

Subject BA1

Fundamentals of Business Economics

EXAM PRACTICE KIT



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SYLLABUS GUIDANCE, LEARNING OBJECTIVES AND VERBS

A THE CERTIFICATE IN BUSINESS ACCOUNTING (CERT BA)

The Cert BA provides a foundation in the essential elements of accounting and business. This includes the Fundamentals of Business Economics. There are four subject areas, which are all tested by computer-based assessment (CBA). The four subjects are:

- BA1: Fundamentals of Business Economics
- BA2: Fundamentals of Management Accounting
- BA3: Fundamentals of Financial Accounting
- BA4: Fundamentals of Ethics, Corporate Governance and Business Law

The Cert BA is both a qualification in its own right and an entry route to the next stage in CIMA's examination structure.

The examination structure after the Certificate comprises:

- Operational Level
- Managerial Level
- Strategic Level

The CIMA Qualification includes more advanced topics in Accounting and Business. It is therefore very important that you apply yourself to Fundamentals of Business Economics, not only because it is part of the Certificate, but also as a platform for more advanced studies. It is thus an important step in becoming a qualified member of the Chartered Institute of Management Accountants.

B AIMS OF THE SYLLABUS

The aims of the syllabus are

- to provide for the Institute, together with the practical experience requirements, an adequate basis for assuring society that those admitted to membership are competent to act as management accountants for entities, whether in manufacturing, commercial or service organisations, in the public or private sectors of the economy;
- to enable the Institute to examine whether prospective members have an adequate knowledge, understanding and mastery of the stated body of knowledge and skills;
- to complement the Institute's practical experience and skills development requirements.

C STUDY WEIGHTINGS

A percentage weighting is shown against each topic in the syllabus. This is intended as a guide to the proportion of study time each topic requires.

All topics in the syllabus must be studied, since any single examination question may examine more than one topic, or carry a higher proportion of marks than the percentage study time suggested.

The weightings do not specify the number of marks that will be allocated to topics in the examination.

D CIMA'S HIERARCHY OF LEARNING OBJECTIVES

CIMA places great importance on the definition of verbs in structuring Objective Test Examinations. It is therefore crucial that you understand the verbs in order to appreciate the depth and breadth of a topic and the level of skill required. The CIMA Cert BA syllabus learning outcomes and objective test questions will focus on levels one, two and three of the CIMA's hierarchy of learning objectives (knowledge, comprehension and application). However, as you progress to the Operational, Management and Strategic levels of the CIMA Professional Qualification, testing will include levels four and five of the hierarchy. As you complete your CIMA Professional Qualification, you can therefore expect to be tested on knowledge, comprehension, application, analysis and evaluation.

In CIMA Cert BA Objective Test Examinations you will meet verbs from only levels 1, 2, and 3 of the hierarchy which are as follows:

| Skill level | Verbs used | Definition |
|---|------------------------------------|---|
| Level 1 Knowledge What you are expected to know | List State Define Outline | Make a list of Express, fully or clearly, the details/facts of Give the exact meaning of Give a summary of |

For example you could be asked to define economic terms such as 'inflation' (BA1), or to define the term 'management accounting' (BA2) or to state the accounting entries required to record the revaluation surplus arising on revaluation of land and buildings (BA3).

| Skill level | Verbs used | Definition |
|---|--|---|
| Level 2 Comprehension What you are expected to understand | Describe Distinguish Explain Identify Illustrate | Communicate the key features of Highlight the differences between Make clear or intelligible/state the meaning or purpose of Recognise, establish or select after consideration Use an example to describe or explain something |

For example you could be asked to explain the components of the circular flow of funds (BA1), or distinguish between financial accounting and management accounting (BA3) or distinguish between express terms and implied terms of a contract of employment (BA4).

| Skill level | Verbs used | Definition |
|--|--|--|
| Level 3 Application How you are expected to apply your knowledge | Apply Calculate Conduct Demonstrate Prepare Reconcile | Put to practical use Ascertain or reckon mathematically Organise and carry out Prove with certainty or exhibit by practical means Make or get ready for use Make or prove consistent/compatible |

For example you could be asked to reconcile the differences between profits calculated using absorption costing and marginal costing (BA2), or to calculate the gain or loss on disposal of a noncurrent asset (BA3) or to apply relevant principles to determine the outcome of a law-based or ethical problem (BA4).

