



Essential Insight Exam Guide

Accounting and Finance Year 12 WACE Western Australian Curriculum

2025 Edition

Timothy Coveney



Essential Insight Exam Guide

Accounting and Finance

Year 12 WACE

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- Teachers can use these eBooks as a great reference point for lesson planning, developing internal assessments or when preparing class activities to ensure alignment with exam level questions.
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- Fully worked answers from the WACE marking guide are included for feedback.
- Increase student confidence and enable high achievement.

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Books available in this series

Mathematics	Science	Humanities and Social Sciences
<ul style="list-style-type: none"> • Mathematics Applications • Mathematics Methods • Mathematics Specialist 	<ul style="list-style-type: none"> • Biology • Chemistry • Human Biology • Physics • Psychology 	<ul style="list-style-type: none"> • Accounting and Finance • Economics • Geography

Acknowledgements

School Curriculum and Standards Authority. (2019-2023). ATAR Examinations and Marking Keys. The School Curriculum and Standards Authority does not endorse this publication or product.

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Notes	<ul style="list-style-type: none"> • Refer to the Essential Insight Accounting and Finance Practical and Course Guide to support completion of the questions in this Exam Guide. • Many Section 2 and Section 3 questions often feature questions from multiple topics across chapters which can be completed independently of the other parts of the question. Some of these multi part questions have been split across chapters to allow students to complete all relevant exam questions for a chapter cohesively. To provide context to the original question, the case study from the Section 3 questions have been included in each chapter where any of the separated multi part questions appear. • Some question material has not been released by SCSA due to copyright restrictions and are not able to be included in this exam guide. This has been flagged in the relevant questions in the exam guide. Teachers may still be able to locate many of these sources and provide these to students by following the links at the end of the original SCSA exams on the SCSA website.
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Unit 3 – Management Accounting

Unit 3 – 1. Introduction to Management and Financial Accounting

Note: This chapter is an overview of both Unit 3 and Unit 4. It is recommended to skim read these questions at the start of the course. These questions should be attempted at the end of Unit 3 and Unit 4.

Section 1

2023 Section 1 Question 13 Introduction to Management and Financial Accounting	Management accounting involves the (a) process of planning, coordinating and controlling business activity on a day-to-day basis. (b) creation of regular financial reports that meet legal obligations and compliance requirements of statutory bodies. (c) production of financial reports for external users of financial information. (d) production of general purpose financial reports based on actual performance only.
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Section 2

2023 Section 2 Question 18d Introduction to Management and Financial Accounting	<p>A1 Giftware manufactures ceramic giftware at its factory in outer Perth. It uses a job costing system and standard costing. The factory produces two main products, vases and figurines of animals. It produces the products in batches of 2,000 for vases and 500 for figurines. Factory overheads, which include manufacturing overheads such as the cost of paints and glazes, are expected to amount to \$532,800 per year. The factory overheads are allocated on the basis of machine hours. It has been estimated that the annual machine hours available will be 3,600. The business usually sets its selling price at a mark up of 50% on cost.</p> <p>Standard costs are calculated on the following basis per batch:</p> <table border="1"><thead><tr><th>Cost</th><th>Vases</th><th>Figurines</th></tr></thead><tbody><tr><td>Direct materials @ \$8.50/kilogram</td><td>1,200 kilograms per batch</td><td>2,000 kilograms per batch</td></tr><tr><td>Manufacturing labour @ \$65/hour</td><td>6 hours per batch</td><td>4 hours per batch</td></tr><tr><td>Machine hours</td><td>10 hours per batch</td><td>7 hours per batch</td></tr></tbody></table> <p>Required</p> <p>(d) Describe to the management of A1 Giftware two differences between internal and external reporting in relation to the types of reports prepared. (4 marks)</p> <p>One:</p> <hr/> <hr/> <hr/> <hr/>	Cost	Vases	Figurines	Direct materials @ \$8.50/kilogram	1,200 kilograms per batch	2,000 kilograms per batch	Manufacturing labour @ \$65/hour	6 hours per batch	4 hours per batch	Machine hours	10 hours per batch	7 hours per batch
Cost	Vases	Figurines											
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Manufacturing labour @ \$65/hour	6 hours per batch	4 hours per batch											
Machine hours	10 hours per batch	7 hours per batch											

	Two:

2022 Section 2 Question 20c Introduction to Management and Financial Accounting	(c) State three differences between internal and external reporting for a company. (3 marks)
	One:
	Two:
	Three:

Section 3

**2023
Section 3
Question
22a**

**KPIs +
Introduction
to
Management
and
Financial
Accounting**

Plaxion Limited is a manufacturing company that has produced financial reports for the year ending 30 June 2023. An extract from the company’s financial reports is shown below, together with a selection of ratios and an extract of relevant social and environmental information.

Plaxion Limited Statement of financial position (extract) for the years ended 30 June		
	2023 \$	2022 \$
Assets		
Cash	30,000	45,000
Accounts receivable	95,000	75,000
Inventory	85,000	55,000
Other assets	100,000	100,000
Total assets	310,000	275,000
Liabilities		
Accounts payable	35,000	26,000
Other liabilities	85,000	95,000
Total liabilities	120,000	121,000
Net assets	190,000	154,000

Profit after tax for the year ending 2023 was \$26,000, and for the year ending 2022 it was \$36,000.

Ratio	2023	Target set by company for 2023
Quick asset	3.57:1	2:1
Working capital/current	6:1	2.5:1
Inventory turnover	4.5 times per year	6 times per year
Extract of social and environmental information from the annual report		
Details	2023	Target set by company for 2023
Increase in number of women in management roles	5%	3%
Reduction in use of plastic packaging across all product lines	50%	45%
Carbon emissions reduction	15% reduction	15% reduction

**2023
Section 3
Question
22e**

**Introduction
to
Management
and
Financial
Accounting**

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Accounts payable	35,000	26,000
Other liabilities	85,000	95,000
Total liabilities	120,000	121,000
Net assets	190,000	154,000

Profit after tax for the year ending 2023 was \$26,000, and for the year ending 2022 it was \$36,000.

Ratio	2023	Target set by company for 2023
Quick asset	3.57:1	2:1
Working capital/current	6:1	2.5:1
Inventory turnover	4.5 times per year	6 times per year
Extract of social and environmental information from the annual report		
Details	2023	Target set by company for 2023
Increase in number of women in management roles	5%	3%
Reduction in use of plastic packaging across all product lines	50%	45%
Carbon emissions reduction	15% reduction	15% reduction

A business magazine published the following article, including comments from its business analyst. Read the article and answer the questions that follow.

Woolworths maintains plans to close 30 Big W stores as profit tumbles

Woolworths is pushing ahead with plans to close 30 unprofitable Big W stores as it battles a tough consumer environment and a drop in profits. While Woolworths' full-year results were negatively affected by the loss of revenue from the sale of its petrol and convenience store wing, net profit for the continuing business still fell 7 per cent to \$1.49 billion over the year, or 9 per cent taking into account the extra week of trade in the 2019 financial year compared to 2018.

The market had expected a stronger profit of around \$1.7 billion. Woolworths said that, before one-off costs, its net profit from continuing operations was 9.2 per cent up on last year at \$1.75 billion, or 7.2 per cent up when you factor in for the extra week of trade. Including the net gain of almost \$1.1 billion from the sale of the petrol franchise into the mix, net profit rose 56 percent to \$2.7 billion. Those proceeds have been handed back to shareholders in the form of higher dividends, up almost 10 per cent to \$1.02 over the year.

Store closures

The Big W department store chain continued to be a drag on the group, losing \$85 million despite a pick up in sales. Earlier this year, Woolworths announced plans to close around 30 unprofitable stores to stem the bleeding. Distribution centres are also slated for closure. All up around 1,000 jobs are expected to be lost.

Woolworths chief executive Brad Banducci said he was not satisfied with the rate at which increased sales had translated into profits and the store closures would "accelerate the path to profitability". Mr Banducci said, after a challenging first half, momentum was picking up across the retail group, but conditions remained tough. "In the 2020 financial year, we expect the uncertain consumer environment and input cost pressures to remain, as well as an impact from new enterprise agreements", Mr Banducci said.

Sales picking up, but shares slip

JP Morgan analyst Shaun Cousins said while the result was below market expectations, Woolworths supermarkets appeared to have enjoyed a strong start to 2020. Mr Cousins said "... the consumer environment remains uncertain, with cost of living pressures despite the recent stimulus, and input cost pressures for retailers and suppliers ... while the robust 7.5 per cent like-for-like sales growth may not be sustainable." Woolworths had made strong gains in market share". Investors did not appear to share his optimism, with Woolworths shares down 1.5 per cent to \$35.61 in early trade.

Our business analyst provides the following interpretation of cost-volume-profit results of Woolworths and the decision to close down Big W stores: Woolworths group 2019 profit was \$1.72 billion, up from \$1.6 billion in 2018; Big W group had annual sales of \$3.8 billion up from \$3.6 billion in 2018; In 2019 Big W made a loss of \$85 million, whereas in 2018 the loss was \$100 million. Of note is that Big W employs over 18,000 people within its 183 stores Australia wide. Big W's loyal customer base has resulted in an 84% growth in the online shopping division as well as an increase in sales in the stores of 7.3%.

Explain the role of the accountant in managing business operations, and identify three functions they perform. (6 marks)

**2019
Section
Question
22.e.**

**Introduction
to
Management
and
Financial
Accounting**

Read the following material about Karlid Ltd for the year ended 30 June 2020 before selecting the question you will answer.

Karlid Ltd is an Australian retailer specialising in consumer electronics. Karlid Ltd is renowned for its convenient store locations, range of leading brands, competitive process, customer service and knowledgeable staff.

**Karlid Ltd
Statements of financial position**

	as at 30 June 2019 \$	as at 30 June 2020 \$
Current assets		
Cash and cash equivalents	174,000	16,000
Inventory	120,000	180,000
Accounts receivable	45,000	82,000
Total current assets	339,000	278,000
Non-current assets		
Property, plant and equipment	650,000	650,000
Total non-current assets	650,000	650,000
Total assets	989,000	928,000
Current liabilities		
Trade and other payables	65,000	95,000
Short-term borrowings	0	82,000
Current tax payable	27,000	45,000
Total current liabilities	92,000	222,000
Non-current liabilities		
Long-term borrowings	400,000	400,000
Total non-current liabilities	400,000	400,000
Total liabilities	492,000	622,000
Net assets	497,000	306,000
Equity		
Share capital	300,000	300,000
Retained earnings	197,000	6,000
Total equity	497,000	306,000

Karlid Ltd Annual report 30 June 2020 (extract)

Corporate

The Board of Karlid Ltd believes that being a good corporate citizen involves more than achieving financial targets and encompasses social, ethical and environmental responsibilities that form an integral part of Karlid Ltd's business.

Employee ownership

Karlid Ltd recognises the contribution its employees make to the performance of the company and encourages them to share in the benefits of this performance through share ownership. Employees own approximately 8.1% of the company at the date of this report.

Ethical sourcing

Karlid Ltd has developed a detailed ethical sourcing policy which commits the company to upholding human rights, fair working conditions and environmental protection. The company, through its supply chain, operates responsibly within the community and expects the same from its suppliers. Suppliers must commit to complying with a number of requirements, many of which are drawn from the Ethical Trading Initiative and International Labour Organisation conventions.

Sustainability

Karlid Ltd promotes sustainable environmental practices throughout its stores and supply chain.

The company has implemented a number of sustainable initiatives and continues to monitor their effectiveness.

Social involvement

Karlid Ltd is passionate about local community support and building strong relationships in the communities in which it operates. In 2020, Karlid Ltd has committed \$700,000 to communities throughout Australia. The key objective of local community sponsorship is to develop strong relationships through community engagement and to give back to the local neighbourhoods.

In August 2020, the company released the following announcement to the Australian Securities Exchange.

Market conditions have been challenging over the last twelve months and this has led to a fall in sales and profitability, as reported in the recently-released financial statements.

Management has embarked on a cost-reduction strategy and will be reviewing all stores for profitability. It is anticipated that a number of stores will be closed, with customers being diverted to online sales through the company's website.

The company is currently **not** in default of its \$400,000 five-year loan agreement with the bank. Management remains confident that cost reductions will ensure that it does not default. If the company was to default, the bank has provision in its agreement to require repayment and to move to recover its funds by selling secured assets against the loan facility.

You have been asked by the directors of Karlid Ltd to prepare a report addressing the following points, with reference to the information provided where appropriate:

(e) Explain the role and function of the accountant in managing business operations. (6 marks)

Marking Guide – Section 1

<p>2023 Section 1 Question 13</p> <p>Introduction to Management and Financial Accounting</p>	<p>Management accounting involves the</p> <p>(a) process of planning, coordinating and controlling business activity on a day-to-day basis. – Answer</p> <p>(b) creation of regular financial reports that meet legal obligations and compliance requirements of statutory bodies.</p> <p>(c) production of financial reports for external users of financial information.</p> <p>(d) production of general purpose financial reports based on actual performance only.</p>
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Marking Guide – Section 2

<p>2023 Section 2 Question 18d</p> <p>Introduction to Management and Financial Accounting</p>	<p>A1 Giftware manufactures ceramic giftware at its factory in outer Perth. It uses a job costing system and standard costing. The factory produces two main products, vases and figurines of animals. It produces the products in batches of 2,000 for vases and 500 for figurines. Factory overheads, which include manufacturing overheads such as the cost of paints and glazes, are expected to amount to \$532,800 per year. The factory overheads are allocated on the basis of machine hours. It has been estimated that the annual machine hours available will be 3,600. The business usually sets its selling price at a mark up of 50% on cost.</p> <p>Standard costs are calculated on the following basis per batch:</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>Cost</th> <th>Vases</th> <th>Figurines</th> </tr> </thead> <tbody> <tr> <td>Direct materials @ \$8.50/kilogram</td> <td>1,200 kilograms per batch</td> <td>2,000 kilograms per batch</td> </tr> <tr> <td>Manufacturing labour @ \$65/hour</td> <td>6 hours per batch</td> <td>4 hours per batch</td> </tr> <tr> <td>Machine hours</td> <td>10 hours per batch</td> <td>7 hours per batch</td> </tr> </tbody> </table> <p>Required</p> <p>(d) Describe to the management of A1 Giftware two differences between internal and external reporting in relation to the types of reports prepared. (4 marks)</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>For each of the two differences between internal and external reporting (2 x 2 marks)</td> <td></td> </tr> <tr> <td>Describes the difference between the types of reports</td> <td>2</td> </tr> <tr> <td>Makes a statement about the types of reports</td> <td>1</td> </tr> <tr> <td style="text-align: right;">Total</td> <td>4</td> </tr> </tbody> </table> <p>Answers could include:</p> <p>Reports prepared for internal reporting are:</p> <ul style="list-style-type: none"> • future orientated and involve planning for future action, e.g. the production of sales reports or production reports, whereas those prepared for external reporting are prepared on an historical basis, e.g. balance sheet • flexible in nature and can be prepared according to the needs of management, whereas those prepared for external reporting are prepared in compliance with Australian Accounting Standards and are generally prepared in a prescribed manner, e.g. annual reports to shareholders • prepared for particular events, e.g. costing of a job, whereas those prepared for external reporting are prepared for a specific time period, e.g. financial year. <p>Accept other relevant answers.</p>	Cost	Vases	Figurines	Direct materials @ \$8.50/kilogram	1,200 kilograms per batch	2,000 kilograms per batch	Manufacturing labour @ \$65/hour	6 hours per batch	4 hours per batch	Machine hours	10 hours per batch	7 hours per batch	Description	Marks	For each of the two differences between internal and external reporting (2 x 2 marks)		Describes the difference between the types of reports	2	Makes a statement about the types of reports	1	Total	4
Cost	Vases	Figurines																					
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For each of the two differences between internal and external reporting (2 x 2 marks)																							
Describes the difference between the types of reports	2																						
Makes a statement about the types of reports	1																						
Total	4																						

**2022
Section 2
Question
20c**

**Introduction
to
Management
and
Financial
Accounting**

(c) State three differences between internal and external reporting for a company. (3 marks)

Description	Marks
States three differences between internal and external reporting.	3
States two differences between internal and external reporting.	2
States one difference between internal and external reporting.	1
Total	3
<p>Answers could include:</p> <p>Report format</p> <ul style="list-style-type: none"> • Internal reporting - May be in any format, depending on end-users needs • External reporting - Approved format, particularly if company is a reporting entity. <p>Accounting standards</p> <ul style="list-style-type: none"> • Internal reporting - Desirable but not mandatory • External reporting - Desirable but mandatory for a reporting entity. <p>Timeliness</p> <ul style="list-style-type: none"> • Internal reporting - As required by management, reporting dates and accounting periods may differ, e.g. weekly, monthly, yearly, seasonally • External reporting - Statutory reporting dates as required by the Corporations Act, ATO & ASX. <p>External Audit</p> <ul style="list-style-type: none"> • Internal reporting - Not mandatory • External reporting - Required for large proprietary and public companies. <p>Scope</p> <ul style="list-style-type: none"> • Internal reporting - Reports prepared as required by internal end-users • External reporting - General purpose financial statements require, Statements of performance, position, change in equity, notes. <p>Accept other relevant answers.</p>	

Marking Guide – Section 3

2023
Section 3
Question
22a

KPIs +
Introduction
to
Management
and
Financial
Accounting

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Statement of financial position (extract)		
for the years ended 30 June		
	2023	2022
	\$	\$
Assets		
Cash	30,000	45,000
Accounts receivable	95,000	75,000
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Profit after tax for the year ending 2023 was \$26,000, and for the year ending 2022 it was \$36,000.

Ratio	2023	Target set by company for 2023
Quick asset	3.57:1	2:1
Working capital/current	6:1	2.5:1
Inventory turnover	4.5 times per year	6 times per year
Extract of social and environmental information from the annual report		
Details	2023	Target set by company for 2023
Increase in number of women in management roles	5%	3%
Reduction in use of plastic packaging across all product lines	50%	45%
Carbon emissions reduction	15% reduction	15% reduction

(a) Describe the purpose of annual reporting and explain how the managers of Plaxion Limited can use their key performance indicators (KPIs) for accountability **and** decision-making purposes. (8 marks)

Description	Marks
Describes the purpose of annual reporting	2
Makes a statement about the purpose of annual reporting	1
Subtotal	2
For each accountability and decision making purposes (2 x 3 marks)	
Explains how the KPIs can be used by Plaxion Limited	3
Describes how the KPIs can be used	2
Makes a statement about how the KPIs can be used	1
Subtotal	6
Total	8

Answers could include:

Purpose of annual reports:

- annual reports are required under the *Corporations Act 2001*
- shareholders are entitled to receive a copy of the annual report of a company
- annual reports communicate financial information to shareholders and other users of the reports
- they provide a way for the company to communicate other important information, such as corporate social responsibility activities
- the company can use annual reports to communicate information about its future strategies.

Plaxion Limited KPIs for accountability:

- management sets targets for various areas of their business, e.g. sales targets, profit targets, inventory control levels
- a financial report enables management to compare ratios and other KPIs to the set targets. As can be seen in the Plaxion Limited report, some KPIs have not been met. The target for inventory turnover was 6 times per year, when 4.5 was achieved. However, some CSR KPIs reported have been exceeded. The target for reduction in plastic packaging was 45%, when a 50% reduction was achieved
- management reviews the KPIs from the financial information and other information contained in the financial report to see if its targets are met, exceeded or not met
- management can make plans for the future based on analysis of the KPIs.

Plaxion Limited KPIs for decision-making purposes:

- KPIs provide a basis on which management can aim for strategic and operational improvement
- KPIs can be reviewed by management at any time during the year. Management does not need to wait for the annual financial report
- KPIs can, and are, regularly reviewed so that plans can be amended. If KPI targets are not being met then the KPIs can be reviewed and management has the opportunity to amend targets or review the way business is being conducted. The same applies, if targets are being exceeded. Management can determine why, and try to build on their success.

Accept other relevant answers.

**2023
Section 3
Question
22e**

**Introduction
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Management
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Profit after tax for the year ending 2023 was \$26,000, and for the year ending 2022 it was \$36,000.

Ratio	2023	Target set by company for 2023
Quick asset	3.57:1	2:1
Working capital/current	6:1	2.5:1
Inventory turnover	4.5 times per year	6 times per year
Extract of social and environmental information from the annual report		
Details	2023	Target set by company for 2023
Increase in number of women in management roles	5%	3%
Reduction in use of plastic packaging across all product lines	50%	45%
Carbon emissions reduction	15% reduction	15% reduction

(e) Part of the role of a company accountant is to manage business operations. Describe **three** examples of how they might do this. (6 marks)

Description	Marks
For each of three examples (3 x 2 marks)	
Describes the example	2
Makes a statement about the example	1
Total	6

Answers could include:

Financial and data collection:

- the accountant is responsible for collecting and maintaining financial information of a business
- the accountant is responsible for the accuracy of the financial information
- the accountant ensures the information is maintained and presented according to legal requirements.

Analysis and advice:

- the accountant can be responsible for analysing financial information to ensure compliance with procedures
- the accountant may analyse financial information and present reports and put in place new procedures to manage cash flow, control of debtors, control of creditors and control of inventory
- the accountant working for a business may also be responsible for the monitoring of control procedures.

Regulatory and reporting compliance:

- the accountant may be responsible for interaction with various government organisations, such as ASIC or the ATO
- the accountant may be responsible for ensuring legal reporting requirements are met and tax/GST returns are completed in line with legal requirements
- the accountant may be responsible for liaising with various government bodies, such as ASIC or ATO
- the accountant may also assist with any external auditing arrangements.

Accept other relevant answers.

<p>2020 Section 3 Question 21.f.</p> <p>Introduction to Management and Financial Accounting</p>	<p>Explain the role of the accountant in managing business operations, and identify three functions they perform. (6 marks)</p>																				
	<table border="1"> <thead> <tr> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>Role of the accountant:</td> <td></td> </tr> <tr> <td>Explains the role of the accountant in managing business operations</td> <td>3</td> </tr> <tr> <td>Describes the role of the accountant in managing business operations</td> <td>2</td> </tr> <tr> <td>States a fact about the role of the accountant in managing business operations</td> <td>1</td> </tr> <tr> <td>Three functions accountants perform:</td> <td></td> </tr> <tr> <td>Identifies three functions</td> <td>3</td> </tr> <tr> <td>Identifies two functions</td> <td>2</td> </tr> <tr> <td>Identifies one function</td> <td>1</td> </tr> <tr> <td style="text-align: right;">Total</td> <td>6</td> </tr> </tbody> </table>	Description	Marks	Role of the accountant:		Explains the role of the accountant in managing business operations	3	Describes the role of the accountant in managing business operations	2	States a fact about the role of the accountant in managing business operations	1	Three functions accountants perform:		Identifies three functions	3	Identifies two functions	2	Identifies one function	1	Total	6
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Total	6																				
<p>Answer(s) could include by are not limited to:</p> <p>Role of the accountant: The accountant's role is to perform financial functions related to the collection, recording, analysis and presentation of a business organisation or company's financial operations. Accountants do this to provide sound financial advice to businesses.</p> <p>Functions of the accountant:</p> <ul style="list-style-type: none"> • preparation of general purpose financial reports • analysis of capital investment decisions • preparation of taxation reports • preparation of budgets • CVP analysis. <p>Accept any other reasonable answer.</p>																					

<p>2019 Section 3 Question 22.e.</p> <p>Introduction to Management and Financial Accounting</p>	<p>Explain the role and function of the accountant in managing business operations. (6 marks)</p>												
	<table border="1"> <thead> <tr> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>Explains the role and function of the accountant in managing business operations</td> <td>6</td> </tr> <tr> <td>Describes the role and function of the accountant in managing business operations</td> <td>4–5</td> </tr> <tr> <td>Outlines the role and function of the accountant in managing business operations</td> <td>2–3</td> </tr> <tr> <td>States a fact about the role or the function of the accountant</td> <td>1</td> </tr> <tr> <td style="text-align: right;">Total</td> <td>6</td> </tr> </tbody> </table>	Description	Marks	Explains the role and function of the accountant in managing business operations	6	Describes the role and function of the accountant in managing business operations	4–5	Outlines the role and function of the accountant in managing business operations	2–3	States a fact about the role or the function of the accountant	1	Total	6
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	States a fact about the role or the function of the accountant	1											
	Total	6											
	<p>Answer(s) could include but are not limited to:</p> <ul style="list-style-type: none"> • accountants fill a wide range of roles in business • accountants can be employed directly by the business or can work for professional accounting firms or external agencies • the essential role of the accountant is to provide the management of a business with the information it needs to maximise the organisation's financial performance • the accountant's role includes: <ul style="list-style-type: none"> ◦ designing and maintaining financial systems ◦ recording financial transactions ◦ producing financial reports ◦ analysing financial reports and data ◦ cash budgeting ◦ capital budgeting ◦ implementing strategies for internal control over an organisation's assets ◦ internal auditing ◦ producing cost accounting information. <p>Accept any other reasonable answer.</p>												

Unit 3 – 2. Internal and External Audit

Section 1

2021 Section 1 Question 11 Internal and External Audit	<p>The role of an independent external auditor is to provide an opinion as to whether the financial statements of a company</p> <ul style="list-style-type: none">(a) are true and fair in all material respects.(b) have been prepared honestly by management.(c) have been prepared by a qualified accountant.(d) justify the payment of dividends to shareholders.
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2020 Section 1 Question 1 Internal and External Audit	<p>The role of an external auditor is to</p> <ul style="list-style-type: none">(a) audit internal financial reports for management.(b) review procedures and policies on behalf of shareholders.(c) independently audit financial reports on behalf of shareholders.(d) test the internal control procedures on behalf of management
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Section 2

There have been no questions on this topic for this section in the exams of recent years.

Section 3

2023 Section 3 Question 21e Internal and External Audit	<p>Jan and Lee Tracz are the directors of Jaleetraz Pty Ltd. They manage the day-to-day running of their business, which manufactures fencing suitable for factories and homes. The cost of purchasing the aluminium and metal supplies for their fencing has increased over the past year but they have not been able to increase the selling price due to increased competition in the market. Other costs, including factory and office rental, and other day-to-day costs of running their business, have also increased over the year.</p> <p>Over the last two years Jan and Lee have begun to worry about the level of cash they have available to pay staff and creditors. Some creditors are requesting immediate payment of their accounts. Profits have also declined over the two years.</p> <p>The following information has been extracted from the financial reports of Jaleetraz Pty Ltd.</p>																								
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<p>(e) Describe two functions of the external audit to Jan and Lee Tracz. (4 marks)</p> <hr/>																									

**2020
Section 3
Question
22.e.**

**Internal
and
External
Audit**

Junapara Pty Ltd is a retail business currently located in Western Australia. The directors are planning to expand by setting up an online business to sell their products worldwide. To this end, they have purchased a new warehouse to hold the additional inventory.

The directors are planning to employ additional staff to receive and dispatch orders. Contractors will be engaged to set up the website and create a social media profile.

In the meantime, the directors are concerned about the cash position of the business as at 30 June 2020. They know the expansion will involve a significant increase in costs and there are plans to increase borrowing. Currently the business' debt/equity ratio is 102%, an increase from the previous year.

The cash budget performance report and budgeted income statement performance report for the year ended 30 June 2020 are provided for your information. Note: the variances have not been identified as favourable or unfavourable.

**Junapara Pty Ltd
Cash budget performance report
for year ended 30 June 2020**

	Budget \$	Actual \$	Variance \$
Opening cash balance	92,000	92,000	
Receipts			
Cash sales	40,200	30,000	10,200
Cash collected from accounts receivable	281,160	302,040	20,880
Bank loan	200,000	200,000	
Total receipts	613,360	624,040	10,680
Payments			
Cash paid to accounts payable	116,000	132,000	16,000
Loan	11,200	11,200	
Property, plant and equipment	325,200	325,200	
Wages	120,000	130,000	10,000
Administration	20,000	25,000	5,000
Total payments	592,400	623,400	31,000
Closing cash balance	20,960	640	20,320

**Junapara Pty Ltd
Budgeted income statement performance report
for the year ended 30 June 2020**

	Budget \$	Actual \$	Variance \$
Credit sales	316,000	340,000	24,000
Cash Sales	40,200	30,000	10,200
	356,200	370,000	13,800
Less cost of sales	166,000	180,000	14,000
Budgeted gross profit	190,200	190,000	200
Expenses			
Interest	7,800	7,800	
Depreciation office equipment	3,760	3,760	
Wages	127,000	132,000	5,000
Administration	21,000	24,000	3,000
Total expenses	159,560	167,560	8,000
Budgeted profit	30,640	22,440	8,200

Marking Guide – Section 1

<p>2021 Section 1 Question 11</p> <p>Internal and External Audit</p>	<p>The role of an independent external auditor is to provide an opinion as to whether the financial statements of a company</p> <p>(a) are true and fair in all material respects. – Answer (b) have been prepared honestly by management. (c) have been prepared by a qualified accountant. (d) justify the payment of dividends to shareholders.</p>
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<p>2020 Section 1 Question 1</p> <p>Internal and External Audit</p>	<p>The role of an external auditor is to</p> <p>(a) audit internal financial reports for management. (b) review procedures and policies on behalf of shareholders. (c) independently audit financial reports on behalf of shareholders. – Answer (d) test the internal control procedures on behalf of management</p>
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Marking Guide – Section 2

There have been no questions on this topic for this section in the exams of recent years.

Marking Guide – Section 3

<p>2023 Section 3 Question 21e</p> <p>Internal and External Audit</p>	<p>Jan and Lee Tracz are the directors of Jaleetraz Pty Ltd. They manage the day-to-day running of their business, which manufactures fencing suitable for factories and homes. The cost of purchasing the aluminium and metal supplies for their fencing has increased over the past year but they have not been able to increase the selling price due to increased competition in the market. Other costs, including factory and office rental, and other day-to-day costs of running their business, have also increased over the year.</p> <p>Over the last two years Jan and Lee have begun to worry about the level of cash they have available to pay staff and creditors. Some creditors are requesting immediate payment of their accounts. Profits have also declined over the two years.</p> <p>The following information has been extracted from the financial reports of Jaleetraz Pty Ltd.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Extracted from Jaleetraz Pty Ltd Balance sheet as at 30 June</th> <th style="text-align: center;">2023 \$</th> <th style="text-align: center;">2022 \$</th> </tr> </thead> <tbody> <tr> <td>Cash at bank</td> <td></td> <td style="text-align: right;">25,000</td> </tr> <tr> <td>Debtors</td> <td style="text-align: right;">35,000</td> <td style="text-align: right;">45,000</td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;">200,000</td> <td style="text-align: right;">155,000</td> </tr> <tr> <td>Total non-current assets</td> <td style="text-align: right;">1,000,000</td> <td style="text-align: right;">1,000,000</td> </tr> <tr> <td>Bank overdraft</td> <td style="text-align: right;">12,000</td> <td></td> </tr> <tr> <td>Creditors</td> <td style="text-align: right;">45,000</td> <td style="text-align: right;">35,000</td> </tr> <tr> <td>Loan from Z Bank due to be repaid by 31 December 2023</td> <td style="text-align: right;">50,000</td> <td style="text-align: right;">60,000</td> </tr> </tbody> </table> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Other information provided by Jaleetraz Pty Ltd</th> <th style="text-align: center;">2023 \$</th> <th style="text-align: center;">2022 \$</th> </tr> </thead> <tbody> <tr> <td>Total sales</td> <td style="text-align: right;">750,000</td> <td style="text-align: right;">750,000</td> </tr> <tr> <td>Break-even point (sales dollars)</td> <td style="text-align: right;">752,000</td> <td style="text-align: right;">740,000</td> </tr> </tbody> </table>	Extracted from Jaleetraz Pty Ltd Balance sheet as at 30 June	2023 \$	2022 \$	Cash at bank		25,000	Debtors	35,000	45,000	Inventory	200,000	155,000	Total non-current assets	1,000,000	1,000,000	Bank overdraft	12,000		Creditors	45,000	35,000	Loan from Z Bank due to be repaid by 31 December 2023	50,000	60,000	Other information provided by Jaleetraz Pty Ltd	2023 \$	2022 \$	Total sales	750,000	750,000	Break-even point (sales dollars)	752,000	740,000
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(e) Describe two functions of the external audit to Jan and Lee Tracz. (4 marks)

Description	Marks
For each of two functions of the external audit (2 x 2 marks)	
Describes the function	2
Makes a statement about the function	1
Total	4
<p>Answers could include:</p> <ul style="list-style-type: none"> Protecting external users: External users, such as shareholders, lenders, suppliers can confidently rely on the independently audited financial reports when making decisions about investing, lending or supplying goods to a company Providing confidence to stakeholders in Australian Capital Markets: Audited financial reports provide confidence in the operation on Australian Capital Markets as investors and shareholders can confidently make investing decisions based on the independently audited financial reports. <p>Accept other relevant answers.</p>	

**2022
Section 3
Question
21c**

**Internal and
External
Audit**

Juntrae Pty Ltd is a small company based in Perth and has two directors who are also the only shareholders. The company produces quality hair products that are sold throughout Australia and New Zealand.

Kelly Bianchi, one of the directors, has developed the knowledge and experience to produce the quality hair products and also oversees their production and marketing.

Lee Chao is the other director and majority shareholder. Lee provided the funding to help start up the business but does not get involved in its day-to-day running. Lee is happy to receive an annual dividend and leave the management of the business to Kelly.

The company has a small number of employees who are involved in the production process, but Kelly tries to do all the administration work to help keep costs down.

An accountant prepares financial reports and completes the tax work for Juntrae Pty Ltd. The accountant has raised the following issues:

- Juntrae Pty Ltd appears to make frequent use of its overdraft facility
- while the sales figures are excellent, profit is declining
- debtors frequently pay what they owe after the due date
- creditors are often paid late and this sometimes leads to late payment costs being incurred
- inventory levels are quite high and the cost of sales has increased significantly over the past twelve months.

The accountant is suggesting that Juntrae Pty Ltd should be undertaking significant planning and control to protect its assets, ensure the company has cash flow to pay debts and to investigate why profits are declining.

Although Kelly is concerned about the accountant's advice, Lee is confident that she will sort out the problems and is not interested in getting involved in the running of the company.

(c) Explain the purpose of an internal audit and describe three internal control procedures the company could implement to detect and correct possible errors and deficiencies. (9 marks)

Description	Marks
Explains the purpose of an internal audit	
Explains the purpose of an internal audit.	3
Describes the purpose of an internal audit.	2
States a fact about an internal audit.	1
Subtotal	3
For each of three internal control procedures the company could implement (3 x 2 marks)	
Describes the procedure.	2
Identifies the procedure.	1
Subtotal	6
Total	9

Answer(s) could include:

Purpose of an internal audit:

An internal audit is the process of checking internal procedures, control processes and policies. Internal control should identify shortcomings in internal control procedures and systems and identify errors so that improvements can be made.

Internal control procedures include:

- cash – control processes should be in place to safeguard the company's cash against theft or fraudulent activity. This includes separation of duties in handling cash, encouraging customers to pay electronically, regular bank reconciliation to accounting records and banking cash regularly
- debtors (accounts receivable) – good control processes should be in place to ensure debtors pay what they owe within the agreed time. This includes conducting thorough credit investigations prior to granting credit, issuing invoices at the time of sale, following up outstanding debtors in a timely manner, and developing good relationship with credit customers
- inventory – control processes should be in place to safeguard the company's inventory against theft or fraudulent activity. This includes establishing a computer-based perpetual inventory system to manage inventory, establishing an ordering process to protect against over- or under-ordering, keeping inventory on hand in locked storage with access available to authorised personnel only and putting processes in place to manage inventory levels and avoiding obsolescence.

Accept other relevant answers.

<p>2021 Section 3 Question 22.d.</p> <p>Internal and External Audit</p>	Explain two functions of an external audit. (6 marks)												
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	Description	Marks											
	For each two functions of an external audit:												
	Explains the function	3											
	Describes the function	2											
	Identifies the function	1											
	Total	6											
	Answer(s) could include:												
	<ul style="list-style-type: none"> • Protect external users: external users depend on the financial reports of a company to make decisions about investing capital. An external audit confirms that financial reports show a 'true and fair' view of the financial performance and position of a company. • Provide confidence to stakeholders in Australian capital markets: the review and evaluation of accounting processes and financial reports is carried out by an independent external auditor. This promotes market confidence amongst stakeholders as the application of the accounting standards has been verified by a person/s outside the organisation. 												
Accept any other correct, relevant answer.													

<p>2020 Section 3 Question 22.e.</p> <p>Internal and External Audit</p>	Explain the purpose of an internal audit and identify two issues that an internal audit could reveal. (4 marks)																
	<table border="1"> <thead> <tr> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>Explains the purpose of an internal audit</td> <td>2</td> </tr> <tr> <td>Outlines the purpose of an internal audit</td> <td>1</td> </tr> <tr> <td style="text-align: right;">Subtotal</td> <td>2</td> </tr> <tr> <td>Identifies two issues that an internal audit could reveal</td> <td>2</td> </tr> <tr> <td>Identifies one issue that an internal audit could reveal</td> <td>1</td> </tr> <tr> <td style="text-align: right;">Subtotal</td> <td>2</td> </tr> <tr> <td style="text-align: right;">Total</td> <td>4</td> </tr> </tbody> </table>	Description	Marks	Explains the purpose of an internal audit	2	Outlines the purpose of an internal audit	1	Subtotal	2	Identifies two issues that an internal audit could reveal	2	Identifies one issue that an internal audit could reveal	1	Subtotal	2	Total	4
	Description	Marks															
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	Total	4															
Answer(s) could include but are not limited to:																	
The purpose of the internal audit is for a business to monitor and review policies, procedures and systems to ensure they are being followed and complied with by all within the business.																	
The monitoring and reviewing role:																	
<ul style="list-style-type: none"> • monitors and reviews policies, e.g. does management have in place good policies for protection of employees and assets? • monitors and reviews procedures, e.g. cash handling, security of inventory • monitors and reviews systems, e.g. systems for storage of inventory, IT security. 																	
The reporting role:																	
<ul style="list-style-type: none"> • reports any difficulties with current policies • suggests new policies to be implemented to protect employees or assets • reports situations where procedures are not being followed by employees • reports any discrepancies or fraud detected. 																	
Examples of issues:																	
<ul style="list-style-type: none"> • theft of cash or inventory • collusion between employees discovered • fraudulent activities discovered when checks and balances do not reconcile • unauthorised procedures are discovered, creating a spike in expenditure. 																	
Accept any other reasonable answer.																	

Unit 3 – 3. Internal Control and Asset Management

Section 1

2023 Section 1 Question 12 Internal Control and Asset Management	An insufficient level of equity may lead to (a) an increase in available working capital and investment in non-current assets. (b) an increase in the risk of business failure due to an inadequate level of working capital. (c) an increase in profitability due to the reduction in equity. (d) a decrease in the level of debt and accounts payable.
2021 Section 1 Question 9 Internal Control and Asset Management	A principle of asset management is maintaining an appropriate level of equity capital. This is important because a business that is (a) undercapitalised may have insufficient funds to update non-current assets when needed. (b) undercapitalised will have a better chance of borrowing funds in the short-term and the long-term. (c) overcapitalised is a much higher financial risk. (d) overcapitalised could experience liquidity problems.

