 1) 20%
  - 2) 25%
  - 3) 100%
  - 4) 80%
- 9 Total market sales for a product have been 1 million units per year for the last two years. One firm's sales have changed from 300 000 units to 350 000 units over these two years. Which of the following statements about the firm's market share is true?
  - 1) The firm's market share has not changed
  - 2) The firm's market share has risen by 5%
  - 3) The firm's market share was 30% in the first year and 50% in the second year
  - 4) The firm's market share has risen by 35%
- 10 The definition of a market segment is:
  - 1) one region that the product is sold in
  - 2) one part of the world that the product is sold in
  - 3) a section of the market made up of consumers with different needs and characteristics
  - 4) a section of the market made up of consumers with similar needs and characteristics
- 11 Which of the following is an example of market segmentation?
  - 1) Dividing the market for jeans into male, female and different age groups
  - 2) Advertising a product on television, the radio and in newspapers
  - 3) Using both advertising and sales promotion to sell a product
  - 4) Pricing the same product at different price levels in different areas
- 12 One possible disadvantage of market segmentation is that:
  - 1) sales will be lower than selling the same product to all consumers in all markets
  - 2) profits will always be lower than when not using segmentation
  - 3) advertising costs may be high as different campaigns may be needed for different groups of consumers
  - 4) the product will always have a very short life cycle
- 13 Which of the following ways would **not** be used to segment the market for soft drinks?
  - 1) The ages of consumers
  - 2) The lifestyle of consumers, e.g. sport players
  - 3) Income groups of consumers
  - 4) Consumers and non-consumers
- 14 Which of the following is a likely advantage of segmenting the market for magazines?
  - 1) Fewer magazine titles will be published
  - 2) Advertising of the magazines will be directed towards the right consumers
  - 3) The prices will be lower than if there was no segmentation of this market
  - 4) All consumers will buy more magazines

## Chapter 11: Market research

- 1 Which of these is the best definition of a market-oriented business?
  - 1) The firm does market research after launching a product on the market
  - 2) The firm produces a good that it believes will be successful in the market
  - 3) The firm does market research before designing a new product
  - 4) The firm produces a high quality product that has always been successful in the market
- 2 Which of the following questions is market research **not** likely to find an answer to?
  - 1) Would consumers be likely to buy my product?
  - 2) Which method of production should I use?
  - 3) What price would consumers be likely to pay?
  - 4) Which businesses will be the main competitors?
- 3 Which of the following best defines primary market research?
  - 1) It is data collection that always produces quantitative (number based) results
  - 2) It uses information that has already been collected
  - 3) It is also known as desk research
  - 4) It gathers original data by contacting consumers directly
- 4 One of the claimed advantages of primary data is that:
  - 1) it is quick and easy to collect
  - 2) it is usually up-to-date
  - 3) it is always 100% accurate
  - 4) it is cheap because it has already been collected
- 5 One of the claimed advantages of secondary data is that:
  - 1) it is always 100% accurate as the firm undertakes its own data collection
  - 2) it is usually up-to-date
  - 3) it is often cheap as the research has been conducted by others
  - 4) it will not be available to rival businesses
- 6 One possible advantage of questionnaires to gather primary data is that:
  - 1) they are cheaper than all other forms of primary data collection
  - 2) the response to questionnaires sent through the post is always very good
  - 3) consumers can fill them in during their own time and give much detail
  - 4) the questions are always clear to consumers and there will be no misunderstanding.
- 7 In market research, a sample is defined as:
  - 1) a free gift to the consumer
  - 2) a trial of the product so that consumers can test it at home and then give their opinions
  - 3) all of the potential consumers of a product
  - 4) a group selected from all of the potential consumers of a product
- 8 Which of the following is a reason for using a random sample of the population in market research?
  - 1) It is more accurate than asking the whole population
  - 2) It is more expensive than asking the whole population
  - 3) It gives everyone in the population an equal chance of being questioned
  - 4) It concentrates research on consumers who share similar characteristics, e.g. all of the same age

(continued)

- 9** Which of the following is an example of secondary data collection?
- 1) A traffic count to see how many vehicles passed by a shop in one day
  - 2) A postal questionnaire researching into consumer tastes
  - 3) A market research agency report that the business had asked for to investigate why sales were falling
  - 4) A newspaper report on the sales figures of a competitor's new product
- 10** Which of the following will be likely to make a firm's market research more accurate?
- 1) A smaller sample to save costs
  - 2) Greater use of secondary rather than primary data
  - 3) Testing a questionnaire on a small group of consumers
  - 4) Taking all consumer samples on the same day of the week rather than on different days
- 11** One of the claimed advantages of using interviews in primary market research is that:
- 1) the consumer answering the questions writes all of the answers
  - 2) there is no chance of interviewer bias
  - 3) any questions that are unclear can be explained by the interviewer
  - 4) the sample chosen will always be representative of the whole population
- 12** Which of the following statements is correct when designing a questionnaire?
- 1) Keep the questions long and detailed to make sure that answers are also detailed.
  - 2) Avoid 'closed' questions so that consumer opinions are given in answer to all questions.
  - 3) Ask 'leading' questions to help the person answering the questionnaire.
  - 4) Keep the questionnaire as short as possible as this will increase the chances of it being completed.
- 13** One of the advantages of using bar charts to record data is that:
- 1) they are eye-catching and the data can be easily understood
  - 2) by presenting data in the form of a 'circle' they allow the proportions to be easily observed
  - 3) the graph shows the way in which the data changes over time
  - 4) the use of pictures is very eye-catching and accurate
- 14** The Sales department have been asked to show how sales data this year compares with the four previous years. The most effective form of presenting this data is likely to be a:
- 1) line graph
  - 2) pictogram
  - 3) pie chart
  - 4) tally chart
- 15** A business sells five different products. If the managers of the business wanted to show how the sales of each product contributed to total sales it would be most likely to use a:
- 1) table
  - 2) pie chart
  - 3) line graph
  - 4) tally chart
- 16** A market researcher has recorded the total numbers of different types of vehicles (cars, buses, etc.) passing by a shopping centre. Which method of data presentation would **not** be suitable?
- 1) Line graph
  - 2) Pictogram
  - 3) Bar chart
  - 4) Pie chart