For reference, levels 4 and 5 of the hierarchy require demonstration of analysis and evaluation skills respectively. Further detail on levels 4 and 5 of the hierarchy which are tested in the CIMA Professional Qualification can be obtained from the CIMA website, www.cimaglobal.com.

OBJECTIVE TESTS

Objective Test questions require you to choose or provide a response to a question whose correct answer is predetermined.

The most common types of Objective Test question you will see are:

- **multiple choice**, where you have to choose the correct answer(s) from a list of possible answers – this could either be numbers or text.
- **multiple response** with more choices and answers, for example, choosing two correct answers from a list of five available answers – this could either be numbers or text.
- **number entry**, where you give your numeric answer to one or more parts of a question, for example, gross profit is \$25,000 and the accrual for heat and light charges is \$750.
- **drag and drop**, where you match one or more items with others from the list available, for example, matching several accounting terms with the appropriate definition
- **drop down**, where you choose the correct answer from those available in a drop down menu, for example, choosing the correct calculation of an accounting ratio, or stating whether an individual statement is true or false. This can also be included with a number entry style question.
- **hot spot**, where, for example, you use your computer cursor or mouse to identify the point of profit maximisation on a graph

CIMA has provided the following guidance relating to the format of questions and their marking:

- questions which require narrative responses to be typed will not be used
- for number entry questions, clear guidance will usually be given about the format in which the answer is required e.g. 'to the nearest \$' or 'to two decimal places'.
- item set questions provide a scenario which then forms the basis of more than one question (usually 2 and 4 questions). These sets of questions would appear together in the test and are most likely to appear in BA2 and BA3
- all questions are independent so that, where questions are based on a common item set scenario, each question will be distinct and the answer to a later question will not be dependent upon answering an earlier question correctly
- all items are equally weighted and, where a question consists of more than one element, all elements must be answered correctly for the question to be marked correct.

Throughout this Exam Practice Kit we have introduced these types of questions, but obviously we have had to label answers A, B, C etc. rather than using click boxes. For convenience we have retained quite a few questions where an initial scenario leads to a number of sub-questions. There will be questions of this type in the Objective Test Examination but they will rarely have more than three sub-questions.

Guidance re CIMA on-screen calculator

As part of the CIMA Objective Test software, candidates are provided with a calculator. This calculator is on-screen and is available for the duration of the assessment. The calculator is available in Objective Test Examinations for BA1, BA2 and BA3 (it is not required for BA4).

Guidance regarding calculator use in the Objective Test Examinations is available online at: <https://connect.cimaglobal.com/>

CIMA Cert BA Objective Tests

The Objective Tests are a two-hour assessment comprising compulsory questions, each with one or more parts. There will be no choice and all questions should be attempted. The number of questions in each assessment are as follows:

BA1 Fundamentals of Business Economics – 60 questions

BA2 Fundamentals of Management Accounting – 60 questions

BA3 Fundamentals of Financial Accounting – 60 questions

BA4 Fundamentals of Ethics, Corporate Governance and Business Law – 85 questions

**Information concerning formulae and tables will be provided via the CIMA website:
www.cimaglobal.com.**

SYLLABUS OUTLINE

BA1: Fundamentals of Business Economics

Syllabus overview

This subject primarily covers the economic and operating context of business and how the factors of competition, the behaviour of financial markets and government economic policy can influence an organisation. It also deals with the information available to assist management in evaluating and forecasting the behaviour of consumers, markets and the economy in general.

The focus of this syllabus is on providing candidates with an understanding of the areas of economic activity relevant to an organisation's decisions and, within this context, the numerical techniques to support such decisions.

Assessment strategy

There will be a two hour computer based assessment, comprising 60 compulsory objective test questions.