Section 2

There have been no questions on this topic for this section in the exams of recent years.

Section 3

2019 Section 3 Question 21.c. Internal Control and Asset Management	Read the following material about Karlid Ltd for the year ended 30 June 2020 before selecting the question you will answer.																																																																								
	Karlid Ltd is an Australian retailer specialising in consumer electronics. Karlid Ltd is renowned for its convenient store locations, range of leading brands, competitive process, customer service and knowledgeable staff.																																																																								
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Karlid Ltd Annual report 30 June 2020 (extract)

Corporate

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Employee ownership

Karlid Ltd recognises the contribution its employees make to the performance of the company and encourages them to share in the benefits of this performance through share ownership. Employees own approximately 8.1% of the company at the date of this report.

Ethical sourcing

Karlid Ltd has developed a detailed ethical sourcing policy which commits the company to upholding human rights, fair working conditions and environmental protection. The company, through its supply chain, operates responsibly within the community and expects the same from its suppliers. Suppliers must commit to complying with a number of requirements, many of which are drawn from the Ethical Trading Initiative and International Labour Organisation conventions.

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Market conditions have been challenging over the last twelve months and this has led to a fall in sales and profitability, as reported in the recently-released financial statements.

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You have been asked by the directors of Karlid Ltd to prepare a report addressing the following points, with reference to the information provided where appropriate:

- c. Explain the importance of financial principles of asset management, with particular reference to the appropriate management of cash. (6 marks)

Marking Guide – Section 1

<p>2023 Section 1 Question 12</p> <p>Internal Control and Asset Management</p>	<p>An insufficient level of equity may lead to</p> <p>(a) an increase in available working capital and investment in non-current assets. (b) an increase in the risk of business failure due to an inadequate level of working capital. – Answer (c) an increase in profitability due to the reduction in equity. (d) a decrease in the level of debt and accounts payable.</p>
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<p>2021 Section 1 Question 9</p> <p>Internal Control and Asset Management</p>	<p>A principle of asset management is maintaining an appropriate level of equity capital. This is important because a business that is</p> <p>(a) undercapitalised may have insufficient funds to update non-current assets when needed. – Answer (b) undercapitalised will have a better chance of borrowing funds in the short-term and the long-term. (c) overcapitalised is a much higher financial risk. (d) overcapitalised could experience liquidity problems.</p>
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Marking Guide – Section 2

There have been no questions on this topic for this section in the exams of recent years.

Marking Guide – Section 3

<p>2019 Section 3 Question 21.c.</p> <p>Internal Control and Asset Management</p>	<p>Explain the importance of financial principles of asset management, with particular reference to the appropriate management of cash. (6 marks)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Description</th> <th style="text-align: center;">Marks</th> </tr> </thead> <tbody> <tr> <td>Explains the importance of financial principles of assets management, with particular reference to appropriate management of cash</td> <td style="text-align: center;">6</td> </tr> <tr> <td>Describes the importance of financial principles of assets management, with particular reference to appropriate management of cash</td> <td style="text-align: center;">4–5</td> </tr> <tr> <td>Outlines the importance of financial principles of assets management, with particular reference to appropriate management of cash</td> <td style="text-align: center;">2–3</td> </tr> <tr> <td>Makes a statement about the importance of financial principles of assets management or the appropriate management of cash</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: center;">6</td> </tr> </tbody> </table> <p>Answer(s) could include by are not limited to:</p> <p>All businesses need to have safeguards that protect current and non-current assets against loss or damage, ensure assets are used as efficiently as possible and ensure compliance with relevant requirements. These safeguards take the form of policies, procedures and systems and are known as internal control.</p> <p>Cash is the most vulnerable asset of all – desirable and easily disposed of. Cash, whether in the form of cash on hand, in a cash register or deposits in the bank, needs to be safeguarded. Measures to safeguard cash include:</p> <ul style="list-style-type: none"> • separation of duties between handling/receiving cash and its recording • proper authorisation to access cash • proper documentation of receipts and payments • regular reconciliation against bank records • accurate audit trails to allow transactions to be traced – identifying losses • regular cash budget preparation to highlight surpluses and deficits – so planning ahead can take place. <p>Accept any other reasonable answer.</p>	Description	Marks	Explains the importance of financial principles of assets management, with particular reference to appropriate management of cash	6	Describes the importance of financial principles of assets management, with particular reference to appropriate management of cash	4–5	Outlines the importance of financial principles of assets management, with particular reference to appropriate management of cash	2–3	Makes a statement about the importance of financial principles of assets management or the appropriate management of cash	1	Total	6
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Unit 3 – 4. Insolvency

Section 1

2023 Section 1 Question 2 Insolvency	<p>What is the order of priority for the distribution of funds when a company is insolvent?</p> <p>(a) liquidator fees, outstanding employee wages, shareholders, unsecured creditors (b) liquidator fees, outstanding employee wages, secured creditors, unsecured creditors (c) outstanding employee wages, secured creditors, unsecured creditors, shareholders (d) outstanding employee wages, employee retrenchment pay, unsecured creditors, shareholders</p>
2020 Section 1 Question 11 Insolvency	<p>When a company goes into liquidation, it is usually because</p> <p>(a) the directors, based on a number of decisions, refuse to pay a dividend. (b) the company has more liabilities than assets and is unable to pay debts as they fall due. (c) it has breached the Australian Accounting Standards and has been fined by the Australian Securities and Investments Commission. (d) the customers and creditors have voted to place the company into receivership</p>

Section 2

There have been no questions on this topic for this section in the exams of recent years.

Section 3

2023 Section 3 Question 21d Insolvency	<p>Jan and Lee Tracz are the directors of Jaleetraz Pty Ltd. They manage the day-to-day running of their business, which manufactures fencing suitable for factories and homes. The cost of purchasing the aluminium and metal supplies for their fencing has increased over the past year but they have not been able to increase the selling price due to increased competition in the market. Other costs, including factory and office rental, and other day-to-day costs of running their business, have also increased over the year.</p> <p>Over the last two years Jan and Lee have begun to worry about the level of cash they have available to pay staff and creditors. Some creditors are requesting immediate payment of their accounts. Profits have also declined over the two years.</p> <p>The following information has been extracted from the financial reports of Jaleetraz Pty Ltd.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Extracted from Jaleetraz Pty Ltd Balance sheet as at 30 June</th> <th style="text-align: center;">2023 \$</th> <th style="text-align: center;">2022 \$</th> </tr> </thead> <tbody> <tr> <td>Cash at bank</td> <td></td> <td style="text-align: right;">25,000</td> </tr> <tr> <td>Debtors</td> <td style="text-align: right;">35,000</td> <td style="text-align: right;">45,000</td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;">200,000</td> <td style="text-align: right;">155,000</td> </tr> <tr> <td>Total non-current assets</td> <td style="text-align: right;">1,000,000</td> <td style="text-align: right;">1,000,000</td> </tr> <tr> <td>Bank overdraft</td> <td style="text-align: right;">12,000</td> <td></td> </tr> <tr> <td>Creditors</td> <td style="text-align: right;">45,000</td> <td style="text-align: right;">35,000</td> </tr> <tr> <td>Loan from Z Bank due to be repaid by 31 December 2023</td> <td style="text-align: right;">50,000</td> <td style="text-align: right;">60,000</td> </tr> </tbody> </table> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Other information provided by Jaleetraz Pty Ltd</th> <th style="text-align: center;">2023 \$</th> <th style="text-align: center;">2022 \$</th> </tr> </thead> <tbody> <tr> <td>Total sales</td> <td style="text-align: right;">750,000</td> <td style="text-align: right;">750,000</td> </tr> <tr> <td>Break-even point (sales dollars)</td> <td style="text-align: right;">752,000</td> <td style="text-align: right;">740,000</td> </tr> </tbody> </table>	Extracted from Jaleetraz Pty Ltd Balance sheet as at 30 June	2023 \$	2022 \$	Cash at bank		25,000	Debtors	35,000	45,000	Inventory	200,000	155,000	Total non-current assets	1,000,000	1,000,000	Bank overdraft	12,000		Creditors	45,000	35,000	Loan from Z Bank due to be repaid by 31 December 2023	50,000	60,000	Other information provided by Jaleetraz Pty Ltd	2023 \$	2022 \$	Total sales	750,000	750,000	Break-even point (sales dollars)	752,000	740,000
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**2019
Section 3
Question
21.d-e.**

Insolvency

Read the following material about Karlid Ltd for the year ended 30 June 2020 before selecting the question you will answer.

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**Karlid Ltd
Statements of financial position**

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Karlid Ltd Annual report 30 June 2020 (extract)

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You have been asked by the directors of Karlid Ltd to prepare a report addressing the following points, with reference to the information provided where appropriate:

d. With reference to the company's August 2020 announcement to the Australian Securities Exchange, evaluate the impact on the company's management of its business finances if Karlid Ltd's bank does not renew its loan. (6 marks)

e. If Karlid Ltd does become insolvent, it will be faced with the choice of voluntary administration, receivership or liquidation. Define each of these terms and explain how they differ in terms of what would happen to Karlid Ltd. (8 marks)

Marking Guide – Section 1

<p>2023 Section 1 Question 2 Insolvency</p>	<p>What is the order of priority for the distribution of funds when a company is insolvent?</p> <p>(a) liquidator fees, outstanding employee wages, shareholders, unsecured creditors (b) liquidator fees, outstanding employee wages, secured creditors, unsecured creditors (c) outstanding employee wages, secured creditors, unsecured creditors, shareholders (d) outstanding employee wages, employee retrenchment pay, unsecured creditors, shareholders – Answer</p>
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<p>2020 Section 1 Question 11 Insolvency</p>	<p>When a company goes into liquidation, it is usually because</p> <p>(a) the directors, based on a number of decisions, refuse to pay a dividend. (b) the company has more liabilities than assets and is unable to pay debts as they fall due. – Answer (c) it has breached the Australian Accounting Standards and has been fined by the Australian Securities and Investments Commission. (d) the customers and creditors have voted to place the company into receivership</p>
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(d) Jaleetraz Pty Ltd is struggling to meet its debts as they fall due. Explain **three** alternative actions for the company if it is deemed to be insolvent. (9 marks)

Description	Marks
For each of three alternative actions for insolvent companies (3 x 3 marks)	
Explains the action	3
Describes the action	2
Makes a statement about the action	1
Total	9
<p>Answers could include:</p> <ul style="list-style-type: none"> • Voluntary administration: An administrator may be appointed by a creditor who is owed money or by the majority of directors who want to try and solve the company's liquidity issues. The administrator can investigate the ways the business is trying to trade its way out of financial difficulties • Receivership: A secured creditor who is owed money can apply for a receiver to be appointed. The role of the receiver is to sell the assets over which security is held to repay debts owing to the secured creditor • Liquidation: Upon reviewing the financial situation of a company, the courts may appoint a liquidator. The liquidator has the power to call meetings of creditors to establish how much is owed and to whom. The liquidator can wind up a company, liquidate assets and pay out creditors. 	
Accept other relevant answers.	

**2019
Section 3
Question
21.d-e.**

Insolvency

d. With reference to the company's August 2020 announcement to the Australian Securities Exchange, evaluate the impact on the company's management of its business finances if Karlid Ltd's bank does not renew its loan. (6 marks)

Description	Marks
Evaluates the impact on Karlid Ltd, with reference to the information provided, if the bank does not renew the loan facility by explaining all potential consequences and their effect on the solvency of the company	6
Explains, with reference to the information provided, the impact on Karlid Ltd if the bank does not renew the loan facility. Refers to debt and the solvency of the company	5
Outlines, with reference to the information provided, the impact on Karlid Ltd if the bank does not renew the loan facility	4
Makes a statement, with some reference to the information provided, with a limited link to the impact on Karlid Ltd if the bank does not renew the loan facility	3
Makes a statement about the difficulty that Karlid Ltd would face without renewal of the loan facility, such as it being unable to pay all its debts	2
Makes a statement about debt	1
Total	6

Answer(s) could include by are not limited to:

If the bank does not renew the loan facility, Karlid Ltd will be required to repay \$400,000 by 30 September 2020.

Possible implications:

- Karlid Ltd does not have the cash resources to fund the repayment of the loan, current cash and cash equivalents is \$16,000
- the bank has the right to sell assets secured against the loan facility so Karlid Ltd could lose valuable assets
- the company may need to sell \$400,000 worth of assets (e.g. Property, plant and equipment) to repay the bank loan, the company would need to be able to operate without these assets for it to continue
- the solvency of the company may now be questioned unless Karlid Ltd can borrow from another lender (which is highly unlikely) based on the current level of borrowings, i.e. \$222,000 in current liabilities and \$400,000 in long-term borrowing.

Accept any other reasonable answer.

e. If Karlid Ltd does become insolvent, it will be faced with the choice of voluntary administration, receivership or liquidation. Define each of these terms and explain how they differ in terms of what would happen to Karlid Ltd. (8 marks)

Description	Marks
Defines voluntary administration, receivership and liquidation, and explains how they differ in terms of what would happen to Karlid Ltd	8
Defines voluntary administration, receivership and liquidation, and outlines how they differ in terms of what would happen to Karlid Ltd	6–7
Defines voluntary administration, receivership and liquidation, and makes a statement about how they differ	4–5
Defines voluntary administration, receivership and liquidation	3
Defines two of voluntary administration, receivership or liquidation	2
Defines one of voluntary administration, receivership or liquidation	1
Total	8

Answer(s) could include but are not limited to:

- Voluntary administration occurs where a business seeks external management (the administrator) to assist them to pay their debts to avoid liquidation.
- Receivership occurs where a secured creditor seeks to recover, via the appointment of a receiver, what they are owed in outstanding debts if a business defaults on a secured loan.
- Liquidation occurs when a business is unable to pay its debts when they fall due. A liquidator is appointed to sell the assets of the business to pay its debts.

If Karlid Ltd goes into voluntary administration it will continue to trade under the direction of external management, with the objective to improve the financial position of the company. The administrators are responsible for determining the best solution for Karlid Ltd to be able to pay its debts and, where possible, to continue to trade. Whereas if a secured creditor(s) of Karlid Ltd seeks to appoint a receiver, the receiver's sole responsibility is to sell the secured assets of the company to repay the amount owing to the secured creditor(s). Karlid Ltd's Board of Directors remain responsible for managing the rest of the company's operations. Finally, if Karlid Ltd is liquidated, the company will cease to exist, as the appointed liquidator will sell assets to pay the company's debts in order of priority and wind down the company.

Accept any other reasonable answer.

Unit 3 – 5. Sources of Finance + 6. Investment Options

Section 1

2023 Section 1 Question 4 Sources of Finance + Investment Options	An investment in the money market is a (a) short term form of investing. (b) long term form of investing. (c) form of investment that always provides high returns. (d) form of equity investment.
2021 Section 1 Question 10 Sources of Finance + Investment Options	Which is the most appropriate source of funding for a business that is considering the purchase of new plant and equipment? (a) bank overdraft (b) term deposit (c) supplier credit (d) term loan
2020 Section 1 Question 12 Sources of Finance + Investment Options	A business wants to invest \$75,000 in a short-term source of finance. Which of the following would you recommend? (a) shares (b) debentures (c) trusts (d) money market
2020 Section 1 Question 14 Sources of Finance + Investment Options	A business has received \$250,000 in borrowings from a capital investment bank. The bank has no security over the loan. Which of the following best describes this method of financing? (a) unsecured note (b) debenture (c) government bonds (d) ordinary shares

Marking Guide – Section 1

2023 Section 1 Question 4 Sources of Finance + Investment Options	An investment in the money market is a (a) short term form of investing. – Answer (b) long term form of investing. (c) form of investment that always provides high returns. (d) form of equity investment.
2021 Section 1 Question 10 Sources of Finance + Investment Options	Which is the most appropriate source of funding for a business that is considering the purchase of new plant and equipment? (a) bank overdraft (b) term deposit (c) supplier credit (d) term loan – Answer
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2020 Section 1 Question 14 Sources of Finance + Investment Options	A business has received \$250,000 in borrowings from a capital investment bank. The bank has no security over the loan. Which of the following best describes this method of financing? (a) unsecured note – Answer (b) debenture (c) government bonds (d) ordinary shares

Marking Guide – Section 2

There have been no questions on this topic for this section in the exams of recent years.

Marking Guide – Section 3

<p>2022 Section 3 Question 22c</p> <p>Sources of Finance + Investment Options</p>	<p>Krebsaw Ltd is a manufacturing company located in Western Australia. It produces large storage sheds for both urban and rural properties. It has built a reputation for excellence, and demand for its sheds is increasing. Many orders are now coming from all over Australia.</p> <p>Management is considering establishing another factory in one of two different locations in Australia, believing it will lead to an increase in sales and reduction in transport costs. The cost of transporting sheds from the current factory to the proposed new locations is significant. In addition, the company has problems competing on price with existing shed makers in other parts of Australia.</p> <p>Krebsaw Ltd has provided the information below regarding payback period and net present value (NPV).</p> <table border="1" style="width: 100%; text-align: center; border-collapse: collapse;"> <thead> <tr> <th colspan="2">Location 1: Factory</th> <th colspan="2">Location 2: Factory</th> </tr> <tr> <th>Payback period</th> <th>NPV</th> <th>Payback period</th> <th>NPV</th> </tr> </thead> <tbody> <tr> <td>4 years 6 months</td> <td>\$125,000</td> <td>4 years 8 months</td> <td>\$120,000</td> </tr> </tbody> </table> <p>The factory proposal for Location 1 will be in a city urban area and will be close to all transport systems. Government officials in Location 1 have not indicated their support for the factory project at this stage.</p> <p>The factory proposal for Location 2 will be in a rural area and close to rural customers. Government officials in Location 2 have already given approval for development of the proposed factory. They believe the factory will provide much-needed employment opportunities for people in the area.</p> <p>Management of Krebsaw Ltd expects that other manufacturers of sheds in both proposed locations will reduce their prices to ensure that they remain competitive. Krebsaw Ltd believes that its product is superior and will be able to compete successfully within a few months of its commencement. Management also believes that the company has better after-sales service than its competitors.</p> <p>Krebsaw Ltd is considering a long-term business finance option for the proposed purchase.</p> <p>(c) Describe three types of long-term business finance that Krebsaw Ltd could consider for the proposed purchase. (6 marks)</p> <table border="1" style="width: 100%; text-align: center; border-collapse: collapse;"> <thead> <tr> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>For each of three types of long-term finance the company could consider (3 x 2 marks)</td> <td></td> </tr> <tr> <td>Describes the type of long-term finance.</td> <td>2</td> </tr> <tr> <td>Identifies the type of long-term finance.</td> <td>1</td> </tr> <tr> <td style="text-align: right;">Total</td> <td>6</td> </tr> </tbody> </table> <p>Answers could include:</p> <ul style="list-style-type: none"> • Shares: The company could issue additional shares which will provide additional capital. The shareholders then become part owners of the company. • Debentures: A loan made to the company by an investor and secured by a charge over the assets of the company. Interest is paid by the company to the investor at a fixed rate and the loan is repaid at some future date. • Unsecured notes: A loan made to the company by an investor. Usually a higher rate of interest is paid as compared to debentures but the investor funds are not secured by a charge over assets. The unsecured notes are repaid at some date in the future. <p>Accept other relevant answers.</p>	Location 1: Factory		Location 2: Factory		Payback period	NPV	Payback period	NPV	4 years 6 months	\$125,000	4 years 8 months	\$120,000	Description	Marks	For each of three types of long-term finance the company could consider (3 x 2 marks)		Describes the type of long-term finance.	2	Identifies the type of long-term finance.	1	Total	6
Location 1: Factory		Location 2: Factory																					
Payback period	NPV	Payback period	NPV																				
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Identifies the type of long-term finance.	1																						
Total	6																						

Unit 3 – 7. Corporate Social Responsibility (CSR)

Section 1

There have been no questions on this topic for this section in the exams of recent years.

Section 2

There have been no questions on this topic for this section in the exams of recent years.

Section 3

2021 Section 3 Question 23.b. CSR	<p>Stimulus material for Questions 22 and 23</p> <p>Read the following material about Surecut Lawn 'n Grass Mowers Pty Ltd before selecting the question you will complete. The material is relevant to both questions.</p> <p>Surecut Lawn 'n Grass Mowers Pty Ltd is a Western Australian family-owned company that specialises in garden and outdoor equipment. It manufactures lawn mowers and other machinery for the national market. The company is committed to contributing to the 'green economy' and also to being active citizens within the community through their sponsorship of the local junior football club.</p> <p>In 2019, the business decided to invest significant time and money in researching and developing a more environmentally-friendly motor for its lawn mower range. By the beginning of 2021, it had successfully developed a motor that would emit 80% less carbon dioxide.</p> <p>The business uses standard costing to determine the price of its lawn mowers. Below are the current and projected costings.</p> <table border="1"><thead><tr><th colspan="2">Current costings</th><th colspan="2">Projected costings</th></tr></thead><tbody><tr><td>Direct materials</td><td>\$228</td><td>Direct materials incorporating new motor</td><td>\$250</td></tr><tr><td>Direct labour</td><td>240</td><td>Direct labour</td><td>240</td></tr><tr><td>Overheads</td><td>120</td><td>Overheads</td><td>234</td></tr><tr><td>Total</td><td>588</td><td></td><td>724</td></tr></tbody></table> <p>The significant rise in overheads is due mainly to the company wishing to recoup its research and development costs and its commitment to providing extensive training to the factory staff involved in the assembly of the new motor.</p> <p>On the advice of its accountant, the business continued to apply a mark-up of 50%.</p> <p>Surecut Lawn 'n Grass Mowers Pty Ltd proceeded with the launch of their new environmentally-friendly lawn mower range in April 2021.</p> <p>After only six months on the national market, sales of the new range exceeded all expectations. There was also considerable interest from overseas buyers. The current owners of this large proprietary company believed the time was right to expand its operations. To achieve this, they needed a large injection of capital in order to open a second manufacturing plant on the east coast of Australia.</p> <p>Following much deliberation, it was decided to list the company on the Australian Securities Exchange. The company directors have employed the services of a lawyer to commence the formation process. The current shareholders will maintain a 51% majority share in the new public company.</p> <p>To improve their chances of attracting potential investors, the prospectus will include a section highlighting the company's corporate social responsibility practices.</p>	Current costings		Projected costings		Direct materials	\$228	Direct materials incorporating new motor	\$250	Direct labour	240	Direct labour	240	Overheads	120	Overheads	234	Total	588		724
Current costings		Projected costings																			
Direct materials	\$228	Direct materials incorporating new motor	\$250																		
Direct labour	240	Direct labour	240																		
Overheads	120	Overheads	234																		
Total	588		724																		

	b. Outline two costs and two potential sources of income associated with the company engaging in socially and environmentally responsible practices. (4 marks)

2020 Section 3 Question 21.c. CSR + CVP	Describe two non-financial factors that Woolworths could have considered before deciding to close down the Big W stores. (4 marks)
	<i>Note: this Question relates to both CSR and CVP regarding qualitative factors to consider when making department/product shut down decisions.</i>

2020
Section 3
Question
21.d.

CSR

A business magazine published the following article, including comments from its business analyst. Read the article and answer the questions that follow.

Woolworths maintains plans to close 30 Big W stores as profit tumbles

Woolworths is pushing ahead with plans to close 30 unprofitable Big W stores as it battles a tough consumer environment and a drop in profits. While Woolworths' full-year results were negatively affected by the loss of revenue from the sale of its petrol and convenience store wing, net profit for the continuing business still fell 7 per cent to \$1.49 billion over the year, or 9 per cent taking into account the extra week of trade in the 2019 financial year compared to 2018.

The market had expected a stronger profit of around \$1.7 billion. Woolworths said that, before one-off costs, its net profit from continuing operations was 9.2 per cent up on last year at \$1.75 billion, or 7.2 per cent up when you factor in for the extra week of trade. Including the net gain of almost \$1.1 billion from the sale of the petrol franchise into the mix, net profit rose 56 percent to \$2.7 billion. Those proceeds have been handed back to shareholders in the form of higher dividends, up almost 10 per cent to \$1.02 over the year.

Store closures

The Big W department store chain continued to be a drag on the group, losing \$85 million despite a pick up in sales. Earlier this year, Woolworths announced plans to close around 30 unprofitable stores to stem the bleeding. Distribution centres are also slated for closure. All up around 1,000 jobs are expected to be lost.

Woolworths chief executive Brad Banducci said he was not satisfied with the rate at which increased sales had translated into profits and the store closures would "accelerate the path to profitability". Mr Banducci said, after a challenging first half, momentum was picking up across the retail group, but conditions remained tough. "In the 2020 financial year, we expect the uncertain consumer environment and input cost pressures to remain, as well as an impact from new enterprise agreements", Mr Banducci said.

Sales picking up, but shares slip

JP Morgan analyst Shaun Cousins said while the result was below market expectations, Woolworths supermarkets appeared to have enjoyed a strong start to 2020. Mr Cousins said "... the consumer environment remains uncertain, with cost of living pressures despite the recent stimulus, and input cost pressures for retailers and suppliers ... while the robust 7.5 per cent like-for-like sales growth may not be sustainable." Woolworths had made strong gains in market share". Investors did not appear to share his optimism, with Woolworths shares down 1.5 per cent to \$35.61 in early trade.

Our business analyst provides the following interpretation of cost-volume-profit results of Woolworths and the decision to close down Big W stores: Woolworths group 2019 profit was \$1.72 billion, up from \$1.6 billion in 2018; Big W group had annual sales of \$3.8 billion up from \$3.6 billion in 2018; In 2019 Big W made a loss of \$85 million, whereas in 2018 the loss was \$100 million. Of note is that Big W employs over 18,000 people within its 183 stores Australia wide. Big W's loyal customer base has resulted in an 84% growth in the online shopping division as well as an increase in sales in the stores of 7.3%.

d. Explain two ethical issues that directors of companies (such as Woolworths) may have encountered in their financial dealings that involve investors. (6 marks)

**2019
Section 3
Question
22.b.

CSR**

Read the following material about Karlid Ltd for the year ended 30 June 2020 before selecting the question you will answer.

Karlid Ltd is an Australian retailer specialising in consumer electronics. Karlid Ltd is renowned for its convenient store locations, range of leading brands, competitive process, customer service and knowledgeable staff.

**Karlid Ltd
Statements of financial position**

	as at 30 June 2019 \$	as at 30 June 2020 \$
Current assets		
Cash and cash equivalents	174,000	16,000
Inventory	120,000	180,000
Accounts receivable	45,000	82,000
Total current assets	339,000	278,000
Non-current assets		
Property, plant and equipment	650,000	650,000
Total non-current assets	650,000	650,000
Total assets	989,000	928,000
Current liabilities		
Trade and other payables	65,000	95,000
Short-term borrowings	0	82,000
Current tax payable	27,000	45,000
Total current liabilities	92,000	222,000
Non-current liabilities		
Long-term borrowings	400,000	400,000
Total non-current liabilities	400,000	400,000
Total liabilities	492,000	622,000
Net assets	497,000	306,000
Equity		
Share capital	300,000	300,000
Retained earnings	197,000	6,000
Total equity	497,000	306,000

Karlid Ltd Annual report 30 June 2020 (extract)

Corporate

The Board of Karlid Ltd believes that being a good corporate citizen involves more than achieving financial targets and encompasses social, ethical and environmental responsibilities that form an integral part of Karlid Ltd's business.

Employee ownership

Karlid Ltd recognises the contribution its employees make to the performance of the company and encourages them to share in the benefits of this performance through share ownership. Employees own approximately 8.1% of the company at the date of this report.

Ethical sourcing

Karlid Ltd has developed a detailed ethical sourcing policy which commits the company to upholding human rights, fair working conditions and environmental protection. The company, through its supply chain, operates responsibly within the community and expects the same from its suppliers. Suppliers must commit to complying with a number of requirements, many of which are drawn from the Ethical Trading Initiative and International Labour Organisation conventions.

Sustainability

Karlid Ltd promotes sustainable environmental practices throughout its stores and supply chain.

The company has implemented a number of sustainable initiatives and continues to monitor their effectiveness.

Social involvement

Karlid Ltd is passionate about local community support and building strong relationships in the communities in which it operates. In 2020, Karlid Ltd has committed \$700,000 to communities throughout Australia. The key objective of local community sponsorship is to develop strong relationships through community engagement and to give back to the local neighbourhoods.

In August 2020, the company released the following announcement to the Australian Securities Exchange.

Market conditions have been challenging over the last twelve months and this has led to a fall in sales and profitability, as reported in the recently-released financial statements.

Management has embarked on a cost-reduction strategy and will be reviewing all stores for profitability. It is anticipated that a number of stores will be closed, with customers being diverted to online sales through the company's website.

The company is currently **not** in default of its \$400,000 five-year loan agreement with the bank. Management remains confident that cost reductions will ensure that it does not default. If the company was to default, the bank has provision in its agreement to require repayment and to move to recover its funds by selling secured assets against the loan facility.

You have been asked by the directors of Karlid Ltd to prepare a report addressing the following points, with reference to the information provided where appropriate:

b. Explain to the directors of Karlid Ltd the costs and potential income associated with engaging in socially and environmentally responsible practices. (8 marks)

Marking Guide – Section 1

There have been no questions on this topic for this section in the exams of recent years.

Marking Guide – Section 2

There have been no questions on this topic for this section in the exams of recent years.

Marking Guide – Section 3

<p>2021 Section 3 Question 23.b.</p> <p>CSR</p>	Outline <u>two</u> costs and <u>two</u> potential sources of income associated with the company engaging in socially and environmentally responsible practices. (4 marks)																
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Description</th> <th style="text-align: center;">Marks</th> </tr> </thead> <tbody> <tr> <td>Outlines two costs associated with the company engaging in socially and environmentally responsible practices</td> <td style="text-align: center;">2</td> </tr> <tr> <td>Outlines one cost associated with the company engaging in socially and environmentally responsible practices</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: right;">Subtotal</td> <td style="text-align: center;">2</td> </tr> <tr> <td>Outlines two potential sources of income associated with the company engaging in socially and environmentally responsible practices</td> <td style="text-align: center;">2</td> </tr> <tr> <td>Outlines one potential source of income associated with the company engaging in socially and environmentally responsible practices</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: right;">Subtotal</td> <td style="text-align: center;">2</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: center;">4</td> </tr> </tbody> </table>	Description	Marks	Outlines two costs associated with the company engaging in socially and environmentally responsible practices	2	Outlines one cost associated with the company engaging in socially and environmentally responsible practices	1	Subtotal	2	Outlines two potential sources of income associated with the company engaging in socially and environmentally responsible practices	2	Outlines one potential source of income associated with the company engaging in socially and environmentally responsible practices	1	Subtotal	2	Total	4
	Description	Marks															
	Outlines two costs associated with the company engaging in socially and environmentally responsible practices	2															
	Outlines one cost associated with the company engaging in socially and environmentally responsible practices	1															
	Subtotal	2															
	Outlines two potential sources of income associated with the company engaging in socially and environmentally responsible practices	2															
	Outlines one potential source of income associated with the company engaging in socially and environmentally responsible practices	1															
	Subtotal	2															
	Total	4															
<p>Answer(s) could include:</p> <p>Examples of costs associated with the company engaging in socially and environmentally responsible practices include:</p> <ul style="list-style-type: none"> • research and development costs associated with developing the new environmentally-friendly motor • training costs for factory staff involved in assembling the new environmentally-friendly motor • additional direct materials costs • sponsorship of local junior football club. <p>Examples of potential sources of income associated with the company engaging in socially and environmentally responsible practices include:</p> <ul style="list-style-type: none"> • a favourable perception of the company by customers seeking an environmentally-friendly product may lead to greater sales or market share • a favourable perception of the company in the general community through their sponsorship of the local junior football club leads to a positive public image and the ability of the company to have a positive impact in the community; this might increase its customer base • a favourable perception of the company among its employees may lead to greater productivity (and therefore, cost reduction) due to enhanced staff morale and it might be easier to recruit new employees. 																	
Accept any other correct, relevant answer.																	

**2020
Section 3
Question
21.c.**

**CSR +
CVP**

Describe two non-financial factors that Woolworths could have considered before deciding to close down the Big W stores. (4 marks)

Note: this Question relates to both CSR and CVP regarding qualitative factors to consider when making department/product shut down decisions.

Description	Marks
For each of two non-financial factors that Woolworths could have considered before deciding to close down the Big W stores:	
Describes appropriately the factor	2
Names the factor	1
Total	4
<p>Answer(s) could include by are not limited to:</p> <p>Customers – regular customers who go to the Woolworths group will be upset that they can no longer shop at Big W. This could lead them to shop at a competitor's store. The online store had an 84 per cent growth. There was also an increase of 7.3 per cent of sales in stores. Some of these customers will shop elsewhere as a result of the Big W closures.</p> <p>Employees – morale could decrease, with staff worrying about jobs, and relocation of departments could cause stress. If changes are not communicated well by the business, this could lead to inefficiencies. Around 6 per cent of current Big W employees will lose their jobs (1,000/1,800 employees). Many remaining employees will be concerned that Woolworths is putting profit ahead of them.</p> <p>Investors – Woolworths should consider being an attractive investment for current and future shareholders, who would want the company to be sustainable in the future and to receive dividends.</p> <p>Accept any other reasonable answer.</p>	

**2020
Section 3
Question
21.d.**

CSR

Explain two ethical issues that directors of companies (such as Woolworths) may have encountered in their financial dealings that involve investors. (6 marks)

Description	Marks
For each of two ethical issues that directors of companies may have encountered in their financial dealings that involve investors:	
Explains the ethical issue in the context of financial dealings that involve investors	3
Describes the ethical issue	2
Identifies the ethical issue	1
Total	6
<p>Answer(s) could include by are not limited to:</p> <p>Conflict of interest – a conflict of interest occurs when a business owner or employee has competing interests in a decision that must be made, e.g. directors need to declare any relevant conflict of interest at the board meetings when a decision needs to be made. If this does not occur, investors might be affected. This is because the directors might not be making decisions in the best interest of the company, but for their own interests. This could negatively affect the share price.</p> <p>Confidentiality – directors have access to confidential information. They must not release this information to others to the disadvantage of the company. This ensures that the investors' financial interests are protected.</p> <p>Making use of financial information for personal gain – having access to confidential information, directors must not use this to benefit themselves or others. They are not allowed to use confidential information regarding the financial dealings of the organisation for personal gain because other investors would not have access to the information, which could have influenced them regarding where to invest their funds.</p> <p>Manipulation of financial information – directors make decisions which affect shareholder decisions. This financial information must be timely and readily available. It must comply with the guidelines of the Australian Accounting Standards Board to ensure that they are presenting relevant and comparable financial reports to those interested stakeholders, including investors, who can then make informed decisions about where to invest their funds.</p> <p>Accept any other reasonable answer.</p>	

**2019
Section 3
Question
22.b.

CSR**

Explain to the directors of Karlid Ltd the costs and potential income associated with engaging in socially and environmentally responsible practices. (8 marks)

Description	Marks
Explains, with reference to the information provided, the costs associated with engaging in socially and environmentally responsible practices	4
Describes, with some reference to the information provided, the costs associated with engaging in socially and environmentally responsible practices	3
Describes some costs associated with engaging in socially and environmentally responsible practices	2
Describes one cost associated with engaging in socially and environmentally responsible practices	1
Subtotal	4
Explains, with reference to the information provided, the potential income associated with engaging in socially and environmentally responsible practices	4
Describes, with some reference to the information provided, the potential income associated with engaging in socially and environmentally responsible practices	3
Describes some causes of potential income associated with engaging in socially and environmentally responsible practices	2
Describes one cause of potential income associated with engaging in socially and environmentally responsible practices	1
Subtotal	4
Total	8

Answer(s) could include but are not limited to:

The costs associated with engaging in corporate social responsibility (CSR) can include:

- providing sponsorship, donations or other forms of community support
- the need to employ more staff if required, often with specialist skills and knowledge, and the cost of producing CSR reports and recording the data on which those reports are based
- the distraction of the company's focus on creating profits.

Karlid Ltd's Annual report extract indicates that it has committed \$700,000 to communities through Australia. This outlay of the company reduces cash available for its own operations. Additionally, the ethical sourcing policy the company has committed to may involve a higher cost for sourcing these goods, together with limiting the number of suppliers Karlid Ltd is willing to trade with.

The potential income of engaging in CSR can include:

- a favorable perception of the company by customers may lead to greater sales or market share
- a favourable perception of the company in the general community leads to a positive public image and the ability of the company to have a positive impact in the community. This might increase its customer base
- a favorable perception of the company among its employees may lead to greater productivity (cost reduction) due to enhanced staff morale and it might be easier to recruit new employees.

Karlid Ltd's Annual report extract informs all stakeholders of the company's commitment to being a good corporate citizen, including its ethical sourcing practices, social involvement and sustainability. Additionally, Karlid Ltd recognises the contribution of its employees through its share ownership scheme. All of these practices provide for potential greater income.

Accept any other reasonable answer.

Unit 3 – 8. Cost Accounting

Section 1

<p>2023 Section 1 Question 5</p> <p>Cost Accounting</p>	<p>Questions 5 and 6 relate to the following information provided by Capzy Pty Ltd, which manufactures caps for sporting teams.</p> <table border="1" style="margin: 10px auto; border-collapse: collapse; width: 80%;"> <thead> <tr> <th colspan="2" style="text-align: center;">Standard costs of production per month</th> <th colspan="2" style="text-align: center;">Actual production information for the month of November</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">Direct materials per month</td> <td style="padding: 5px;">1.5 metres @ \$3.45 per metre</td> <td style="padding: 5px;">Direct materials purchased and used in November</td> <td style="padding: 5px;">1,750 metres @ \$3.50 per metre</td> </tr> <tr> <td style="padding: 5px;">Standard production</td> <td style="padding: 5px;">1,200 caps per month</td> <td style="padding: 5px;">Actual production in November</td> <td style="padding: 5px;">1,300 caps</td> </tr> </tbody> </table> <p>5. The materials price variance for the month of November is a</p> <p>(a) \$90.00 favourable variance. (b) \$87.50 favourable variance. (c) \$90.00 unfavourable variance. (d) \$87.50 unfavourable variance.</p> <p>6. The materials usage variance for November is a</p> <p>(a) \$690 unfavourable variance. (b) \$700 favourable variance. (c) \$690 favourable variance. (d) \$700 unfavourable variance.</p>	Standard costs of production per month		Actual production information for the month of November		Direct materials per month	1.5 metres @ \$3.45 per metre	Direct materials purchased and used in November	1,750 metres @ \$3.50 per metre	Standard production	1,200 caps per month	Actual production in November	1,300 caps
Standard costs of production per month		Actual production information for the month of November											
Direct materials per month	1.5 metres @ \$3.45 per metre	Direct materials purchased and used in November	1,750 metres @ \$3.50 per metre										
Standard production	1,200 caps per month	Actual production in November	1,300 caps										

<p>2022 Section 1 Question 10</p> <p>Cost Accounting</p>	<p>Pat Bosso runs a catering business but is unsure of the difference between product and period costs. Which of the following is the best example of a product cost?</p> <p>(a) manager's salary (b) advertising expense (c) food packaging expense (d) depreciation of office equipment</p>
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<p>2021 Section 1 Question 12</p> <p>Cost Accounting</p>	<p>Actual material costs for May are 1,800 metres @ \$12 per metre and the standard material costs for May are 2,000 metres @ \$10 per metre. The material price variance is</p> <p>(a) \$4,000 (F). (b) \$3,600 (F). (c) \$3,600 (U). (d) \$4,000 (U).</p>
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<p>2020 Section 1 Question 3</p> <p>Cost Accounting</p>	<p>The classification of office electricity in the making of ice cream would be which of the following costs?</p> <p>(a) period and direct (b) product and indirect (c) period and indirect (d) product and direct</p>
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2019
Section 1
Question
14 + 15

Cost
Accounting

Questions 14 and 15 relate to the following information for FiveSoss Ltd:

FiveSoss Ltd owns and operates a custom couch building business. Budgeted manufacturing overhead for the current year was \$80,000 and the predetermined overhead rate is to be calculated based on direct labour hours, which are estimated to be 4,000 hours for the current year.