**Chapter 12: The marketing mix – Product**

- 1 Which one of the following is a claimed benefit of developing new products?
  - 1) It is cheap to develop new products
  - 2) Latest technology can be a feature of new products
  - 3) Customers always prefer newly developed products
  - 4) It gives a business a big advantage because competitors will not be developing new products
- 2 Which of these products is an example of a consumer good?
  - 1) Washing-up liquid
  - 2) Washing machine repair
  - 3) Drink can filling machine
  - 4) Design of an advertisement for computers
- 3 Which of these products is an example of a consumer service?
  - 1) Washing-up liquid
  - 2) Washing machine repair
  - 3) Drink can filling machine
  - 4) Design of an advertisement for computers
- 4 Which of these products is an example of a producer good?
  - 1) Washing-up liquid
  - 2) Washing machine repair
  - 3) Drink can filling machine
  - 4) Design of an advertisement for computers
- 5 All of the following are features of successful products *except*:
  - 1) not so expensive to produce that the price is higher than consumers are willing to pay
  - 2) satisfies needs of consumers
  - 3) is well designed and is of the quality expected by consumers
  - 4) is sold at a price below cost of production
- 6 The following are all stages in the development of a new product. Which option below puts these in the order in which the stages should be carried out?
  - i) Launch the product into the whole market.
  - ii) Develop and test a prototype of the new product.
  - iii) Create new ideas for the product.
  - iv) Research into costs, methods of production and likely sales.
  - 1) i), iii), iv), ii)
  - 2) ii), iv), i), iii)
  - 3) iv), ii), i), iii)
  - 4) iii), iv), ii), i)
- 7 Which of the following is an advantage for a business of having a well-known brand name?
  - 1) It will not have to do any advertising.
  - 2) It will be able to charge lower prices than businesses without a well-known brand name.
  - 3) It can produce low quality products and still sell them successfully.
  - 4) It will have good consumer recognition of its products

*(continued)*



- 8 The best example of brand loyalty is:
  - 1) when a consumer goes on using the same washing machine purchased several years ago
  - 2) when a consumer keeps buying the same products from the same manufacturer
  - 3) when a consumer keeps buying the same type of product from different manufacturers
  - 4) when a manufacturer always uses the same name for its products
  
- 9 All of the following are important features of packaging for a breakfast cereal *except*:
  - 1) contains important health and contents information
  - 2) protects the cereal from being crushed whilst being transported
  - 3) is eye-catching and helps to attract the consumer to the product
  - 4) can be re-used by the manufacturer
  
- 10 Choose the best features of packaging for a new soft drink aimed at young children:
  - 1) made of glass, with a label containing details of contents and healthy qualities of the drink
  - 2) made of plastic that can be recycled, information on the label about contents and a new competition that children can enter
  - 3) made of strong cardboard, with a colourful label containing content details and a money off voucher
  - 4) made of tin with a 'ring pull', large label containing the name 'Good for you' and the contents
  
- 11 Which one of the following options places the stages of a typical product life cycle in the correct order?
  - 1) Growth, maturity, decline, introduction
  - 2) Introduction, maturity, growth, decline
  - 3) Introduction, decline, growth, maturity
  - 4) Introduction, growth, maturity, decline
  
- 12 Which of the following definitions best explains the product life cycle?
  - 1) The length of time taken for a consumer to use up all of a product
  - 2) The length of time a product stays on a market from introduction to decline
  - 3) The stages that the sales of a product pass through from introduction to decline
  - 4) The length of time taken to develop a new product to replace a declining one
  
- 13 All of the following are examples of extension strategies that could be used to lengthen a product's life cycle *except*:
  - 1) launching a new product to replace the declining one
  - 2) introducing new designs of the existing product
  - 3) sell the product into new markets e.g. other countries
  - 4) re-launch the product with a new advertising campaign
  
- 14 A computer manufacturer has one of its products at the start of the decline stage of its product life cycle.  
Which of the following combinations of price/promotion are most likely to be used?
  - 1) Raise the price and use an expensive advertising campaign
  - 2) Lower the price and inform consumers with an advertising campaign
  - 3) Raise the price and stop all advertising of the product
  - 4) Lower the price and use sales promotion to encourage consumers to try the product for the first time
  
- 15 Which one of the following products is likely to have the shortest product life cycle?
  - 1) A new design of washing machine
  - 2) A mathematics textbook
  - 3) A new hit pop music CD
  - 4) A luxury branded ice-cream