Syllabus structure

The syllabus comprises the following topics and weightings:

| Content area | | Weighting |
|--------------|--|-------------|
| A | Macroeconomic and institutional context of business | 25% |
| B | Microeconomic and organisational context of business | 30% |
| C | Informational context of business | 20% |
| D | Financial context of business | 25% |
| | | 100% |

LEARNING OUTCOMES AND INDICATIVE SYLLABUS CONTENT

BA1A: Macroeconomic and institutional context of business (25%)

Learning outcomes

On completion of their studies, students should be able to:

| Lead | Component | Level | Indicative syllabus content |
|--|---|-------|--|
| 1. Explain the principal factors that affect the level of a country's national income and the impact of changing economic growth rates and prices on business. | a. Explain determination of macroeconomic phenomena, including equilibrium national income, growth in national income, price inflation, unemployment, and trade deficits and surpluses. | 2 | <ul style="list-style-type: none"> The causes of changes to the equilibrium level of national income using an aggregate demand and supply analysis and the elements in the circular flow of income. |
| | b. Explain the stages of the trade cycle and the consequences of each stage for the policy choices of government. | 2 | <ul style="list-style-type: none"> The trade cycle and the implications for unemployment, inflation and trade balance of each stage and government policy for each stage. |
| | c. Explain the main principles of public finance (i.e. deficit financing, forms of taxation) and macroeconomic policy. | 2 | <ul style="list-style-type: none"> The main principles of public finance: the central government budget and forms of direct and indirect taxation. |
| | d. Describe the impacts on business of potential policy responses of government, to each stage of the trade cycle. | 2 | <ul style="list-style-type: none"> The main principles of public finance: fiscal, monetary and supply side policies, including relative merits of each. |
| | e. Calculate indices for price inflation and national income growth using either base or current weights and use indices to deflate a series. | 3 | <ul style="list-style-type: none"> The effects on business of changes in the economic growth rate, interest rates, government expenditure and taxation. Index numbers. |
| 2. Explain the factors affecting the trade of a country with the rest of the World and its impact on business. | a. Explain the concept of the balance of payments and its implications for government policy. | 2 | <ul style="list-style-type: none"> The causes and effects of fundamental imbalances in the balance of payments. |
| | b. Identify the main elements of national policy with respect to trade. | 2 | <ul style="list-style-type: none"> Policies to encourage free trade and protectionist instruments. |
| | c. Explain the impacts of exchange rate policies on business. | 2 | <ul style="list-style-type: none"> The effect of changing exchange rates on the profits of business and international competitiveness. |

LEARNING OUTCOMES AND INDICATIVE SYLLABUS CONTENT

| Lead | Component | Level | Indicative syllabus content |
|--|---|-------|---|
| 3. Explain the influences on economic development of countries and the effects of globalisation on business. | a. Explain the concept of globalisation and the consequences for businesses and national economies. | 2 | <ul style="list-style-type: none"> • Nature of globalisation and factors driving it (improved communications, political realignments, growth of global industries and institutions, cost differentials). • Impacts of globalisation on business including off-shoring, industrial relocation, emergence of growth markets, and enhanced competition. • Main trade agreements and trading blocks. • Principal institutions encouraging international trade. • The PESTEL framework (Political, Economic, Social, Technological, Environmental/Ecological, Legal). |
| | b. Explain the role of major institutions promoting global trade and development. | 2 | |
| | c. Identify the impacts of economic and institutional factors using the PESTEL framework. | 2 | |

BA1B: Microeconomic and organisational context of business (30%)