Job number 23 was built for Draycek and the cost details recorded on the job cost sheet are as follows

Costs	Standard	Actual
Direct materials	\$2,000	\$1,900
Direct labour hours	100 hours	95 hours
Direct labour rate of pay	\$50 per hour	\$51 per hour

14. What is the direct labour rate variance for Job number 23?

- (a) \$95 unfavourable
- (b) \$95 favourable
- (c) \$100 unfavourable
- (d) \$100 favourable

15. What is the standard cost of Job number 23?

- (a) \$9,000
- (b) \$7,020
- (c) \$7,000
- (d) \$2,150

Section 2

2023
Section 2
Question
18a-c

Cost
Accounting

A1 Giftware manufactures ceramic giftware at its factory in outer Perth. It uses a job costing system and standard costing. The factory produces two main products, vases and figurines of animals. It produces the products in batches of 2,000 for vases and 500 for figurines. Factory overheads, which include manufacturing overheads such as the cost of paints and glazes, are expected to amount to \$532,800 per year. The factory overheads are allocated on the basis of machine hours. It has been estimated that the annual machine hours available will be 3,600. The business usually sets its selling price at a mark up of 50% on cost.

Standard costs are calculated on the following basis per batch:

Cost	Vases	Figurines
Direct materials @ \$8.50/kilogram	1,200 kilograms per batch	2,000 kilograms per batch
Manufacturing labour @ \$65/hour	6 hours per batch	4 hours per batch
Machine hours	10 hours per batch	7 hours per batch

Required

(a) Calculate the standard cost per batch **and** per unit for the vases **and** the figurines. Round all figures to two decimal places. (14 marks)

Workings:

Standard cost of vases: per batch: _____ per unit: _____

Standard cost of figurines: per batch: _____ per unit: _____

(b) Calculate the proposed selling price per unit for both products. Round all figures to two decimal places. (4 marks)

Workings:

Selling price – vases: _____

Selling price – figurines: _____

(c) A1 Giftware decides to sell the vases for \$10 and the figurines for \$60. Calculate the contribution margin for each product. Round all figures to two decimal places. (4 marks)

Workings:

Contribution margin – vases: _____

Contribution margin – figurines: _____

**2022
Section 2
Question
17**

**Cost
Accounting**

Zanthria Safetywear manufactures personal protective clothing at a factory in Perth. Annual overhead costs are estimated to be \$236,500 and these are allocated to the various products on the basis of direct labour hours, which are expected to be a total of 11,000 hours for the year.

Among its main products are protective coats. These are costed on the basis of a batch of 500 coats, for which the standard costs are estimated as follows:

- 1,500 square metres of cloth at \$8 per square metre
- sundry materials (zips, buttons, thread) at \$5 per coat
- labour hours – 40 hours at \$35 per hour.

(a) Calculate the cost of the coats per batch **and** per unit, using job order costing processes. (10 marks)

Workings:

Cost per batch: _____

Cost per unit: _____

(b) Assuming the business applies a mark-up of 30% on cost, calculate the selling price of each coat in dollars and cents. (2 marks)

Workings:

Selling price of each coat: _____

The actual costs of producing the first batch of 500 coats were as follows:

- 1,420 square metres at a cost of \$8.40 per square metre
- sundry materials cost of \$5 per coat (this was the same as the estimated standard cost)
- 39 labour hours at \$34.50 per hour.

Required:

(c) Calculate the following variances per batch:

(i) Direct materials price variance (4 marks)

Workings:

Direct materials price variance: _____

(ii) Direct materials usage variance (4 marks)

Workings:

Direct materials usage variance: _____

(iii) Direct labour rate variance (4 marks)

Workings:

Direct labour rate variance: _____

(iv) Direct labour efficiency variance (4 marks)

Workings:

Direct labour efficiency variance: _____

**2021
Section 2
Question
16.a-d.**

**Cost
Accounting**

At the beginning of January 2021, a small Perth manufacturing business commenced manufacturing pop-up sunshade tents for use at the beach and other outdoor settings. During the first year ending 31 December 2021, the business produced a total of 1,050 pop-up sunshade tents in batches of 150.

The actual costs of producing the 1,050 pop-up sunshade tents are shown below.

Direct materials	
Cutting department	Anti UV factor polyester material purchased and used = 11,000 metres @ \$2.45 per metre
Sewing and assembly department	\$57,000

Direct labour	
Cutting department	2,100 hours @ \$24 per hour
Sewing and assembly department	3,150 hours @ \$22 per hour

Other costs	
Factory manager's salary	\$44,000
Factory rent	12,000
Office administration costs	5,000
Cutting department overheads	12,000
Sewing and assembly department overheads	16,000
Office rent costs	10,000

The manufacturing overhead is allocated to each batch based on total labour hours. One pop-up sunshade tent takes 2 hours of cutting time and 3 hours of sewing and assembly time.

Required

a. Calculate the total direct materials cost of the pop-up sunshade tents and the per batch cost. (Round calculations to the whole dollar.) (6 marks)

Workings

Total direct materials cost: _____

Direct materials cost per batch: _____

b. Calculate the total direct labour cost of the pop-up sunshade tents and the per batch cost. (Round calculations to the whole dollar.) (5 marks)

Workings

Total direct labour cost: _____

Direct labour cost per batch: _____

c. Calculate the total manufacturing overhead costs and the costs applied to each batch of pop-up tents produced. (Round calculations to the whole dollar.) (5 marks)

Workings

Total manufacturing overhead costs: _____

Manufacturing overhead costs applied to each batch: _____

d. Calculate the total cost of manufacturing one pop-up sunshade tent. (Round calculations to two decimal places.) (4 marks)

Workings

Total cost of manufacturing **one** pop-up sunshade tent: _____

**2020
Section 2
Question
18.a-c.**

**Cost
Accounting**

Shown below are the actual budgeted figures related to the manufacture of salted caramel chocolate buttons by The Chocolatey Shop during the month of January 2021.

Item	\$
Direct materials purchased and used – 2,000 kg of salted caramel chocolate	5,040
Direct materials purchased – 40,000 plastic bags, purchased in bulk, for packaging of the salted caramel chocolate buttons	2,000
Direct labour hours worked – 1,800 hours at \$23.00 per hour	41,400
Budgeted manufacturing overhead costs for January	24,360

Manufacturing overheads are allocated using a predetermined overhead rate based on direct labour hours. It took The Chocolatey Shop 15 minutes to make one 250 gram bag of the salted caramel chocolate buttons.

a. Calculate the cost of making one bag of salted caramel chocolate buttons. (11 marks)

The standard labour costs associated with making the salted caramel chocolate buttons for the month of January are as follows.

Standard direct labour hours at \$22.00 per hour	\$35,200
Standard time to make one 250 gram bag	12 minutes

b. Calculate the direct labour efficiency variance for the salted caramel chocolate buttons. (5 marks)

c. Explain the nature of cost concepts for overheads. (3 marks)

**2019
Section 2
Question
16.a-e.**

**Cost
Accounting**

Well-That's-Fabulous Ltd is a boutique business that manufactures three different quality desserts. The desserts are:

- Meyroonfive Sundaes
- Good Bunny Fluff
- Me-go's Sorbet.

The details for each department and the budgeted overheads and cost drivers for 2020 are detailed below.

	'Make it' department	'Mix it' department	'Pack it' department
Estimated overheads	\$205,000	\$7,700	\$30,000
Estimated allocation base	1,000 machine hours	500 machine hours	6,000 direct labour hours

Well-That's-Fabulous Ltd makes its products in batches. The details below relate to the production of one batch of Good Bunny Fluff produced in October 2020.

	Direct materials	Direct labour	Machine hours
'Make it' department		18 hours at \$58 per hour	11 hours
Powdered egg white	\$7,500		
Sugar	\$5,000		
Corn syrup	\$2,200		
Cream of tartar	\$65		
Vanilla extract	\$120		
'Mix it' department	Nil	21 hours at \$32 per hour	32 hours
'Pack it' department		52 hours at \$25 per hour	40 hours
Plastic tubs	\$1,500		
Labels	\$650		

The batch of Good Bunny Fluff made 10,000 × 180 ml tubs.

a. Calculate the predetermined overhead rate for each department.

a.i. 'Make it' department (2 marks)

a.ii. 'Mix it' department (2 marks)

a.iii. 'Pack it' department (2 marks)

b. Calculate the total cost of the batch of Good Bunny Fluff. (20 marks)

c. Calculate the total cost of one tub of Good Bunny Fluff (2 marks)

d. Well-That's-Fabulous Ltd has set its mark-up as 120% on cost for Good Bunny Fluff. Calculate the selling price of one tub of Good Bunny Fluff. (3 marks)

e. A business may classify costs in different categories. Explain each of the cost classifications below. (6 marks)

**2021
Section 3
Question
22.a.**

**Cost
Accounting**

Stimulus material for Questions 22 and 23

Read the following material about Surecut Lawn 'n Grass Mowers Pty Ltd before selecting the question you will complete. The material is relevant to **both** questions.

Surecut Lawn 'n Grass Mowers Pty Ltd is a Western Australian family-owned company that specialises in garden and outdoor equipment. It manufactures lawn mowers and other machinery for the national market. The company is committed to contributing to the 'green economy' and also to being active citizens within the community through their sponsorship of the local junior football club.

In 2019, the business decided to invest significant time and money in researching and developing a more environmentally-friendly motor for its lawn mower range. By the beginning of 2021, it had successfully developed a motor that would emit 80% less carbon dioxide.

The business uses standard costing to determine the price of its lawn mowers. Below are the current and projected costings.

Current costings		Projected costings	
Direct materials	\$228	Direct materials incorporating new motor	\$250
Direct labour	240	Direct labour	240
Overheads	120	Overheads	234
Total	588		724

The significant rise in overheads is due mainly to the company wishing to recoup its research and development costs and its commitment to providing extensive training to the factory staff involved in the assembly of the new motor.

On the advice of its accountant, the business continued to apply a mark-up of 50%.

Surecut Lawn 'n Grass Mowers Pty Ltd proceeded with the launch of their new environmentally-friendly lawn mower range in April 2021.

After only six months on the national market, sales of the new range exceeded all expectations. There was also considerable interest from overseas buyers. The current owners of this large proprietary company believed the time was right to expand its operations. To achieve this, they needed a large injection of capital in order to open a second manufacturing plant on the east coast of Australia.

Following much deliberation, it was decided to list the company on the Australian Securities Exchange. The company directors have employed the services of a lawyer to commence the formation process. The current shareholders will maintain a 51% majority share in the new public company.

To improve their chances of attracting potential investors, the prospectus will include a section highlighting the company's corporate social responsibility practices.

Explain, with the use of an example, the concept of mark-up. (4 marks)

**2021
Section 3
Question
23.a.**

**Cost
accounting**

Stimulus material for Questions 22 and 23

Read the following material about Surecut Lawn 'n Grass Mowers Pty Ltd before selecting the question you will complete. The material is relevant to **both** questions.

Surecut Lawn 'n Grass Mowers Pty Ltd is a Western Australian family-owned company that specialises in garden and outdoor equipment. It manufactures lawn mowers and other machinery for the national market. The company is committed to contributing to the 'green economy' and also to being active citizens within the community through their sponsorship of the local junior football club.

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Total	588		724

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Following much deliberation, it was decided to list the company on the Australian Securities Exchange. The company directors have employed the services of a lawyer to commence the formation process. The current shareholders will maintain a 51% majority share in the new public company.

To improve their chances of attracting potential investors, the prospectus will include a section highlighting the company's corporate social responsibility practices.

a. Explain the classification of costs according to their relationship to cost objects. Provide an example of each to illustrate your answer. (6 marks)

Marking Guide – Section 1

<p>2023 Section 1 Question 5</p> <p>Cost Accounting</p>	<p>Questions 5 and 6 relate to the following information provided by Capzy Pty Ltd, which manufactures caps for sporting teams.</p>			
	<p>Standard costs of production per month</p>		<p>Actual production information for the month of November</p>	
	Direct materials per month	1.5 metres @ \$3.45 per metre	Direct materials purchased and used in November	1,750 metres @ \$3.50 per metre
Standard production	1,200 caps per month	Actual production in November	1,300 caps	

5. The materials price variance for the month of November is a

(a) \$90.00 favourable variance.
 (b) \$87.50 favourable variance.
 (c) \$90.00 unfavourable variance.
(d) \$87.50 unfavourable variance. – Answer

Workings:

Question 5
 $(AP-SP) \times AQP$
 $= (\$3.50 - \$3.45) \times 1750$
 $= \$87.50(U)$

6. The materials usage variance for November is a

(a) \$690 unfavourable variance.
 (b) \$700 favourable variance.
(c) \$690 favourable variance. – Answer
 (d) \$700 unfavourable variance.

Workings:

Question 6
 $(AQI - SQA) \times SP$
 $= (1,750 - 1,950) \times \3.45
 $= -\$690(F)$

$SQA = SQ \times AO$
 $= 1.5 \text{ metres} \times 1300 \text{ caps}$
 $= 1,950$

<p>2022 Section 1 Question 10</p> <p>Cost Accounting</p>	<p>Pat Bosso runs a catering business but is unsure of the difference between product and period costs. Which of the following is the best example of a product cost?</p> <p>(a) manager's salary (b) advertising expense (c) food packaging expense – Answer (d) depreciation of office equipment</p>
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<p>2021 Section 1 Question 12</p> <p>Cost Accounting</p>	<p>Actual material costs for May are 1,800 metres @ \$12 per metre and the standard material costs for May are 2,000 metres @ \$10 per metre. The material price variance is</p> <p>(a) \$4,000 (F). (b) \$3,600 (F). (c) \$3,600 (U). – Answer (d) \$4,000 (U).</p> <p>Question 12</p> <p>Direct materials price variance = (AP – SP) × AQP (\$12–\$10) × 1,800 m = \$3,600</p>
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<p>2020 Section 1 Question 3</p> <p>Cost Accounting</p>	<p>The classification of office electricity in the making of ice cream would be which of the following costs?</p> <p>(a) period and direct (b) product and indirect (c) period and indirect – Answer (d) product and direct</p>
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<p>2019 Section 1 Question 14 + 15</p> <p>Cost Accounting</p>	<p>Questions 14 and 15 relate to the following information for FiveSoss Ltd:</p> <p>FiveSoss Ltd owns and operates a custom couch building business. Budgeted manufacturing overhead for the current year was \$80,000 and the predetermined overhead rate is to be calculated based on direct labour hours, which are estimated to be 4,000 hours for the current year.</p> <p>Job number 23 was built for Drayeek and the cost details recorded on the job cost sheet are as follows</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Costs</th> <th>Standard</th> <th>Actual</th> </tr> </thead> <tbody> <tr> <td>Direct materials</td> <td>\$2,000</td> <td>\$1,900</td> </tr> <tr> <td>Direct labour hours</td> <td>100 hours</td> <td>95 hours</td> </tr> <tr> <td>Direct labour rate of pay</td> <td>\$50 per hour</td> <td>\$51 per hour</td> </tr> </tbody> </table> <p>14. What is the direct labour rate variance for Job number 23?</p> <p>(a) \$95 unfavourable – Answer (b) \$95 favourable (c) \$100 unfavourable (d) \$100 favourable</p> <p>Question 14 – Direct labour rate variance</p> <p>= (AR – SR) × ADLH = (51 – 50) × 95 = 95U</p> <p>15. What is the standard cost of Job number 23?</p> <p>(a) \$9,000 – Answer (b) \$7,020 (c) \$7,000 (d) \$2,150</p> <p>Question 15 – Cost of job</p> <p>Predetermined OH rate = $\frac{\text{Total OH}}{\text{DL hours}} = \frac{80,000}{4,000} = 20$</p> <p>Cost = DM + DL + OH = 2,000 + (50 × 100) + (20 × 100) = 9,000</p>	Costs	Standard	Actual	Direct materials	\$2,000	\$1,900	Direct labour hours	100 hours	95 hours	Direct labour rate of pay	\$50 per hour	\$51 per hour
Costs	Standard	Actual											
Direct materials	\$2,000	\$1,900											
Direct labour hours	100 hours	95 hours											
Direct labour rate of pay	\$50 per hour	\$51 per hour											

Marking Guide – Section 2

2023
Section 2
Question
18a-c

Cost
Accounting

A1 Giftware manufactures ceramic giftware at its factory in outer Perth. It uses a job costing system and standard costing. The factory produces two main products, vases and figurines of animals. It produces the products in batches of 2,000 for vases and 500 for figurines. Factory overheads, which include manufacturing overheads such as the cost of paints and glazes, are expected to amount to \$532,800 per year. The factory overheads are allocated on the basis of machine hours. It has been estimated that the annual machine hours available will be 3,600. The business usually sets its selling price at a mark up of 50% on cost.

Standard costs are calculated on the following basis per batch:

Cost	Vases	Figurines
Direct materials @ \$8.50/kilogram	1,200 kilograms per batch	2,000 kilograms per batch
Manufacturing labour @ \$65/hour	6 hours per batch	4 hours per batch
Machine hours	10 hours per batch	7 hours per batch

Required

(a) Calculate the standard cost per batch **and** per unit for the vases **and** the figurines. Round all figures to two decimal places. (14 marks)

Workings:

Predetermined overhead recovery rate =
 Total estimated manufacturing overheads/total estimated allocation base =
 $\$532,800(1)/3,600(1) = \148 per machine hour

Note: 2 marks awarded once only for application to overheads.

Description			Marks
Vases			
	Cost per batch	\$	
Materials	1,200kgs (1) x \$8.50 (1)	10,200	1–2
Labour	6 hours (1) x \$65 (1)	390	1–2
Overheads	10 machine hours (1) x \$148 (2)	1,480	1–3
	Total cost per batch	12,070	
		Subtotal	7
Cost per unit			
	\$12,070/2,000 (1)	6.04	1
		Subtotal	1
Figurines			
	Cost per batch	\$	
Materials	2,000 kgs (1) x \$8.50 (1)	17,000	1–2
Labour	4 hours (1) x \$65 (1)	260	1–2
Overheads	7 machine hours (1) x \$148	1,036	1
	Total cost per batch	18,296	
		Subtotal	5
Cost per unit			
	\$18,296/500 (1)	36.59	1
		Subtotal	1
		Total	14

Standard cost on vases – per batch: \$12,070
 Standard cost on vases – per unit: \$6.04
 Standard cost on figurines – per batch: \$18,296
 Standard cost on figurines – per unit: \$36.59

Deduct 1 mark for each calculation error, to a maximum of 2 marks
Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks
Deduct 1 mark for not rounding to two decimal places, to a maximum of 1 mark

(b) Calculate the proposed selling price per unit for both products. Round all figures to two decimal places. (4 marks)

Workings:

Description				Marks
	Cost per unit	+ Mark-up % x Cost	= Selling price	
Vases	\$6.04 (1)	0.50 (1) x \$6.04 = \$3.02	\$9.06	1–2
Figurines	\$36.59 (1)	0.50 (1) x \$36.59 = \$18.30	\$54.89	1–2
Total				4

Selling price – vases: \$9.06
 Selling price – figurines: \$54.89

Deduct 1 mark for each calculation error, to a maximum of 1 mark
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark
Deduct 1 mark for not rounding to two decimal places, to a maximum of 1 mark

(c) A1 Giftware decides to sell the vases for \$10 and the figurines for \$60. Calculate the contribution margin for each product. Round all figures to two decimal places. (4 marks)

Workings:

Description				Marks
	Selling Price	Less Cost per unit	Contribution margin	
Vases	\$10.00 (1)	\$6.04 (1)	\$3.96	1–2
Figurines	\$60.00 (1)	\$36.59 (1)	\$23.41	1–2
Total				4

Contribution margin – vases: \$3.96
 Contribution margin – figurines: \$23.41

Deduct 1 mark for each calculation error to a maximum of 1 mark
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark
Deduct 1 mark for not rounding to two decimal places, to a maximum of 1 mark

**2022
Section 2
Question
17**

**Cost
Accounting**

Zanthria Safetywear manufactures personal protective clothing at a factory in Perth. Annual overhead costs are estimated to be \$236,500 and these are allocated to the various products on the basis of direct labour hours, which are expected to be a total of 11,000 hours for the year.

Among its main products are protective coats. These are costed on the basis of a batch of 500 coats, for which the standard costs are estimated as follows:

- 1,500 square metres of cloth at \$8 per square metre
- sundry materials (zips, buttons, thread) at \$5 per coat
- labour hours – 40 hours at \$35 per hour.

(a) Calculate the cost of the coats per batch **and** per unit, using job order costing processes. (10 marks)

Workings:

Predetermined overhead recovery rate:

Estimated overheads \$236,500 (1)/11,000 (1) labour hours = \$21.50 (2)*

Cost of product = Direct materials + Direct labour + Overheads

Workings			Marks
Cost per batch			
Direct materials	1,500 metres (1) x \$8 (1)	\$12,000	1 + 1
	500 coats (1) x \$5 per coat (1)	2,500	1 + 1
Direct labour	40 hours (1) x \$35 per hour (1)	1,400	1 + 1
Overhead applied	40 hours (1) x \$21.50 (2)*	860	1 + 2
	Total cost per batch	\$16,760	
		Subtotal	9
Cost per unit			
	\$16,760/500 coats per batch (1)	\$33.52	1
		Subtotal	1
		Total	10

Cost per batch: \$16,760

Cost per unit: \$33.52

Deduct 1 mark for each calculation error, to a maximum of 2 marks

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

(b) Assuming the business applies a mark-up of 30% on cost, calculate the selling price of each coat in dollars and cents. (2 marks)

Workings:

Workings		Marks
Cost per coat \$33.52 (1) + mark-up (\$33.52 x 30%) (1)	\$43.58	1 + 1
	Total	2

Selling price of each coat: \$43.58

Deduct 1 mark for each calculation error, to a maximum of 1 mark

The actual costs of producing the first batch of 500 coats were as follows:

- 1,420 square metres at a cost of \$8.40 per square metre
- sundry materials cost of \$5 per coat (this was the same as the estimated standard cost)
- 39 labour hours at \$34.50 per hour.

Required:

(c) Calculate the following variances per batch:

(i) Direct materials price variance (4 marks)

Workings		Marks
Direct materials price variance		
(AP – SP) x AQP		
(\$8.40 (1) – \$8.00 (1)) x 1,420 metres (1)	\$568 U (1)	1–4

Direct materials price variance: \$568 Unfavourable

Deduct 1 mark for each calculation error, to a maximum of 1 mark
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark

(ii) Direct materials usage variance (4 marks)

Workings		Marks
Direct materials usage variance		
(AQI – SQA) x SP		
(1,420 m (1) – 1,500 m (1)) x \$8.00 (1)	\$640 F (1)	1–4

Direct materials usage variance: \$640 Favourable

Deduct 1 mark for each calculation error, to a maximum of 1 mark
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark

(iii) Direct labour rate variance (4 marks)

Workings		Marks
Direct labour rate variance		
(AR – SR) x ADLH		
(\$34.50 (1) – \$35.00 (1)) x 39 hours (1) =	\$19.50 F (1)	1–4

Direct labour rate variance: \$19.50 Favourable

Deduct 1 mark for each calculation error, to a maximum of 1 mark
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark

(iv) Direct labour efficiency variance (4 marks)

Workings		Marks
Direct labour efficiency variance		
(ADLH – SDLHA) x SR		
(39 hrs (1) – 40 hrs (1)) x \$35.00 (1) =	\$35 F (1)	1–4

Direct labour efficiency variance: \$35 Favourable

Deduct 1 mark for each calculation error, to a maximum of 1 mark
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark

2021
Section 2
Question
16.a-d.

Cost
Accounting

a. Calculate the total direct materials cost of the pop-up sunshade tents and the per batch cost. (Round calculations to the whole dollar.) (6 marks)

Workings		Marks
Total direct materials	= cutting + sewing and assembly = (11,000(1) x \$2.45(1)) + 57,000(1) = 26,950 + \$57,000 = \$83,950	1-3
Number of batches per year	= total tents/number of tent in each batch = 1,050(1)/150(1) = 7	1-2
Cost per batch	= total cost/number of batches = 83,950/7 = \$11,993(1)	1
Total		6

Total direct material cost: \$83,950
Direct materials cost per batch: \$11,993

Deduct 1 mark for each calculation error, to a maximum of 2 marks
Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

b. Calculate the total direct labour cost of the pop-up sunshade tents and the per batch cost. (Round calculations to the whole dollar.) (5 marks)

Workings		Marks
Total direct labour	= cutting + sewing and assembly = (2,100(1) x \$24(1)) + (3,150(1) x \$22(1)) = 50,400 + 69,300 = \$119,700	1-4
Cost per batch	= total cost/number of batches = 119,700/7 = \$17,100(1)	1
Total		5

Total direct labour cost: \$119,700
Direct labour cost per batch: \$17,100

Deduct 1 mark for each calculation error, to a maximum of 2 marks
Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

c. Calculate the total manufacturing overhead costs and the costs applied to each batch of pop-up tents produced. (Round calculations to the whole dollar.) (5 marks)

Workings		Marks
Overheads		
Factory manager's salary	\$44,000	1
Factory rent	12,000	1
Cutting department overheads	12,000	1
Sewing and assembly department overheads	16,000	1
Total overheads	84,000	
Total overheads/number of batches = 84,000/7	12,000	1
Total		5

Total manufacturing overhead costs: \$84,000
Manufacturing overhead costs applied to each batch: \$12,000

Deduct 1 mark for each calculation error, to a maximum of 2 marks
Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

d. Calculate the total cost of manufacturing one pop-up sunshade tent. (Round calculations to two decimal places.) (4 marks)

Workings		Marks
Direct material cost per batch	\$11,993	1
Direct labour cost per batch	17,100	1
Overhead cost	12,000	1
Total cost per batch	41,093	
Total cost per tent = cost per batch/number in batch = 41,093/150	\$273.95	1
Total		4

Total cost of manufacturing **one** pop-up sunshade tent: \$273.95

Deduct 1 mark for each calculation error, to a maximum of 1 mark
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark

2020
Section 2
Question
18.a.

Cost
Accounting

a. Calculate the cost of making one bag of salted caramel chocolate buttons. (11 marks)

Description		Marks
Direct materials purchased – salted caramel chocolate	$\frac{\$5,040 (1) \times 0.25 (1)}{2,000 \text{ kg } (1)} = \0.63	3
Direct materials purchased – packaging	$\frac{\$2,000 (1)}{40,000 \text{ bags } (1)} = \0.05	2
Direct labour hours	$\frac{\$23 (1) \times 15 (1)}{60 \text{ mins}} = \5.75	2
Overheads	$\frac{\$24,360 (1) \times \frac{15 (1)}{60 \text{ mins}}}{1,800 \text{ hrs } (1)} = \3.38	3
Total cost	$(\$0.63 + 0.05 + 5.75 + 3.38) (1) = \9.81	1
Total		11

Cost of **one** bag of salted caramel chocolate buttons: \$9.81.

Deduct 1 mark for each calculation error, to a maximum of 2 marks.
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.

The standard labour costs associated with making the salted caramel chocolate buttons for the month of January are as follows.

Standard direct labour hours at \$22.00 per hour	\$35,200
Standard time to make one 250 gram bag	12 minutes

b. Calculate the direct labour efficiency variance for the salted caramel chocolate buttons.

Workings:

$$35,200 (1) \div 22 (1) = 1,600$$

or

$$\frac{2,000}{0.25} (1) = 8,000 \text{ bags} \times \frac{12}{60} (1) = 1,600^*$$

Description	Marks
(Actual direct labour hours worked – Standard direct labour hours allowed for actual output) × Standard rate per direct labour hour	
= (1,800 (1) – *1,600 (2)) × 22 (1) = 4,400	4
Unfavourable (1)	1
Total	5

Direct labour efficiency variance: \$4,400 Unfavourable

Deduct 1 mark for each calculation error, to a maximum of 1 mark.
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.

c. Explain the nature of cost concepts for overheads. (3 marks)

Description	Marks
Explains the nature of cost concepts for overheads	3
Describes the nature of cost concepts for overheads	2
Identifies an example of an overhead	1
Total	3

Answer(s) could include but are not limited to:

The nature of overheads are all costs on the income statement except for direct labour, direct materials and direct expenses. Overhead expenses can include period costs such as advertising, insurance etc. This is then allocated to the cost of a product based on either labour or machine hours, dependant on the type of business.

Accept any other reasonable answer.

**2019
Section 2
Question
16.a-e.**

**Cost
Accounting**

a. Calculate the predetermined overhead rate for each department.

a.i. 'Make it' department (2 marks)

Description	Marks
Predetermined rate = $\frac{\text{overheads}}{\text{allocation base}}$	
Rate = $\frac{205,000 (1)}{1,000 (1)}$	1
= 205	1
Total	2

Predetermined overhead rate for 'Make it' department: \$205 per machine hour

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

a.ii. 'Mix it' department (2 marks)

Description	Marks
Predetermined rate = $\frac{\text{overheads}}{\text{allocation base}}$	
Rate = $\frac{7,700 (1)}{500 (1)}$	1
= 15.4	1
Total	2

Predetermined overhead rate for 'Mix it' department: \$15.40 per machine hour

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

a.iii. 'Pack it' department (2 marks)

Description	Marks
Predetermined rate = $\frac{\text{overheads}}{\text{allocation base}}$	
Rate = $\frac{30,000 (1)}{6,000 (1)}$	1
= 5	1
Total	2

Predetermined overhead rate for 'Pack it' department: \$5.00 per direct labour hour

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

b. Calculate the total cost of the batch of Good Bunny Fluff. (20 marks)

Description			Marks
Cost = DM + DL + OH			
DM – Make it =	7,500 (1) + 5,000 (1) + 2,200 (1) + 65 (1) + 120 (1)	14,885.00	1–5
DM – Mix it =	0	0	
DM – Pack it =	1,500 (1) + 650 (1)	2,150.00	1–2
	Total DM	17,035.00	
DL – Make it =	18 (1) x 58 (1)	1,044.00	1–2
DL – Mix it =	21 (1) x 32 (1)	672.00	1–2
DL – Pack it =	52 (1) x 25 (1)	1,300.00	1–2
	Total DL	3,016.00	
OH – Make it =	205 (1) x 11 (1)	2,255.00	1–2
OH – Mix it =	15.40 (1) x 32 (1)	492.80	1–2
OH – Pack it =	5 (1) x 52 (1)	260.00	1–2
	Total OH	3,007.80	
Total cost =	(17,035.00 + 3,016.00 + 3,007.80) (1)	23,058.80	1
	Total		20

Total cost of the batch of Good Bunny Fluff: \$23,058.80

Deduct 1 mark for each calculation error, to a maximum of 3 marks.
Deduct 1 mark for inclusion of foreign items, to a maximum of 3 marks.

c. Calculate the total cost of one tub of Good Bunny Fluff (2 marks)

Description		Marks
Cost/tub =	<u>Total cost</u> <u>Total units</u>	
	23,058.80 (1) 10,000 (1)	1 1
Total cost of one tub =	\$2.31	
	Total	2

Cost of one tub of Good Bunny Fluff: \$2.31

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

d. Well-That's-Fabulous Ltd has set its mark-up as 120% on cost for Good Bunny Fluff. Calculate the selling price of one tub of Good Bunny Fluff. (3 marks)

Description		Marks
Selling price = cost + (mark-up x cost)	2.31 (1) + (2.31 (1) x 120% (1)) = 2.31 + 2.77 = \$5.08	1–3
	Total	3

Selling price of one tub of Good Bunny Fluff: \$5.08

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

e. A business may classify costs in different categories. Explain each of the cost classifications below. (6 marks)

Description	Marks
For each of the cost classifications of behaviours and relationships to cost objects:	
Explains the cost classification	3
Describes the cost classification	2
Describes some of the cost classification	1
Total	6
Answer(s) could include but are not limited to:	
Behaviours:	
<ul style="list-style-type: none"> • Variable costs vary with the level of production or other activity measure. As production increases, variable costs increase proportionally. • Fixed costs remain the same across levels of production or other activity measure. As production increases, fixed costs do not change. • Mixed costs have a component of variable and a component of fixed costs. As production increases, only the variable component will increase. 	
Relationships to cost objects:	
<ul style="list-style-type: none"> • Direct costs are directly related/attributable to a cost object. If the cost object is a unit of production then direct material, direct labour and direct overheads are directly traceable to the product. • Indirect costs are costs incurred but not directly traceable to a cost object, such as manufacturing overheads for all products. 	
Accept any other reasonable answer.	

Marking Guide – Section 3

2023
Section 3
Question
21a

Cost
Accounting
+ CVP

Jan and Lee Tracz are the directors of Jaleetraz Pty Ltd. They manage the day-to-day running of their business, which manufactures fencing suitable for factories and homes. The cost of purchasing the aluminium and metal supplies for their fencing has increased over the past year but they have not been able to increase the selling price due to increased competition in the market. Other costs, including factory and office rental, and other day-to-day costs of running their business, have also increased over the year.

Over the last two years Jan and Lee have begun to worry about the level of cash they have available to pay staff and creditors. Some creditors are requesting immediate payment of their accounts. Profits have also declined over the two years.

The following information has been extracted from the financial reports of Jaleetraz Pty Ltd.

Extracted from Jaleetraz Pty Ltd Balance sheet as at 30 June	2023 \$	2022 \$
Cash at bank		25,000
Debtors	35,000	45,000
Inventory	200,000	155,000
Total non-current assets	1,000,000	1,000,000
Bank overdraft	12,000	
Creditors	45,000	35,000
Loan from Z Bank due to be repaid by 31 December 2023	50,000	60,000

Other information provided by Jaleetraz Pty Ltd	2023 \$	2022 \$
Total sales	750,000	750,000
Break-even point (sales dollars)	752,000	740,000

(a) Describe the behaviour of variable costs **and** fixed costs and explain how changes in these costs have resulted in an increase in the break-even point (sales dollars) for Jaleetraz Pty Ltd. (7 marks)

Description	Marks
For each of variable and fixed costs (2 x 2 marks)	
Describes the behaviour	2
Makes a statement about the behaviour	1
Subtotal	4
Explains how changes in variable and fixed costs will increase the break-even point (sales dollars) for Jaleetraz Pty Ltd	3
Describes how changes in variable and fixed costs will increase the break-even point (sales dollars)	2
Makes a statement on how changes in variable and fixed costs will increase the break-even point (sales dollars)	1
Subtotal	3
Total	7
<p>Answers could include:</p> <p>Variable and fixed costs:</p> <ul style="list-style-type: none"> • Variable costs are those costs which will change in line with the level of production activity. The higher the production level the higher the variable costs. • Fixed costs will remain the same whether activity levels increase or decrease. Total fixed costs may change due to cost increases, but will remain the same no matter the level of production. <p>Increase in the break-even point:</p> <ul style="list-style-type: none"> • Break-even point (sales dollars) is that point at which the sales dollars received equals total costs. • Any increase in variable and/or fixed costs resulted in an increase in the break-even (sales dollar) figure of \$752,000 in 2023. • The sales figure of \$750,000 for Jaleetraz Pty Ltd has not increased from 2022 to 2023, but both variable and fixed costs have increased. This means that sales dollars will need to increase to fully cover both variable and fixed costs. <p>Accept other relevant answers.</p>	

**2021
Section 3
Question
22.a.**

**Cost
Accounting**

Explain, with the use of an example, the concept of mark-up. (4 marks)

Description	Marks
Explains the concept of mark-up, using an example	4
Explains the concept of mark-up	3
Describes the concept of mark-up	2
States a fact about the concept of mark-up	1
Total	4
<p>Answer(s) could include:</p> <p>A business must be competitive and it must charge a selling price that customers are willing to pay. From an accountant's perspective, it is important to cover costs and to make a profit when selling a product or service.</p> <p>The mark-up is the amount added to the unit cost to determine the selling price and will include a profit margin. This mark-up is usually a percentage of the unit cost of the product.</p> <p>For example, if the standard cost of the new lawn mower is \$724 and the business applies their mark-up of 50% this means the selling price will be \$1,086. (calculations not required)</p> <p>Accept any other correct, relevant answer.</p>	

**2021
Section 3
Question
23.a.**

**Cost
accounting**

Explain the classification of costs according to their relationship to cost objects. Provide an example of each to illustrate your answer. (6 marks)

Description	Marks
For each of direct and indirect costs:	
Explains the cost and provides an example	3
Describes the cost and provides an example	2
Identifies the cost classification	1
Total	6
Answer(s) could include:	
<ul style="list-style-type: none">• Direct costs are able to be traced to a product or service with a high degree of accuracy. This means that the cost can be physically and easily traced to the finished product. Examples of direct costs include direct materials e.g. fuel for lawn mower and direct labour e.g. employee wages• Indirect costs are not so easily traced to a product or service. These are items that are not incorporated in the product or are too insignificant to make it worth tracing the cost of the finished product. Examples of indirect costs include the research and development costs and the costs of training the factory staff.	
Accept any other correct, relevant answer.	