**Chapter 13: The marketing mix – Price**

- 1 When the price of most products increases, the demand for these products will be likely to:
  - 1) fall
  - 2) increase
  - 3) stay the same
  - 4) increase and then remain constant
- 2 Apart from changes in the price of *Coca-Cola*, the demand for *Coca-Cola* is most likely to be affected by which one of the following changes?
  - 1) the price of *Pepsi-Cola*
  - 2) The supply of *Coca-Cola*
  - 3) The cost of producing *Coca-Cola*
  - 4) An increase in incomes of people who do not buy *Coca-Cola*
- 3 A firm is most likely to adopt a low price (penetration) strategy for a product when:
  - 1) sales are increasing rapidly
  - 2) competitors have just raised their prices
  - 3) the objective is to achieve a high market share
  - 4) the firm wants to establish a luxury and exclusive image for the product
- 4 A chocolate manufacturer uses cost-plus pricing for its products. The cost of making one thousand bars of one brand is \$500. The firm wants to add a profit mark-up of 50% per bar.  
The final selling price will be:
  - 1) \$1
  - 2) 50 cents
  - 3) \$3
  - 4) 75 cents
- 5 A firm is about to launch a new brand of clothing into a market segment with very few competitors.  
It aims to create a luxury, quality image for the clothes. In setting the prices it is most likely to use:
  - 1) penetration pricing
  - 2) skimming pricing
  - 3) competitive pricing
  - 4) cost-plus pricing
- 6 A furniture retailer has several chairs that have been in stock for over one year. To sell these products quickly, it is most likely to use:
  - 1) promotional pricing
  - 2) price skimming
  - 3) equilibrium price
  - 4) cost-plus price
- 7 The pricing decision made by a business for one of its products will influence all of the following *except*:
  - 1) sales of the product
  - 2) sales revenue
  - 3) profit made by the business
  - 4) cost of producing the product

*(continued)*

- 8 A firm sells a product for \$2. The cost of manufacturing this product was \$1.50. In using cost-plus pricing the firm has added on a profit mark-up of:
  - 1) 50%
  - 2) 25%
  - 3) 30%
  - 4) 33.3%
- 9 An oil company is keen to maintain market share. It is likely to use:
  - 1) price skimming
  - 2) competitive pricing
  - 3) cost-plus pricing with a high mark-up
  - 4) penetration pricing to start with and then price skimming
- 10 A supermarket buys in tins of soup for \$2 each. It sells them for \$3. The profit mark-up is:
  - 1) 100%
  - 2) 50%
  - 3) 25%
  - 4) \$3
- 11 The following factors are all likely to be taken into account by a restaurant when pricing its menu *except*:
  - 1) the prices charged by local competitors
  - 2) the cost of the food supplies
  - 3) the type of market segment it is aiming to reach
  - 4) prices in restaurants in other countries
- 12 Which one of the following products is most likely to have a very low price elasticity of demand (demand is not very responsive to changes in price)?
  - 1) A brand of sweets
  - 2) Salt
  - 3) Starbucks coffee
  - 4) Artificial flowers
- 13 A marketing director is planning to change the prices of two products. The price elasticity of demand for Product A is low and the price elasticity of demand for Product B is high. Which prices changes is the marketing director most likely to make?
  - 1) Increase price of A and reduce price of B
  - 2) Increase prices of both products
  - 3) Reduce prices of both products
  - 4) Increase price of B and reduce price of A

**Chapter 14: The marketing mix – Promotion and technology in marketing**

- 1 Promotion of a product can include all of the following *except*:
  - 1) advertising a new product
  - 2) offering money-off vouchers on packaging to encourage increased sales
  - 3) sponsoring a football team
  - 4) redesigning a product to make it look more modern
- 2 One of the aims of promotion is to:
  - 1) lower the price of the product
  - 2) update the product
  - 3) inform consumers about the product
  - 4) lower the costs of producing the product
- 3 The advertising process requires certain stages to be followed. Which order should these be completed in?
  - 1) Evaluate success of the campaign, set objectives, decide the promotion budget, design the adverts
  - 2) Decide the promotion budget, design the adverts, set objectives, evaluate the success of the campaign
  - 3) Design the adverts, decide the promotion budget, evaluate the success of the campaign, set the objectives
  - 4) Set the objectives, decide the promotion budget, design the adverts, evaluate the success of the campaign
- 4 Before deciding on the most appropriate advertising media, it is important to:
  - 1) change the price of the product
  - 2) redesign the product
  - 3) establish the target market for the product
  - 4) introduce an extension strategy for the product
- 5 Which one of the following is an advantage of television advertising?
  - 1) It is cheaper than most other forms of advertising
  - 2) It allows easy comparison with competitors' products
  - 3) It can be aimed at particular target audiences at different times of the day
  - 4) All members of the target audience will see the adverts
- 6 If a company selling computers to other firms wanted to advertise the technical details of its products to customers, it would be most likely to use:
  - 1) a business newspaper
  - 2) billboards and posters
  - 3) radio
  - 4) cinema adverts
- 7 A large national toy retailer wants to inform potential consumers of its huge product range. It would be most likely to use:
  - 1) billboards and posters
  - 2) children's television
  - 3) evening radio programmes
  - 4) national newspapers

*(continued)*

- 8 A small firm is about to launch nationally a new sports drink containing 'reserves of energy for all sports players'. Which method of promotion do you think would be most appropriate?
- 1) National television advertising at peak times during the Olympic Games
  - 2) Sports magazines with a national coverage
  - 3) National newspapers
  - 4) A local radio station
- 9 Which of the following is an example of sales promotion?
- 1) Advertising a new product on television
  - 2) Using specialist magazines to advertise the product
  - 3) Billboards and posters
  - 4) Special offers and free gifts
- 10 All of the following are important when considering which method of promotion to use *except*:
- 1) the stage of the product life cycle the product is in
  - 2) the total promotional budget
  - 3) the target market being aimed at
  - 4) the packaging of the product
- 11 One of the advantages of sales promotion is that it:
- 1) encourages consumers to buy the product more often
  - 2) informs the public of a new product
  - 3) allows the firm to lower the price
  - 4) does not cost the firm anything, unlike advertising
- 12 One factor that a marketing manager is most likely to consider when deciding on the promotion budget is:
- 1) likely cost effectiveness
  - 2) how much businesses in other industries spend on promotion
  - 3) the method of production used
  - 4) whether workers are internally or externally promoted
- 13 Personal selling is most likely to be used for which of the following products?
- 1) Daily newspaper
  - 2) Bars of chocolate
  - 3) Food products from a supermarket
  - 4) Robotic machinery
- 14 All of the following are examples of forms of media technology that can be used to communicate with customers *except*:
- 1) business website
  - 2) internal e-mail
  - 3) social networking sites
  - 4) SMS messages