Learning outcomes

On completion of their studies, students should be able to:

| Lead | Component | Level | Indicative syllabus content |
|--|--|-------|---|
| 1. Distinguish between the economic goals of various stakeholders and organisations. | a. Distinguish between the goals of profit seeking organisations, not-for-profit organisations and governmental organisations. | 2 | <ul style="list-style-type: none"> Types of public, private and mutually owned organisations and their objectives. Types of not-for-profit organisations and their objectives. Concepts of returns to shareholder investment in the short run and long run (and the cost of capital). The principal-agent problem, its impact on the decisions of organisations. |
| | b. Explain shareholder wealth, the variables affecting shareholder wealth, and its application in management decision making. | 2 | |
| | c. Distinguish between the potential objectives of management, shareholders, and other stakeholders and the effects of these on the behaviour of the firm. | 2 | |
| 2. Demonstrate the determination of prices by market forces and the impact of price changes on revenue from sales. | a. Identify the equilibrium price in product or factor markets. | 2 | <ul style="list-style-type: none"> The price mechanism: determinants of supply and demand and their interaction to form and change equilibrium price. The price elasticity of demand and supply. Influences on the price elasticities of demand and supply. Consequences of different price elasticities of demand for total revenue. |
| | b. Calculate the price elasticity of demand and the price elasticity of supply. | 3 | |
| | c. Explain the determinants of the price elasticities of demand and supply. | 2 | |
| | d. Calculate the effects of price elasticity of demand on a firm's total revenue curve. | 3 | |
| 3. Explain the influence of economic and social considerations on the structure of the organisation and the regulation of markets. | a. Identify the influence of costs on the size and structure of the organisation. | 2 | <ul style="list-style-type: none"> Sources of internal and external economies of scale and their influence on market concentration. Impacts of changing transactions costs on the decision to outsource aspects of a business (including network organisations, shared service centres, and flexible staffing). Positive and negative externalities in goods markets and government responses to them including indirect taxes, subsidies, polluter pays policies, regulation and direct provision. Impact of minimum price (minimum wages) and maximum price policies in goods and factor markets. |
| | b. Explain the sources of market failures and the policies available to deal with them. | 2 | |

BA1C: Informational context of business (20%)**Learning outcomes**

On completion of their studies, students should be able to:

| Lead | Component | Level | Indicative syllabus content |
|---|---|-------|---|
| 1. Apply techniques to communicate business data as information to business stakeholders. | a. Explain the difference between data and information and the characteristics of good information. | 2 | <ul style="list-style-type: none"> Data and information. Graphs, charts and diagrams: scatter diagrams, histograms, bar charts and ogives. |
| | b. Identify relevant data from graphs, charts and diagrams. | 2 | |
| 2. Demonstrate the uses of big data and analytics for understanding the business context. | a. describe the principal business applications of big data and analytics. | 3 | <ul style="list-style-type: none"> Use of big data and analytics to identify customer value, customer behaviour, cost behaviour and to assist with logistics decisions. Cross-sectional and time-series analysis. The correlation coefficient and the coefficient of determination between two variables. Correlation coefficient: Spearman's rank correlation coefficient and Pearson's correlation coefficient. Time series analysis – graphical analysis. Seasonal factors for both additive and multiplicative models. Predicted values given a time series model. Seasonal variations using both additive and multiplicative models. Trends in time series – graphs, moving averages and linear regressions. The regression equation to predict the dependent variable, given a value of the independent variable. Forecasting and its limitations. |
| | b. Demonstrate the relationship between data variables. | 3 | |
| | c. Demonstrate trends and patterns using an appropriate technique. | 3 | |
| | d. Prepare a trend equation using either graphical means or regression analysis. | 3 | |
| | e. Identify the limitations of forecasting models. | 2 | |

BA1D: Financial context of business (25%)

Learning outcomes

On completion of their studies, students should be able to:

| Lead | Component | Level | Indicative syllabus content |
|--|--|-------|---|
| 1. Explain the functions of the main financial markets and institutions in facilitating commerce and development. | a. Explain the role of various financial assets, markets and institutions in assisting organisations to manage their liquidity position and to provide an economic return to providers of liquidity. | 2 | <ul style="list-style-type: none"> • Role and functions of financial intermediaries. • Role of financial assets, markets and institutions in helping institutions regulate their liquidity position. • Role and influence of commercial banks in credit creation. • Role and common functions of central banks including their influence on yield rates and policies of quantitative easing. • Role of foreign exchange markets in facilitating international trade and in determining the exchange rate. • Governmental and international policies on exchange rates (exchange rate management, fixed and floating rate systems, single currency zones). |
| | b. Explain the role of commercial banks in the process of credit creation and in determining the structure of interest rates and the roles of the 'central bank' in ensuring liquidity. | 2 | |
| | c. Explain the role of the foreign exchange market in facilitating trade and in setting exchange rates. | 2 | |
| 2. Apply financial mathematical techniques in a business decision-making context. | a. Calculate future values of an investment using both simple and compound interest. | 3 | <ul style="list-style-type: none"> • Simple and compound interest. • Calculate an annual percentage rate of interest given a monthly or quarterly rate. • Annuities and perpetuities. • Discounting to find net present value (NPV) and internal rate of return (IRR). |
| | b. Calculate the present value of a future cash sum, an annuity and a perpetuity. | 3 | |
| 3. Demonstrate the impact of changes in interest and exchange rates on controlling and measuring business performance. | a. Describe the impact of interest rate changes on market demand and the costs of finance. | 2 | <ul style="list-style-type: none"> • The impact of interest rates on discretionary spending, borrowing, saving, capital investment, and government borrowing and expenditure. • The impact of a change in the exchange rate on assets and liabilities denominated in a foreign currency. • The effect changing exchange rates has on measures of the economic performance of the business (costs, revenues, profits and asset values). • Forward contracts, futures and options as ways to manage the impact of changes. |
| | b. Calculate the impact of exchange rate changes on export and import prices and the value of the assets and liabilities of the business. | 3 | |
| | c. Explain the role of hedging and derivative contracts in managing the impact of changes in interest and exchange rates. | 2 | |

Section 1

OBJECTIVE TEST QUESTIONS

MICROECONOMIC AND ORGANISATIONAL CONTEXT I: THE GOALS AND DECISIONS OF ORGANISATIONS

- 1 Which of the following is NOT a key feature of an organisation?**
 - A Controlled performance
 - B Collective goals
 - C Social arrangements
 - D Creation of a product or service

- 2 The public sector is normally concerned with which of the following?**
 - A making profit from the sale of goods
 - B providing services to specific groups funded from charitable donations
 - C the provision of basic government services
 - D raising funds by subscriptions from members to provide common services

- 3 Which of the following statements is correct?**
 - A Not-for-profit organisations are only found in the public sector
 - B Not-for-profit organisations are only found in the private sector
 - C Not-for-profit organisations can be found in both the public and the private sector
 - D Not-for-profit organisations cannot survive without profits

4 Consider the following list of different organisations:

- (i) Government departments
- (ii) Partnerships
- (iii) Charities
- (iv) Companies

Which of these organisations would normally be classified as BOTH a not-for-profit organisation AND a private sector organisation?

- A (i) and (iii) only
- B (iii) only
- C (i) only
- D (ii) and (iii) only

5 Consider the following statements:

- (i) Not-for-profit organisations (NFPs) have varied objectives, which depend on the needs of their members or the sections of society they were created to benefit.
- (ii) The primary objective of government-funded organisations is to reduce costs of their operations and thus minimise the burden on tax payers.

Which of these statements is/are correct?

- A (i) only
- B (ii) only
- C Both
- D Neither

6 An example of the principal-agent problem in business is where principals, such as _____, delegate control to agents, such as _____. The problem is one of devising methods to ensure that agents act in the best interest of the principals. Managerial reward systems which link pay and bonuses to the improvement in _____ is one such method.

Choose from the following 'drop down' options to complete the above sentence.

| | |
|--------------------|--------------|
| management | stakeholders |
| shareholder wealth | shareholders |
| efficiency | |

7 Over the past year the X Co earned profits before tax and interest of \$110,000. It has interest charges of \$45,000 and a tax bill of \$30,000. Preference share dividends of \$15,000 were paid out, as were ordinary dividends of \$5,000. X Co has \$125,000 of share capital in issue and the shares each have a nominal value of \$0.50.

Calculate the earnings per share for the year in \$ to the nearest cent.

\$