Unit 3 – 9. Cost–Volume–Profit Analysis (CVP)

Section 1

2022 Section 1 Question 7 CVP	A business provides the following information											
	<table border="1"><tr><td>Sales (60,000 units)</td><td>\$180,000</td></tr><tr><td>Direct labour</td><td>\$20,000</td></tr><tr><td>Direct materials</td><td>\$15,000</td></tr><tr><td>Direct energy</td><td>\$12,000</td></tr><tr><td>Fixed costs</td><td>\$18,000</td></tr><tr><td>Profit</td><td>\$115,000</td></tr></table> <p>What is the contribution margin ratio, rounded to the nearest whole number?</p> <p>(a) 74% (b) 64% (c) 26% (d) 10%</p>	Sales (60,000 units)	\$180,000	Direct labour	\$20,000	Direct materials	\$15,000	Direct energy	\$12,000	Fixed costs	\$18,000	Profit
Sales (60,000 units)	\$180,000											
Direct labour	\$20,000											
Direct materials	\$15,000											
Direct energy	\$12,000											
Fixed costs	\$18,000											
Profit	\$115,000											

2020 Section 1 Question 6 CVP	A business provides the following information.							
	<table border="1"><tr><td>Sales (57,000 units)</td><td>\$171,000</td></tr><tr><td>Variable costs</td><td>\$42,750</td></tr><tr><td>Fixed costs</td><td>\$50,000</td></tr><tr><td>Profit</td><td>\$78,250</td></tr></table> <p>What is the contribution margin per unit?</p> <p>(a) \$3.00 (b) \$2.25 (c) \$0.75 (d) \$1.37</p>	Sales (57,000 units)	\$171,000	Variable costs	\$42,750	Fixed costs	\$50,000	Profit
Sales (57,000 units)	\$171,000							
Variable costs	\$42,750							
Fixed costs	\$50,000							
Profit	\$78,250							

2020 Section 1 Question 15 CVP	The break-even point in cost-volume-profit analysis is the level at which
	<p>(a) profit equals total fixed costs. (b) sales revenue equals total fixed costs. (c) sales revenue equals total costs. (d) profit equals total variable costs.</p>

2019 Section 1 Question 6 CVP	Billy-EyeLash Ltd provided the following information about its business. Variable expenses are \$36,300, fixed expenses are \$50,000 and profit is \$27,200. What is the sales amount in dollars?
	<p>(a) \$59,100 (b) \$77,200 (c) \$86,300 (d) \$113,500</p>

2019 Section 1 Question 13 CVP	PosstMaloan Ltd provided the following information about its business. The selling price of the product is \$40, variable expenses are \$32 and fixed expenses are \$4,800. What is the break-even point in units?
	<p>(a) 120 (b) 150 (c) 600 (d) 800</p>

Section 2

**2022
Section 2
Question
16**

CVP

Zlaire Pty Ltd manufactures washing machines at a selling price of \$750 each. The machines are made at a factory in Perth that has a maximum production capacity of 4,000 machines per year. The company is operating at full capacity

The costs to produce 4,000 washing machines are as follows:

Total variable costs per washing machine	\$544
Total fixed costs allocated	\$310,000

In January 2022, Zlaire Pty Ltd received a special order for 400 washing machines with added special features. The prospective purchaser offered to pay \$800 per machine. The special order is to be delivered by 31 March 2022. The costs of producing the special order washing machines will involve additional variable expenses of \$20 per machine. Zlaire Pty Ltd will also need to purchase additional equipment costing \$10,500, to be able to fulfil the order. (This equipment will not be used for any other purpose.)

Required

(a) Calculate the gain or loss on the special order and state whether Zlaire Pty Ltd should accept or reject the special order. (11 marks)

Workings:

Gain/loss on special order: _____

Accept/reject the special order: _____

(b) The management of Zlaire Pty Ltd is now considering purchasing the electronic components used in the washing machines from a supplier, rather than making them in their own factory. The supplier will charge \$130 for each of the electronic components.

The total fixed costs allocated will be reduced by \$24,000 if the electronic components are purchased.

Zlaire Pty Ltd budgets the following costs to make the electronic components for the 4,000 washing machines they expect to produce from June 2022.

Total variable costs per electronic component	\$128
Total fixed costs allocated	\$60,000

Required:

Determine the effect on profit for both the make and buy options to recommend which option Zlaire Pty Ltd should take. (9 marks)

Workings:

Recommendation:

(c) Describe what the 'margin of safety' measures. (2 marks)

**2021
Section 2
Question
18.a-e.**

CVP

Winerack produces a range of premium red wines (Shiraz, Pinot Noir and Cabernet Merlot) that retail at prices between \$60/bottle and \$100/bottle. The selling prices, volume and costs of production for its three wines for 2022 are as follows:

	Shiraz	Pinot Noir	Cabernet Merlot
Selling price/bottle	\$60	\$80	\$100
Annual sales volume for 2022 (bottles)	60,000	40,000	25,000
Variable manufacturing cost/bottle	\$15	\$20	\$25
Variable non-manufacturing cost/bottle	\$10	\$10	\$10
Annual fixed manufacturing costs	\$3,500,000		
Annual fixed non-manufacturing costs	\$1,309,000		

Required

a. Calculate the contribution margin per unit for Shiraz bottles of wine. (2 marks)

Workings:

Contribution margin per unit for Shiraz bottles of wine: _____

b. Calculate the sales mix for 2022. (4 marks)

Workings:

Sales mix for Shiraz for 2022: _____

Sales mix for Pinot Noir for 2022: _____

Sales mix for Cabernet Merlot for 2022: _____

c. The contribution margin for Pinot Noir is \$50/bottle and for Cabernet Merlot is \$65/bottle. Calculate the weighted average contribution margin for Winerack. (Round calculations to two decimal points.) (4 marks)

Workings:

Weighted average contribution margin: _____

d. Calculate the break-even, in bottles, for Winerack for 2022. (3 marks)

Workings:

Break-even point, in bottles, for Winerack for 2022: _____

e. Calculate the number of bottles of Pinot Noir required for break-even, applying the sales mix calculated in part (b). (2 marks)

Workings:

Break-even point, in bottles, for Pinot Noir: _____

**2020
Section 3
Question
21.a-b.**

CVP

A business magazine published the following article, including comments from its business analyst. Read the article and answer the questions that follow.

Woolworths maintains plans to close 30 Big W stores as profit tumbles

Woolworths is pushing ahead with plans to close 30 unprofitable Big W stores as it battles a tough consumer environment and a drop in profits. While Woolworths' full-year results were negatively affected by the loss of revenue from the sale of its petrol and convenience store wing, net profit for the continuing business still fell 7 per cent to \$1.49 billion over the year, or 9 per cent taking into account the extra week of trade in the 2019 financial year compared to 2018.

The market had expected a stronger profit of around \$1.7 billion. Woolworths said that, before one-off costs, its net profit from continuing operations was 9.2 per cent up on last year at \$1.75 billion, or 7.2 per cent up when you factor in for the extra week of trade. Including the net gain of almost \$1.1 billion from the sale of the petrol franchise into the mix, net profit rose 56 per cent to \$2.7 billion. Those proceeds have been handed back to shareholders in the form of higher dividends, up almost 10 per cent to \$1.02 over the year.

Store closures

The Big W department store chain continued to be a drag on the group, losing \$85 million despite a pick up in sales. Earlier this year, Woolworths announced plans to close around 30 unprofitable stores to stem the bleeding. Distribution centres are also slated for closure. All up around 1,000 jobs are expected to be lost.

Woolworths chief executive Brad Banducci said he was not satisfied with the rate at which increased sales had translated into profits and the store closures would "accelerate the path to profitability". Mr Banducci said, after a challenging first half, momentum was picking up across the retail group, but conditions remained tough. "In the 2020 financial year, we expect the uncertain consumer environment and input cost pressures to remain, as well as an impact from new enterprise agreements", Mr Banducci said.

Sales picking up, but shares slip

JP Morgan analyst Shaun Cousins said while the result was below market expectations, Woolworths supermarkets appeared to have enjoyed a strong start to 2020. Mr Cousins said "... the consumer environment remains uncertain, with cost of living pressures despite the recent stimulus, and input cost pressures for retailers and suppliers ... while the robust 7.5 per cent like-for-like sales growth may not be sustainable." Woolworths had made strong gains in market share". Investors did not appear to share his optimism, with Woolworths shares down 1.5 per cent to \$35.61 in early trade.

Our business analyst provides the following interpretation of cost-volume-profit results of Woolworths and the decision to close down Big W stores: Woolworths group 2019 profit was \$1.72 billion, up from \$1.6 billion in 2018; Big W group had annual sales of \$3.8 billion up from \$3.6 billion in 2018; In 2019 Big W made a loss of \$85 million, whereas in 2018 the loss was \$100 million. Of note is that Big W employs over 18,000 people within its 183 stores Australia wide. Big W's loyal customer base has resulted in an 84% growth in the online shopping division as well as an increase in sales in the stores of 7.3%.

a. Use an example from the article to explain how the relationship between volume of activity, costs and profits can affect performance. (4 marks)

b. With reference to the article, comment on two financial reasons for Woolworths closing down 30 Big W stores. (4 marks)

2020
Section 3
Question
21.c.

CSR + CVP

A business magazine published the following article, including comments from its business analyst. Read the article and answer the questions that follow.

Woolworths maintains plans to close 30 Big W stores as profit tumbles

Woolworths is pushing ahead with plans to close 30 unprofitable Big W stores as it battles a tough consumer environment and a drop in profits. While Woolworths' full-year results were negatively affected by the loss of revenue from the sale of its petrol and convenience store wing, net profit for the continuing business still fell 7 per cent to \$1.49 billion over the year, or 9 per cent taking into account the extra week of trade in the 2019 financial year compared to 2018.

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Describe two non-financial factors that Woolworths could have considered before deciding to close down the Big W stores. (4 marks)

Tip: this Question relates to both CSR and CVP regarding qualitative factors to consider when making department/product shut down decisions.

Marking Guide – Section 1

2022 Section 1 Question 7 CVP	A business provides the following information											
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Fixed costs	\$50,000							
Profit	\$78,250							

2020 Section 1 Question 15 CVP	The break-even point in cost-volume-profit analysis is the level at which
	<p>(a) profit equals total fixed costs. (b) sales revenue equals total fixed costs. (c) sales revenue equals total costs. – Answer (d) profit equals total variable costs.</p>

2019 Section 1 Question 6 CVP	Billy-EyeLash Ltd provided the following information about its business. Variable expenses are \$36,300, fixed expenses are \$50,000 and profit is \$27,200. What is the sales amount in dollars?
	<p>(a) \$59,100 (b) \$77,200 (c) \$86,300 (d) \$113,500 – Answer</p> <p>Question 6 – Sales</p> <p>Profit = (SP x QS) – [(VC x QS) + TFC] 27,200 = (sales) – [36,300 + 50 000] 27,200 = (sales) – 86,300 Sales = 113,500</p>

<p>2019 Section 1 Question 13</p> <p>CVP</p>	<p>PosstMaloan Ltd provided the following information about its business. The selling price of the product is \$40, variable expenses are \$32 and fixed expenses are \$4,800. What is the break-even point in units?</p> <p>(a) 120 (b) 150 (c) 600 – Answer (d) 800</p> <p>Question 13 – Break-even</p> $= \frac{\text{TFC}}{\text{SP} - \text{VC}}$ $= \frac{4,800}{40 - 32}$ $= 600$
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Marking Guide – Section 2

2022
Section 2
Question
16
CVP

Zlaire Pty Ltd manufactures washing machines at a selling price of \$750 each. The machines are made at a factory in Perth that has a maximum production capacity of 4,000 machines per year. The company is operating at full capacity

The costs to produce 4,000 washing machines are as follows:

Total variable costs per washing machine	\$544
Total fixed costs allocated	\$310,000

In January 2022, Zlaire Pty Ltd received a special order for 400 washing machines with added special features. The prospective purchaser offered to pay \$800 per machine. The special order is to be delivered by 31 March 2022. The costs of producing the special order washing machines will involve additional variable expenses of \$20 per machine. Zlaire Pty Ltd will also need to purchase additional equipment costing \$10,500, to be able to fulfil the order. (This equipment will not be used for any other purpose.)

Required

- (a) Calculate the gain or loss on the special order and state whether Zlaire Pty Ltd should accept or reject the special order. (11 marks)

Workings	Marks
Gain/loss = (SP x QS) – (VC x QS) – new FC - OC	
(SP x QS) = \$800 (1) x 400 (1) = \$320,000	1 + 1
VC = \$544 (1) + \$20 (1) = \$564	1 + 1
(VC x QS) = \$564 x 400 = \$225,600	1
Where OC = Units forgone in usual production x contribution margin	
Usual CM = \$750 (1) – \$544 (1) = \$206	1 + 1
OC = 400 x \$206 = \$82,400	
Gain/loss = \$320,000 – \$225,600 = \$94,400 – \$10,500 (1) – \$82,400 (1) = \$1,500 Gain (1)	1 + 1 + 1
Accept order	1
Total	11

Gain/loss on special order: \$1,500 Gain
Accept/reject the special order: Accept

Deduct 1 mark for each calculation error, to a maximum of 2 marks
Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

- (b) The management of Zlaire Pty Ltd is now considering purchasing the electronic components used in the washing machines from a supplier, rather than making them in their own factory. The supplier will charge \$130 for each of the electronic components.

The total fixed costs allocated will be reduced by \$24,000 if the electronic components are purchased.

Zlaire Pty Ltd budgets the following costs to make the electronic components for the 4,000 washing machines they expect to produce from June 2022.

Total variable costs per electronic component	\$128
Total fixed costs allocated	\$60,000

Required:

Determine the effect on profit for both the make and buy options to recommend which option Zlaire Ptd Ltd should take. (9 marks)

Workings			Marks
	Make	Buy	
Variable costs	VC x QS = \$128 (1) x 4,000 (1) = \$512,000		1 + 1
Fixed overhead	TFC = \$60,000 (1)		1
Purchase of electronic components		VC x QS = \$130 (1) x 4,000 (1) = \$520,000	1 + 1
Plus fixed costs		TFC – \$24,000 = \$60,000 (1) – 24,000 (1) = \$36,000	1 + 1
	= \$572,000	= \$556,000	
	There is \$16,000 more in profit by buying the electronic components (1) Therefore recommend to buy (1)		1 + 1

Alternative workings:

Make = (750 x 4000) (1) – (544 x 4000) (1) – 310,000 (1) = \$514,000 profit

Buy = (750 x 4000) (1) – (546 x 4000) (1) – (310,000 (1) – 24,000 (1)) = \$530,000 profit

Recommendation: Buy the electronic components because this results in a \$16,000 saving (or \$16,000 more profit).

Deduct 1 mark for each calculation error, to a maximum of 1 mark

Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark

c. Describe what the 'margin of safety' measures. (2 marks)

Description	Marks
Describes the margin of safety as the measurement of the level of sales in excess of the break-even point.	2
States a fact about the margin of safety.	1
Total	2
Answers could include:	
<ul style="list-style-type: none"> The margin of safety measures the gap between the level of sales and break-even point level of sales. At the break-even point, total sales = total costs. The greater the margin of safety, the less risk for the business. 	
Accept other relevant answers.	

**2021
Section
Question
18.a-e.

CVP**

a. Calculate the contribution margin per unit for Shiraz bottles of wine. (2 marks)

Workings		Marks
CM per unit = SP per unit – VC per unit = 60 (1) – (15 + 10) (1) = \$35/bottle		1–2
Total		2
Deduct 1 mark for each calculation error, to a maximum of 1 mark Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks		

Contribution margin per unit for Shiraz bottles of wine: \$35

b. Calculate the sales mix for 2022. (4 marks)

Workings		Marks
Total sales	60,000 + 40,000 + 25,000 = 125,000	1
Sales mix %	= $\frac{\text{number of units sold of a given product}}{\text{total units sold of all products}} \times 100\%$	
Shiraz	= 60,000/125,000 = 48%	1
Pinot Noir	= 40,000/125,000 = 32%	1
Cabernet Merlot	= 25,000/125,000 = 20%	1
Total		4
Deduct 1 mark for each calculation error, to a maximum of 1 mark Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks		

Sales mix for Shiraz for 2022: 48%
Sales mix for Pinot Noir for 2022: 32%
Sales mix for Cabernet Merlot for 2022: 20%

c. The contribution margin for Pinot Noir is \$50/bottle and for Cabernet Merlot is \$65/bottle. Calculate the weighted average contribution margin for Winerack. (Round calculations to two decimal points.) (4 marks)

Workings		Marks
Weighted average contribution margin per unit = $\sum (\text{Contribution margin per unit} \times \text{Sales mix \%})$ = (\$35 x 48%) + (\$50 x 32%) + (\$65 x 20%) = = 16.80 (1) + 16.00 (1) + 13.00 (1) = \$45.80 (1)		1–4
Total		4
Deduct 1 mark for each calculation error, to a maximum of 1 mark Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks		

Weighted average contribution margin: \$45.80

d. Calculate the break-even, in bottles, for Winerack for 2022. (3 marks)

Workings		Marks
Breakeven point (in units) for a multi-product firm = $\frac{\text{TFC}}{\text{Weighted average contribution margin per unit}}$ (\$3,500,000 (1) + \$1,309,000 (1))/ \$45.80 (1) = 105,000 bottles		1–3
Total		3
Deduct 1 mark for each calculation error, to a maximum of 1 mark Deduct 1 mark for incorrect rounding to whole unit, to a maximum of 1 mark Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks		

Break-even point, in bottles, for Winerack: 105,000 bottles

e. Calculate the number of bottles of Pinot Noir required for break-even, applying the sales mix calculated in part (b). (2 marks)

Workings	Marks
Pinot Noir bottles for breakeven	
= breakeven number of bottles x sales mix %	
= 105,000 bottles (1) x 32% (1) = 33,600 bottles	1-2
Total	2
Deduct 1 mark for calculation error to a maximum 1 mark	
Deduct 1 mark for incorrect rounding to whole unit to a maximum 1 mark	
Deduct 1 mark for inclusion of foreign items to a maximum 2 marks	

Break-even point, in bottles, for Pinot Noir: 33,600 bottles

Marking Guide – Section 3

**2023
Section 3
Question
21a**

**Cost
Accounting
+ CVP**

Jan and Lee Tracz are the directors of Jaleetraz Pty Ltd. They manage the day-to-day running of their business, which manufactures fencing suitable for factories and homes. The cost of purchasing the aluminium and metal supplies for their fencing has increased over the past year but they have not been able to increase the selling price due to increased competition in the market. Other costs, including factory and office rental, and other day-to-day costs of running their business, have also increased over the year.

Over the last two years Jan and Lee have begun to worry about the level of cash they have available to pay staff and creditors. Some creditors are requesting immediate payment of their accounts. Profits have also declined over the two years.

The following information has been extracted from the financial reports of Jaleetraz Pty Ltd.

Extracted from Jaleetraz Pty Ltd Balance sheet as at 30 June	2023 \$	2022 \$
Cash at bank		25,000
Debtors	35,000	45,000
Inventory	200,000	155,000
Total non-current assets	1,000,000	1,000,000
Bank overdraft	12,000	
Creditors	45,000	35,000
Loan from Z Bank due to be repaid by 31 December 2023	50,000	60,000

Other information provided by Jaleetraz Pty Ltd	2023 \$	2022 \$
Total sales	750,000	750,000
Break-even point (sales dollars)	752,000	740,000

(a) Describe the behaviour of variable costs **and** fixed costs and explain how changes in these costs have resulted in an increase in the break-even point (sales dollars) for Jaleetraz Pty Ltd. (7 marks)

Description	Marks
For each of variable and fixed costs (2 x 2 marks)	
Describes the behaviour	2
Makes a statement about the behaviour	1
Subtotal	4
Explains how changes in variable and fixed costs will increase the break-even point (sales dollars) for Jaleetraz Pty Ltd	3
Describes how changes in variable and fixed costs will increase the break-even point (sales dollars)	2
Makes a statement on how changes in variable and fixed costs will increase the break-even point (sales dollars)	1
Subtotal	3
Total	7
<p>Answers could include:</p> <p>Variable and fixed costs:</p> <ul style="list-style-type: none"> • Variable costs are those costs which will change in line with the level of production activity. The higher the production level the higher the variable costs. • Fixed costs will remain the same whether activity levels increase or decrease. Total fixed costs may change due to cost increases, but will remain the same no matter the level of production. <p>Increase in the break-even point:</p> <ul style="list-style-type: none"> • Break-even point (sales dollars) is that point at which the sales dollars received equals total costs. • Any increase in variable and/or fixed costs resulted in an increase in the break-even (sales dollar) figure of \$752,000 in 2023. • The sales figure of \$750,000 for Jaleetraz Pty Ltd has not increased from 2022 to 2023, but both variable and fixed costs have increased. This means that sales dollars will need to increase to fully cover both variable and fixed costs. <p>Accept other relevant answers.</p>	

**2020
Section
Question
21.a.b.**

CVP

a. Use an example from the article to explain how the relationship between volume of activity, costs and profits can affect performance. (4 marks)

Description	Marks
Explains how the relationship between volume of activity, costs and profits can affect performance and illustrates correctly by using an example from the article	4
Explains how the relationship between volume of activity, costs and profits can affect performance and refers to an example from the article	3
Outlines the relationship between volume of activity, costs and profits that affects performance	2
States a fact about the volume of activity, costs or profits that affect performance	1
Total	4

Answer(s) could include by are not limited to:

The article states that 'the Big W department store chain continued to be a drag on the group, losing \$85 million despite a pick up in sales'. Brad Banducci said he was "not satisfied with the rate at which increased sales had translated into profits and the store closures would accelerate the path to profitability". This directly relates to cost-volume-profit (CVP) analysis. The volume of products has increased, which is indicated through the increase of sales. However, the costs are higher, which has not translated to greater profits. This indicates that the costs for Woolworths has increased at a greater rate than sales.

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CVP analysis is a way to find out how changes in variable and fixed costs affect a business' profit. Businesses can use the results of the analysis to see how many units they need to sell to break even (cover all costs) or reach a certain minimum profit margin.

Accept any other reasonable answer.

b. With reference to the article, comment on two financial reasons for Woolworths closing down 30 Big W stores. (4 marks)

Description	Marks
For each of two financial reasons for Woolworths closing down 30 Big W stores:	
Comments appropriately on the financial reason	2
Identifies the financial reason	1
Total	4
Answer(s) could include by are not limited to:	
<ul style="list-style-type: none"> • Low profits – while Woolworths' full-year results were negatively affected by the loss of revenue from the sale of its petrol and convenience store wing, net profit for the continuing business still fell. This business analyst indicated this, as the increase in profits of \$100 million was not in line with Woolworths' predictions. • Economic conditions – Mr Cousins said “the consumer environment remains uncertain, with cost of living pressures despite the recent stimulus, and input cost pressures for retailers and suppliers”. Mr Banducci said “in the 2020 financial year, we expect the uncertain consumer environment and input cost pressures to remain”. Investors did not appear to share this optimism “with Woolworths' shares down 1.5 percent ... in early trade”. • Costs – Big W is costing Woolworths \$85 million even with a pick-up of sales. Closing down the 30 unprofitable stores will help Woolworths achieve a higher profit. 	
Accept any other reasonable answer.	

2020
Section
Question
21.c.

CSR +
CVP

Describe two non-financial factors that Woolworths could have considered before deciding to close down the Big W stores. (4 marks)

Note: this Question relates to both CSR and CVP regarding qualitative factors to consider when making department/product shut down decisions.

Description	Marks
For each of two non-financial factors that Woolworths could have considered before deciding to close down the Big W stores:	
Describes appropriately the factor	2
Names the factor	1
Total	4
Answer(s) could include by are not limited to:	
<p>Customers – regular customers who go to the Woolworths group will be upset that they can no longer shop at Big W. This could lead them to shop at a competitor's store. The online store had an 84 per cent growth. There was also an increase of 7.3 per cent of sales in stores. Some of these customers will shop elsewhere as a result of the Big W closures.</p> <p>Employees – morale could decrease, with staff worrying about jobs, and relocation of departments could cause stress. If changes are not communicated well by the business, this could lead to inefficiencies. Around 6 per cent of current Big W employees will lose their jobs (1,000/1,800 employees). Many remaining employees will be concerned that Woolworths is putting profit ahead of them.</p> <p>Investors – Woolworths should consider being an attractive investment for current and future shareholders, who would want the company to be sustainable in the future and to receive dividends.</p>	
Accept any other reasonable answer.	

Unit 3 – 10. Budgets

Section 1

2022 Section 1 Question 11 Budgets	<p>Which of the following would be shown as a favourable variance in a performance report?</p> <p>(a) actual receipts for sales \$120,000, budgeted sales receipts \$112,000 (b) budgeted wages expense \$340,000, actual wages expense \$460,000 (c) actual cash paid for a new machine \$563,000; budgeted purchase price \$450,000 (d) actual gross profit \$42,000, budgeted gross profit \$50,000</p>
2022 Section 1 Question 2 Budgets	<p>The purpose of performance reports is to assist management with</p> <p>(a) planning for the future and reporting to shareholders. (b) investigating favourable and unfavourable variances and budgeting for the future. (c) comparing actual results with budgeted results and reporting to shareholders. (d) investigating favourable and unfavourable variances and preparing external reports.</p>
2021 Section Question 8 Budgets	<p>A series of interrelated budget documents that help a business with planning and decision making is referred to as a</p> <p>(a) budgeted financial statement. (b) master budget. (c) budgeted profit and loss statement. (d) cash budget.</p>
2019 Section Question 11 Budgets	<p>Performance reports</p> <p>(a) inform shareholders about the business' performance. (b) compare actual financial performance with the budget. (c) should relate only to financial outcomes. (d) should always allocate responsibility for poor performance.</p>

Section 2

2023 Section 2 Question 17

Budgets

Kwisty Pastries Pty Ltd has prepared a cash budget for the six months ending 31 December 2023.

**Kwisty Pastries Pty Ltd
Cash budget
for the six months ending 31 December 2023**

Estimated receipts	\$
Cash sales	105,000
Receipts from debtors	184,195
Proceeds from sale of pastry oven	11,500
Loan from bank	5,000
Interest on term deposit	250
Term deposit (maturing 31/12/2023)	20,000
Total estimated receipts	325,945
Estimated payments	
Advertising	4,500
Drawings	45,000
Payments to creditors	105,000
Interest paid on term loan for six months	850
Shop rental for six months	26,000
Insurance	6,000
Purchase of new pastry oven	14,500
Wages paid	70,000
Web page and internet fees paid	120
Total estimated payments	271,970
Cash surplus	53,975
Cash balance as start of period	55,000
Budgeted cash balance at end of period	108,975

Additional information:

- Credit sales are usually received in the month of sale, less 1.5% discount.
- Accounts receivable balance as at 30 June 2023 was \$30,850 and it is expected the balance of accounts receivable as at 31 December 2023 will be \$25,850.
- Cost of sales for the period is expected to be \$105,000.
- Advertising is expected to be paid on 1 November 2023 for a three-month campaign due to commence on 1 December 2023.
- The sale of the pastry oven is expected to take place on 1 October 2023. The asset was purchased for \$13,500 and accumulated depreciation as at the expected date of sale will be \$2,500.
- Accrued wages as at 31 December 2023 is expected to be \$1,250. There were no accrued wages as at 1 July 2023.
- Depreciation expense of the new pastry oven for the period is expected to be \$1,500.
- Insurance premium costs are due to be paid on 1 November 2023 for a period of 12 months in advance.
- All other expenses are expected to be paid as incurred.
- The company tax rate is 30%.

(a) Prepare a budgeted income statement for the six months ending 31 December 2023. The company uses the accrual method of accounting. Round all figures to the nearest whole dollar. (25 marks)

Workings:

	<p>(b) Explain one purpose of a budgeted income statement. (3 marks)</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
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<p>2022 Section 3 Question 21a</p> <p>Budgets</p>	<p>Juntrae Pty Ltd is a small company based in Perth and has two directors who are also the only shareholders. The company produces quality hair products that are sold throughout Australia and New Zealand.</p> <p>Kelly Bianchi, one of the directors, has developed the knowledge and experience to produce the quality hair products and also oversees their production and marketing.</p> <p>Lee Chao is the other director and majority shareholder. Lee provided the funding to help start up the business but does not get involved in its day-to-day running. Lee is happy to receive an annual dividend and leave the management of the business to Kelly.</p> <p>The company has a small number of employees who are involved in the production process, but Kelly tries to do all the administration work to help keep costs down.</p> <p>An accountant prepares financial reports and completes the tax work for Juntrae Pty Ltd. The accountant has raised the following issues:</p> <ul style="list-style-type: none"> • Juntrae Pty Ltd appears to make frequent use of its overdraft facility • while the sales figures are excellent, profit is declining • debtors frequently pay what they owe after the due date • creditors are often paid late and this sometimes leads to late payment costs being incurred • inventory levels are quite high and the cost of sales has increased significantly over the past twelve months. <p>The accountant is suggesting that Juntrae Pty Ltd should be undertaking significant planning and control to protect its assets, ensure the company has cash flow to pay debts and to investigate why profits are declining.</p> <p>Although Kelly is concerned about the accountant's advice, Lee is confident that she will sort out the problems and is not interested in getting involved in the running of the company.</p> <p>(a) Identify any two components of a master budget and describe two budgets that might assist Juntrae Pty Ltd to identify and manage problems before they occur. (6 marks)</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
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2022
Section 2
Question
18
Budgets

Lawdsheer Ltd is preparing a cash budget for May and June 2023.

All sales are on credit and 20% are collected during the month of sale, 50% in the month following sale, 20% in the second month following sale and 8% in the third month following sale. The remaining 2% are treated as uncollectable.

The company pays for 80% of purchases in the month after purchase and the balance in the following month.

Fixed selling expenses amount to \$4,400 per month plus variable selling expenses equal to 5% of the previous month's sales. Administration expenses are estimated to be \$8,800 per month, which includes \$3,200 of depreciation expense. Finance expenses are \$800 per month. All expenses other than purchases are paid for in the month they are incurred. It is planned to purchase equipment for \$14,400 cash during May 2023. A \$6,000 loan payable will be repaid during July 2023. The interest due on the loan is calculated at 7% per annum, paid monthly.

The company's expected cash at bank balance on 1 May 2023 is \$9,000 credit.

Estimated sales and purchases		
Month	Sales \$	Purchases \$
February	50,000	13,000
March	44,000	11,000
April	56,000	12,000
May	60,000	8,000
June	72,000	10,000

Required

(a) Prepare a schedule of collections from debtors for each of the months of May and June 2023. (8 marks)

(b) Prepare a cash budget for the months of May and June 2023, showing the cash balance at the end of each month. (19 marks)

Workings:

(c) Describe **three** courses of action a public company could consider to prevent or reduce a shortfall in cash that has been predicted by its cash budget. (6 marks)

One:

Two:

Three:

**2021
Section
Question
17.a-b.**

Budgets

The management of ExDex Modulares Ltd provided the following budget information for the months of July and August 2022.

- Sales are expected to be \$25,000 for July 2022 and \$28,500 for August 2022. Cash sales make up 90% of total sales, with the balance of 10% being paid in the month following sale.
- The following budgeted information is provided for the inventory account:

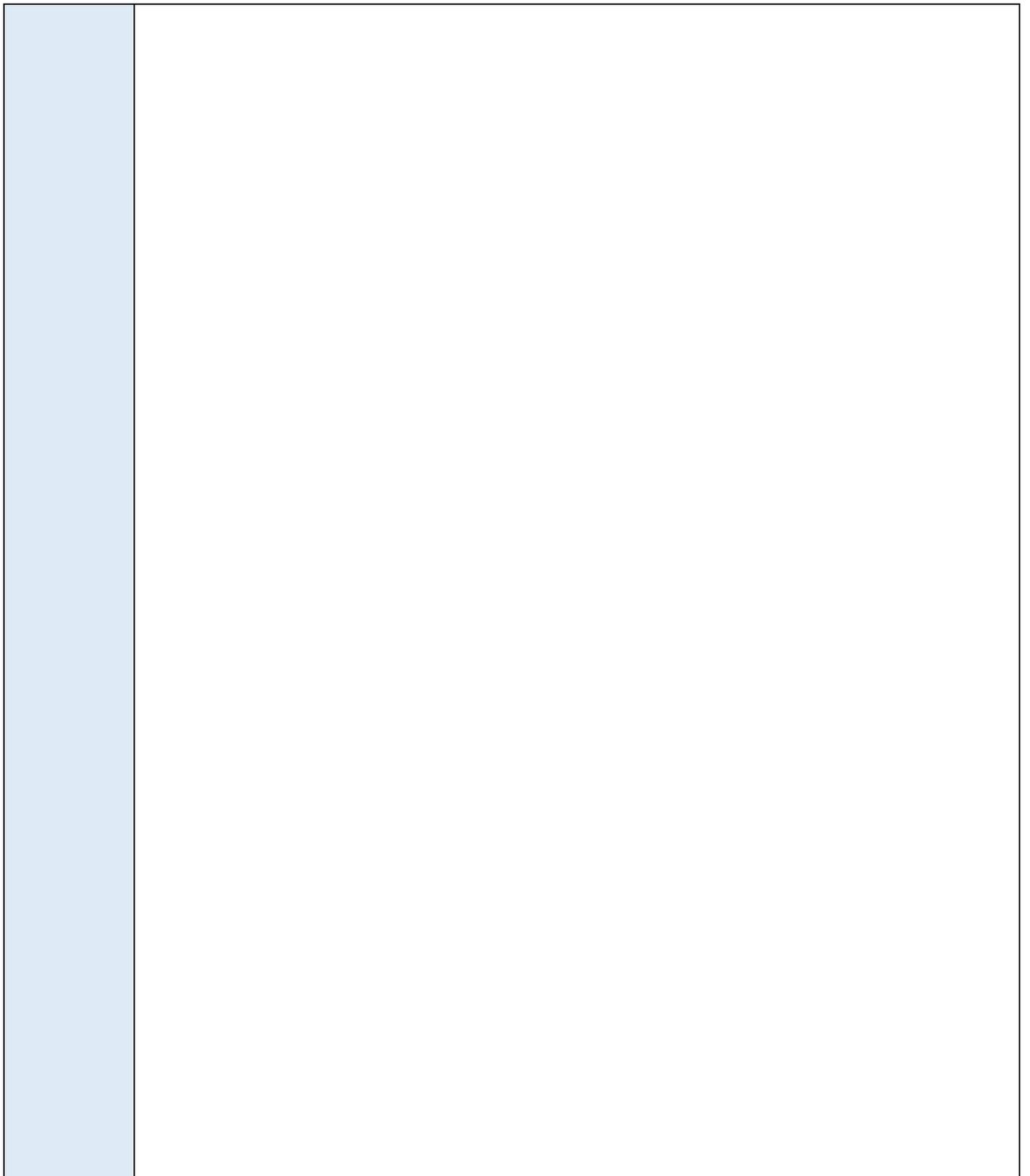
Date	Inventory account details	Amount
1 July 2022	Opening balance	\$25,000
1 July to 31 August 2022	Total budgeted inventory purchases	10,000
31 August 2022	Closing balance	15,000

- The company has a term deposit of \$30,000 with XZY Bank. The bank pays an interest rate of 2% per annum, payable twice per year on 31 December and 30 June.
- Interest expense for July and August 2022 is expected to total \$1,200.
- Wages paid for July and August 2022 are expected to total \$5,100. The actual accrued wages balance on 1 July 2022 is \$350 and the balance on 31 August 2022 is expected to be \$450.
- Office rent of \$6,300 for 3 months was paid on 1 June 2022.
- Office administration expenses for July and August 2022 are expected to total \$1,200.
- Selling expenses are expected to be 5% of net sales.
- A delivery van with a carrying amount of \$9,500 as at 1 July 2022 is depreciated at 15% per annum using the reducing balance method of calculating depreciation.
- The company tax rate is 30%.
- Round all calculations to the nearest whole dollar.

Required

- a. Prepare a budgeted income statement for the two months ending 31 August 2022. (22 marks)

Workings



b. Outline two purposes of a budgeted income statement. (4 marks)

One:

Two:

**2019
Section
Question
17.a-c.

Budgets**

The following information has been provided to you by Meeiegoes Enterprises.

**Meeiegoes Enterprises
Income statement
for the month ended 30 September 2020**

	\$	\$
Sales		242,000
Less Cost of sales	156,300	
Less Discount received	2,985	153,315
Gross profit		<u>88,685</u>
 <i>Less Expenses</i>		
Wages	32,000	
Bad debts	1,670	
Electricity	1,800	
Depreciation	3,250	
Sales commission	12,100	
Other expenses	17,135	67,955
Profit for the period		<u><u>20,730</u></u>

Additional information:

- The closing bank balance in the general ledger account as at 30 September 2020 was \$16,500CR.
- The business expects to sell a vehicle during October and receive \$8,000 in cash for it. A loss of \$1,700 is expected on the sale of the vehicle.
- A new vehicle will be purchased in October for \$46,000 and will be paid for in cash.
- Sales are 30% cash and the remainder on credit. On average, 60% of credit sales are collected in the first month after sale, 38% in the second month after sale and the remaining 2% are never collected. Sales for August were \$175,000.
- Sales staff receive a 5% commission on sales which is paid in the month that the sale is made.
- Purchases of inventories are on credit, paid for in the month following purchase to take advantage of a 3% discount for prompt payment. Purchases in September were \$89,500, while October purchases are expected to be \$92,000.
- Estimates for October, based on September's figures are:
 - Sales to increase by 3.5%
 - Wages to rise by \$7,000
 - Accrued wages to be \$9,000
 - Other expenses to increase by \$7,600
 - no changes are expected for other items.

2020
Section
Question
22.a-d.

Budgets

Junapara Pty Ltd is a retail business currently located in Western Australia. The directors are planning to expand by setting up an online business to sell their products worldwide. To this end, they have purchased a new warehouse to hold the additional inventory.

The directors are planning to employ additional staff to receive and dispatch orders. Contractors will be engaged to set up the website and create a social media profile.

In the meantime, the directors are concerned about the cash position of the business as at 30 June 2020. They know the expansion will involve a significant increase in costs and there are plans to increase borrowing. Currently the business' debt/equity ratio is 102%, an increase from the previous year.

The cash budget performance report and budgeted income statement performance report for the year ended 30 June 2020 are provided for your information. Note: the variances have not been identified as favourable or unfavourable.

Junapara Pty Ltd
Cash budget performance report
for year ended 30 June 2020

	Budget \$	Actual \$	Variance \$
Opening cash balance	92,000	92,000	
Receipts			
Cash sales	40,200	30,000	10,200
Cash collected from accounts receivable	281,160	302,040	20,880
Bank loan	200,000	200,000	
Total receipts	613,360	624,040	10,680
Payments			
Cash paid to accounts payable	116,000	132,000	16,000
Loan	11,200	11,200	
Property, plant and equipment	325,200	325,200	
Wages	120,000	130,000	10,000
Administration	20,000	25,000	5,000
Total payments	592,400	623,400	31,000
Closing cash balance	20,960	640	20,320

c. Analyse the information provided by Junapara Pty Ltd to evaluate two financial issues that will adversely affect their ability to expand the business. (6 marks)

d. Use the information in the performance reports of Junapara Pty Ltd to explain the difference between cash and accrual performance reporting and provide two examples to illustrate your answer. (4 marks)

Marking Guide – Section 1

2022 Section 1 Question 11 Budgets	Which of the following would be shown as a favourable variance in a performance report? (a) actual receipts for sales \$120,000, budgeted sales receipts \$112,000 – Answer (b) budgeted wages expense \$340,000, actual wages expense \$460,000 (c) actual cash paid for a new machine \$563,000; budgeted purchase price \$450,000 (d) actual gross profit \$42,000, budgeted gross profit \$50,000
2022 Section 1 Question 2 Budgets	The purpose of performance reports is to assist management with (a) planning for the future and reporting to shareholders. (b) investigating favourable and unfavourable variances and budgeting for the future. – Answer (c) comparing actual results with budgeted results and reporting to shareholders. (d) investigating favourable and unfavourable variances and preparing external reports.
2021 Section 1 Question 8 Budgets	A series of interrelated budget documents that help a business with planning and decision making is referred to as a (a) budgeted financial statement. (b) master budget. – Answer (c) budgeted profit and loss statement. (d) cash budget.
2019 Section 1 Question 11 Budgets	Performance reports (a) inform shareholders about the business' performance. (b) compare actual financial performance with the budget. – Answer (c) should relate only to financial outcomes. (d) should always allocate responsibility for poor performance.