**Chapter 15: The marketing mix – Place**

- 1 Place is an important part of the marketing mix because:
  - 1) consumers will only be able to buy the product in one place
  - 2) the product must be made available for consumers in the right place
  - 3) advertising should be in the right place
  - 4) if the product is not made in the right place, it will not be successful in the market
- 2 The definition of 'channel of distribution' is:
  - 1) the means of transport used between factory and retail shop
  - 2) the firms involved in passing a product from the producer to the customer
  - 3) the way in which a product is transported around a factory during production
  - 4) the road network between the factory and the retail shops
- 3 The channel of distribution, Producer → Consumer, is most likely to be used by a manufacturer of:
  - 1) chocolate bars
  - 2) Bluray/DVD players
  - 3) mass produced cars
  - 4) specialist racing cars
- 4 One of the advantages of the channel of distribution shown in question 3 is that:
  - 1) it allows large deliveries of the product to be broken into smaller quantities before delivery to consumers
  - 2) the absence of intermediaries should help to keep the price down
  - 3) the producer does not have the risk and cost of holding stocks of finished goods
  - 4) the consumer can easily see a display of the range of products available for sale
- 5 One disadvantage of the following channel of distribution, Producer → Wholesaler → Retailer → Consumer, is that:
  - 1) the absence of profit margins taken by intermediaries helps to keep prices low
  - 2) the producer can lose control over how the product is marketed to the final consumer
  - 3) the producer has to hold high stocks of the finished goods
  - 4) the consumer will find it difficult to return faulty goods to the firm it bought them from
- 6 One of the advantages of a manufacturer using agents to sell goods in foreign markets is that:
  - 1) the agent will not take a profit margin from the sale of goods
  - 2) the manufacturer will have more direct contact with consumers than the agent
  - 3) the agent will have detailed knowledge of local market conditions
  - 4) the manufacturer will have complete control over where and how the product is sold
- 7 All of the following are part of the normal role of wholesalers *except*:
  - 1) breaking large-scale bulk quantities into smaller deliveries to retailers
  - 2) offering credit facilities to the retailers to allow them to have the products delivered before they pay for them
  - 3) arranging delivery of the product to retailers
  - 4) putting goods on display for the consumers to select which one they want to buy
- 8 One disadvantage to a producer of using a wholesaler instead of dealing directly with retailers is that:
  - 1) the producer has many more firms to deal with
  - 2) the wholesaler's profit margin is likely to raise prices of the product
  - 3) the producer will have to make many more deliveries
  - 4) the producer will have to hold a higher level of stocks

*(continued)*

- 9 A farmer grows vegetables and has decided to sell them directly to consumers. One factor that is likely to have influenced this decision is that:
- 1) the products need to be explained to the consumers
  - 2) the products are likely to be expensive so a high quality image will be needed
  - 3) the products are perishable
  - 4) the products will be purchased infrequently
- 10 A computer manufacturer decides to open a new chain of shops to sell its products. One reason for this is likely to be that:
- 1) it is much cheaper to open and run a chain of shops than to sell products to other retailers
  - 2) existing shops employed well qualified staff to explain the products to consumers
  - 3) the manufacturer wants to control the image and marketing of its own products
  - 4) existing shops were prepared to accept lower profit margins
- 11 If a product, such as an ice cream, is purchased frequently it is likely to be:
- 1) distributed using personal selling
  - 2) distributed through many retail outlets
  - 3) sold directly from the factory to consumers
  - 4) distributed from producer to wholesaler and then directly to consumers
- 12 Which one of the following is the best definition of e-commerce?
- 1) Goods are distributed over the Internet
  - 2) It is an electronic form of communication within a business
  - 3) The use of the Internet to obtain market research information about customers
  - 4) The buying and selling of products over the Internet
- 13 One of the claimed advantages for a business of using e-commerce is that it allows the business to:
- 1) use personal selling to each customer
  - 2) promote a product internationally
  - 3) sell its products at higher prices in all global markets
  - 4) transport its products anywhere in the world using the Internet



**Chapter 16: Marketing strategy**

- 1 A business decides to promote a new range of luxury clothing by advertising in expensive women's magazines. Which one of the following would be the best mix of other decisions for the firm to take?
  - 1) High prices, mail order, cheap packaging
  - 2) Low prices, quality packaging, high class retail shops
  - 3) High prices, quality packaging, high class retail shops
  - 4) Low prices, quality packaging, sold in supermarkets
- 2 An entrepreneur plans to start-up a convenience store selling sweets, food and newspapers in an area of low income households. The most successful marketing mix combination is likely to be:
  - 1) price skimming; TV advertising; high street shop; wide range of products
  - 2) competitive pricing; postal leaflets in area; easily accessible small shop; basic products
  - 3) competitive pricing; postal leaflets in area; easily accessible small shop; quality products
  - 4) cost plus pricing; national newspaper advert; easily accessible small shop; basic products
- 3 The 4 Ps of the marketing mix are:
  - 1) price, product, people, place
  - 2) product, promotion, profit, place
  - 3) promotion, place, price, product
  - 4) place, profit, price, promotion
- 4 Legal controls over marketing activities include all of the following *except*:
  - 1) advertising claims should be honest
  - 2) prices should be very low
  - 3) weights should be accurate
  - 4) products must meet safety standards
- 5 Consumers benefit from legal controls over marketing activities in which one of the following ways:
  - 1) products they buy will never fail
  - 2) all adverts will contain large amounts of information
  - 3) prices will be lower than in other countries
  - 4) risk of accidents from dangerous products is reduced
- 6 Which one of the following is the most likely reason for a business selling products in foreign markets for the first time?
  - 1) The domestic market is expanding quickly
  - 2) The business is operating at 100% of its total production capacity
  - 3) Foreign economies are in recession
  - 4) The domestic market is declining
- 7 Which one of the following is the most likely benefit to a business from selling products in a foreign market which has high incomes but low levels of competition?
  - 1) A high profit margin will be earned
  - 2) No advertising will be needed
  - 3) No changes to the products will have to be made
  - 4) It will definitely gain a high market share

*(continued)*



- 8 A business makes women's clothes. It plans to sell abroad for the first time. Which one of the following is a likely disadvantage of this decision?
- 1) It will have to sell at lower prices than in the domestic market
  - 2) It will have to consider changing the style of clothes
  - 3) It will have to buy many shops to enter the market
  - 4) It will have to advertise on TV in this country
- 9 Cultural differences between markets in different countries include all of the following *except*:
- 1) ethnic (race) differences and impact on food tastes
  - 2) religious differences towards eating meat
  - 3) language differences and understanding advertising material
  - 4) income differences affecting consumer spending habits
- 10 One advantage of forming a joint venture with a business in another country when entering this market is:
- 1) the local business will have useful market knowledge
  - 2) the local business will have full control of the venture
  - 3) it removes all risks from entering foreign markets
  - 4) the products will not need to be changed to sell in this market

## Chapter 18: Costs, scale of production and break-even analysis

- 1 Which of the following is a reason for managers knowing the costs of the business?
  - 1) They will be able to increase output
  - 2) It will help them fix the price of the product(s)
  - 3) The information would have to be published to shareholders
  - 4) Costs will tell the managers, without any other information, what the profits of the business are
- 2 Which one of the following costs is most likely to be variable for a fast food restaurant?
  - 1) The salary of the manager
  - 2) The rent of the restaurant
  - 3) The cost of the food supplies
  - 4) The machinery used to cook the food
- 3 The best definition of variable costs is:
  - 1) they vary with the number of units produced
  - 2) they vary over time
  - 3) they vary with the prices charged by suppliers
  - 4) they vary with tax rates set by government
- 4 If variable costs are \$3 per unit, then the total variable costs of producing 3 500 units will be:
  - 1) \$3 500
  - 2) \$35 000
  - 3) \$1 050
  - 4) \$10 500
- 5 The best definition of fixed costs are those that do not vary with:
  - 1) time
  - 2) seasons
  - 3) output
  - 4) number of workers
- 6 The total costs of a business are equal to:
  - 1) the profit made
  - 2) variable costs plus added value
  - 3) quantity of units produced multiplied by average cost of producing each unit
  - 4) quantity of units sold multiplied by the selling price
- 7 Which one of the following is the best definition of economies of scale?
  - 1) Costs fall as output increases
  - 2) Costs per unit fall as the firm expands
  - 3) Average costs rise as the firm expands
  - 4) Fixed costs fall as output increases
- 8 Which one of the following is **not** an example of an economy of scale as a computer manufacturer increases its scale of production?
  - 1) Supplies of components are bought at a lower average cost
  - 2) The price of the product to the consumer falls
  - 3) Expert managers can be employed to increase efficiency
  - 4) The most advanced equipment can now be purchased

(continued)

- 9 All of the following are examples of diseconomies of scale as a business grows *except*:
- 1) poor communication as there are so many people to send messages to
  - 2) low workforce motivation as they feel less involved in a larger business
  - 3) problems with decision making when there are many different divisions of a business
  - 4) technological problems with new equipment causing production to stop
- 10 The break-even level of output is that number of units at which:
- 1) profit is at its highest level
  - 2) variable costs equal revenue
  - 3) total costs equal total revenue
  - 4) variable costs equal fixed costs
- 11 If maximum output is 10 000 units, current output is 8 000 units and break-even output is 4 500 units, then the safety margin is:
- 1) 2 000 units
  - 2) 5 500 units
  - 3) 4 500 units
  - 4) 3 500 units
- 12 A product sells for \$7. Material and other variable costs are \$3 per unit. Fixed costs are \$60 000. The break-even level of output is:
- 1) 15 000 units
  - 2) 60 000 units
  - 3) 20 000 units
  - 4) we cannot tell from the information given
- 13 The best definition of the contribution made by a product is:
- 1) profit made on each item sold
  - 2) revenue gained from selling each item
  - 3) difference between price and variable cost
  - 4) difference between price and fixed cost
- 14 If total fixed costs of a business are \$2 000 per week, variable costs are \$3 per unit and the firm produces 500 units per week, then the average total cost is:
- 1) \$3
  - 2) \$5
  - 3) \$2 003
  - 4) \$7
- 15 If a business increases the price of a product but sales do not fall then:
- 1) the break-even level of output rises and profit increases
  - 2) the break-even level of output falls and profit increases
  - 3) the break-even level of output remains the same and profit increases
  - 4) The break-even level of output falls and profit falls
- 16 One of the limitations of break-even charts is:
- 1) they cannot be used to calculate profit
  - 2) they cannot show the safety margin
  - 3) they are based on the assumption that all output is sold
  - 4) they are based on the assumption that the business makes a profit at all levels of output