Marking Guide – Section 2

2023
Section 2
Question
17

Budgets

Kwisty Pastries Pty Ltd has prepared a cash budget for the six months ending 31 December 2023.

Kwisty Pastries Pty Ltd
Cash budget
for the six months ending 31 December 2023

Estimated receipts	\$
Cash sales	105,000
Receipts from debtors	184,195
Proceeds from sale of pastry oven	11,500
Loan from bank	5,000
Interest on term deposit	250
Term deposit (maturing 31/12/2023)	20,000
Total estimated receipts	325,945
Estimated payments	
Advertising	4,500
Drawings	45,000
Payments to creditors	105,000
Interest paid on term loan for six months	850
Shop rental for six months	26,000
Insurance	6,000
Purchase of new pastry oven	14,500
Wages paid	70,000
Web page and internet fees paid	120
Total estimated payments	271,970
Cash surplus	53,975
Cash balance as start of period	55,000
Budgeted cash balance at end of period	108,975

Additional information:

- Credit sales are usually received in the month of sale, less 1.5% discount.
- Accounts receivable balance as at 30 June 2023 was \$30,850 and it is expected the balance of accounts receivable as at 31 December 2023 will be \$25,850.
- Cost of sales for the period is expected to be \$105,000.
- Advertising is expected to be paid on 1 November 2023 for a three-month campaign due to commence on 1 December 2023.
- The sale of the pastry oven is expected to take place on 1 October 2023. The asset was purchased for \$13,500 and accumulated depreciation as at the expected date of sale will be \$2,500.
- Accrued wages as at 31 December 2023 is expected to be \$1,250. There were no accrued wages as at 1 July 2023.
- Depreciation expense of the new pastry oven for the period is expected to be \$1,500.
- Insurance premium costs are due to be paid on 1 November 2023 for a period of 12 months in advance.
- All other expenses are expected to be paid as incurred.
- The company tax rate is 30%.

(a) Prepare a budgeted income statement for the six months ending 31 December 2023. The company uses the accrual method of accounting. Round all figures to the nearest whole dollar. (25 marks)

Workings:

Discount allowed

Credit sales = $184,195(1)/0.9850(1) = 187,000$

Therefore, Discount allowed = $(187,000 - 184,195) (1) = 2,805$

i.e. 3 marks carried forward to Budgeted income statement as Discount allowed

Sales =

		Accounts receivable	
Opening balance	*30,850	Bank	(1) 184,195
Credit sales	182,000	Discount allowed (1)	2,805
		Closing balance	*25,850
	212,850		212,850

*Inclusion of opening and closing balances (1)

or

*Cl bal 25,850 + 187,000 (184,195 (1) + 2,805 (1)) – *Op bal 30,850 = 182,000

*Inclusion of opening and closing balances (1)

Total sales = Credit sales (1) 182,000 + Cash sales 105,000 (1) = 287,000

i.e. 5 marks carried forward to Budgeted income statement as Sales

Gain on sale of pastry oven =

		Sale of pastry oven	
Pastry oven	(1) 13,500	Accum depn	(1) 2,500
Gain on sale	500	Bank	(1) 11,500
	14,000		14,000

or

Proceeds 11,500 (1) – carrying amount (13,500 (1) – 2,500 (1)) = Gain 500

i.e. 3 marks carried forward to Budgeted income statement as Gain on sale of pastry oven

Advertising = $4,500(1)/3(1) = 1,500$

i.e. 2 marks carried forward to Budgeted income statement as Advertising

Wages = $70,000 (1) + 1,250 (1) = 71,250$

i.e. 2 marks carried forward to Budgeted income statement as Wages

Insurance = $6,000 (1) \times 2/12 (1) = 1,000$

i.e. 2 marks carried forward to Budgeted income statement as Insurance

Income tax = $77,725 (1) \times 0.30 (1) = 23,318$

i.e. 2 marks carried forward to Budgeted income statement as Income tax payable

Kwisty Pastries Pty Ltd
Budgeted income statement
for the six months ending 31 December 2023

Description	\$	\$	Marks
Sales	287,000		1–5
Less discount allowed	2,805		1–3
Budgeted net sales		284,195	
Less cost of sales		105,000	1
Gross profit		179,195	
Add other income			
Gain on sale of pastry oven		500	1–3
Interest on term deposit		250	1
Total income		179,945	
Less operating expenses			
Advertising	1,500		1–2
Depreciation	1,500		1
Insurance	1,000		1–2
Interest on term loan	850		1
Shop rental	26,000		1
Wages	71,250		1–2
Web page and internet costs	120	102,220	1
Estimated profit		77,725	
Less Income tax payable		23,318	1–2
Estimated profit after tax		54,407	
		Total	25

Deduct 1 mark for each calculation error, to a maximum of 2 marks

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

(b) Explain **one** purpose of a budgeted income statement. (3 marks)

Description	Marks
Explains a purpose of a budgeted income statement	3
Describes a purpose of a budgeted income statement	2
States a fact about a purpose of a budgeted income statement	1
Total	3
<p>Answers could include:</p> <p>A purpose of a budgeted income statement is to:</p> <ul style="list-style-type: none"> • give management the opportunity to estimate income and expenses for a future period of time to determine future profitability or otherwise • set key performance indicators in sales targets and cost reductions, allowing management to assess the efficiency of business operations at the end of the budgeted period • enable management to plan and coordinate processes to meet targets set in the budget, e.g. planning purchases to meet sales target. <p>Accept other relevant answers.</p>	

2022
Section 3
Question
21a

Budgets

Juntrae Pty Ltd is a small company based in Perth and has two directors who are also the only shareholders. The company produces quality hair products that are sold throughout Australia and New Zealand.

Kelly Bianchi, one of the directors, has developed the knowledge and experience to produce the quality hair products and also oversees their production and marketing.

Lee Chao is the other director and majority shareholder. Lee provided the funding to help start up the business but does not get involved in its day-to-day running. Lee is happy to receive an annual dividend and leave the management of the business to Kelly.

The company has a small number of employees who are involved in the production process, but Kelly tries to do all the administration work to help keep costs down.

An accountant prepares financial reports and completes the tax work for Juntrae Pty Ltd. The accountant has raised the following issues:

- Juntrae Pty Ltd appears to make frequent use of its overdraft facility
- while the sales figures are excellent, profit is declining
- debtors frequently pay what they owe after the due date
- creditors are often paid late and this sometimes leads to late payment costs being incurred
- inventory levels are quite high and the cost of sales has increased significantly over the past twelve months.

The accountant is suggesting that Juntrae Pty Ltd should be undertaking significant planning and control to protect its assets, ensure the company has cash flow to pay debts and to investigate why profits are declining.

Although Kelly is concerned about the accountant's advice, Lee is confident that she will sort out the problems and is not interested in getting involved in the running of the company.

(a) Identify any two components of a master budget and describe two budgets that might assist Juntrae Pty Ltd to identify and manage problems before they occur. (6 marks)

Description	Marks
Identifies two components of a master budget.	1–2
Subtotal	2
For each of two budgets that might assist Juntrae Pty Ltd to identify and manage problems before they occur (2 x 2 marks)	
Describes the budget.	2
Identifies the budget.	1
Subtotal	4
Total	6
<p>Answers could include:</p> <p>Components of a master budget:</p> <ul style="list-style-type: none"> • operating budget • financial budget • capital expenditure budget. <p>Budgets that might assist Juntrae Pty Ltd to identify and manage problems before they occur:</p> <ul style="list-style-type: none"> • A cash budget will assist in identifying cash flow problems, such as level of debtor receipts. Juntrae Pty Ltd can take action, such as better management of debtors, to improve cash flows to enable payment of creditors on time and to avoid the need to constantly use the overdraft facility. • A budgeted income statement will help to identify sources and level of income and level of costs. Juntrae Pty Ltd can compare income and costs over time and take action to try to increase income and reduce costs. • A budgeted balance sheet will enable Juntrae Pty Ltd to identify inventory levels over time. If inventory levels are increasing significantly, then action can be taken to put in place better inventory control and ordering systems. • A purchases budget can assist Juntrae Pty Ltd to evaluate its inventory costs. If the costs are excessive, then management will need to try to source a cheaper supply of inventory, or it may need to increase the sale price of its goods. <p>Accept other relevant answers.</p>	

2022
Section 2
Question
18

Budgets

Lawdsheer Ltd is preparing a cash budget for May and June 2023.

All sales are on credit and 20% are collected during the month of sale, 50% in the month following sale, 20% in the second month following sale and 8% in the third month following sale. The remaining 2% are treated as uncollectable.

The company pays for 80% of purchases in the month after purchase and the balance in the following month.

Fixed selling expenses amount to \$4,400 per month plus variable selling expenses equal to 5% of the previous month's sales. Administration expenses are estimated to be \$8,800 per month, which includes \$3,200 of depreciation expense. Finance expenses are \$800 per month. All expenses other than purchases are paid for in the month they are incurred. It is planned to purchase equipment for \$14,400 cash during May 2023. A \$6,000 loan payable will be repaid during July 2023. The interest due on the loan is calculated at 7% per annum, paid monthly.

The company's expected cash at bank balance on 1 May 2023 is \$9,000 credit.

Estimated sales and purchases		
Month	Sales \$	Purchases \$
February	50,000	13,000
March	44,000	11,000
April	56,000	12,000
May	60,000	8,000
June	72,000	10,000

Required

(a) Prepare a schedule of collections from debtors for each of the months of May and June 2023. (8 marks)

Lawdsheer Ltd
Schedule of collections from debtors
for the months of May and June

Description	Sales		Marks
	May	June	
February (50,000 x 08%) (1)	\$4,000		1
March (44,000 x 20%) (1), (44,000 x 08%) (1)	\$8,800	\$3,520	1 + 1
April (56,000 x 50%) (1), (56,000 x 20%) (1)	\$28,000	\$11,200	1 + 1
May (60,000 x 20%) (1), (60,000 x 50%) (1)	\$12,000	\$30,000	1 + 1
June (72,000 x 20%) (1)		\$14,400	1
Totals	\$52,800	\$59,120	
		Total	8

Deduct 1 mark for each calculation error, to a maximum of 2 marks
Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

(b) Prepare a cash budget for the months of May and June 2023, showing the cash balance at the end of each month. (19 marks)

Workings

Workings			Marks
Schedule of payments to creditors	May	June	
March (\$11,000 x 20%) (1)	\$2,200		1
April (\$12,000 x 80%) (1), (\$12,000 x 20%) (1)	\$9,600	\$2,400	1 + 1
May (\$8,000 x 80%) (1)		\$6,400	1
Total	\$11,800	\$8,800	

i.e. 4 marks for payment to creditors for purchases for May and June transferred to the cash budget

Variable selling expenses

May: \$56,000 (1) x 5% (1) = \$2,800

June: \$60,000 (1) x 5% (1) = \$3,000

i.e. 4 marks for selling expenses transferred to the cash budget

Administration expenses: \$8,800 (1) – \$3,200 (1) = \$5,600

i.e. 2 marks for administration expenses transferred to the cash budget

Interest expense: (\$6,000 (1) x 7% (1))/12 (1) = \$35 per month

i.e. 3 marks for interest expense transferred to the cash budget

Lawdsheer Ltd
Cash budget
for the months of May and June 2023

Description	Marks		
	May	June	
	\$	\$	
Cash balance at beginning	(9,000) (1)	3,965	1
Collections from debtors	52,800 (1)	59,120 (1)	1–2
Total estimated cash available	43,800	63,085	
Payment to creditors	11,800 (2)	8,800 (2)	1–4
Fixed selling expenses	4,400	4,400	1
Variable selling expenses	2,800 (2)	3,000 (2)	1–4
Finance expenses	800	800	1
Administration expenses	5,600 (1)	5,600 (1)	1–2
Interest expense	35 (2)	35 (1)	1–3
Equipment purchase	14,400 (1)	0	1
Total estimated payments	39,835	22,635	
Cash balance at end	\$3,965	\$40,450	
Total			19

Deduct 1 mark for each calculation error, to a maximum of 2 marks

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

(c) Describe **three** courses of action a public company could consider to prevent or reduce a shortfall in cash that has been predicted by its cash budget. (6 marks)

Description	Marks
For each of three courses of action (3 x 2 marks)	
Describes the course of action.	2
Identifies the course of action.	1
Total	6
<p>Answers could include:</p> <ul style="list-style-type: none"> • Arrange a bank overdraft facility – this is a short-term source of funding that is often expensive but will help the company overcome short term cash deficiencies. • Take out a short-term loan – this might require security over the company's assets and/or a personal guarantee from directors. • Delay the purchase of non-current assets – this will free up cash to meet short term needs. • Delay/negotiate with creditors terms of payment – e.g. extending requirement of payment from 30 days to 60 days. 	
Accept other relevant answers.	
Note: Focus of candidate's answer should be on short-term sources of finance. Debentures and share capital are not suitable solutions.	

2021
Section 2
Question
17.a-b.
Budgets

a. Prepare a budgeted income statement for the two months ending 31 August 2022. (22 marks)

Workings:

Total sales: \$25,000 (1) + \$28,500 (1) = \$53,500
 (2 marks carried forward to budgeted income statement)

- Cost of sales

Inventory					
Opening balance	\$25,000	1	Cost of sales	\$20,000	
Purchases	10,000	1	Closing balance	15,000	1
	<u>35,000</u>			<u>35,000</u>	

or

\$25,000 (1) + \$10,000 (1) – \$15,000 (1) = \$20,000
 (3 marks carried forward to budgeted income statement)

- Interest income
 \$30,000 (1) x 0.02 (1) x 2/12 (1) = \$100
 (3 marks carried forward to budgeted income statement)

- Wages expense

Accrued wages					
Bank	\$5,100	1	Opening balance	\$350	1
Closing balance	450	1	Wages expense	5,200	
	<u>5,550</u>			<u>5,550</u>	

or

\$5,100 (1) + \$450 (1) – \$350 (1) = \$5,200
 (3 marks carried forward to budgeted income statement)

- Office rent expense
 \$6,300 (1) x 2/3 (1) = \$4,200
 (2 marks carried forward to budgeted income statement)
- Selling expense
 \$53,500 (1) x 0.05 (1) = \$2,675
 (2 marks carried forward to budgeted income statement)
- Depreciation of delivery van
 \$9,500 (1) x 0.15 (1) x 2/12 (1) = \$237.50 = \$238
 (3 marks carried forward to budgeted income statement)
- Income tax
 \$18,887 (1) x 0.30 (1) = \$5,666.10 = \$5,666 (rounded)
 (2 marks carried forward to budgeted income statement)

ExDex Modulars Ltd
Budgeted income statement
for two months ending 31 August 2022

Description	\$	\$	Marks
Sales		53,500	2
Less cost of sales		20,000	3
Gross profit		33,500	
Add other income			
Interest income		100	3
		33,600	
Less other expenses			
Interest expense	1,200		1
Wages	5,200		3
Office rent	4,200		2
Office administration	1,200		1
Selling expense	2,675		2
Depreciation of delivery van	238	14,713	3
Budgeted profit before tax		18,887	
Less income tax		5,666	2
Budgeted profit after tax		13,221	
		Total	22

Deduct 1 mark for each calculation error, to a maximum of 2 marks
Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

b. Outline two purposes of a budgeted income statement. (4 marks)

Description	Marks
For each of two purposes of a budgeted income statement:	
Outlines its purpose	2
States a fact about its purpose	1
Total	4
Answer(s) could include:	
<ul style="list-style-type: none"> • assists in determining if budget expectations are realistic • highlights problems such as low sales/income and/or excessive expenses • compares budget with actual outcome to identify good/poor performance over the budgeted period. 	
Accept any other correct, logical answer.	

**2019
Section 2
Question
17.a-c.**

Budgets

a. Prepare a debtors schedule outlining the total cash collected from debtors in the month of October 2020. (7 marks)

Debtor's schedule for the month ending 31 October 2020

Description					Marks	
	Total sales	Cash 30%	Credit 70%		October	
August	175,000 (1)	52,500	122,500 (1)	122,500 x 38%	46,550 (1)	1–3
September	242,000 (1)	72,600	169,400 (1)	169,400 x 60%	101,640 (1)	1–3
					148,190 (1)	1
					Total	7

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.

b. Prepare a cash budget for Meeiegoes Enterprises for the month ending 31 October 2020. (18 marks)

Workings:

October sales = 242,000 (1) x 103.5% (1) = 250,470

Cash sales = 250,470 x 30% (1) = 75,141

September sales staff commission = 250,470 (1) x 5% (1) = 12,523

Payment to creditors = September purchases = 89,500 (1) x 97% (1) = 86,815

Wages = 32,000 (1) + 7,000 (1) – 9,000 (1) = 30,000

Other expenses 17,135 (1) + 7,600 (1) = 24,735

**Meeiegoes Enterprises
Cash budget
for the month ending 31 October 2020**

Description		Marks
Cash balance at beginning	(16,500)	1
<i>Add estimated receipts</i>		
Collections from debtors	148,190	1
Cash sales	75,141	1–3
Proceeds from sale of vehicle	8,000	1
Total cash available	214,831	
<i>Less estimated payments</i>		
Purchase of vehicle	46,000	1
Payment to creditors	86,815	1–2
Sales commission	12,523	1–2
Wages	30,000	1–3
Electricity	1,800	1
Other expenses	24,735	1–2
Total estimated payments	201,873	
Cash balance at end	12,958	1
	Total	18

Deduct 1 mark for each calculation error, to a maximum of 2 marks.

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks.

Deduct 1 mark for incorrect terminology (e.g. Purchases instead of Payment to creditors), to a maximum of 1 mark.

c. Explain the nature and importance of the master budget. (4 marks)

Description	Marks
Explains the nature and importance of the master budget	4
Describes the nature and importance of the master budget	3
Outlines the nature and importance of the master budget	2
Makes a general statement about the master budget	1
Total	4

Answer(s) could include but are not limited to:

The master budget plans, co-ordinates and controls all activities of a business. It includes a budget/planned income statement, cash flow, capital expenditure and statement of financial position. These statements are interrelated. Examples of coordination include cash planning to ensure adequate finance for operations, capital expenditure and dividends. Control is achieved by the preparation of performance reports by time, responsibility and activity, and management action based on those reports.

The master budget:

- consists of a business' interrelated financial plans to achieve its strategic financial goals
- is the aggregation of all lower-level budgets produced by a business' various functional areas, and includes budgeted financial statements, a cash forecast, and a financing plan
- shows management's operating plans for the coming periods; formalises management's plans in quantitative terms; forces all levels of management to think ahead, anticipate results, and take action to remedy possible poor results; and may motivate individuals to strive to achieve stated goals
- provides a plan to achieve revenue goals, expense controls, profit goals and adequate cash availability and reserves
- can be used to set financial key performance indicators (KPIs) such as management needing to achieve budgeted sales
- provides operational plans consistent with the strategic plan to aid the business to meet its profitability, liquidity and management efficiency goals
- provides a business with a set of objectives to be achieved
- assists to identify potential problem areas in the business
- facilitates coordination of business activities
- can be used to motivate employees to achieve set business targets
- can be used by a business to evaluate its performance.

Accept any other reasonable answer

Marking Guide – Section 3

2023
Section 3
Question
21b
Budgets

Jan and Lee Tracz are the directors of Jaleetraz Pty Ltd. They manage the day-to-day running of their business, which manufactures fencing suitable for factories and homes. The cost of purchasing the aluminium and metal supplies for their fencing has increased over the past year but they have not been able to increase the selling price due to increased competition in the market. Other costs, including factory and office rental, and other day-to-day costs of running their business, have also increased over the year.

Over the last two years Jan and Lee have begun to worry about the level of cash they have available to pay staff and creditors. Some creditors are requesting immediate payment of their accounts. Profits have also declined over the two years.

The following information has been extracted from the financial reports of Jaleetraz Pty Ltd.

Extracted from Jaleetraz Pty Ltd Balance sheet as at 30 June	2023 \$	2022 \$
Cash at bank		25,000
Debtors	35,000	45,000
Inventory	200,000	155,000
Total non-current assets	1,000,000	1,000,000
Bank overdraft	12,000	
Creditors	45,000	35,000
Loan from Z Bank due to be repaid by 31 December 2023	50,000	60,000

Other information provided by Jaleetraz Pty Ltd	2023 \$	2022 \$
Total sales	750,000	750,000
Break-even point (sales dollars)	752,000	740,000

(b) Explain the importance of a master budget **and** identify **three** of its components. (6 marks)

Description	Marks
Explains the importance of a master budget	3
Describes the importance of a master budget	2
States a fact about the importance of a master budget	1
Subtotal	3
Identifies three components of a master budget	3
Identifies two components of a master budget	2
Identifies one component of a master budget	1
Subtotal	3
Total	6

Answers could include:

Importance of a master budget:

- set key performance indicators in monetary terms
- acts as a motivator by setting targets staff need to meet
- helps identify future problems that will need to be addressed during the budget period
- helps to identify resources required during the budget period.

Components of a master budget:

- operating budget
- capital expenditure budget
- financial budget.

Accept other relevant answers.

**2020
Section 3
Question
22.a.-d.**

Budgets

a. Describe the purpose of performance reports and their function, and provide two examples from Junapara Pty Ltd's financial information where this is illustrated. (6 marks)

Description	Marks
Describes the purpose of performance reports and their function	2
Describes the purpose of performance reports or their function	1
Subtotal	2
For each of two examples from Junapara Pty Ltd's financial information where this is illustrated:	
Provides a relevant example of the performance report highlighting an issue	2
Identifies a relevant variance	1
Subtotal	4
Total	6

Answer(s) could include but are not limited to:

Purpose of performance reports:

- a tool of management for control over performance
- assist in analysing financial results compared to budgeted targets set by management
- help in identifying variations in financial performance between budgeted and actual performance
- identify positive and/or negative movements in financial performance.

Function of performance reports:

- unfavourable variations can be investigated and action taken to identify problems
- unfavourable variations can be investigated and action taken to improve performance
- favourable variations can be investigated and used to continue improvements in performance
- favourable variations can be used to reward and encourage employees
- used to investigate variations and make changes to future budget expectations.

Examples could include:

- the cash sales have decreased by \$10,200. Junapara Pty Ltd will need to investigate this and identify the problems that contributed to this decrease
- the credit sales have increased by \$24,000. Junapara Pty Ltd will need to investigate this and identify the reasons to see if these can be implemented into the cash sales.

Accept any other reasonable answer.

b. The performance reports of Junapara Pty Ltd identify the amount of the variances in cost of sales and cash collected from accounts receivable. For each of these variances, state whether they are favourable or unfavourable and provide a possible reason for each variance. (4 marks)

Description	Marks
Identifies the variance as favourable or unfavourable for both cost of sales and cash collected from accounts receivable	2
Identifies the variance as favourable or unfavourable for cost of sales or cash collected from accounts receivable	1
Subtotal	2
Outlines a possible reason for variances for both cost of sales and cash collected from accounts receivable	2
Outlines a possible reason for variances for cost of sales or cash collected from accounts receivable	1
Subtotal	2
Total	4

Answer(s) could include but are not limited to:

Variances:

- debtor receipts – favourable (actual greater than budgeted figure)
- cost of sales – unfavourable (actual greater than budgeted figure).

Reasons for variances – cash collected from accounts receivable:

- increase in credit sales resulting in increase in receipts from accounts receivable
- increased monitoring and control of outstanding accounts receivable to ensure payments are received within the credit time frame.

Reasons for variances – cost of sales:

- increase in sales compared to budget will probably result in an increase in cost of sales
- increase in cost of inventory compared to budgeted cost of inventory.

Accept any other reasonable answer.

c. Analyse the information provided by Junapara Pty Ltd to evaluate two financial issues that will adversely affect their ability to expand the business. (6 marks)

Description	Marks
For each of two financial issues that will adversely affect Junapara Pty Ltd's ability to expand the business:	
Evaluates the issue	3
Describes the issue	2
Identifies the issue	1
Total	6
Answer(s) could include but are not limited to:	
Cash flow problems:	
<ul style="list-style-type: none"> • limited cash within the business available for expansion – Junapara Pty Ltd has only \$640 cash available within the business • cash will flow into the business from sales over the coming year, but the business also expects to have significant outflows of funds to start up their online business. Junapara Pty Ltd will need access to cash early in the new financial year to meet these costs and this could present a problem • the business will need to have access to cash as it expects to employ more staff who will need to be paid regularly • the business will need access to cash to pay creditors providing online and social media set-up services • once the online orders start flowing in, the business will have to pay delivery costs. 	
Problems borrowing funds from external source:	
<ul style="list-style-type: none"> • Junapara Pty Ltd may have difficulty borrowing funds as it is already highly geared • debt/equity ratio is already at 102%. This means that for every \$1 of its equity the business has borrowed \$1.02 externally e.g. bank loan • Junapara Pty Ltd could have problems obtaining further borrowings from external sources due to the high debt/equity ratio • borrowing externally will also involve higher interest payments which must be met on time. As Junapara Pty Ltd may have some cash flow problems, then higher interest payments may present a problem. 	
Accept any other reasonable answer.	

d. Use the information in the performance reports of Junapara Pty Ltd to explain the difference between cash and accrual performance reporting and provide two examples to illustrate your answer. (4 marks)

Description	Marks
Explains the difference between cash and accrual performance reporting	2
Outlines the difference between cash and accrual performance reporting	1
Subtotal	2
Provides two examples from Junapara Pty Ltd's performance reports	2
Provides one example from Junapara Pty Ltd's performance reports	1
Subtotal	2
Total	4
<p>Answer(s) could include but are not limited to:</p> <p>Cash performance reporting compares budgeted and actual cash flows to determine cash variances whereas accrual performance reporting compares budgeted income earned and expenses incurred with the actual income earned and expenses incurred to determine accrual variances.</p> <p>Examples from Junapara Pty Ltd's performance reports:</p> <ul style="list-style-type: none"> • interest is shown as an expense in the income statement but not in the cash budget indicating that the interest is due as at the end of June 2020 but not yet paid • wages is shown as \$130,000 in the cash budget but \$132,000 in the income statement meaning \$2,000 was owing at balance date but not paid • administration expense in the cash budget is shown as \$25,000 while only \$24,000 in the income statement, meaning that \$1,000 was paid in advance as at balance date. <p>Accept any other reasonable answer.</p>	

Unit 3 – 11. Business Planning

Section 1

2023 Section 1 Question 9 Business Planning	A business that adopts a differentiation strategy (a) buys new products to sell to consumers at a higher price than its competitors. (b) ensures that the selling price of its products is different from that of its competitors. (c) highlights the distinguishing features of its products compared with its competitors. (d) sells similar products at a lower price than its competitors.
2022 Section 1 Question 14 Business Planning	Cost leadership means that a business (a) has the lowest market share compared to its competitors. (b) has the greatest market share compared to its competitors. (c) charges higher prices than its competitors in the same market. (d) charges lower prices than its competitors in the same market.
2020 Section 1 Question 10 Business Planning	A product differentiation strategy means that the organisation must (a) ensure it sells a variety of different products. (b) provide a product, with a unique quality, different from its competitors. (c) change the type of products it sells on a regular basis. (d) provide a product cheaper than its competitors, even if the product is not different.
2019 Section 1 Question 9 Business Planning	Cost leadership is a strategy that (a) enables a business to sell its goods or services at the same price as its competitors. (b) recognises a business as providing a product that is distinct from competing products. (c) focuses on the lowering of costs to improve the business' competitive position. (d) measures a business' overheads costs in relation to producing goods and Services.

Section 2

There have been no questions on this topic for this section in the exams of recent years.

Section 3

2023 Section 3 Question 21c

Business Planning

Jan and Lee Tracz are the directors of Jaleetraz Pty Ltd. They manage the day-to-day running of their business, which manufactures fencing suitable for factories and homes. The cost of purchasing the aluminium and metal supplies for their fencing has increased over the past year but they have not been able to increase the selling price due to increased competition in the market. Other costs, including factory and office rental, and other day-to-day costs of running their business, have also increased over the year.

Over the last two years Jan and Lee have begun to worry about the level of cash they have available to pay staff and creditors. Some creditors are requesting immediate payment of their accounts. Profits have also declined over the two years.

The following information has been extracted from the financial reports of Jaleetraz Pty Ltd.

Extracted from Jaleetraz Pty Ltd Balance sheet as at 30 June	2023 \$	2022 \$
Cash at bank		25,000
Debtors	35,000	45,000
Inventory	200,000	155,000
Total non-current assets	1,000,000	1,000,000
Bank overdraft	12,000	
Creditors	45,000	35,000
Loan from Z Bank due to be repaid by 31 December 2023	50,000	60,000

Other information provided by Jaleetraz Pty Ltd	2023 \$	2022 \$
Total sales	750,000	750,000
Break-even point (sales dollars)	752,000	740,000

(c) Describe the importance of business planning to Jan and Lee Tracz in relation to reducing costs and risks in the management of their company. (4 marks)

**2021
Section 3
Question
22.b.**

**Business
Planning**

Stimulus material for Questions 22 and 23

Read the following material about Surecut Lawn 'n Grass Mowers Pty Ltd before selecting the question you will complete. The material is relevant to **both** questions.

Surecut Lawn 'n Grass Mowers Pty Ltd is a Western Australian family-owned company that specialises in garden and outdoor equipment. It manufactures lawn mowers and other machinery for the national market. The company is committed to contributing to the 'green economy' and also to being active citizens within the community through their sponsorship of the local junior football club.

In 2019, the business decided to invest significant time and money in researching and developing a more environmentally-friendly motor for its lawn mower range. By the beginning of 2021, it had successfully developed a motor that would emit 80% less carbon dioxide.

The business uses standard costing to determine the price of its lawn mowers. Below are the current and projected costings.

Current costings		Projected costings	
Direct materials	\$228	Direct materials incorporating new motor	\$250
Direct labour	240	Direct labour	240
Overheads	120	Overheads	234
Total	588		724

The significant rise in overheads is due mainly to the company wishing to recoup its research and development costs and its commitment to providing extensive training to the factory staff involved in the assembly of the new motor.

On the advice of its accountant, the business continued to apply a mark-up of 50%.

Surecut Lawn 'n Grass Mowers Pty Ltd proceeded with the launch of their new environmentally-friendly lawn mower range in April 2021.

After only six months on the national market, sales of the new range exceeded all expectations. There was also considerable interest from overseas buyers. The current owners of this large proprietary company believed the time was right to expand its operations. To achieve this, they needed a large injection of capital in order to open a second manufacturing plant on the east coast of Australia.

Following much deliberation, it was decided to list the company on the Australian Securities Exchange. The company directors have employed the services of a lawyer to commence the formation process. The current shareholders will maintain a 51% majority share in the new public company.

To improve their chances of attracting potential investors, the prospectus will include a section highlighting the company's corporate social responsibility practices.

b. Describe both the cost leadership and differentiation strategies. Recommend, with a reason, the strategy the company should choose. (6 marks)

**2020
Section 3
Question
22.f.**

**Business
Planning**

Junapara Pty Ltd is a retail business currently located in Western Australia. The directors are planning to expand by setting up an online business to sell their products worldwide. To this end, they have purchased a new warehouse to hold the additional inventory.

The directors are planning to employ additional staff to receive and dispatch orders. Contractors will be engaged to set up the website and create a social media profile.

In the meantime, the directors are concerned about the cash position of the business as at 30 June 2020. They know the expansion will involve a significant increase in costs and there are plans to increase borrowing. Currently the business' debt/equity ratio is 102%, an increase from the previous year.

The cash budget performance report and budgeted income statement performance report for the year ended 30 June 2020 are provided for your information. Note: the variances have not been identified as favourable or unfavourable.

**Junapara Pty Ltd
Cash budget performance report
for year ended 30 June 2020**

	Budget \$	Actual \$	Variance \$
Opening cash balance	92,000	92,000	
Receipts			
Cash sales	40,200	30,000	10,200
Cash collected from accounts receivable	281,160	302,040	20,880
Bank loan	200,000	200,000	
Total receipts	613,360	624,040	10,680
Payments			
Cash paid to accounts payable	116,000	132,000	16,000
Loan	11,200	11,200	
Property, plant and equipment	325,200	325,200	
Wages	120,000	130,000	10,000
Administration	20,000	25,000	5,000
Total payments	592,400	623,400	31,000
Closing cash balance	20,960	640	20,320

Junapara Pty Ltd
Budgeted income statement performance report
for the year ended 30 June 2020

	Budget \$	Actual \$	Variance \$
Credit sales	316,000	340,000	24,000
Cash Sales	40,200	30,000	10,200
	356,200	370,000	13,800
Less cost of sales	166,000	180,000	14,000
Budgeted gross profit	190,200	190,000	200
Expenses			
Interest	7,800	7,800	
Depreciation office equipment	3,760	3,760	
Wages	127,000	132,000	5,000
Administration	21,000	24,000	3,000
Total expenses	159,560	167,560	8,000
Budgeted profit	30,640	22,440	8,200

You have been asked by the directors of Junapara Pty Ltd to review the information provided and address the points which follow.

f. Explain to the directors of Junapara Pty Ltd the importance of business planning and how it could contribute to the reduction of the costs involved in the company's planned expansion. (6 marks)

Marking Guide – Section 1

2023 Section 1 Question 9 Business Planning	A business that adopts a differentiation strategy (a) buys new products to sell to consumers at a higher price than its competitors. (b) ensures that the selling price of its products is different from that of its competitors. (c) highlights the distinguishing features of its products compared with its competitors. – Answer (d) sells similar products at a lower price than its competitors.
2022 Section 1 Question 14 Business Planning	Cost leadership means that a business (a) has the lowest market share compared to its competitors. (b) has the greatest market share compared to its competitors. (c) charges higher prices than its competitors in the same market. (d) charges lower prices than its competitors in the same market. – Answer
2020 Section 1 Question 10 Business Planning	A product differentiation strategy means that the organisation must (a) ensure it sells a variety of different products. (b) provide a product, with a unique quality, different from its competitors. – Answer (c) change the type of products it sells on a regular basis. (d) provide a product cheaper than its competitors, even if the product is not different.
2019 Section 1 Question 9 Business Planning	Cost leadership is a strategy that (a) enables a business to sell its goods or services at the same price as its competitors. (b) recognises a business as providing a product that is distinct from competing products. (c) focuses on the lowering of costs to improve the business' competitive position. – Answer (d) measures a business' overheads costs in relation to producing goods and Services.

Marking Guide – Section 2

There have been no questions on this topic for this section in the exams of recent years.

Marking Guide – Section 3

**2023
Section 3
Question
21c**

**Business
Planning**

Jan and Lee Tracz are the directors of Jaleetraz Pty Ltd. They manage the day-to-day running of their business, which manufactures fencing suitable for factories and homes. The cost of purchasing the aluminium and metal supplies for their fencing has increased over the past year but they have not been able to increase the selling price due to increased competition in the market. Other costs, including factory and office rental, and other day-to-day costs of running their business, have also increased over the year.

Over the last two years Jan and Lee have begun to worry about the level of cash they have available to pay staff and creditors. Some creditors are requesting immediate payment of their accounts. Profits have also declined over the two years.

The following information has been extracted from the financial reports of Jaleetraz Pty Ltd.

Extracted from Jaleetraz Pty Ltd Balance sheet as at 30 June	2023 \$	2022 \$
Cash at bank		25,000
Debtors	35,000	45,000
Inventory	200,000	155,000
Total non-current assets	1,000,000	1,000,000
Bank overdraft	12,000	
Creditors	45,000	35,000
Loan from Z Bank due to be repaid by 31 December 2023	50,000	60,000

Other information provided by Jaleetraz Pty Ltd	2023 \$	2022 \$
Total sales	750,000	750,000
Break-even point (sales dollars)	752,000	740,000

(c) Describe the importance of business planning to Jan and Lee Tracz in relation to reducing costs and risks in the management of their company. (4 marks)

Description	Marks
For each of reducing costs and risks (2 x 2 marks)	
Describes the importance of business planning	2
Makes a statement about the importance of business planning	1
Total	4
Answers could include:	
Reducing costs:	
<ul style="list-style-type: none"> a business needs to understand the type and amount of costs contributing to the running of the business if management of Jaleetraz understands the types of costs and the amount of costs, then they can investigate ways to reduce costs to keep their business running smoothly. 	
Reducing risks:	
<ul style="list-style-type: none"> business planning will help in foreseeing potential future risks a cash budget can assist in planning for those times when cash is running low. 	
Accept other relevant answers.	

**2021
Section 3
Question
22.b.**

**Business
Planning**

b. Describe both the cost leadership and differentiation strategies. Recommend, with a reason, the strategy the company should choose. (6 marks)

Description	Marks
Describes the cost leadership strategy	2
States a fact about the cost leadership strategy	1
Subtotal	2
Describes the differentiation strategy	2
States a fact about the differentiation strategy	1
Subtotal	2
Recommends, with a reason, the strategy the company should choose	2
Recommends the strategy the company should choose	1
Subtotal	2
Total	6
Answer(s) could include:	
<ul style="list-style-type: none"> Cost leadership: is a strategy to position a business as being price sensitive. It involves a systematic process to eliminate waste and inefficiencies and lower purchasing costs. This will enable the business to sell products more cheaply than its competitors. Differentiation: is a strategy about positioning the business so that it is recognised as providing a good or service that is distinct from competing products. The product itself does not need to be unique but some aspect of it should be exclusive or distinct. 	
Surecut Lawn 'n Grass Mowers Pty Ltd should apply the differentiation strategy by highlighting that the new lawn mower is environmentally-friendly. The fact that their lawn mower produces 80% less carbon emissions compared to competing products is a point of distinction.	
Accept any other correct, relevant answer.	

**2020
Section 3
Question
22.f.**

**Business
Planning**

f. Explain to the directors of Junapara Pty Ltd the importance of business planning and how it could contribute to the reduction of the costs involved in the company's planned expansion. (6 marks)

Description	Marks
Explains the importance of business planning when undertaking a major expansion with comprehensive links to Junapara Pty Ltd's expansion	3
Describes the importance of business planning when undertaking a major expansion and makes a link/s to Junapara Pty Ltd's expansion	2
States a fact/s about business planning	1
Subtotal	3
Identifies three costs associated with Junapara Pty Ltd's planned expansion	3
Identifies two costs associated with Junapara Pty Ltd's planned expansion	2
Identifies one cost associated with Junapara Pty Ltd's planned expansion	1
Subtotal	3
Total	6
<p>Answer(s) could include but are not limited to:</p> <p>Business planning helps business owners make better decisions. A business plan sets out all the issues to be considered by management for a major expansion, giving all the ramifications of any given decision. This is especially important for the major online expansion planned by Junapara Pty Ltd. The directors need to consider the cost of the expansion, the appeal of their products to a worldwide audience and the anticipated return the company expects to receive for the additional borrowings they will make. Business planning will allow Junapara Pty Ltd to determine the answer to some of these most critical business decisions ahead of time. It provides an opportunity for questions to be answered before they arise.</p> <p>Costs associated with Junapara Pty Ltd's planned expansion include:</p> <ul style="list-style-type: none"> • cost of the new warehouse is a past cost which has already been incurred – this is a long-term commitment so it is imperative that the inventory it will house is turned over at a rate that will generate sufficient funds to pay for the warehouse • cost of sourcing staff for the anticipated orders – the number of staff required for the orders received and dispatched needs to be maintained to facilitate sales • cost of contracting the website and online presence – this must appeal to the anticipated audience to generate sales • cost and choice of inventory to sell – inventory needs to appeal to an international market and sales need to be maintained in order to finance the anticipated increase in borrowings. <p>Accept any other reasonable answer.</p>	

Unit 3 – 12. Capital Investment

Section 1

2022 Section 1 Question 5 Capital Investment	A company plans to buy equipment costing \$39,000 and has net cash flows commencing in Year One of \$10,000, Year Two \$12,000, Year Three \$15,000 and Years Four and Five \$8,000 each. The payback period is (a) three years and three months. (b) three years and two months. (c) four years and three months. (d) four years and four months.
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2022 Section 1 Question 9 Capital Investment	A business needs to recalculate a capital investment project by decreasing the estimated interest rate. This will cause the net present value (a) and payback period to increase. (b) and payback period to decrease. (c) to increase and payback period to remain the same. (d) to decrease and payback period to remain the same.
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Section 2

**2023
Section 2
Question
16**

**Capital
Investment**

Paczalot Pty Ltd is expanding its business and will be purchasing new equipment. The company has two equipment purchase options to consider.