**Chapter 21: Business finance: needs and sources**

- 1 Which of the following is **not** a reason why a business needs money?
  - 1) To start the business
  - 2) To expand the business
  - 3) To deal with a negative cash-flow problem
  - 4) To increase prices of its products
- 2 When a business expands it usually needs finance for which one of the following reasons?
  - 1) To pay for increased working capital
  - 2) To pay back shareholders
  - 3) To pay the government a grant
  - 4) To provide a loan to the bank
- 3 Which of the following is an example of internal finance for a limited company?
  - 1) Selling shares
  - 2) Selling debentures
  - 3) Obtaining a loan
  - 4) Selling off inventories
- 4 Which of the following is an example of external finance for a limited company?
  - 1) Retained profits of the company
  - 2) Selling shares
  - 3) Sale of assets no longer used in the business
  - 4) Selling off inventories
- 5 An advantage that an overdraft has over a bank loan is that:
  - 1) it has a fixed rate of interest
  - 2) it is paid back over a fixed time period
  - 3) no dividends have to be paid to shareholders as with a loan
  - 4) the size of the overdraft can vary with the needs of the business
- 6 An advantage that share capital (equity capital) has over long-term loans is that:
  - 1) the capital never has to be repaid
  - 2) the rate of interest on shares is fixed
  - 3) the balance of control in the business will change if more shares are issued
  - 4) dividends are paid on long term loans but not on shares
- 7 Which one of the following is an advantage of micro-finance for an entrepreneur setting up a business?
  - 1) There are no interest costs so the business will be more profitable
  - 2) Very large loans can be obtained
  - 3) The finance does not have to be repaid
  - 4) Finance is provided to people who could not usually obtain a bank loan
- 8 An advantage to a business of leasing computers rather than buying them outright is that:
  - 1) the loan never has to be repaid
  - 2) the computers will never go out of date
  - 3) the total cost of leasing is always cheaper than buying the computers
  - 4) the company does not have to find a large cash sum to buy the computers
- 9 Which of the following business decisions is likely to need long-term finance?
  - 1) Increasing inventories of goods for the summer season
  - 2) Hiring a car for the sales manager
  - 3) Building a new factory
  - 4) Paying creditors for goods supplied

*(continued)*

- 10 A flower seller plans to increase inventories of plants before a major festival. Which of the following is the most likely source of finance?
- 1) Bank overdraft
  - 2) Leasing
  - 3) Share issue
  - 4) Debentures
- 11 Which of the following sources of finance is most likely to be used by a company planning to take over another business?
- 1) Bank overdraft
  - 2) Leasing
  - 3) Share issue
  - 4) Trade credit
- 12 When a bank asks for 'security' before agreeing to a bank loan it means that:
- 1) the offices must be securely locked at night
  - 2) business assets will be sold by the bank if the loan is not repaid
  - 3) the assets purchased must be insured
  - 4) the managers must provide an assurance that the loan will be repaid
- 13 Which of the following will probably **not** be considered by a business before deciding on the most suitable source of finance?
- 1) The purpose of the finance – what it will be used for
  - 2) How long the finance is used for
  - 3) The rate of interest on loans
  - 4) The opinions of the workers
- 14 Which one of the following factors should be considered by a manager when planning finance for an expansion programme?
- 1) The legal form of the business
  - 2) The location of the planned expansion
  - 3) The number of workers employed
  - 4) The time of year the expansion is planned for
- 15 A business has applied for a bank loan to buy new computers. A bank manager is most likely to ask all of the following questions before granting the loan *except*:
- 1) How big is the loan needed?
  - 2) How many loans has the business already obtained?
  - 3) How long will the loan be needed for?
  - 4) How powerful are the computers?

**Chapter 22: Cash flow forecasting and working capital**

- 1 Which of the following is an example of a cash inflow for a business?
  - 1) Payment to suppliers
  - 2) Paying back a loan to a bank
  - 3) Payment made by debtors
  - 4) Purchase of fixed assets
- 2 Which of the following is an example of a cash outflow for a business?
  - 1) Payments to creditors
  - 2) Sale of goods for cash
  - 3) Payment from debtors
  - 4) Receiving a loan from the bank
- 3 Complete this statement with the best option: 'The longer the cash-flow cycle....'
  - 1) the less cash the business will need
  - 2) the lower will be the firm's working capital needs
  - 3) the less chance there is for the business to run out of cash
  - 4) the more working capital and cash the business will need
- 4 All of the following would be included in a typical cash flow forecast *except*:
  - 1) cash sales
  - 2) opening balance
  - 3) monthly profit
  - 4) net cash flow
- 5 If a business 'runs out of cash' it may be forced to:
  - 1) sell assets to pay suppliers
  - 2) Increase prices to make higher profits
  - 3) buy more materials to increase production
  - 4) sell more products on credit
- 6 Which one of the following is the most likely reason for a business running into cash flow problems?
  - 1) Demanding quick payment from customers
  - 2) Allowing customers a long credit period but paying suppliers immediately
  - 3) Allowing customers a long credit period and delaying payments to suppliers
  - 4) Producing goods only when demanded by customers and keeping low inventory levels
- 7 Which of the following is **not** a use of cash flow forecasts?
  - 1) They indicate how much cash is available for paying bills
  - 2) They indicate how much the bank might need to lend in order for the firm to avoid insolvency
  - 3) They indicate whether the business is holding too much cash which could be used more profitably
  - 4) They indicate how much profit the business will make

(continued)

For questions 8–10 refer to the following cash-flow forecast for Fiesta Productions Ltd (2014) \$000. Figures in brackets are negative.

	May	June	July
<b>Cash inflows:</b>			
Sales	7	8	10
<b>Cash outflows:</b>			
Payments to creditors	3	1	8
Wages	2	2	7
Total cash out-flows:	5	3	15
Opening cash balance	2	x	9
Net cash flow:	2	5	z
Closing bank balance	4	y	4

- 8 Which of the following is the value of x? (\$000)
- 1) (2)
  - 2) 2
  - 3) 4
  - 4) 6
- 9 Which of the following is the value of y? (\$000)
- 1) (9)
  - 2) 6
  - 3) 9
  - 4) 15
- 10 Which of the following is the value of z? (\$000)
- 1) (15)
  - 2) (5)
  - 3) 5
  - 4) 15
- 11 Business cashflow forecasts are of use in all of the following situations *except*:
- 1) calculating last year's profit or loss
  - 2) finding out how much cash will be needed to start a business
  - 3) keeping the bank manager informed about the liquidity of the business
  - 4) helping the manager to plan when to borrow money
- 12 A firm is forecast to have a negative closing bank balance in three months time. Which of the following measures would help to reduce the problem?
- 1) Sell more goods on 4 months credit
  - 2) Produce more goods
  - 3) Ask customers to pay in cash and not sell goods on credit
  - 4) Ask suppliers if the firm can pay for goods delivered in cash
- 13 If a cashflow forecast suggests that a business will run out of cash, which of the following would help overcome this problem?
- 1) Purchase more fixed assets
  - 2) Repay a bank loan
  - 3) Pay suppliers immediately
  - 4) Delay paying suppliers

(continued)

- 14** The monthly net cash flow for a business is calculated by:
- 1) sales revenue – cost of goods sold
  - 2) total cash in – total cash out
  - 3) total cash out – total cash in
  - 4) total cash in — cost of goods sold.
- 15** The closing bank balance is calculated by:
- 1) opening bank balance + cash out-flow
  - 2) opening bank balance + cash in-flow
  - 3) opening bank balance + net cash flow
  - 4) net cash flow + gross profit.
- 16** A business might hold working capital in all of the following ways *except*:
- 1) unsold goods
  - 2) the value of goods sold to customers on credit
  - 3) long term loans
  - 4) cash



**Chapter 23: Income statements**

**For questions 1 and 2, refer to the following information:**

INAC Ltd recorded the following transactions in July:

Sold \$2 000 of goods – 50% on credit.

Cost of goods sold \$500 (paid for in cash).

Assume no other transactions.

- 1 INAC's gross profit for July was:
  - 1) \$2 000
  - 2) \$1 500
  - 3) \$500
  - 4) \$2 500
- 2 INAC's net cash flow for July was:
  - 1) \$2 000
  - 2) \$1 500
  - 3) \$500
  - 4) \$2 500
- 3 Which of the following statements about business accounts is **not** true:
  - 1) accounts are the financial records of a business
  - 2) the final accounts of a business are not useful to shareholders
  - 3) final accounts give details of the profit or loss made by the business over the financial year
  - 4) limited companies must publish their final accounts
- 4 Profit is important to businesses in the private sector for all of the following reasons *except*:
  - 1) as a reward for taking risks
  - 2) as a source of finance for business expansion
  - 3) as an indicator of successful products
  - 4) as an example of social responsibility
- 5 Which one of the following formulae will give the gross profit of a business?
  - 1) Sales revenue – cost of goods sold
  - 2) Sales revenue – net profit
  - 3) Net profit – expenses
  - 4) Cost of goods sold – sales revenue
- 6 During August the City Café Co. bought 100 cans of drink for a total of \$50. It sold 80 of these cans for \$2 each during August. It started the month with no inventory. The gross profit made from the cans in August was:
  - 1) \$160
  - 2) \$150
  - 3) \$110
  - 4) \$120
- 7 The difference between net profit and gross profit is:
  - 1) cost of goods sold
  - 2) sales revenue
  - 3) overhead expenses
  - 4) labour costs

(continued)

- 8 The main difference between net profit and retained profit is that:
- 1) profit tax and dividends are added to net profit to give retained profit
  - 2) profit tax and dividends are subtracted from net profit to give retained profit
  - 3) expenses and material costs are subtracted from net profit to give retained profit
  - 4) expenses and material costs are added to net profit to give retained profit

**Questions 9 and 10 are based on this data:**

A company recorded sales revenue of \$15 000 in 2013. The cost of goods sold in 2013 was \$7000. Overhead expenses were \$3500. Dividends paid were \$2000 and profit tax paid was \$1000.

- 9 Which one of the following statements is correct about the company's profits in 2013?
- 1) Gross profit = \$8000 and net profit = \$4000
  - 2) Gross profit = \$8000 and net profit = \$4500
  - 3) Gross profit = \$4500 and net profit = \$3500
  - 4) Gross profit = \$4500 and net profit = \$1500
- 10 The company's retained profits in 2013 were:
- 1) \$8000
  - 2) \$4500
  - 3) \$2500
  - 4) \$1500

**Chapter 24: Balance sheets**

- 1 Which one of the following statements about balance sheets is correct?
  - 1) They show the revenue, costs and profit of a business
  - 2) They forecast the cash flow of the business
  - 3) They contain details of the assets and liabilities of a business
  - 4) They show the revenue, profit and assets of a business
- 2 Which one of the following statements is correct?
  - 1) Assets are items of value owed by a business
  - 2) Liabilities are items of value owned by a business
  - 3) Share capital is the total value of the business
  - 4) Assets are items of value owned by the business
- 3 A balance sheet can show all of the following except:
  - 1) how a business is financing its activities
  - 2) the value of items owned by a business
  - 3) the value of inventories which could be sold to raise finance
  - 4) the profitability of the business
- 4 All of the following would be found on the fixed assets section of a firm's balance sheet *except*:
  - 1) vehicles
  - 2) buildings
  - 3) machinery
  - 4) debtors
- 5 Which of the following is a current asset?
  - 1) Buildings
  - 2) Creditors
  - 3) Machinery
  - 4) Debtors
- 6 All of the following would be found on the current liabilities section of a firm's balance sheet *except*:
  - 1) overdraft
  - 2) creditors
  - 3) debtors
  - 4) tax to be paid in three months time
- 7 Working capital is calculated by:
  - 1) current assets – fixed assets
  - 2) current liabilities – current assets
  - 3) fixed assets – current assets
  - 4) current assets – current liabilities
- 8 Capital employed is obtained by adding together 'shareholders funds' and 'long-term liabilities'.  
Which of the following would **not** be included in this addition?
  - 1) Profit and loss reserves
  - 2) Loans
  - 3) Working capital
  - 4) Share capital