	Option 1	Option 2
Initial outlay	\$450,000	\$560,000
Residual value	\$125,000	\$130,000
Useful life	5 years	5 years
Interest rate	6%	6%
Acceptable payback period	4 years	4 years
Increased cash inflows	\$120,000 each year for years 1 to 5	Years 1 to 3 \$145,000 each year Year 4 \$135,000 Year 5 \$140,000
Decrease in wages paid	\$10,000 each year	\$20,000 each year
Increase in other cash costs	\$5,000 each year	\$9,000 each year
Net present value	\$169,963	?
Payback period	3 years 8 months	3 years 8 months

(a) Calculate the net present value of equipment purchase Option 2. Round all figures to the nearest whole dollar. (12 marks)

Workings:

Net present value of equipment purchase Option 2: _____

(b) On the basis of your analysis of both equipment purchase Options 1 and 2, state which option should be accepted. Justify your response. (4 marks)

**2021
Section 2
Question
20.a-d.**

**Capital
Investment**

A business is considering an investment in a pharmaceutical development project. The initial capital expenditure budget is limited to \$3,500,000. It has an opportunity to invest in either Option 1 or Option 2. The business has a required rate of return on capital investments of 12%, and usually expects to recover the cost of its investments in three and a half years.

Net cash flows for each option are shown below:

	Option 1	Option 2
Initial investment 1 July	\$3,000,000	\$3,100,000
Net after tax operating cash inflows as at 30 June for the following years:		
Year 1	855,000	Nil
Year 2	855,000	1,050,000
Year 3	855,000	1,050,000
Year 4	855,000	1,100,000
Year 5	855,000	1,100,000
Residual – Year 5	Nil	490,000

Required

a. Calculate the net present value (NPV) for Option 2. (6 marks)

Workings:

NPV for Option 2: _____

b. Calculate the payback period for Option 2. (5 marks)

Workings

Payback period for Option 2: _____

c. The NPV for Option 1 is \$82,104 and the payback period is 3 years and 6 months. Provide your investment recommendation for the business. Justify your response with reference to your calculations. (3 marks)

d. Describe one non-financial factor that may affect capital investment decisions. (2 marks)

**2020
Section 2
Question
16.a-d.**

**Capital
Investment**

Hooffeners Ltd is considering the purchase of new machinery. It has obtained a quote for machinery (MAC1) and management has requested an analysis of the following information.

Details	MAC1
Cost of acquisition	\$147,000
Useful life in years	5
Machine operator salary paid per year	\$65,000
Additional cash inflows generated	
Year 1	\$110,000
Year 2	\$134,000
Year 3	\$127,000
Year 4	\$148,000
Year 5	\$140,000
Maintenance costs per year (paid in cash)	\$12,000
Residual value at end of useful life	\$45,000
Discount rate	7%

Additional information:

MAC1 will be paid for in two instalments: \$100,000 cash will be paid upfront, with the balance being paid in Year 1.

a. Calculate the payback period for MAC1. (9 marks)

b. Calculate the net present value (NPV) for MAC1, rounding all figures to the nearest dollar. (10 marks)

c. Hooffeners Ltd has the option to purchase different machinery (MAC2) under the same conditions as MAC1 and it has a net present value of \$127,886. Explain, using your workings, how NPV assists management in deciding which machinery should be purchased. (3 marks)

d. Describe the nature of capital investment decisions, providing two examples other than machinery. (3 marks)

**2019
Section 2
Question
18.a-d.**

**Capital
Investment**

Joenas Ltd manufactures surfing equipment. The company is considering replacing machinery at its factory with new technology. Management is interested in two different machines ('A' and 'B') to manufacture surfboards.

The initial cost, estimated residual value, running costs and forecast cash inflows from the sale of surfboards are outlined below:

	Timing	Machine A	Machine B
Initial cost	Year 0	\$600,000	\$550,000
	Year 1		\$50,000
Estimated residual value	Year 7	\$40,000	\$0
Estimated annual cash inflows	Year 1	\$200,000	\$210,000
	Year 2	\$200,000	\$210,000
	Year 3	\$200,000	\$210,000
	Year 4	\$190,000	\$210,000
	Year 5	\$190,000	\$210,000
	Year 6	\$190,000	\$210,000
	Year 7	\$190,000	\$210,000
Estimated annual cash outflows			
Insurance		\$32,000	\$27,500
Repairs and maintenance		\$14,500	\$35,000
Rent		\$21,000	\$11,000
Electricity		\$13,000	\$14,500
Cost of capital		7%	7%

Additional information:

- For Machine A, repairs and maintenance expenses will increase by \$10,000 and electricity costs will increase by \$5,000 in Year 5 and remain at this level.
- Management has set the criteria of a payback period of five years for capital investments.

a.i. Calculate the net present value (NPV) for Machine A. Round all figures to the nearest dollar. (17 marks)

a.ii. Calculate the net present value (NPV) for Machine B. Round all figures to the nearest dollar. (7 marks)

b.i. Calculate the payback period for Machine A. (9 marks)

b.ii. Calculate the payback period for Machine B. (4 marks)

c. With reference to your calculations, provide a recommendation to Joenas Ltd regarding which machine to invest in. Justify your response. (3 marks)

d. Describe two non-financial factors affecting capital investment decisions. (4 marks)

Section 3

**2022
Section 3
Question
22a

Capital
Investment**

Krebsaw Ltd is a manufacturing company located in Western Australia. It produces large storage sheds for both urban and rural properties. It has built a reputation for excellence, and demand for its sheds is increasing. Many orders are now coming from all over Australia.

Management is considering establishing another factory in one of two different locations in Australia, believing it will lead to an increase in sales and reduction in transport costs. The cost of transporting sheds from the current factory to the proposed new locations is significant. In addition, the company has problems competing on price with existing shed makers in other parts of Australia.

Krebsaw Ltd has provided the information below regarding payback period and net present value (NPV).

Location 1: Factory		Location 2: Factory	
Payback period	NPV	Payback period	NPV
4 years 6 months	\$125,000	4 years 8 months	\$120,000

The factory proposal for Location 1 will be in a city urban area and will be close to all transport systems. Government officials in Location 1 have not indicated their support for the factory project at this stage.

The factory proposal for Location 2 will be in a rural area and close to rural customers. Government officials in Location 2 have already given approval for development of the proposed factory. They believe the factory will provide much-needed employment opportunities for people in the area.

Management of Krebsaw Ltd expects that other manufacturers of sheds in both proposed locations will reduce their prices to ensure that they remain competitive. Krebsaw Ltd believes that its product is superior and will be able to compete successfully within a few months of its commencement. Management also believes that the company has better after-sales service than its competitors.

Krebsaw Ltd is considering a long-term business finance option for the proposed purchase.

(a) Based on the net present value and payback period data, which location would you recommend Krebsaw Ltd purchase. State two reasons for your recommendation. (3 marks)

2022
Section 3
Question
22b

Capital
Investment

Krebsaw Ltd is a manufacturing company located in Western Australia. It produces large storage sheds for both urban and rural properties. It has built a reputation for excellence, and demand for its sheds is increasing. Many orders are now coming from all over Australia.

Management is considering establishing another factory in one of two different locations in Australia, believing it will lead to an increase in sales and reduction in transport costs. The cost of transporting sheds from the current factory to the proposed new locations is significant. In addition, the company has problems competing on price with existing shed makers in other parts of Australia.

Krebsaw Ltd has provided the information below regarding payback period and net present value (NPV).

Location 1: Factory		Location 2: Factory	
Payback period	NPV	Payback period	NPV
4 years 6 months	\$125,000	4 years 8 months	\$120,000

The factory proposal for Location 1 will be in a city urban area and will be close to all transport systems. Government officials in Location 1 have not indicated their support for the factory project at this stage.

The factory proposal for Location 2 will be in a rural area and close to rural customers. Government officials in Location 2 have already given approval for development of the proposed factory. They believe the factory will provide much-needed employment opportunities for people in the area.

Management of Krebsaw Ltd expects that other manufacturers of sheds in both proposed locations will reduce their prices to ensure that they remain competitive. Krebsaw Ltd believes that its product is superior and will be able to compete successfully within a few months of its commencement. Management also believes that the company has better after-sales service than its competitors.

Krebsaw Ltd is considering a long-term business finance option for the proposed purchase.

(b) From the information provided, describe two non-financial factors that should be considered by management when assessing the location of the factory project. (4 marks)

Marking Guide – Section 1

2022 Section 1 Question 5 Capital Investment	<p>A company plans to buy equipment costing \$39,000 and has net cash flows commencing in Year One of \$10,000, Year Two \$12,000, Year Three \$15,000 and Years Four and Five \$8,000 each. The payback period is</p> <p>(a) three years and three months. – Answer (b) three years and two months. (c) four years and three months. (d) four years and four months.</p>
2022 Section 1 Question 9 Capital Investment	<p>A business needs to recalculate a capital investment project by decreasing the estimated interest rate. This will cause the net present value</p> <p>(a) and payback period to increase. (b) and payback period to decrease. (c) to increase and payback period to remain the same. – Answer (d) to decrease and payback period to remain the same.</p>

Marking Guide – Section 2

2023
Section 2
Question
16

Capital
Investment

Paczalot Pty Ltd is expanding its business and will be purchasing new equipment. The company has two equipment purchase options to consider.

	Option 1	Option 2
Initial outlay	\$450,000	\$560,000
Residual value	\$125,000	\$130,000
Useful life	5 years	5 years
Interest rate	6%	6%
Acceptable payback period	4 years	4 years
Increased cash inflows	\$120,000 each year for years 1 to 5	Years 1 to 3 \$145,000 each year Year 4 \$135,000 Year 5 \$140,000
Decrease in wages paid	\$10,000 each year	\$20,000 each year
Increase in other cash costs	\$5,000 each year	\$9,000 each year
Net present value	\$169,963	?
Payback period	3 years 8 months	3 years 8 months

(a) Calculate the net present value of equipment purchase Option 2. Round all figures to the nearest whole dollar. (12 marks)

Workings:

Year	Net cash inflows \$	Discounted factor	Discounted cash flows \$	Marks
1–3	$145,000 (1) + 20,000 (1) - 9,000 (1) = 156,000$	2.6730 (1)	416,988	1–4
4	$135,000 (1) + (20,000 - 9,000) (1) = 146,000$	0.7921 (1)	115,647	1–3
5 (including residual value)	$140,000 (1) + (20,000 - 9,000) (1) = 151,000$ $151,000 + 130,000 (1) = 281,000$	0.7473 (1)	209,991	1–4
			742,626	
Present value of future cash flow 742,626 – value of cost of project 560,000 (1) = NVP 182,626				1
Total				12

Net present value of equipment purchase Option 2: \$182,626

Deduct 1 mark for each calculation error, to a maximum of 1 mark

Deduct 1 mark for incorrect discount, to a maximum of 1 mark

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

(b) On the basis of your analysis of both equipment purchase Options 1 and 2, state which option should be accepted. Justify your response. (4 marks)

Description	Marks
States which equipment purchase option should be accepted	1
Subtotal	1
Justifies why the purchase option should be accepted	3
Describes why the purchase option should be accepted	2
States a reason why the purchase option should be accepted	1
Subtotal	3
Total	4

Answers could include:

- Most acceptable equipment purchase option is Option 2.
- Both equipment purchase options have a payback period of 3 years 8 months and both purchase options fall within the acceptable payback period of 4 years. Under the payback period method both equipment purchase options are acceptable.
- Equipment purchase Option 2 has a higher NPV at \$182,626 compared with equipment purchase Option 1 at \$169,963.
- Equipment purchase Option 2 is the more acceptable option because equipment purchase Option 2 has a higher NPV compared to Option 1.

Accept other relevant answers.

**2021
Section 2
Question
20.a-d.**

**Capital
Investment**

a. Calculate the net present value (NPV) for Option 2. (6 marks)

Workings				Marks
Year	Net cash inflow \$	12% present value discount factor	Present value (PV) \$	
2	1,050,000	0.7972	837,060	1
3	1,050,000	0.7118	747,390	1
4	1,100,000	0.6355	699,050	1
5	1,100,000	0.5674	624,140	1
Residual	490,000	0.5674	278,026	1
Total PV cash inflows			3,185,666	
Less PV cash outflows			3,100,000	1
NPV			85,666	
Total				6

NPV for Option 2: \$85,666

Deduct 1 mark for incorrect discount, to a maximum of 1 mark

Deduct 1 mark for each calculation error, to a maximum of 2 marks

b. Calculate the payback period for Option 2. (5 marks)

Workings			Marks
Year	Net cash inflows	Accumulated net cash inflows	
1	Nil	Nil	
2	1,050,000	1,050,000	1
3	1,050,000	2,100,000	1
4	1,100,000	3,200,000 (beyond value of asset)	
Payback period between 3 and 4 years, i.e. 3 years + part year			
$\frac{3,100,000 - 2,100,000 (1)}{1,100,000 (1)}$		= 0.91 of year	1
			1
12 months \times 0.91 (1)		= 11 months (rounded)	1
Total			5

Payback period for Option 2: 3 years 11 months

Deduct 1 mark if payback period is not expressed in years and months

c. The NPV for Option 1 is \$82,104 and the payback period is 3 years and 6 months. Provide your investment recommendation for the business. Justify your response with reference to your calculations. (3 marks)

Description	Marks
Recommends Option 2 for investment and justifies by referring to NPV and payback calculations	3
Recommends Option 2 for investment and justifies by referring to NPV or payback calculations	2
Recommends Option 2 for investment	1
Total	3
Answer(s) could include:	
<ul style="list-style-type: none"> The capital expenditure budget is limited to \$3,500,000 which allows for investments in either Option 1 or Option 2 but not both projects. Recommendation is Option 2 as it has a higher NPV value (\$85,666) than Option 1 (\$82,104) even though Option 1 has a shorter payback period (3 years 6 months) than Option 2 (3 years 11 months). NPV is a better method for making capital investment decisions as it takes into account the company's required rate of return, the time value of money and the initial investment required. Payback method does not take into account the time value of money or the company's required rate of return. Identifies that Option 2 has a higher NPV than option 1 Identifies that Option 1 has a shorter payback period than Option 2. States that estimates of net cash flows, and cost of capital become increasingly difficult to estimate the longer the future time periods, leading to increased business risk. 	
Accept any other correct, relevant answer.	

d. Describe one non-financial factor that may affect capital investment decisions. (2 marks)

Description	Marks
Describes one factor that may affect capital investment decisions	2
Identifies one factor that may affect capital investment decisions	1
Total	2
Answer(s) could include:	
<ul style="list-style-type: none"> Consumer preferences: Customer may prefer a product made by a particular manufacturer, or in a certain country. Competition: Other manufacturers may also be developing similar products. The efficacy of the product and its timing is vital for a successful result. Government regulation: For public health reasons all pharmaceuticals must be registered by Government before being available to the public. Environmental or social implications. 	
Accept any other correct, relevant answer.	

**2020
Section 2
Question
16.a-d.**

**Capital
Investment**

Hooffeners Ltd is considering the purchase of new machinery. It has obtained a quote for machinery (MAC1) and management has requested an analysis of the following information.

Details	MAC1
Cost of acquisition	\$147,000
Useful life in years	5
Machine operator salary paid per year	\$65,000
Additional cash inflows generated	
Year 1	\$110,000
Year 2	\$134,000
Year 3	\$127,000
Year 4	\$148,000
Year 5	\$140,000
Maintenance costs per year (paid in cash)	\$12,000
Residual value at end of useful life	\$45,000
Discount rate	7%

Additional information:

MAC1 will be paid for in two instalments: \$100,000 cash will be paid upfront, with the balance being paid in Year 1.

a. Calculate the payback period for MAC1. (9 marks)

Workings:

Outflows:

Machine operator salary	65,000	(1)
Maintenance costs	<u>12,000</u>	(1)
Total	77,000	(2)

Year	Inflows	Outflows	Net cash flows	Cumulative cash flows
1	110,000 (1)	77,000 (2)	33,000	33,000
2	134,000	77,000	57,000 (1)	90,000
3	127,000	77,000	50,000 (1)	140,000
4	148,000	77,000	71,000 (1)*	211,000

Description	Marks
147,000 (1) – 140,000 (5)	6
71,000 (1)*	1
<u>7,000</u>	
$71,000 = 0.098 \times 12 \text{ months (1)} = 1.18 \text{ or 2 months}$	1
Payback period = 3 years 2 months (1)	1
Total	9

Payback period MAC1: 3 years, 2 months

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.

Deduct 1 mark for not rounding to whole months, to a maximum of 1 mark.

b. Calculate the net present value (NPV) for MAC1, rounding all figures to the nearest dollar. (10 marks)

Workings:

Year	Inflows \$	Outflows \$	Residual value \$	Net cash flows \$	Discount factor 7% \$	Discounted cash flows \$	Marks	
1	110,000	77,000		33,000	0.9346	30,842	1	
2	134,000	77,000		57,000	0.8734	49,784	1	
3	127,000	77,000		50,000	0.8163	40,815	1	
4	148,000	77,000		71,000	0.7629	54,166	1	
5	140,000	77,000	45,000 (1)	108,000	0.7130	77,004	1 + 1	
						252,611		
						Initial cost	143,926*	3
						108,685	1	
Total							10	

Initial cost:

$$100,000 (1) + (47,000 (1) \times 0.9346 (1)) = 143,926 (3)^*$$

Note: Do not penalise 47,000 being treated as an outflow rather than initial cost.

Net present value MAC1: \$108,685

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.

c. Hooffeners Ltd has the option to purchase different machinery (MAC2) under the same conditions as MAC1 and it has a net present value of \$127,886. Explain, using your workings, how NPV assists management in deciding which machinery should be purchased. (3 marks)

Description	Marks
Explains NPV referring to the calculations and provides a logical reason to recommend MAC2 as the option in which to invest	3
Identifies MAC2 as the option in which to invest and makes a general comment regarding NPV	2
Makes a general comment regarding NPV	1
Total	3
Answer(s) could include but are not limited to:	
NPV is an analysis of discounted cash flows. These cash flows take into account the time value of money to estimate if a project is viable in the long term.	
MAC1 has a lower NPV amount so MAC2 is the recommended option for the company in which to invest. The NPV is over \$19,000 higher.	
Note: no marks are awarded for mentioning payback	
Accept any other reasonable answer.	

d. Describe the nature of capital investment decisions, providing two examples other than machinery. (3 marks)

Description	Marks
Describes the nature of capital investment decisions and provides two examples	3
Describes the nature of capital investment decisions and provides one example	2
Makes a general comment about the nature of capital investment decisions	1
Total	3

Answer(s) could include but are not limited to:

The nature of capital investment decisions include:

- the investment or purchase of assets for a long term involve a significant sum of money relative to the size of the business
- cannot be easily reversed due to the long-term commitment of business resources.

Examples include:

- purchase of another business
- purchase of a motor vehicle.

Accept any other reasonable answer.

**2019
Section 2
Question
18.a-d.**

**Capital
Investment**

Joenas Ltd manufactures surfing equipment. The company is considering replacing machinery at its factory with new technology. Management is interested in two different machines ('A' and 'B') to manufacture surfboards.

The initial cost, estimated residual value, running costs and forecast cash inflows from the sale of surfboards are outlined below:

	Timing	Machine A	Machine B
Initial cost	Year 0	\$600,000	\$550,000
	Year 1		\$50,000
Estimated residual value	Year 7	\$40,000	\$0
Estimated annual cash inflows	Year 1	\$200,000	\$210,000
	Year 2	\$200,000	\$210,000
	Year 3	\$200,000	\$210,000
	Year 4	\$190,000	\$210,000
	Year 5	\$190,000	\$210,000
	Year 6	\$190,000	\$210,000
	Year 7	\$190,000	\$210,000
Estimated annual cash outflows			
	Insurance	\$32,000	\$27,500
	Repairs and maintenance	\$14,500	\$35,000
	Rent	\$21,000	\$11,000
	Electricity	\$13,000	\$14,500
	Cost of capital		7%

Additional information:

- For Machine A, repairs and maintenance expenses will increase by \$10,000 and electricity costs will increase by \$5,000 in Year 5 and remain at this level.
- Management has set the criteria of a payback period of five years for capital investments.

a.i. Calculate the net present value (NPV) for Machine A. Round all figures to the nearest dollar. (17 marks)

Workings:

Machine A

Cash outflows	Years 1–4	Years 5–7
Insurance	32,000	32,000
Repairs and maintenance	14,500	24,500
Rent	21,000	21,000
Electricity	13,000	18,000
Total	80,500	95,500

Present value of net cash flows

Year	Inflows	Outflows	Net cash flow	Present value factor (7%)	Present value	Marks
1	200,000	80,500	119,500 (1)	0.9346 (1)	111,685	1–2
2	200,000	80,500	119,500 (1)	0.8734 (1)	104,371	1–2
3	200,000	80,500	119,500 (1)	0.8163 (1)	97,548	1–2
4	190,000	80,500	109,500 (1)	0.7629 (1)	83,538	1–2
5	190,000	95,500	94,500 (1)	0.7130 (1)	67,379	1–2
6	190,000	95,500	94,500 (1)	0.6663 (1)	62,965	1–2
7	190,000 + 40,000	95,500	134,500 (2)	0.6227 (1)	83,753	1–3
Total					611,239	
					Subtotal	15
Net present value = present value of net cash flow – present value of cost						
= 611,239 (1) – 600,000 (1) = 11,239						1–2
					Subtotal	2
					Total	17

NPV for Machine A: \$11,239

**Deduct 1 mark for each calculation error, to a maximum of 2 marks.
Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks.**

a.ii. Calculate the net present value (NPV) for Machine B. Round all figures to the nearest dollar. (7 marks)

Workings:

Machine B

Initial cost

Year 0		550,000 (1)
1	\$50,000 (1) x 0.9346 (1)	46,730
	Total cost	596,730

Estimated outflows

Insurance	27,500
Repairs and maintenance	35,000
Rent	11,000
Electricity	<u>14,500</u>
Total	88,000

Net cash flows

Estimated inflow	210,000
Less estimated outflow	<u>88,000</u>
Net cash flow	122,000

PV of NCF = (inflow – outflow) x PVF

Annuity = (210,000 (1) – 88,000 (1)) x 5.3893 (1) = 657,495

Description	Marks
NPV for Machine B = 657,495 (3) – 596,730 (3) = 60,765 (1)	1–7
Total	7

NPV for Machine B: \$60,765

**Deduct 1 mark for each calculation error, to a maximum of 1 mark.
Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks.**

b.i. Calculate the payback period for Machine A. (9 marks)

Workings:

Machine A

Year	NCF	Cumulative CF
1	119,500	119,500 (1)
2	119,500	239,000 (1)
3	119,500	358,500 (1)
4	109,500	468,000 (1)
5	94,500	562,500 (1)
6	94,500	657,000

Therefore, payback occurs between the fifth and the sixth year.

Description	Marks
$600,000 (1) - 562,500 (5)$	1-6
94,500 (1)	1
<u>37,500</u>	
$94,500 = 0.4 (1) \times 12 \text{ months } (1) = 4.8 \text{ or } 5 \text{ months}$	1-2
Payback period = 5 years 5 months	
Total	9

Payback period Machine A: 5 years 5 months

Deduct 1 mark for each calculation error, to a maximum of 2 marks.

b.ii. Calculate the payback period for Machine B. (4 marks)

Description	Marks
Initial cost of investment	
Annual net cash flow	
$600,000 (1) = 4.92 \text{ years}$	1
$122,000 (1)$	1
$0.92 (1) \times 12 (1) = 11.04 = 12 \text{ months (rounded up)}$	1-2
Payback period = 5 years	
Total	4

Payback period Machine B: 5 years

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

c. With reference to your calculations, provide a recommendation to Joenas Ltd regarding which machine to invest in. Justify your response. (3 marks)

Description	Marks
Refers to the calculations and provides an accurate reason to recommend Machine B as the option Joenas Ltd should invest in	3
Identifies Machine B as the option Joenas Ltd should invest in	2
Makes a general reference to either the NPV or the payback period	1
Total	3
<p>Answer(s) could include but are not limited to:</p> <ul style="list-style-type: none"> Machine B has a higher NPV amount so is the recommended option for Joenas Ltd to invest in Payback for Machine B is less than for Machine A by five months. Machine B is recommended based on the payback period. Machine A's payback period is beyond management's criteria of five years so may be rejected on this basis. <p>Accept any other reasonable answer.</p>	

d. Describe two non-financial factors affecting capital investment decisions. (4 marks)

Description	Marks
For each of two non-financial factors affecting capital investment decisions:	
Describes the factor	2
Makes a general statement about the factor	1
Total	4
<p>Answer(s) could include but are not limited to:</p> <p>When management makes capital investment decisions it must consider the qualitative aspects of the decision. Although hard to measure, these can provide a strategic advantage in the market. Non-financial factors include consumer preferences, competition and government regulation.</p> <ul style="list-style-type: none"> Consumer preferences shift. If a business does not take into account customer preferences when making a capital investment decision, this could result in a loss of market share. Competition exists between businesses. Capital investment decisions need to ensure that the business will remain competitive. Government regulation needs to be taken into account when making capital investment decisions to ensure that the business is able to comply or meet the regulatory requirements. <p>Accept any other reasonable answer.</p>	

Marking Guide – Section 3

2022
Section 3
Question
22a

Capital
Investment

Krebsaw Ltd is a manufacturing company located in Western Australia. It produces large storage sheds for both urban and rural properties. It has built a reputation for excellence, and demand for its sheds is increasing. Many orders are now coming from all over Australia.

Management is considering establishing another factory in one of two different locations in Australia, believing it will lead to an increase in sales and reduction in transport costs. The cost of transporting sheds from the current factory to the proposed new locations is significant. In addition, the company has problems competing on price with existing shed makers in other parts of Australia.

Krebsaw Ltd has provided the information below regarding payback period and net present value (NPV).

Location 1: Factory		Location 2: Factory	
Payback period	NPV	Payback period	NPV
4 years 6 months	\$125,000	4 years 8 months	\$120,000

The factory proposal for Location 1 will be in a city urban area and will be close to all transport systems. Government officials in Location 1 have not indicated their support for the factory project at this stage.

The factory proposal for Location 2 will be in a rural area and close to rural customers. Government officials in Location 2 have already given approval for development of the proposed factory. They believe the factory will provide much-needed employment opportunities for people in the area.

Management of Krebsaw Ltd expects that other manufacturers of sheds in both proposed locations will reduce their prices to ensure that they remain competitive. Krebsaw Ltd believes that its product is superior and will be able to compete successfully within a few months of its commencement. Management also believes that the company has better after-sales service than its competitors.

Krebsaw Ltd is considering a long-term business finance option for the proposed purchase.

(a) Based on the net present value and payback period data, which location would you recommend Krebsaw Ltd purchase. State two reasons for your recommendation. (3 marks)

Description	Marks
Recommends location 1.	1
Subtotal	1
For each of two reasons (2 x 1 mark)	
States a reason to support the recommendation.	1
Subtotal	2
Total	3

Answers could include:

Recommends location 1. Reasons include:

- The net present value is higher than the Location 1 factory project while the payback period is two months less than the Location 2 factory project.
- The net present value method of assessing is a better method of assessing the two projects. The net present value considers the net cash flows for the period of the project and takes into account the time value of money.
- The payback method does not take into account the time value of money and only looks at the time taken for the initial investment to be 'paid back' and does not consider any cash flows beyond the payback period.

Accept other relevant answers.

**2022
Section 3
Question
22b**

**Capital
Investment**

Krebsaw Ltd is a manufacturing company located in Western Australia. It produces large storage sheds for both urban and rural properties. It has built a reputation for excellence, and demand for its sheds is increasing. Many orders are now coming from all over Australia.

Management is considering establishing another factory in one of two different locations in Australia, believing it will lead to an increase in sales and reduction in transport costs. The cost of transporting sheds from the current factory to the proposed new locations is significant. In addition, the company has problems competing on price with existing shed makers in other parts of Australia.

Krebsaw Ltd has provided the information below regarding payback period and net present value (NPV).

Location 1: Factory		Location 2: Factory	
Payback period	NPV	Payback period	NPV
4 years 6 months	\$125,000	4 years 8 months	\$120,000

The factory proposal for Location 1 will be in a city urban area and will be close to all transport systems. Government officials in Location 1 have not indicated their support for the factory project at this stage.

The factory proposal for Location 2 will be in a rural area and close to rural customers. Government officials in Location 2 have already given approval for development of the proposed factory. They believe the factory will provide much-needed employment opportunities for people in the area.

Management of Krebsaw Ltd expects that other manufacturers of sheds in both proposed locations will reduce their prices to ensure that they remain competitive. Krebsaw Ltd believes that its product is superior and will be able to compete successfully within a few months of its commencement. Management also believes that the company has better after-sales service than its competitors.

Krebsaw Ltd is considering a long-term business finance option for the proposed purchase.

(b) From the information provided, describe two non-financial factors that should be considered by management when assessing the location of the factory project. (4 marks)

Description	Marks
For each of two non-financial factors that should be considered (2 x 2 marks)	
Describes the non-financial factor.	2
States a fact about the non-financial factor.	1
Total	4
<p>Answers could include:</p> <p>Government</p> <ul style="list-style-type: none"> The government has already approved the proposed factory development in Location 2. The government believes this location could lead to an increase in employment in the rural area. The government has not indicated support for the factory development in Location 1 at this stage. <p>Consumer preferences</p> <ul style="list-style-type: none"> Location 2 could attract more customers to purchase sheds from Krebsaw Ltd due to the business being located within their own area and also due to its provision of employment opportunities to local people. <p>Competition</p> <ul style="list-style-type: none"> Krebsaw Ltd predicts that competing shed makers in both proposed locations will reduce their prices to compete once it starts selling the sheds. However, it believes that both its product and after sales service are superior. Therefore, the business believes that it should be able to successfully compete within a few months of starting production in either of the proposed locations. <p>Accept other relevant answers.</p>	

Unit 4 – Financial Accounting

Unit 4 – 13. Accounting Standards

Section 1

2021 Section 1 Question 5 Accounting Standards	Australian Accounting Standards apply to (a) all companies registered with the AASB. (b) all public and proprietary companies. (c) public companies and other reporting entities. (d) only public companies.
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2019 Section 1 Question 12 Accounting Standards	The purpose of Australian accounting standards do not include (a) providing protection for external users of financial reports. (b) promoting investor confidence in Australian capital markets. (c) assisting company directors in discharging their obligations. (d) setting benchmarks for companies to measure their performance
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Section 2

2020 Section 2 Question 19.d. Accounting Standards	Outline three ways in which the Australian Accounting Standards help protect the external users of general purpose financial reports. (6 marks) <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
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Section 3

2021
Section 3
Question
23.e.

Accounting
Standards

Stimulus material for Questions 22 and 23

Read the following material about Surecut Lawn 'n Grass Mowers Pty Ltd before selecting the question you will complete. The material is relevant to **both** questions.

Surecut Lawn 'n Grass Mowers Pty Ltd is a Western Australian family-owned company that specialises in garden and outdoor equipment. It manufactures lawn mowers and other machinery for the national market. The company is committed to contributing to the 'green economy' and also to being active citizens within the community through their sponsorship of the local junior football club.

In 2019, the business decided to invest significant time and money in researching and developing a more environmentally-friendly motor for its lawn mower range. By the beginning of 2021, it had successfully developed a motor that would emit 80% less carbon dioxide.

The business uses standard costing to determine the price of its lawn mowers. Below are the current and projected costings.

Current costings		Projected costings	
Direct materials	\$228	Direct materials incorporating new motor	\$250
Direct labour	240	Direct labour	240
Overheads	120	Overheads	234
Total	588		724

The significant rise in overheads is due mainly to the company wishing to recoup its research and development costs and its commitment to providing extensive training to the factory staff involved in the assembly of the new motor.

On the advice of its accountant, the business continued to apply a mark-up of 50%.

Surecut Lawn 'n Grass Mowers Pty Ltd proceeded with the launch of their new environmentally-friendly lawn mower range in April 2021.

After only six months on the national market, sales of the new range exceeded all expectations. There was also considerable interest from overseas buyers. The current owners of this large proprietary company believed the time was right to expand its operations. To achieve this, they needed a large injection of capital in order to open a second manufacturing plant on the east coast of Australia.

Following much deliberation, it was decided to list the company on the Australian Securities Exchange. The company directors have employed the services of a lawyer to commence the formation process. The current shareholders will maintain a 51% majority share in the new public company.

To improve their chances of attracting potential investors, the prospectus will include a section highlighting the company's corporate social responsibility practices.

e. Explain **three** purposes of accounting standards. (9 marks)

Marking Guide – Section 1

2021 Section 1 Question 5 Accounting Standards	Australian Accounting Standards apply to (a) all companies registered with the AASB. (b) all public and proprietary companies. (c) public companies and other reporting entities. – Answer (d) only public companies.
2019 Section 1 Question 12 Accounting Standards	The purpose of Australian accounting standards do not include (a) providing protection for external users of financial reports. (b) promoting investor confidence in Australian capital markets. (c) assisting company directors in discharging their obligations. (d) setting benchmarks for companies to measure their performance – Answer

Marking Guide – Section 2

2020 Section 2 Question 19.d. Accounting Standards	Outline three ways in which the Australian Accounting Standards help protect the external users of general purpose financial reports. (6 marks)										
	<table border="1" style="width: 100%;"> <thead> <tr> <th style="text-align: center;">Description</th> <th style="text-align: center;">Marks</th> </tr> </thead> <tbody> <tr> <td colspan="2">For each of three ways the Australian Accounting Standards (AAS) help in protecting the external users of general purpose financial reports (GPFRs):</td> </tr> <tr> <td>Outlines how it protects external users</td> <td style="text-align: center;">2</td> </tr> <tr> <td>Makes a superficial statement about the protection of external users</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: center;">6</td> </tr> </tbody> </table> <p>Answer(s) could include but are not limited to:</p> <ul style="list-style-type: none"> • Provides a set of rules governing the presentation of general purpose financial reports – this helps investors to make informed and comparable decisions regarding investments. Since GPFRs must be produced in accordance with the AAS, this results in all public companies producing financial reports according to the same set of rules (Australian Accounting Standards Board). • Assists creditors and investors and other external users to analyse and make informed decisions about a company – because the information in the GPFRs is faithfully represented and relevant when making investing decisions. • Provides reports that are comparable – the GPFRs can be compared between different entities and across years. <p>Accept any other reasonable answer.</p>	Description	Marks	For each of three ways the Australian Accounting Standards (AAS) help in protecting the external users of general purpose financial reports (GPFRs):		Outlines how it protects external users	2	Makes a superficial statement about the protection of external users	1	Total	6
Description	Marks										
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Outlines how it protects external users	2										
Makes a superficial statement about the protection of external users	1										
Total	6										

Marking Guide – Section 3

<p>2021 Section 3 Question 23.e.</p> <p>Accounting Standards</p>	<p>Explain <u>three</u> purposes of accounting standards. (9 marks)</p>												
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;">Description</th> <th style="width: 20%;">Marks</th> </tr> </thead> <tbody> <tr> <td colspan="2" style="padding: 2px;">For each of three purposes of accounting standards:</td> </tr> <tr> <td style="padding: 2px;">Explains the purpose</td> <td style="text-align: center; padding: 2px;">3</td> </tr> <tr> <td style="padding: 2px;">Describes the purpose</td> <td style="text-align: center; padding: 2px;">2</td> </tr> <tr> <td style="padding: 2px;">Identifies the purpose</td> <td style="text-align: center; padding: 2px;">1</td> </tr> <tr> <td style="text-align: right; padding: 2px;">Total</td> <td style="text-align: center; padding: 2px;">9</td> </tr> </tbody> </table>	Description	Marks	For each of three purposes of accounting standards:		Explains the purpose	3	Describes the purpose	2	Identifies the purpose	1	Total	9
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	For each of three purposes of accounting standards:												
	Explains the purpose	3											
	Describes the purpose	2											
	Identifies the purpose	1											
	Total	9											
	<p>Answer(s) could include:</p> <ul style="list-style-type: none"> • Protect external users: accounting standards provide protection to external users by assisting creditors and investors and other parties to analyse and make informed judgements about entities, facilitating the provision of financial information and providing for comparable reports so that users can compare information over time and between entities • Assist directors in discharging their obligations: accounting standards assist directors in discharging their obligations by assisting preparers of financial reports by giving them a framework and benchmarks, facilitating accountability and promoting accurate reporting • Provide confidence to investors in Australian capital markets: accounting standards facilitate the Australian capital markets by promoting market efficiency. This helps reduce the cost of capital and enables Australian entities to compete effectively internationally. 												
	<p>Accept any other correct, relevant answer.</p>												

Unit 4 – 14. AASB Conceptual Framework for Financial Reporting

Section 1

2023 Section 1 Question 10 AASB Conceptual Framework for Financial Reporting	A reporting entity is (a) a legal entity as per the Conceptual Framework for Financial Reporting. (b) required to or chooses to prepare general purpose financial reports. (c) limited to only large proprietary companies or public companies. (d) not required to report in accordance with the accounting standards.
2023 Section 1 Question 11 AASB Conceptual Framework for Financial Reporting	The Conceptual Framework for Financial Reporting (a) is administered by the Australian Securities and Investment Commission. (b) has been developed by the Financial Reporting Council. (c) defines the essential principles and content of general purpose financial reports. (d) must be complied with by all Australian companies.
2022 Section 1 Question 12 AASB Conceptual Framework for Financial Reporting	The enhancing qualitative characteristics in the Conceptual Framework for Financial Reporting are (a) comparability, reliability, materiality, consistency. (b) understandability, timeliness, readability, uniformity. (c) uniformity, comparability, consistency, reliability. (d) verifiability, timeliness, comparability, understandability.
2021 Section 1 Question 1 AASB Conceptual Framework for Financial Reporting	According to the Conceptual Framework, in order for an asset to be recognised in the financial statements it must (a) be relevant information about the asset. (b) meet the definition of an asset. (c) be a faithful representation of the asset. (d) all of the above.
2020 Section 1 Question 7 AASB Conceptual Framework for Financial Reporting	The Conceptual Framework identifies fundamental qualitative characteristics of financial information, including (a) relevance and timeliness. (b) materiality and comparability. (c) understandability and comparability. (d) relevance and faithful representation.