*(continued)*

Questions 9 and 10 are based on the following simplified Balance Sheet for Vine plc (Year ending 31/3/13):

	£m
Fixed assets	80
Current assets	55
Total assets	135
Current liabilities	45
Non-current (long term) liabilities	20
Total liabilities	65
Total assets less total liabilities	70
Shareholders (owners) equity	x

9 The value of shareholders equity is:

- 1) £65m
- 2) £70m
- 3) £80m
- 4) £135m

10 The value of working capital is:

- 1) £10m
- 2) £45m
- 3) £55m
- 4) £65m

**Chapter 25: Analysis of accounts**

- 1 The formula for the return on capital employed ratio (%) is:
  - 1) gross profit ÷ total assets × 100
  - 2) net profit ÷ current assets × 100
  - 3) net profit ÷ capital employed × 100
  - 4) net profit ÷ sales revenue × 100
- 2 The formula for the gross profit margin (%) is:
  - 1) gross profit ÷ sales revenue × 100
  - 2) gross profit ÷ net profit × 100
  - 3) gross profit ÷ net assets × 100
  - 4) sales revenue ÷ gross profit × 100
- 3 The formula for the net profit margin (%) is:
  - 1) sales revenue ÷ net profit × 100
  - 2) net profit ÷ sales revenue × 100
  - 3) gross profit – overhead expenses
  - 4) net profit ÷ overhead expenses × 100
- 4 A company's net profit margin fell from 15% last year to 12% this year. The best explanation for this change is:
  - 1) sales increased and costs fell
  - 2) overhead expenses rose by more than sales revenue
  - 3) gross profit margin rose and sales revenue increased
  - 4) overhead expenses fell by more than sales revenue

**For questions 5, 6 and 7, refer to the data in the attached document from Spice Co.Ltd (year ending 31/3/13).**

Sales revenue	\$150 000
Gross profit	\$50 000
Overhead expenses	\$35 000
Capital employed	\$200 000

- 5 The gross profit margin was:
  - 1) 13.3%
  - 2) 30%
  - 3) 31.25%
  - 4) 33.3%
- 6 The net profit margin was:
  - 1) 1%
  - 2) 10%
  - 3) 15%
  - 4) 20%
- 7 The return on capital employed was:
  - 1) 7.5%
  - 2) 15%
  - 3) 25%
  - 4) 75%

(continued)

**For questions 8 and 9, refer to the data in the attached document from AZCO Ltd's Balance Sheet.**

Current liabilities	\$30 000
Current assets	\$45 000
Of which:	
Debtors	\$15 000
Inventories	\$25 000

- 8 The value of the company's current ratio was:
- 1) 1.25
  - 2) 1
  - 3) 1.5
  - 4) 2
- 9 The value of the company's acid test ratio was:
- 1) 0.67
  - 2) 1.25
  - 3) 1.5
  - 4) 2
- 10 'The liquidity of our business is declining'. Which one of the following statements best explains this quote?
- 1) The business is making less profit than last year
  - 2) The business has run out of cash
  - 3) The business is finding it more difficult to pay short term debts
  - 4) The business is holding more current assets compared to current liabilities than last year
- 11 Which one of the following statements about accounting ratio analysis is correct?
- 1) Ratios measure the future profitability of a business
  - 2) Many stakeholders groups find ratio results useful
  - 3) Only the managers of a business use ratio analysis
  - 4) Ratio results are of no use when managers take important decisions
- 12 One of the drawbacks to ratio analysis of accounts is:
- 1) ratio results cannot be compared over time
  - 2) businesses in different industries can be expected to have very different ratio results
  - 3) ratios can only be calculated for the current year, not for previous years
  - 4) the only ratios that can be used to analyse accounts are the profitability ratios

**End of Section 5 revision test**

The following questions are about Safari Tours (ST). Read the text and use the words and phrases below to fill in the gaps.

Safari Tours (ST) is a small business owned by Tokumbo. He set the business up with a very small loan given to him by a bank that specialises in \_\_\_\_\_ finance. He has long since repaid this loan from internal sources of finance such as \_\_\_\_\_ profits. ST organises safari tours for foreign tourists to Metro. Tourism is a \_\_\_\_\_ business and this creates cash \_\_\_\_\_ problems for ST. Cash \_\_\_\_\_ from tourists are very low during the winter months yet some cash \_\_\_\_\_ still have to be paid. ST uses an \_\_\_\_\_ arrangement with its bank to help it over these periods. Other \_\_\_\_\_ sources of finance used by ST include long term loans. Last year, the company borrowed \$10 000 to replace one of its Land Rover vehicles. Profit is important to ST. It means that Tokumbo receives some return for the \_\_\_\_\_ he took setting up the business as well as providing a useful source of finance. Last year ST's gross profit (Sales \_\_\_\_\_ less cost of sales) increased by 15%. However the \_\_\_\_\_ profit of the business fell. Tokumbo believes this is because the business had very high \_\_\_\_\_ last year. Tokumbo and ST's stakeholders often use \_\_\_\_\_ analysis of accounts to judge how well the company is doing. The suppliers are becoming worried about the \_\_\_\_\_ of the business as the current ratio is quite low. The \_\_\_\_\_ test ratio, however, is quite encouraging and Tokumbo has reassured his suppliers that ST will have enough \_\_\_\_\_ capital to pay them back in the future.

[net]	[outflows]	[expenses]	[risks]	[liquidity]	[seasonal]
[external]	[revenue]	[acid]	[micro]	[flow]	[working]
[retained]	[inflow]	[overdraft]	[ratio]		