<p>2020 Section 1 Question 13</p> <p>AASB Conceptual Framework for Financial Reporting</p>	<p>One of the objectives of general purpose financial reporting is to provide</p> <ul style="list-style-type: none">(a) financial information that is useful for external users in making investing decisions.(b) financial information solely for management decision-making.(c) future-focused budget reports that will be useful for external users.(d) financial information to shareholders only
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Marking Guide – Section 1

<p>2023 Section 1 Question 10</p> <p>AASB Conceptual Framework for Financial Reporting</p>	<p>A reporting entity is</p> <p>(a) a legal entity as per the Conceptual Framework for Financial Reporting. (b) required to or chooses to prepare general purpose financial reports. – Answer (c) limited to only large proprietary companies or public companies. (d) not required to report in accordance with the accounting standards.</p>
<p>2023 Section 1 Question 11</p> <p>AASB Conceptual Framework for Financial Reporting</p>	<p>The Conceptual Framework for Financial Reporting</p> <p>(a) is administered by the Australian Securities and Investment Commission. (b) has been developed by the Financial Reporting Council. (c) defines the essential principles and content of general purpose financial reports. – Answer (d) must be complied with by all Australian companies.</p>
<p>2022 Section 1 Question 12</p> <p>AASB Conceptual Framework for Financial Reporting</p>	<p>The enhancing qualitative characteristics in the Conceptual Framework for Financial Reporting are</p> <p>(a) comparability, reliability, materiality, consistency. (b) understandability, timeliness, readability, uniformity. (c) uniformity, comparability, consistency, reliability. (d) verifiability, timeliness, comparability, understandability. – Answer</p>
<p>2021 Section 1 Question 1</p> <p>AASB Conceptual Framework for Financial Reporting</p>	<p>According to the Conceptual Framework, in order for an asset to be recognised in the financial statements it must</p> <p>(a) be relevant information about the asset. (b) meet the definition of an asset. (c) be a faithful representation of the asset. (d) all of the above. – Answer</p>
<p>2020 Section 2 Question 7</p> <p>AASB Conceptual Framework for Financial Reporting</p>	<p>The Conceptual Framework identifies fundamental qualitative characteristics of financial information, including</p> <p>(a) relevance and timeliness. (b) materiality and comparability. (c) understandability and comparability. (d) relevance and faithful representation. – Answer</p>

<p>2020 Section 2 Question 13</p> <p>AASB Conceptual Framework for Financial Reporting</p>	<p>One of the objectives of general purpose financial reporting is to provide</p> <p>(a) financial information that is useful for external users in making investing decisions. – Answer</p> <p>(b) financial information solely for management decision-making. (c) future-focused budget reports that will be useful for external users. (d) financial information to shareholders only</p>
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[Marking Guide – Section 2](#)

There have been no questions on this topic for this section in the exams of recent years.

[Marking Guide – Section 3](#)

<p>2022 Section 3 Question 21d</p> <p>AASB Conceptual Framework for Financial Reporting</p>	<p>Juntrae Pty Ltd is a small company based in Perth and has two directors who are also the only shareholders. The company produces quality hair products that are sold throughout Australia and New Zealand.</p> <p>Kelly Bianchi, one of the directors, has developed the knowledge and experience to produce the quality hair products and also oversees their production and marketing.</p> <p>Lee Chao is the other director and majority shareholder. Lee provided the funding to help start up the business but does not get involved in its day-to-day running. Lee is happy to receive an annual dividend and leave the management of the business to Kelly.</p> <p>The company has a small number of employees who are involved in the production process, but Kelly tries to do all the administration work to help keep costs down.</p> <p>An accountant prepares financial reports and completes the tax work for Juntrae Pty Ltd. The accountant has raised the following issues:</p> <ul style="list-style-type: none"> • Juntrae Pty Ltd appears to make frequent use of its overdraft facility • while the sales figures are excellent, profit is declining • debtors frequently pay what they owe after the due date • creditors are often paid late and this sometimes leads to late payment costs being incurred • inventory levels are quite high and the cost of sales has increased significantly over the past twelve months. <p>The accountant is suggesting that Juntrae Pty Ltd should be undertaking significant planning and control to protect its assets, ensure the company has cash flow to pay debts and to investigate why profits are declining.</p> <p>Although Kelly is concerned about the accountant’s advice, Lee is confident that she will sort out the problems and is not interested in getting involved in the running of the company.</p>
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(d) State the objective of general purpose financial reporting and outline two of its fundamental qualitative characteristics as per the Conceptual Framework for Financial Reporting. (5 marks)

Description	Marks
States the objective of general purpose financial reporting.	1
Subtotal	1
For each of two fundamental qualitative characteristics (2 x 2 marks)	
Outlines the characteristic.	2
Identifies the characteristic.	1
Subtotal	4
Total	5

Answers could include:

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The fundamental qualitative characteristics include:

- relevance: financial information that is capable of making a difference in the decisions made by users
- materiality: information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that users make
- faithful representation: to be useful, financial information must not only represent relevant transactions, but it must also faithfully represent the substance of the transactions that it purports to represent.

Accept other relevant answers.

Unit 4 – 15. Companies

Section 1

2023 Section 1 Question 1 Companies	The characteristics of a company include (a) continuity of existence and the separation of ownership and management. (b) a requirement to comply with the <i>Corporations Act 2001</i> and to have more than one owner. (c) unlimited liability and being a separate legal entity. (d) ease of transferability of ownership and unlimited liability.
2023 Section 1 Question 8 Companies	The replaceable rules contained in the Corporations Act 2001 are a (a) default set of rules that apply when a company does not have its own constitution. (b) set of rules that must be followed by all registered companies. (c) set of rules that can override the provisions of a company's constitution. (d) set of rules that state how a company must present its annual report.
2022 Section 1 Question 15 Companies	The directors declared a dividend on 30 April 2022. This will result in (a) an increase in the bank balance. (b) a decrease in equity. (c) a decrease in liabilities. (d) an increase in assets.
2022 Section 1 Question 13 Companies	Which of the following would be included in a statement of changes in equity? (a) amount of cash that the company has on hand (b) decreases in the retained earnings balance (c) final dividends declared and paid after the reporting date (d) increases in income tax owed
2022 Section 1 Question 6 Companies	A general journal entry to record payment of share issue costs is to (a) debit Bank, credit Share issue costs. (b) debit Share capital, credit Share issue costs. (c) debit Bank, credit Share capital. (d) debit Share issue costs, credit Bank.
2022 Section 1 Question 3 Companies	The debit side of the Retained earnings ledger account could include (a) profit for the period, dividends, transfer to General reserve. (b) profit for the period, dividends, transfer from General reserve. (c) loss for the period, dividends, transfer to General reserve. (d) loss for the period, dividends, transfer from General reserve.

2021 Section 1 Question 2 Companies	Read the following information and then answer the Question below																		
	Financial information for Olleggia Ltd as at 30 June																		
	<table border="1"> <thead> <tr> <th></th> <th style="text-align: center;">2021</th> <th style="text-align: center;">2020</th> </tr> <tr> <th></th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Share capital (ordinary shares issued at \$2 each)</td> <td style="text-align: right;">3,500,000</td> <td style="text-align: right;">2,800,000</td> </tr> <tr> <td>Total equity</td> <td style="text-align: right;">4,013,000</td> <td style="text-align: right;">3,402,000</td> </tr> <tr> <td>Net profit after tax</td> <td style="text-align: right;">315,000</td> <td style="text-align: right;">260,000</td> </tr> <tr> <td>Dividends declared for the year</td> <td style="text-align: right;">162,500</td> <td style="text-align: right;">125,000</td> </tr> </tbody> </table>		2021	2020		\$	\$	Share capital (ordinary shares issued at \$2 each)	3,500,000	2,800,000	Total equity	4,013,000	3,402,000	Net profit after tax	315,000	260,000	Dividends declared for the year	162,500	125,000
		2021	2020																
		\$	\$																
Share capital (ordinary shares issued at \$2 each)	3,500,000	2,800,000																	
Total equity	4,013,000	3,402,000																	
Net profit after tax	315,000	260,000																	
Dividends declared for the year	162,500	125,000																	
For the year ended 30 June 2021, the company's earnings per share were																			
(a) \$0.09 per share. (b) \$0.10 per share. (c) \$0.18 per share. (d) \$0.20 per share.																			

2021 Section 1 Question 6 Companies	The advantages of a company, compared with an unincorporated business such as a sole trader, would include
	(a) more flexibility in preparing financial reports. (b) additional government regulatory controls. (c) ease of transfer of ownership. (d) unlimited liability of the owners.

2021 Section 1 Question 7 Companies	As at balance day, a present obligation to provide a good or service that has been paid for by a customer/client will be recorded in the statement of financial position as
	(a) an asset, accrued expense. (b) an asset, prepaid expense. (c) a liability, accrued income. (d) a liability, income in advance.

2021 Section 1 Question 15 Companies	The payment of company dividends
	(a) always requires shareholder approval. (b) are payable at a fixed rate set down in the company's constitution. (c) are paid to shareholders in proportion to their shareholdings. (d) must be covered by the company's current year's after tax profit.

2020 Section 1 Question 2 Companies	The replaceable rules contained in the Corporations Act 2001
	(a) must be used by all companies registered under the Act. (b) are rules that cannot be modified by a company. (c) are only a guide to help companies draw up their own constitution. (d) automatically apply to all companies that don't have their own constitution

2020 Section 1 Question 8 Companies	Shareholders in a public company have the right to
	(a) automatically receive a dividend payment every year. (b) receive audited annual financial reports from the company. (c) receive copies of internal budget reports from the company. (d) determine the interim dividend payable by the company

<p>2019 Section 1 Question 1</p> <p>Companies</p>	<p>The characteristics of a company include</p> <p>(a) separate legal entity, unlimited liability and separation of ownership and control. (b) continuity of existence, separate legal entity and limited liability. (c) limited liability, direct control by shareholders and government control through the Corporations Act. (d) the capacity to contract in the company's name, unlimited liability and capacity to issue shares.</p>
<p>2019 Section 1 Question 2</p> <p>Companies</p>	<p>The Statement of financial position for a company</p> <p>(a) measures performance for the period. (b) enables users to evaluate the liquidity of the company. (c) shows changes in the equity during the period. (d) is prepared for internal use only.</p>
<p>2019 Section 1 Question 3</p> <p>Companies</p>	<p>The Statement of changes in equity</p> <p>(a) can be used by shareholders to calculate the value of their holdings. (b) can be incorporated within the Statement of financial position. (c) shows movements in the components of equity during the period. (d) shows the income and expenses forecast for the next period.</p>
<p>2019 Section 1 Question 4</p> <p>Companies</p>	<p>Which of the following statements is true?</p> <p>(a) A company's written constitution overrides the replaceable rules. (b) The replaceable rules override a company's written constitution. (c) A company's prospectus overrides the replaceable rules. (d) A company's prospectus overrides its written constitution.</p>
<p>2019 Section 1 Question 5</p> <p>Companies</p>	<p>The directors of Celsee-Ballerinie Ltd resolved to offer a one-for-five bonus share issue funded out of the asset revaluation reserve. The bonus share issue is valued at \$1,200,000. What is the impact on equity of this bonus share issue?</p> <p>(a) Decrease Retained earnings; increase Share capital (b) Decrease Asset revaluation reserve; increase Retained earnings (c) Decrease Share capital; increase Asset revaluation reserve (d) Decrease Asset revaluation reserve; increase Share capital</p>
<p>2019 Section 1 Question 8</p> <p>Companies</p>	<p>Kardybee Ltd made a cash issue of 600,000 shares at a price of \$2.50 per share payable in full on application. By 31 October 2020, the issue had been fully subscribed. What is the general journal entry to record the application of the shares?</p> <p>(a) DR Cash at bank \$1,500,000; CR Application ordinary \$1,500,000 (b) DR Application ordinary \$1,500,000; CR Share capital ordinary \$1,500,000 (c) DR Cash at bank \$600,000; CR Application ordinary \$600,000 (d) DR Reserves \$1,500,000; CR Share capital \$1,500,000</p>
<p>2019 Section 1 Question 10</p> <p>Companies</p>	<p>Issues of shares by a public company are</p> <p>(a) made only to existing shareholders in proportion to their current holdings. (b) always funded out of the General reserve or Revaluation reserve. (c) always made for cash to raise funds for the company. (d) made at a price per share determined by the directors</p>

Section 2

**2023
Section 2
Question
19a-c, e**

Companies

**Prizright Limited
Trial balance (extract)
as at 30 June 2023**

Account	Debit \$	Credit \$
Cash at bank	78,000	
Deposit (on call)	100,000	
Accounts receivable	117,000	
Vehicles	110,000	
Accounts payable		53,000
Allowance for doubtful debts		8,500
Mortgage (repayable 2030)		88,000
Prepaid expenses	17,000	
Accrued expenses		14,000
Accumulated depreciation of vehicles		38,000
Buildings (at cost)	355,000	
Other intangibles	156,000	
Goodwill	160,000	
Income tax payable		64,000
Accrued interest	12,500	
Inventory	129,000	
Land	170,000	
Accumulated depreciation of buildings		88,000
Profit and loss		210,000
Ordinary share capital		523,000
Asset revaluation reserve		134,000
Interim dividend	37,000	

Additional information: As at 1 July 2022:

- Share capital consisted of 800,000 ordinary shares
- the balance of Retained earnings was \$169,000
- the balance of the General reserve was \$75,000.

The following events occurred during the year ended 30 June 2023:

- on 30 September 2022, the company made a one-for-eight bonus share issue at \$0.60 each, from the Asset revaluation reserve
- share issue costs of \$17,000 were paid on 20 October 2022
- on 1 November 2022, Land was revalued upwards by \$64,000
- on 30 June 2023, the directors resolved to transfer \$30,000 from Retained earnings to the General reserve.

(a) Prepare a Statement of changes in equity for the year ended 30 June 2023. Round all figures to the nearest whole dollar. (14 marks)

Workings:

(b) Prepare the Notes to the accounts for the Other components of equity for the financial year ended 30 June 2023. (2 marks)

Prizright Limited
Notes to the accounts (extract)
for the period ended 30 June 2023

Other components of equity

On 1 October 2023, Prizright Limited made a cash issue of 200,000 ordinary shares at a price of \$1.75 each, payable in full on application.

The shares were fully subscribed on 10 October 2023 and allotted in full on 15 October 2023. Share issue costs of \$2,500 were paid on 15 October 2023.

Required

(c) Prepare the journal entries for the issue of the ordinary shares. The transfer of the share issue costs to the share capital is required. (11 marks)

Workings:

Three:

**2022
Section 2
Question
20a-b**

Companies

Fyndulos Ltd operates a retail business in Perth. The directors want to review the company's performance and position for the year ended 30 June 2022. They have provided the following information.

**Fyndulos Ltd
Trial balance (extract)
as at 30 June 2022**

	Debit \$	Credit \$
Accrued income	1,000	
Accumulated depreciation of plant and equipment		20,000
Allowance for doubtful debts		3,000
Asset revaluation reserve		20,000
Cash at bank		18,100
Cash on hand	200	
Cost of sales	416,000	
Debtors	69,000	
Other expenses	171,800	
Goodwill	60,000	
Interest expenses	35,000	
Investments (maturing in 2030)	10,000	
Land	2,730,000	
Mortgage		60,000
Patents and trademarks	15,000	
Plant and equipment	360,000	
Prepayments	4,670	
Sales		1,050,000
Sales returns	10,500	
Share issue costs	11,000	
Inventory	104,500	
Stock of stationery supplies	500	

Additional information, not reflected above:

- Plant and equipment is depreciated using the reducing balance method, at a rate of 12% per annum.
- Land is to be revalued upwards on balance day by \$30,000.
- The company is subject to an income tax rate of 30%.

Required

(a) Prepare the statement of comprehensive income for the year ended 30 June 2022. (11 marks)

Workings:

(c) State three differences between internal and external reporting for a company. (3 marks)

One:

Two:

Three:

(d) Describe three difficulties faced by accountants in producing social and environmental information. (6 marks)

One:

Two:

Three:

**2021
Section 2
Question
19.a-d.**

Companies

Booksbank Traders Ltd has provided you with the following information at the end of the financial year on 30 June 2022.

**Booksbank Traders Ltd
Trial balance (extract) as at 30 June 2022**

	Debit \$	Credit \$
Accounts payable		950,000
Accounts receivable	855,000	
Accrued expenses		210,000
Accumulated depreciation of furniture and fittings		98,000
Accumulated depreciation of plant and equipment		894,000
Asset revaluation reserve		1,200,000
Cash at bank	497,000	
Debentures (repayable 2024)		2,000,000
Furniture and fittings	342,000	
General reserve		300,000
Inventories	890,000	
Land (at valuation)	3,750,000	
Plant and equipment	3,672,000	
Prepaid expenses	132,000	
Profit and Loss		1,435,000
Allowance for doubtful debts		25,000
Share capital		3,430,000
Shares in Xcavate Mining Ltd	290,000	
Tax payable		615,000

Additional information:

- A final dividend of \$250,000 was declared at the 2021 Annual General Meeting held in September 2021 and was paid on 30 September 2021.
- On 1 October 2021 the company issued a prospectus for 1,000,000 ordinary shares at an issue price of \$1.25 per share. Applications were received for 800,000 ordinary shares by 20 October 2021. The Directors allotted the shares on 1 November 2021 and paid share issue costs of \$70,000 on the same day.
- An interim dividend of \$232,000 was declared and paid on 30 March 2022.
- The land was revalued upwards during the year by \$1,200,000.
- The Directors have resolved to transfer an additional \$400,000 to the General reserve on 30 June 2022.
- The Directors intend to recommend at the Annual General Meeting to be held in September 2022, that a final dividend of \$0.06 per share be paid to shareholders.
- As at 30 June 2021, the company's share capital consisted of 5 million ordinary shares issued at \$0.50 each.
- The balance of the retained earnings account as at 1 July 2021 was \$1,369,000.

a. Prepare general journal entries to record the share issue. The transfer of the share issue costs to the share capital is not required. (9 marks)

Workings:

d. Describe the purpose of a written constitution for a company (2 marks)

2020
Section 2
Question
19.a-c.

Companies

Stuzweec Ltd, a retail business, provided the following financial information.

Stuzweec Ltd
Trial balance (extract)
as at 30 June 2021

Account name	Debit \$	Credit \$
Accounts receivable	22,000	
Accounts payable		24,710
Accumulated depreciation – buildings		57,000
Allowance for doubtful debts		290
Cleaning fees	550	
Bank loan		25,000
Building (at cost)	220,000	
Cost of sales	100,000	
Discount allowed	1,100	
Dividends received		2,100
Bad debts expense	250	
Electricity expense	25,000	
Insurance expense	6,000	
Interest income		2,000
Interest expense	3,000	
Interim dividend	20,000	
Inventory	55,000	
Land (at cost)	176,500	
Other expenses	8,200	
Sales		320,000
Sales returns	12,500	
Wages	43,000	

Stuzweec Ltd
Balance sheet (extract)
as at 1 July 2020

	\$
Cash at bank	127,000
Retained earnings	120,000
Ordinary share capital (200,000 ordinary shares at \$1.50 each)	300,000
General reserve	45,000

Additional information:

- On 1 November 2020, a further 50,000 ordinary shares were offered to the public at a price of \$1.00 each. The share issue closed on 25 November 2020 fully subscribed. Shares were issued on 30 November 2020. Share issue costs of \$5,000 were paid on 25 November 2020. It is company policy to close share issue costs on the date of allotment.
- On 1 March 2021 the company issued **one** bonus share for every **ten** shares currently held. The issue price was \$1.00 fully paid and was made from the General reserve account.
- \$30,000 is to be transferred from Retained earnings to the General reserve account.
- On 30 June 2021, the directors proposed a final dividend of \$0.20 per share. The company's annual general meeting (AGM) will take place on 30 September 2021.
- The directors have determined that the land is to be recorded at market value of \$200,000.
- Buildings are depreciated using the reducing balance method at a rate of 10% per annum.
- Allowance for doubtful debts is to be set at \$400.
- The trial balance extract includes all income and expense items for the year.
- The company tax rate is 30%.

a. Prepare the general ledger accounts to record the share issue and related costs in November 2020. Opening balances are required. (8 marks)

Cash at bank

Application

Share issue costs

Ordinary share capital

b. Prepare a Statement of comprehensive income for the year ended 30 June 2021. (21 marks)

Workings

c. Prepare the Statement of changes in equity for the year ended 30 June 2021. (14 marks)

Workings

**2019
Section 2
Question
20.d-e.**

Companies

The following events occurred for BibiRexha Ltd during the year ended 30 June 2020.

- In 2019, final dividends were 2 cents per share and were paid on 15 August 2019.
- Land, part of Property, plant and equipment, was revalued upward by \$10,000.
- Interim dividends of 5 cents per share were paid to shareholders on 1 February 2020.
- Profit before tax at the end of the year was \$78,000.
- Tax is calculated at a rate of 30%.
- \$5,000 was transferred from Retained earnings to the General reserve at the end of the financial year.
- The directors are proposing a final dividend of 10 cents per share for the year ended 30 June 2020.

(d) Prepare BibiRexha Ltd's Retained earnings general ledger account for the year ended 30 June 2020. (6 marks)

Workings

Section 3

<p>2022 Section 3 Question 21e</p> <p>Companies</p>	<p>Juntrae Pty Ltd is a small company based in Perth and has two directors who are also the only shareholders. The company produces quality hair products that are sold throughout Australia and New Zealand.</p> <p>Kelly Bianchi, one of the directors, has developed the knowledge and experience to produce the quality hair products and also oversees their production and marketing.</p> <p>Lee Chao is the other director and majority shareholder. Lee provided the funding to help start up the business but does not get involved in its day-to-day running. Lee is happy to receive an annual dividend and leave the management of the business to Kelly.</p> <p>The company has a small number of employees who are involved in the production process, but Kelly tries to do all the administration work to help keep costs down.</p> <p>An accountant prepares financial reports and completes the tax work for Juntrae Pty Ltd. The accountant has raised the following issues:</p> <ul style="list-style-type: none">• Juntrae Pty Ltd appears to make frequent use of its overdraft facility• while the sales figures are excellent, profit is declining• debtors frequently pay what they owe after the due date• creditors are often paid late and this sometimes leads to late payment costs being incurred• inventory levels are quite high and the cost of sales has increased significantly over the past twelve months. <p>The accountant is suggesting that Juntrae Pty Ltd should be undertaking significant planning and control to protect its assets, ensure the company has cash flow to pay debts and to investigate why profits are declining.</p> <p>Although Kelly is concerned about the accountant’s advice, Lee is confident that she will sort out the problems and is not interested in getting involved in the running of the company.</p> <p>(e) Describe two characteristics that distinguish a public company and a large proprietary company. (4 marks)</p> <hr/>
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2021
Section 3
Question
22.c.

Companies

Stimulus material for Questions 22 and 23

Read the following material about Surecut Lawn 'n Grass Mowers Pty Ltd before selecting the question you will complete. The material is relevant to **both** questions.

Surecut Lawn 'n Grass Mowers Pty Ltd is a Western Australian family-owned company that specialises in garden and outdoor equipment. It manufactures lawn mowers and other machinery for the national market. The company is committed to contributing to the 'green economy' and also to being active citizens within the community through their sponsorship of the local junior football club.

In 2019, the business decided to invest significant time and money in researching and developing a more environmentally-friendly motor for its lawn mower range. By the beginning of 2021, it had successfully developed a motor that would emit 80% less carbon dioxide.

The business uses standard costing to determine the price of its lawn mowers. Below are the current and projected costings.

Current costings		Projected costings	
Direct materials	\$228	Direct materials incorporating new motor	\$250
Direct labour	240	Direct labour	240
Overheads	120	Overheads	234
Total	588		724

The significant rise in overheads is due mainly to the company wishing to recoup its research and development costs and its commitment to providing extensive training to the factory staff involved in the assembly of the new motor.

On the advice of its accountant, the business continued to apply a mark-up of 50%.

Surecut Lawn 'n Grass Mowers Pty Ltd proceeded with the launch of their new environmentally-friendly lawn mower range in April 2021.

After only six months on the national market, sales of the new range exceeded all expectations. There was also considerable interest from overseas buyers. The current owners of this large proprietary company believed the time was right to expand its operations. To achieve this, they needed a large injection of capital in order to open a second manufacturing plant on the east coast of Australia.

Following much deliberation, it was decided to list the company on the Australian Securities Exchange. The company directors have employed the services of a lawyer to commence the formation process. The current shareholders will maintain a 51% majority share in the new public company.

To improve their chances of attracting potential investors, the prospectus will include a section highlighting the company's corporate social responsibility practices.

(c) Describe four duties of the directors of a company. (8 marks)

**2021
Section 3
Question
23.c-d.**

Companies

Stimulus material for Questions 22 and 23

Read the following material about Surecut Lawn 'n Grass Mowers Pty Ltd before selecting the question you will complete. The material is relevant to **both** questions.

Surecut Lawn 'n Grass Mowers Pty Ltd is a Western Australian family-owned company that specialises in garden and outdoor equipment. It manufactures lawn mowers and other machinery for the national market. The company is committed to contributing to the 'green economy' and also to being active citizens within the community through their sponsorship of the local junior football club.

In 2019, the business decided to invest significant time and money in researching and developing a more environmentally-friendly motor for its lawn mower range. By the beginning of 2021, it had successfully developed a motor that would emit 80% less carbon dioxide.

The business uses standard costing to determine the price of its lawn mowers. Below are the current and projected costings.

Current costings		Projected costings	
Direct materials	\$228	Direct materials incorporating new motor	\$250
Direct labour	240	Direct labour	240
Overheads	120	Overheads	234
Total	588		724

The significant rise in overheads is due mainly to the company wishing to recoup its research and development costs and its commitment to providing extensive training to the factory staff involved in the assembly of the new motor.

On the advice of its accountant, the business continued to apply a mark-up of 50%.

Surecut Lawn 'n Grass Mowers Pty Ltd proceeded with the launch of their new environmentally-friendly lawn mower range in April 2021.

After only six months on the national market, sales of the new range exceeded all expectations. There was also considerable interest from overseas buyers. The current owners of this large proprietary company believed the time was right to expand its operations. To achieve this, they needed a large injection of capital in order to open a second manufacturing plant on the east coast of Australia.

Following much deliberation, it was decided to list the company on the Australian Securities Exchange. The company directors have employed the services of a lawyer to commence the formation process. The current shareholders will maintain a 51% majority share in the new public company.

To improve their chances of attracting potential investors, the prospectus will include a section highlighting the company's corporate social responsibility practices.

c. Explain the purpose and nature of a prospectus and identify which type of company is required to issue a prospectus. (5 marks)

d. Describe three rights of shareholders under the new public company structure. (6 marks)

**2019
Section 3
Question
21.a.**

Companies

Read the following material about Karlid Ltd for the year ended 30 June 2020 before selecting the question you will answer.

Karlid Ltd is an Australian retailer specialising in consumer electronics. Karlid Ltd is renowned for its convenient store locations, range of leading brands, competitive process, customer service and knowledgeable staff.

**Karlid Ltd
Statements of financial position**

	as at 30 June 2019 \$	as at 30 June 2020 \$
Current assets		
Cash and cash equivalents	174,000	16,000
Inventory	120,000	180,000
Accounts receivable	45,000	82,000
Total current assets	339,000	278,000
Non-current assets		
Property, plant and equipment	650,000	650,000
Total non-current assets	650,000	650,000
Total assets	989,000	928,000
Current liabilities		
Trade and other payables	65,000	95,000
Short-term borrowings	0	82,000
Current tax payable	27,000	45,000
Total current liabilities	92,000	222,000
Non-current liabilities		
Long-term borrowings	400,000	400,000
Total non-current liabilities	400,000	400,000
Total liabilities	492,000	622,000
Net assets	497,000	306,000
Equity		
Share capital	300,000	300,000
Retained earnings	197,000	6,000
Total equity	497,000	306,000

Karlid Ltd Annual report 30 June 2020 (extract)

Corporate

The Board of Karlid Ltd believes that being a good corporate citizen involves more than achieving financial targets and encompasses social, ethical and environmental responsibilities that form an integral part of Karlid Ltd's business.

Employee ownership

Karlid Ltd recognises the contribution its employees make to the performance of the company and encourages them to share in the benefits of this performance through share ownership. Employees own approximately 8.1% of the company at the date of this report.

Ethical sourcing

Karlid Ltd has developed a detailed ethical sourcing policy which commits the company to upholding human rights, fair working conditions and environmental protection. The company, through its supply chain, operates responsibly within the community and expects the same from its suppliers. Suppliers must commit to complying with a number of requirements, many of which are drawn from the Ethical Trading Initiative and International Labour Organisation conventions.

Sustainability

Karlid Ltd promotes sustainable environmental practices throughout its stores and supply chain.

The company has implemented a number of sustainable initiatives and continues to monitor their effectiveness.

Social involvement

Karlid Ltd is passionate about local community support and building strong relationships in the communities in which it operates. In 2020, Karlid Ltd has committed \$700,000 to communities throughout Australia. The key objective of local community sponsorship is to develop strong relationships through community engagement and to give back to the local neighbourhoods.

In August 2020, the company released the following announcement to the Australian Securities Exchange.

Market conditions have been challenging over the last twelve months and this has led to a fall in sales and profitability, as reported in the recently-released financial statements.

Management has embarked on a cost-reduction strategy and will be reviewing all stores for profitability. It is anticipated that a number of stores will be closed, with customers being diverted to online sales through the company's website.

The company is currently **not** in default of its \$400,000 five-year loan agreement with the bank. Management remains confident that cost reductions will ensure that it does not default. If the company was to default, the bank has provision in its agreement to require repayment and to move to recover its funds by selling secured assets against the loan facility.

You have been asked by the directors of Karlid Ltd to prepare a report addressing the following points, with reference to the information provided where appropriate:

- a. Explain the purpose and nature of the Corporations Act 2001. (6 marks)

**2019
Section 3
Question
21.b.**

Companies

Read the following material about Karlid Ltd for the year ended 30 June 2020 before selecting the question you will answer.

Karlid Ltd is an Australian retailer specialising in consumer electronics. Karlid Ltd is renowned for its convenient store locations, range of leading brands, competitive process, customer service and knowledgeable staff.

**Karlid Ltd
Statements of financial position**

	as at 30 June 2019 \$	as at 30 June 2020 \$
Current assets		
Cash and cash equivalents	174,000	16,000
Inventory	120,000	180,000
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Total non-current assets	650,000	650,000
Total assets	989,000	928,000
Current liabilities		
Trade and other payables	65,000	95,000
Short-term borrowings	0	82,000
Current tax payable	27,000	45,000
Total current liabilities	92,000	222,000
Non-current liabilities		
Long-term borrowings	400,000	400,000
Total non-current liabilities	400,000	400,000
Total liabilities	492,000	622,000
Net assets	497,000	306,000
Equity		
Share capital	300,000	300,000
Retained earnings	197,000	6,000
Total equity	497,000	306,000

Karlid Ltd Annual report 30 June 2020 (extract)

Corporate

The Board of Karlid Ltd believes that being a good corporate citizen involves more than achieving financial targets and encompasses social, ethical and environmental responsibilities that form an integral part of Karlid Ltd's business.

Employee ownership

Karlid Ltd recognises the contribution its employees make to the performance of the company and encourages them to share in the benefits of this performance through share ownership. Employees own approximately 8.1% of the company at the date of this report.

Ethical sourcing

Karlid Ltd has developed a detailed ethical sourcing policy which commits the company to upholding human rights, fair working conditions and environmental protection. The company, through its supply chain, operates responsibly within the community and expects the same from its suppliers. Suppliers must commit to complying with a number of requirements, many of which are drawn from the Ethical Trading Initiative and International Labour Organisation conventions.

Sustainability

Karlid Ltd promotes sustainable environmental practices throughout its stores and supply chain.

The company has implemented a number of sustainable initiatives and continues to monitor their effectiveness.

Social involvement

Karlid Ltd is passionate about local community support and building strong relationships in the communities in which it operates. In 2020, Karlid Ltd has committed \$700,000 to communities throughout Australia. The key objective of local community sponsorship is to develop strong relationships through community engagement and to give back to the local neighbourhoods.

In August 2020, the company released the following announcement to the Australian Securities Exchange.

Market conditions have been challenging over the last twelve months and this has led to a fall in sales and profitability, as reported in the recently-released financial statements.

Management has embarked on a cost-reduction strategy and will be reviewing all stores for profitability. It is anticipated that a number of stores will be closed, with customers being diverted to online sales through the company's website.

The company is currently **not** in default of its \$400,000 five-year loan agreement with the bank. Management remains confident that cost reductions will ensure that it does not default. If the company was to default, the bank has provision in its agreement to require repayment and to move to recover its funds by selling secured assets against the loan facility.

You have been asked by the directors of Karlid Ltd to prepare a report addressing the following points, with reference to the information provided where appropriate:

b. Outline four duties or powers of directors of an Australian public company under the Corporations Act 2001. (4 marks)

**2019
Section 3
Question
21.d.**

Companies

Read the following material about Karlid Ltd for the year ended 30 June 2020 before selecting the question you will answer.

Karlid Ltd is an Australian retailer specialising in consumer electronics. Karlid Ltd is renowned for its convenient store locations, range of leading brands, competitive process, customer service and knowledgeable staff.

**Karlid Ltd
Statements of financial position**

	as at 30 June 2019 \$	as at 30 June 2020 \$
Current assets		
Cash and cash equivalents	174,000	16,000
Inventory	120,000	180,000
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Total assets	989,000	928,000
Current liabilities		
Trade and other payables	65,000	95,000
Short-term borrowings	0	82,000
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Total liabilities	492,000	622,000
Net assets	497,000	306,000
Equity		
Share capital	300,000	300,000
Retained earnings	197,000	6,000
Total equity	497,000	306,000

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Market conditions have been challenging over the last twelve months and this has led to a fall in sales and profitability, as reported in the recently-released financial statements.

Management has embarked on a cost-reduction strategy and will be reviewing all stores for profitability. It is anticipated that a number of stores will be closed, with customers being diverted to online sales through the company's website.

The company is currently **not** in default of its \$400,000 five-year loan agreement with the bank. Management remains confident that cost reductions will ensure that it does not default. If the company was to default, the bank has provision in its agreement to require repayment and to move to recover its funds by selling secured assets against the loan facility.

(d) With reference to the company's August 2020 announcement to the Australian Securities Exchange, evaluate the impact on the company's management of its business finances if Karlid Ltd's bank does not renew its loan. (6 marks)

Marking Guide – Section 1

<p>2023 Section 1 Question 1 Companies</p>	<p>The characteristics of a company include</p> <p>(a) continuity of existence and the separation of ownership and management. – Answer (b) a requirement to comply with the <i>Corporations Act 2001</i> and to have more than one owner. (c) unlimited liability and being a separate legal entity. (d) ease of transferability of ownership and unlimited liability.</p>
<p>2023 Section 1 Question 8 Companies</p>	<p>The replaceable rules contained in the <i>Corporations Act 2001</i> are a</p> <p>(a) default set of rules that apply when a company does not have its own constitution. – Answer (b) set of rules that must be followed by all registered companies. (c) set of rules that can override the provisions of a company’s constitution. (d) set of rules that state how a company must present its annual report.</p>
<p>2022 Section 1 Question 15 Companies</p>	<p>The directors declared a dividend on 30 April 2022. This will result in</p> <p>(a) an increase in the bank balance. (b) a decrease in equity. – Answer (c) a decrease in liabilities. (d) an increase in assets.</p>
<p>2022 Section 1 Question 13 Companies</p>	<p>Which of the following would be included in a statement of changes in equity?</p> <p>(a) amount of cash that the company has on hand (b) decreases in the retained earnings balance – Answer (c) final dividends declared and paid after the reporting date (d) increases in income tax owed</p>
<p>2022 Section 1 Question 6 Companies</p>	<p>A general journal entry to record payment of share issue costs is to</p> <p>(a) debit Bank, credit Share issue costs. (b) debit Share capital, credit Share issue costs. (c) debit Bank, credit Share capital. (d) debit Share issue costs, credit Bank. – Answer</p>
<p>2022 Section 1 Question 3 Companies</p>	<p>The debit side of the Retained earnings ledger account could include</p> <p>(a) profit for the period, dividends, transfer to General reserve. (b) profit for the period, dividends, transfer from General reserve. (c) loss for the period, dividends, transfer to General reserve. – Answer (d) loss for the period, dividends, transfer from General reserve.</p>
<p>2021 Section 1 Question 2 Companies</p>	<p>For the year ended 30 June 2021, the company’s earnings per share were</p> <p>(a) \$0.09 per share. (b) \$0.10 per share. (c) \$0.18 per share. (d) \$0.20 per share.</p> <p>All candidates were awarded 1 mark (date required to calculate weighted average was omitted).</p>
<p>2021 Section 1 Question 6 Companies</p>	<p>The advantages of a company, compared with an unincorporated business such as a sole trader, would include</p> <p>(a) more flexibility in preparing financial reports. (b) additional government regulatory controls. (c) ease of transfer of ownership. – Answer (d) unlimited liability of the owners.</p>

<p>2021 Section 1 Question 7</p> <p>Companies</p>	<p>As at balance day, a present obligation to provide a good or service that has been paid for by a customer/client will be recorded in the statement of financial position as</p> <p>(a) an asset, accrued expense. (b) an asset, prepaid expense. (c) a liability, accrued income. (d) a liability, income in advance. – Answer</p>
<p>2021 Section 1 Question 15</p> <p>Companies</p>	<p>The payment of company dividends</p> <p>(a) always requires shareholder approval. (b) are payable at a fixed rate set down in the company's constitution. (c) are paid to shareholders in proportion to their shareholdings. – Answer (d) must be covered by the company's current year's after tax profit.</p>
<p>2020 Section 1 Question 2</p> <p>Companies</p>	<p>The replaceable rules contained in the Corporations Act 2001</p> <p>(a) must be used by all companies registered under the Act. (b) are rules that cannot be modified by a company. (c) are only a guide to help companies draw up their own constitution. (d) automatically apply to all companies that don't have their own constitution – Answer</p>
<p>2020 Section 1 Question 8</p> <p>Companies</p>	<p>Shareholders in a public company have the right to</p> <p>(a) automatically receive a dividend payment every year. (b) receive audited annual financial reports from the company. – Answer (c) receive copies of internal budget reports from the company. (d) determine the interim dividend payable by the company</p>
<p>2019 Section 1 Question 1</p> <p>Companies</p>	<p>The characteristics of a company include</p> <p>(a) separate legal entity, unlimited liability and separation of ownership and control. (b) continuity of existence, separate legal entity and limited liability. – Answer (c) limited liability, direct control by shareholders and government control through the Corporations Act. (d) the capacity to contract in the company's name, unlimited liability and capacity to issue shares.</p>
<p>2019 Section 1 Question 2</p> <p>Companies</p>	<p>The Statement of financial position for a company</p> <p>(a) measures performance for the period. (b) enables users to evaluate the liquidity of the company. – Answer (c) shows changes in the equity during the period. (d) is prepared for internal use only.</p>
<p>2019 Section 1 Question 3</p> <p>Companies</p>	<p>The Statement of changes in equity</p> <p>(a) can be used by shareholders to calculate the value of their holdings. (b) can be incorporated within the Statement of financial position. (c) shows movements in the components of equity during the period. – Answer (d) shows the income and expenses forecast for the next period.</p>
<p>2019 Section 1 Question 4</p> <p>Companies</p>	<p>Which of the following statements is true?</p> <p>(a) A company's written constitution overrides the replaceable rules. – Answer (b) The replaceable rules override a company's written constitution. (c) A company's prospectus overrides the replaceable rules. (d) A company's prospectus overrides its written constitution.</p>

<p>2019 Section 1 Question 5</p> <p>Companies</p>	<p>The directors of Celsee-Ballerinie Ltd resolved to offer a one-for-five bonus share issue funded out of the asset revaluation reserve. The bonus share issue is valued at \$1,200,000. What is the impact on equity of this bonus share issue?</p> <p>(a) Decrease Retained earnings; increase Share capital (b) Decrease Asset revaluation reserve; increase Retained earnings (c) Decrease Share capital; increase Asset revaluation reserve (d) Decrease Asset revaluation reserve; increase Share capital – Answer</p>
<p>2019 Section 1 Question 8</p> <p>Companies</p>	<p>Kardybee Ltd made a cash issue of 600,000 shares at a price of \$2.50 per share payable in full on application. By 31 October 2020, the issue had been fully subscribed. What is the general journal entry to record the application of the shares?</p> <p>(a) DR Cash at bank \$1,500,000; CR Application ordinary \$1,500,000 – Answer (b) DR Application ordinary \$1,500,000; CR Share capital ordinary \$1,500,000 (c) DR Cash at bank \$600,000; CR Application ordinary \$600,000 (d) DR Reserves \$1,500,000; CR Share capital \$1,500,000</p>
<p>2019 Section 1 Question 10</p> <p>Companies</p>	<p>Issues of shares by a public company are</p> <p>(a) made only to existing shareholders in proportion to their current holdings. (b) always funded out of the General reserve or Revaluation reserve. (c) always made for cash to raise funds for the company. (d) made at a price per share determined by the directors – Answer</p>

2023
Section 2
Question
19a-c, e

Companies

Prizright Limited
Trial balance (extract)
as at 30 June 2023

Account	Debit \$	Credit \$
Cash at bank	78,000	
Deposit (on call)	100,000	
Accounts receivable	117,000	
Vehicles	110,000	
Accounts payable		53,000
Allowance for doubtful debts		8,500
Mortgage (repayable 2030)		88,000
Prepaid expenses	17,000	
Accrued expenses		14,000
Accumulated depreciation of vehicles		38,000
Buildings (at cost)	355,000	
Other intangibles	156,000	
Goodwill	160,000	
Income tax payable		64,000
Accrued interest	12,500	
Inventory	129,000	
Land	170,000	
Accumulated depreciation of buildings		88,000
Profit and loss		210,000
Ordinary share capital		523,000
Asset revaluation reserve		134,000
Interim dividend	37,000	

Additional information: As at 1 July 2022:

- Share capital consisted of 800,000 ordinary shares
- the balance of Retained earnings was \$169,000
- the balance of the General reserve was \$75,000.

The following events occurred during the year ended 30 June 2023:

- on 30 September 2022, the company made a one-for-eight bonus share issue at \$0.60 each, from the Asset revaluation reserve
- share issue costs of \$17,000 were paid on 20 October 2022
- on 1 November 2022, Land was revalued upwards by \$64,000
- on 30 June 2023, the directors resolved to transfer \$30,000 from Retained earnings to the General reserve.

(a) Prepare a Statement of changes in equity for the year ended 30 June 2023. Round all figures to the nearest whole dollar. (14 marks)

Workings:

$$\text{Bonus share issue} = 800,000(1)/8(1) \times 0.60 (1) = 60,000$$

Prizright Limited
Statement of changes in equity
for the year ended 30 June 2023

Description	\$	Marks
Profit for the period	210,000	
Changes in revaluation reserve during the period	64,000	
	274,000	
Share capital		
Ordinary shares		
Balance at start of the period	480,000	
Issue of bonus shares	60,000	1–3
Share issue costs	(17,000)	1
Total share capital at end of the period	523,000	1
Reserves		
Asset revaluation reserve		
Balance at start of the period	130,000	
Gain on revaluation	64,000	1
Issue of bonus shares	(60,000)	1
Balance at end of the period	134,000	1
General reserve		
Balance at start of the period	75,000	1
Transfer from retained earnings	30,000	1
Balance at end of the period	105,000	
Total reserves	239,000	
Retained earnings		
Balance at start of the period	169,000	1
Profit for the period	210,000	1
Total for the period	379,000	
Transfer to general reserve	(30,000)	1
Dividends	(37,000)	1
Balance at end of the period	312,000	
	Total	14

Deduct 1 mark for each calculation error, to a maximum of 1 mark

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

Alternative answer

**Prizright Limited
Statement of changes in equity
for the year ended 30 June 2023**

	Description					Marks
	Share capital	Retained earnings	Asset revaluation reserve	General reserve	Total equity	
	\$	\$	\$	\$	\$	
Balance at beginning	480,000	169,000 (1)	130,000	75,000 (1)	854,000	1–2
Changes during the year						
Bonus share issue	60,000 (3)		(60,000) (1)		0	1–4
Share issue costs	(17,000) (1)				(17,000)	1
Dividends		(37,000) (1)			(37,000)	1
Total comprehensive income		210,000 (1)	64,000 (1)		274,000	1–2
Transfer to general reserve		(30,000) (1)		30,000 (1)	0	1–2
Balance at end	523,000 (1)	312,000	134,000 (1)	105,000	1,074,000	1–2
					Total	14

Deduct 1 mark for each calculation error, to a maximum of 1 mark

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

(b) Prepare the Notes to the accounts for the Other components of equity for the financial year ended 30 June 2023. (2 marks)

**Prizright Limited
Notes to the accounts (extract)
for the period ended 30 June 2023**

Description		Marks
Other components of equity	\$	
Asset revaluation reserve	134,000	1
General reserve	105,000	1
	239,000	
	Total	2

Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark

On 1 October 2023, Prizright Limited made a cash issue of 200,000 ordinary shares at a price of \$1.75 each, payable in full on application.

The shares were fully subscribed on 10 October 2023 and allotted in full on 15 October 2023. Share issue costs of \$2,500 were paid on 15 October 2023.

Required

(c) Prepare the journal entries for the issue of the ordinary shares. The transfer of the share issue costs to the share capital is required. (11 marks)

Share issue = 200,000 (1) x 1.75 (1) = 350,000

**Prizright Limited
General journal**

Description			Marks
Date	Particulars	Debit \$	Credit \$
2023			
Oct 10	Cash at bank	350,000	
	Application		350,000
	<i>Cash received on new share issue</i>		
15	Application	350,000	
	Share capital		350,000
	<i>Allocation of new share issue</i>		
15	Share issue costs	2,500	
	Cash at bank		2,500
	<i>Payment of share issue costs</i>		
15	Share capital	2,500	
	Share issue costs		2,500
	<i>Share issue costs transferred</i>		
			Subtotal
			10
	All narrations		1
			Subtotal
			1
			Total
			11

Note: Accept the closing of Share issue costs to Share capital on 30 June 2024

Deduct 1 mark for incorrect/omission of dates, to a maximum of 1 mark

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

(e) Outline **three** rights of shareholders set out in the *Corporations Act 2001*. (6 marks)

Description	Marks
For each of three rights of shareholders (3 x 2 marks)	
Outlines the rights of shareholders as per the <i>Corporations Act 2001</i> .	2
States a fact about rights of shareholders as per the <i>Corporations Act 2001</i> .	1
Total	6
Answers could include:	
The right to:	
<ul style="list-style-type: none"> • attend meetings, such as general meetings or special meetings of the company • receive annual reports to assess the company's performance/make economic decisions • receive dividends if they have been declared by directors • participate in decisions of the company that are reserved for shareholders • sell shares (although there may be some restrictions, such as for a Pty Ltd company) • participate in rights and share issues and share buybacks offered by the company. 	
Accept other relevant answers.	

**2022
Section 2
Question
20a-b**

Companies

Fyndulos Ltd operates a retail business in Perth. The directors want to review the company's performance and position for the year ended 30 June 2022. They have provided the following information.

**Fyndulos Ltd
Trial balance (extract)
as at 30 June 2022**

	Debit \$	Credit \$
Accrued income	1,000	
Accumulated depreciation of plant and equipment		20,000
Allowance for doubtful debts		3,000
Asset revaluation reserve		20,000
Cash at bank		18,100
Cash on hand	200	
Cost of sales	416,000	
Debtors	69,000	
Other expenses	171,800	
Goodwill	60,000	
Interest expenses	35,000	
Investments (maturing in 2030)	10,000	
Land	2,730,000	
Mortgage		60,000
Patents and trademarks	15,000	
Plant and equipment	360,000	
Prepayments	4,670	
Sales		1,050,000
Sales returns	10,500	
Share issue costs	11,000	
Inventory	104,500	
Stock of stationery supplies	500	

Additional information, not reflected above:

- Plant and equipment is depreciated using the reducing balance method, at a rate of 12% per annum.
- Land is to be revalued upwards on balance day by \$30,000.
- The company is subject to an income tax rate of 30%.

Required

(a) Prepare the statement of comprehensive income for the year ended 30 June 2022. (11 marks)

Workings:

Net sales

Sales \$1,050,000 (1) less sales returns \$10,500 (1) = \$1,039,500

Dep'n plant and equip =

Cost \$360,000 (1) less Acc dep'n \$20,000 (1) x 12% (1) = \$40,800

Other expenses \$171,800 (1) + \$40,800 = \$212,600

Income tax

Profit before tax x 30% = \$375,900 (1) x 30% (1) = \$112,700

Fyndulos Ltd
Statement of comprehensive income
for the year ended 30 June 2022

Description		Marks
Net sales	\$1,039,500	2
less cost of sales	\$416,000	1
Gross profit	\$623,500	
Financial costs	(\$35,000)	1
Other expenses	(\$212,600)	4
Profit before tax	\$375,900	
Less income tax	\$112,700	2
Profit after tax	\$263,130	
add Gain on revaluation	\$30,000	1
Total comprehensive income	\$293,130	
	Total	11

Deduct 1 mark for each calculation error, to a maximum of 2 marks

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

Deduct 1 mark for not presenting information in a manner that provides relevant, reliable, comparable and understandable information (as per AASB 101 clause 17 part (b)) e.g. abbreviations, to a maximum of 1 mark

(b) Prepare the assets section of the statement of financial position as at 30 June 2022. (15 marks)

Workings:

Receivables

Debtors – allowance for doubtful debts + Accrued income

= \$69,000 (1) – \$3,000 (1) + \$1,000 (1)

= \$67,000

i.e. 3 marks transferred to the statement of financial position

Other current assets

Prepayments + Stock of stationery supplies

= \$4,670 (1) + \$500 (1)

= \$5,170

i.e. 2 marks transferred to the statement of financial position

Accumulated depreciation of plant and equipment \$20,000 (1) + \$40,800 (1) = \$60,800

i.e. 2 marks transferred to the property, plant and equipment workings below

Property, plant and equipment

Land \$2,730,000 (1)

add Revaluation \$30,000 (1)

\$2,760,000

Plant and equipment \$360,000 (1)

less Accumulated dep'n \$60,800 (2)

\$299,200

\$3,059,200

i.e. 5 marks transferred to the statement of financial position

Fyndulos Ltd
Statement of financial position (extract)
as at 30 June 2022

Description	Marks
Current assets	
Cash and cash equivalents	1
Receivables	3
Inventories	1
Other currents assets	2
Total Current Assets	
Non-current assets	
Property, plant and equipment	5
Investments	1
Goodwill	1
Other intangibles	1
Total non-current assets	
Total assets	
Total	15

Deduct 1 mark for each calculation error, to a maximum of 2 marks

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

Deduct 1 mark for not presenting information in a manner that provides relevant, reliable, comparable and understandable information (as per AASB 101 clause 17 part (b)) e.g. abbreviations, to a maximum of 1 mark

**2021
Section 2
Question
19.a-d.**

Companies

a. Prepare general journal entries to record the share issue. The transfer of the share issue costs to the share capital is not required. (9 marks)

Workings:

800,000 ordinary shares (1) @ \$1.25 (1) each fully paid = \$1,000,000

**Booksbank Traders Ltd
General journal**

Description				Marks
Date	Particulars	Debit \$	Credit \$	
2021				
Oct 20	Cash at bank (1)	1,000,000 (2)		1 + 2
	Application (1)		1,000,000	1
	<i>Cash received for 800,000 ordinary shares at \$1.25 each</i>			
Nov 1	Application (1)	1,000,000		1
	Share capital (1)		1,000,000	1
	<i>Allotment of shares</i>			
	Share issue costs (1)	70,000 (1)		1 + 1
	Cash at bank (1)		70,000	1
	<i>Payment of share issue costs</i>			
			Total	9

Deduct 1 mark if correct dates not shown, to a maximum of 1 mark

Deduct 1 mark if narrations not shown, to a maximum of 1 mark

b. Prepare notes to the accounts for Property, plant and equipment, Share capital, Other components of equity, and Dividends. (20 marks)

Workings:

- Share capital

5,000,000 (1) ordinary shares @ \$0.50 (1) fully paid = \$2,500,000

800,000 (1) ordinary shares @ \$1.25 (1) = \$1,000,000

less share issue costs \$70,000 (1) = \$930,000

- General reserve

\$300,000 (1) + \$400,000 (1) = \$700,000

- Dividends

Final 2021: \$250,000 (1)/5,000,000 share (1) = \$0.50 per share

Interim 2022: \$232,000 (1)/5,800,000 shares (1) = \$0.40 per share

Proposed 2022: 5,800,000 (1) ordinary shares @ \$0.06 (1) per share = \$348,000

Bookbank Traders Ltd
Notes to the accounts (extract)
for the period ended 30 June 2022

Description	\$	Marks
Property, plant and equipment		
Land (at cost)	2,550,000	
Add asset revaluation	1,200,000	1
	3,750,000	1
Furniture and fittings (at cost)	342,000	1
Less Accumulated depreciation of furniture and fittings	98,000	1
	244,000	
Plant and equipment (at cost)	3,672,000	1
Less Accumulated depreciation of plant and equipment	894,000	1
	2,778,000	
Total property, plant and equipment	6,772,000	
Share capital		
5,000,000 ordinary shares @ \$0.50 each, fully paid	2,500,000	2
800,000 ordinary shares @ \$1.25 each, fully paid less share issue costs	930,000	3
Total share capital	3,430,000	
Other components of equity (Reserves)		
General reserve	700,000	2
Asset revaluation reserve	1,200,000	1
Total reserves	1,900,000	
Dividends		
Dividends paid as at 30 June 2022:		
Final dividend as per 2021 AGM 5,000,000 Ordinary shares @ \$0.05 per share	250,000	2
Interim dividends 5,800,000 Ordinary shares @ \$0.04 per share	232,000	2
Dividends declared by Directors:		
Final dividend 5,800,000 Ordinary shares @ \$0.06 per share	348,000	2
	Total	20

Deduct 1 mark if land not shown at cost and revaluation

Deduct 1 mark if each class of depreciable asset with associated accumulated depreciation not shown separately

Deduct 1 mark if number of shares, description of shares and share capital, not shown for each share issue

Deduct 1 mark if number of shares and dividend rate per share for each dividend paid and/or declared not shown

Deduct 1 mark for each calculation error, to a maximum of 2 marks

Deduct 1 mark for the inclusion of foreign items, to a maximum of 2 marks

Deduct 1 mark for each classification error, to a maximum of 2 marks

c. Prepare the retained earnings general ledger account showing all entries from 1 July 2021 to 30 June 2022. (6 marks)

(c) Prepare the retained earnings general ledger account showing all entries from 1 July 2021 to 30 June 2022. (6 marks)

Workings:

Retained earnings account					
Date	Details	Debit	Credit	Balance	Marks
2021		\$	\$	\$	
Jul 1	Balance			1,369,000 Cr (1)	1
Sep 30	Final dividend	250,000 (1)		1,119,000 Cr	1
2022					
Mar 30	Interim dividend	232,000 (1)		887,000 Cr	1
Jun 30	Profit after tax		1,435,000 (1)	2,322,000 Cr	1
Jun 30	General reserve	400,000 (1)		1,922,000 Cr (1)	1 + 1
				Total	6

or

Retained earnings account						
Date	Details	Amount	Date	Details	Amount	Marks
2021		\$	2021		\$	
Sep 30	Final dividend	250,000 (1)	Jul 1	Balance b/d	1,369,000 (1)	1 + 1
2022			2022			
Mar 30	Interim dividend	232,000 (1)	Jun 30	Profit after tax	1,435,000 (1)	1 + 1
Jun 30	General reserve	400,000 (1)				1
	Balance c/d	1,922,000				
		2,804,000			2,804,000	
			Jul 1	Balance b/d	1,922,000 (1)	1
					Total	6

Note: Do not penalise for using June 30 for final dividend

Deduct 1 mark for incorrect or no dates, to a maximum of 1 mark

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

d. Describe the purpose of a written constitution for a company (2 marks)

Description	Marks
Describes the purpose of a written constitution for a company	2
State a fact about the written constitution for a company	1
Total	2
Answer(s) could include:	
The purpose of a written constitution for a company is to set out:	
<ul style="list-style-type: none"> the rights, roles and responsibilities of the directors and the shareholders the rules that govern the internal management of the company. 	
Accept any other correct, relevant answer.	

**2020
Section 2
Question
19.a – c.**

Companies

a. Prepare the general ledger accounts to record the share issue and related costs in November 2020. Opening balances are required. (8 marks)

**Stuzweec Limited
General ledger**

Cash at Bank

1/7/20	Balance	127,000		25/11/20	Share issue cost	5,000	(1)
25/11/20	Application	50,000	(1)				

Application

30/11/20	Ordinary share capital	50,000	(1)	25/11/20	Cash at bank	50,000	(1)
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Share issue cost

25/11/20	Cash at bank	5,000	(1)	30/11/20	Ordinary share capital	5,000	(1)
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Ordinary share capital

30/11/20	Share issue cost	5,000	(1)	1/7/20	Balance	300,000	
				30/11/20	Application	50,000	(1)

**Deduct 1 mark if date/s are omitted or incorrect, to a maximum of 2 marks.
Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks.
Deduct 1 mark for not including opening entries, to a maximum of 2 marks.**

b. Prepare a Statement of comprehensive income for the year ended 30 June 2021. (21 marks)

(21 marks)

Revenue

Workings		Marks
Sales – Sales returns – Discount allowed 320,000 (1) – 12,500 (1) – 1,100 (1) = 306,400		3
Total		3

(i.e. 3 marks carried forward to the Statement of comprehensive income)

Other income

Workings		Marks
Interest income + Dividend received 2,000 (1) + 2,100 (1) = 4,100		2
Total		2

(i.e. 2 marks carried forward to the Statement of comprehensive income)

Expenses (excluding finance costs)

Workings		Marks
Cleaning fees + Depreciation of buildings + Electricity + Insurance + Other expenses + Wages + Doubtful debts 550 (1) + 16,300 *(3) + 25,000 (1) + 6,000 (1) + 8,200 (1) + 43,000 (1) + 360** (3) = 99,410		11
Total		11

*depreciation (220 000 (1) – 57 000 (1)) x 10%(1) = 16,300

(i.e. 11 marks carried forward to the Statement of comprehensive income)

** Allowance for doubtful debts

Bad debts	250	(1)	Opening Balance	290	(1)
Balance c/d	400	(1)	Doubtful debts	360	
	650			650	
			Balance b/d	400	

Finance costs

Workings	Marks
Interest expense 3,000 (1) = 3,000	1
Total	1

(i.e. 1 mark carried forward to the Statement of comprehensive income)

Income tax

Workings	Marks
Profit before income tax x 30% 108,090 (1) x 30% = 32,427	1
Total	1

(i.e. 2 marks carried forward to the Statement of comprehensive income)

Gain on asset revaluation

Workings	Marks
Land (market value) – Land (at cost) 200,000 (1) – 176,500 (1) = 23,500	2
Total	2

(i.e. 2 marks carried forward to the Statement of comprehensive income)

Deduct 1 mark for each calculation error, to a maximum of 2 marks.

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks.

Stuzweec Limited			
Statement of comprehensive income			
for the year ended 30 June 2021		\$	Marks
Revenue		306,400	3
Less cost of sales		(100,000)	1
Gross profit		206,400	
Other income		4,100	2
Expenses (excluding finance costs)		(99,410)	11
Finance costs		(3,000)	1
Profit before income tax		108,090	
Income tax		(32,427)	1
Profit after tax for the period		75,663	
Other comprehensive income			
Gain on asset revaluation		23,500	2
Total other comprehensive income		23,500	
Total comprehensive income for the period		99,163	
Total			21

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.

Deduct 1 mark for incorrect classification, to a maximum of 2 marks.

c. Prepare the Statement of changes in equity for the year ended 30 June 2021. (14 marks)

Issue of share capital

Workings	Marks
50,000 (1) x \$1 = \$50,000	1
Total	1

(i.e. 1 mark carried forward to the Statement of changes in equity)

Issue of bonus shares

Workings	Marks
Number of ordinary shares 300,000/1.50 (1) = 200,000 ordinary shares	1
Total number of ordinary shares + additional shares issued 200,000 + 50,000 (1) = 250,000	1
Bonus shares issued 250,000/10 (1) = 25,000 x \$1 = 25,000	1
Total	3

(i.e. 3 marks carried forward to the Statement of changes in equity)

Stuzweec Limited Statement of changes in equity for the year ended 30 June 2021	\$	Marks
Profit for the period	75,663	
Changes in Revaluation reserve during period	23,500	
Total recognised income and expenses for the period	99,163	
Ordinary share capital		
Balance at start of the period	300,000	1
Issue of share capital	50,000	1
Share issue costs	(5,000)	1
Bonus share issue	25,000	3
Total share capital	370,000	
Reserves		
Asset revaluation reserve		
Balance at start of the period	0	
Gain on revaluation	23,500	1
Balance at end of the period	23,500	
General reserve		
Balance at start of the period	45,000	1
Bonus share issue	(25,000)	1
Transfer from retained earnings	30,000	1
Balance at end of the period	50,000	
Total reserves	73,500	
Retained earnings		
Balance at start of the period	120,000	1
Profit for the period	75,663	1
Total for the period	195,663	
Transfer to general reserve	(30,000)	1
Dividends	(20,000)	1
Balance at end of the period	145,663	
Total		14

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks.

Deduct 1 mark for incorrect classification, to a maximum of 2 marks.

Alternative presentation**Stuzweec Limited
Statement of changes in equity
for the year ended 30 June 2021**

	Ordinary share capital	Retained earnings	Asset revaluation reserve	General reserve	Total equity	Marks
Balance at beginning	300,000 (1)	120,000 (1)	0	45,000 (1)	465,000	3
Issue of share capital	50,000 (1)				50,000	1
Share issue costs	(5,000) (1)				(5,000)	1
Issue of bonus shares	25,000 (3)			(25,000) (1)	0	4
Dividends		(20,000) (1)			(20,000)	1
Total comprehensive income for the period		75,663 (1)	23,500 (1)		99,163	2
Transfer to general reserve		(30,000) (1)		30,000 (1)	0	2
Balance as at 30 June 2021	370,000	145,663	23,500	50,000	589,163	
					Total	14

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks.

Deduct 1 mark for incorrect classification, to a maximum of 2 marks.

Retained earnings account

Date	Details	Debit	Credit	Balance	Marks
1/7/19	Opening Balance			23,000 CR (1)	1
15/8/19	Final ordinary dividends paid	500 (1)		22,500 CR	1
1/2/20	Interim ordinary dividends paid	1,250 (1)		21,250 CR	1
30/6/20	General reserve	5,000 (1)		16,250 CR	1
30/6/20	Profit after tax		54,600 (1)	70,850 CR (1)	2
				Total	6

**Note: Accept 30/6/20 as the date for all entries in the Retained earnings account.
Deduct 1 mark for each calculation error, to a maximum of 2 marks.
Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks.
Deduct 1 mark for no dates or incorrect dates, to a maximum of 1 mark.
Deduct 1 mark if dividends are combined.**

e. Prepare the Share capital and Dividends notes to the accounts for BibiRexha Ltd as at 30 June 2020. (7 marks)

**BibiRexha Ltd
Notes to accounts (extract)
as at 30 June 2020**

Description	\$	Marks
Share capital		
25,000 Ordinary shares at \$1.60 each fully paid	40,000 (1)	1
	40,000	
Dividends		
The following dividends were paid during the year:		
Final dividend @ \$0.02 cents (1) per share	500 (1)	2
Interim dividend @ \$0.05 cents (1) per share	1,250 (1)	2
	1,750	
The directors have recommended final dividends for the year ended 30 June 2020:		
25,000 Ordinary shares @ \$0.10 cents (1) per share	2,500 (1)	2
	2,500	
Total		7

or

Description	Cents per share	\$	Marks
Share capital			
25,000 Ordinary shares @ \$1.60 each fully paid		40,000 (1)	1
		40,000	
Dividends			
Recognised amounts			
Final dividend – previous financial year	2 (1)	500 (1)	2
Interim dividend – current financial year	5 (1)	1,250 (1)	2
		1,750	
Unrecognised amounts			
Final dividend – current financial year	10 (1)	2,500 (1)	2
		2,500	
Total			7

**Deduct 1 mark for each calculation error, to a maximum of 2 marks.
Deduct 1 mark if share capital and dividends are not expressed as separate notes.**

Marking Guide – Section 3

<p>2022 Section 3 Question 21e</p> <p>Companies</p>	<p>Juntrae Pty Ltd is a small company based in Perth and has two directors who are also the only shareholders. The company produces quality hair products that are sold throughout Australia and New Zealand.</p> <p>Kelly Bianchi, one of the directors, has developed the knowledge and experience to produce the quality hair products and also oversees their production and marketing.</p> <p>Lee Chao is the other director and majority shareholder. Lee provided the funding to help start up the business but does not get involved in its day-to-day running. Lee is happy to receive an annual dividend and leave the management of the business to Kelly.</p> <p>The company has a small number of employees who are involved in the production process, but Kelly tries to do all the administration work to help keep costs down.</p> <p>An accountant prepares financial reports and completes the tax work for Juntrae Pty Ltd. The accountant has raised the following issues:</p> <ul style="list-style-type: none"> • Juntrae Pty Ltd appears to make frequent use of its overdraft facility • while the sales figures are excellent, profit is declining • debtors frequently pay what they owe after the due date • creditors are often paid late and this sometimes leads to late payment costs being incurred • inventory levels are quite high and the cost of sales has increased significantly over the past twelve months. <p>The accountant is suggesting that Juntrae Pty Ltd should be undertaking significant planning and control to protect its assets, ensure the company has cash flow to pay debts and to investigate why profits are declining.</p> <p>Although Kelly is concerned about the accountant’s advice, Lee is confident that she will sort out the problems and is not interested in getting involved in the running of the company.</p> <p>(e) Describe two characteristics that distinguish a public company and a large proprietary company. (4 marks)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Description</th> <th style="text-align: center;">Marks</th> </tr> </thead> <tbody> <tr> <td colspan="2">For each of two characteristics that distinguish between a public and large proprietary company (2 x 2 marks)</td> </tr> <tr> <td>Describes the characteristic.</td> <td style="text-align: center;">2</td> </tr> <tr> <td>States a fact about the characteristic.</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: center;">4</td> </tr> </tbody> </table> <p>Answer(s) could include:</p> <p>Directors A public company must have a minimum of three directors, two of whom must live in Australia. A large proprietary company must have a least one director who must live in Australia.</p> <p>Transferability of shares Shares in a public company can generally be traded without restriction on the Australian Securities Exchange (ASX). Transfer of shares in a large proprietary company cannot be traded publicly and private transfer may be restricted. The transfer of any shares in a large proprietary company may need approval of the director/s as per the constitution of the company.</p> <p>Accept other relevant answers.</p>	Description	Marks	For each of two characteristics that distinguish between a public and large proprietary company (2 x 2 marks)		Describes the characteristic.	2	States a fact about the characteristic.	1	Total	4
Description	Marks										
For each of two characteristics that distinguish between a public and large proprietary company (2 x 2 marks)											
Describes the characteristic.	2										
States a fact about the characteristic.	1										
Total	4										

**2022
Section 3
Question
21b**

Companies

Juntrae Pty Ltd is a small company based in Perth and has two directors who are also the only shareholders. The company produces quality hair products that are sold throughout Australia and New Zealand.

Kelly Bianchi, one of the directors, has developed the knowledge and experience to produce the quality hair products and also oversees their production and marketing.

Lee Chao is the other director and majority shareholder. Lee provided the funding to help start up the business but does not get involved in its day-to-day running. Lee is happy to receive an annual dividend and leave the management of the business to Kelly.

The company has a small number of employees who are involved in the production process, but Kelly tries to do all the administration work to help keep costs down.

An accountant prepares financial reports and completes the tax work for Juntrae Pty Ltd. The accountant has raised the following issues:

- Juntrae Pty Ltd appears to make frequent use of its overdraft facility
- while the sales figures are excellent, profit is declining
- debtors frequently pay what they owe after the due date
- creditors are often paid late and this sometimes leads to late payment costs being incurred
- inventory levels are quite high and the cost of sales has increased significantly over the past twelve months.

The accountant is suggesting that Juntrae Pty Ltd should be undertaking significant planning and control to protect its assets, ensure the company has cash flow to pay debts and to investigate why profits are declining.

Although Kelly is concerned about the accountant's advice, Lee is confident that she will sort out the problems and is not interested in getting involved in the running of the company.

(b) Describe three duties of directors as per the Corporations Act 2001 to help both Kelly and Lee understand their responsibilities as directors of Juntrae Pty Ltd. (6 marks)

Description	Marks
For any of three duties of directors as per the <i>Corporations Act 2001</i> (3 x 2 marks)	
Describes the duty.	2
Identifies the duty.	1
Total	6
<p>Answers could include:</p> <ul style="list-style-type: none"> • directors are responsible for the affairs of a company and must comply with the legal obligations as a director under the <i>Corporations Act 2001</i> • directors must be fully up to date on what the company is doing, including its financial position, by keeping accurate records. They must act with due care and diligence • directors must not use their position or information to cause detriment to the company, or gain an unfair advantage (inside information) • directors ensure that the company does not trade while insolvent. They must seek the appointment of a liquidator if the company becomes insolvent • directors must act in good faith and for a proper purpose for all decisions made that are in the company's best interest. <p>Accept other relevant answers.</p>	

2021 Section 3 Question 22.c. Companies	Describe four duties of the directors of a company. (8 marks)										
	<table border="1"> <thead> <tr> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>For each of four duties of directors of a company:</td> <td></td> </tr> <tr> <td>Describes the duty</td> <td>2</td> </tr> <tr> <td>Identifies the duty</td> <td>1</td> </tr> <tr> <td style="text-align: right;">Total</td> <td>8</td> </tr> </tbody> </table>	Description	Marks	For each of four duties of directors of a company:		Describes the duty	2	Identifies the duty	1	Total	8
	Description	Marks									
	For each of four duties of directors of a company:										
	Describes the duty	2									
	Identifies the duty	1									
	Total	8									
	<p>Answer(s) could include:</p> <ul style="list-style-type: none"> • Duty of care and diligence: directors should take their responsibilities seriously and be properly informed about the operations and financial position of the company • Duty of good faith: directors must always act honestly and in the best interests of the company • Duty to not improperly use the position, or information, to gain a personal advantage, or to cause harm to the company • Duty to disclose conflicts of interest: directors must tell the board about any conflict of interest regarding the activities and decisions of the company. • Duty to not trade while insolvent: a company is insolvent if it is unable to pay its debts when they are due. It is illegal for a company to carry on trading while insolvent. It is a duty of directors to be aware of the financial position of the company and to prevent insolvent trading. • Duty to keep books and records: a company must maintain adequate financial records to record and explain transactions, the company's financial position and profit. A director is in breach of the Corporations Act 2001 if adequate financial records are not maintained. 										
	Accept any other correct, relevant answer.										

2021 Section 3 Question 23.c-d. Companies	c. Explain the purpose and nature of a prospectus and identify which type of company is required to issue a prospectus. (5 marks)																
	<table border="1"> <thead> <tr> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>Explains the purpose and nature of a prospectus</td> <td>4</td> </tr> <tr> <td>Describes the purpose and nature of a prospectus</td> <td>3</td> </tr> <tr> <td>Describes the purpose or nature of a prospectus</td> <td>2</td> </tr> <tr> <td>States a fact about a prospectus</td> <td>1</td> </tr> <tr> <td style="text-align: right;">Subtotal</td> <td>4</td> </tr> <tr> <td>Identifies which type of company is required to issue a prospectus</td> <td>1</td> </tr> <tr> <td style="text-align: right;">Total</td> <td>5</td> </tr> </tbody> </table>	Description	Marks	Explains the purpose and nature of a prospectus	4	Describes the purpose and nature of a prospectus	3	Describes the purpose or nature of a prospectus	2	States a fact about a prospectus	1	Subtotal	4	Identifies which type of company is required to issue a prospectus	1	Total	5
	Description	Marks															
	Explains the purpose and nature of a prospectus	4															
	Describes the purpose and nature of a prospectus	3															
	Describes the purpose or nature of a prospectus	2															
	States a fact about a prospectus	1															
	Subtotal	4															
	Identifies which type of company is required to issue a prospectus	1															
	Total	5															
<p>Answer(s) could include:</p> <p>A prospectus is a regulated fund raising document prepared and issued by a public company.</p> <p>The purpose of the prospectus is to give potential investors information regarding the assets and liabilities, profits and expected performance of the company and details about the share offer so they can make an informed decision.</p> <p>The prospectus contains descriptions of current and planned activities, how the funds from the share issue will be used, financial reports and an application form. It will also have an auditor's report showing that financial records comply with the <i>Corporations Act 2001</i> and accounting standards.</p> <p>The prospectus must be reviewed and approved by ASIC and the ASX before it can be issued to the public.</p> <p>It is a required document when a company wishes to be listed on the ASX.</p>																	
Accept any other correct, relevant answer.																	

d. Describe three rights of shareholders under the new public company structure. (6 marks)

Description	Marks
For each of three rights of shareholders under the new public company structure:	
Describes the right	2
Identifies the right	1
Total	6
Answer(s) could include:	
The rights of shareholders under the public company structure:	
<ul style="list-style-type: none"> • the right to attend shareholder's meetings: shareholders are entitled to participate in discussions at meetings and vote on resolutions in proportion to their shareholding • the right to receive annual financial reports: such reports are required to be audited by an external auditor • the right to receive dividends: this will be in a manner determined by the directors of the company • the right to dispose of their shares: this is unrestricted and can be to whoever they wish and at whatever price they wish • the right to inspect company records: shareholders can apply in court for the company to make the records available if they believe there are undisclosed conflicts of interest • the right to repayment of capital in the case of liquidation: this will only occur after all creditors have been paid and will be in proportion to their shareholdings at the time of liquidation 	
Accept any other correct, relevant answer.	

2019
Section 3
Question
21.a.

Companies

Explain the purpose and nature of the Corporations Act 2001. (6 marks)

Description	Marks
Explains the purpose and nature of the <i>Corporations Act 2001</i>	6
Describes the purpose and nature of the <i>Corporations Act 2001</i>	4–5
Outlines the purpose and nature of the <i>Corporations Act 2001</i>	2–3
States a fact about the <i>Corporations Act 2001</i>	1
Total	6
Answer(s) could include by are not limited to:	
The <i>Corporations Act 2001</i> (the <i>Act</i>) is an Act of the Commonwealth of Australia which sets out the laws dealing with business entities in Australia at federal and state level. It deals primarily with companies and is administered by the Australian Securities and Investments Commission.	
The purpose of the <i>Act</i> includes:	
<ul style="list-style-type: none"> • defining and giving a legal existence to a company • setting out the duties of the directors of a company • setting out the external audit requirements of a public company • setting out and defining the different types of companies that are permitted to exist under the <i>Act</i>, such as, public and proprietary companies • requiring that the financial reports for a financial year of public and large proprietary companies must comply with the AASB accounting standards. 	
The <i>Act</i> is the primary basis of Australian corporations law and assists to protect company stakeholders.	
Accept any other reasonable answer.	

2019 Section 3 Question 21.b. Companies	Outline four duties or powers of directors of an Australian public company under the Corporations Act 2001. (4 marks)	
	Description	Marks
	Outlines four duties or powers of directors of an Australian public company under the <i>Corporations Act 2001</i>	4
	Outlines three duties or powers of directors of an Australian public company under the <i>Corporations Act 2001</i>	3
	Outlines two duties or powers of directors of an Australian public company under the <i>Corporations Act 2001</i>	2
	Outlines one duty or power of directors of an Australian public company under the <i>Corporations Act 2001</i>	1
	Total	4
	Answer(s) could include by are not limited to:	
	A director must: <ul style="list-style-type: none"> • carry out their duties with reasonable care and diligence • act in the best interest of the company • ensure that they do not make improper use of their position and/or information to gain an advantage for themselves or for another person • ensure that a company does not trade when it is insolvent. 	
	Accept any other reasonable answer.	

2019 Section 3 Question 21.d. Companies	With reference to the company's August 2020 announcement to the Australian Securities Exchange, evaluate the impact on the company's management of its business finances if Karlid Ltd's bank does not renew its loan. (6 marks)	
	Description	Marks
	Evaluates the impact on Karlid Ltd, with reference to the information provided, if the bank does not renew the loan facility by explaining all potential consequences and their effect on the solvency of the company	6
	Explains, with reference to the information provided, the impact on Karlid Ltd if the bank does not renew the loan facility. Refers to debt and the solvency of the company	5
	Outlines, with reference to the information provided, the impact on Karlid Ltd if the bank does not renew the loan facility	4
	Makes a statement, with some reference to the information provided, with a limited link to the impact on Karlid Ltd if the bank does not renew the loan facility	3
	Makes a statement about the difficulty that Karlid Ltd would face without renewal of the loan facility, such as it being unable to pay all its debts	2
	Makes a statement about debt	1
	Total	6
	Answer(s) could include by are not limited to:	
If the bank does not renew the loan facility, Karlid Ltd will be required to repay \$400,000 by 30 September 2020.		
Possible implications: <ul style="list-style-type: none"> • Karlid Ltd does not have the cash resources to fund the repayment of the loan, current cash and cash equivalents is \$16,000 • the bank has the right to sell assets secured against the loan facility so Karlid Ltd could lose valuable assets • the company may need to sell \$400,000 worth of assets (e.g. Property, plant and equipment) to repay the bank loan, the company would need to be able to operate without these assets for it to continue • the solvency of the company may now be questioned unless Karlid Ltd can borrow from another lender (which is highly unlikely) based on the current level of borrowings, i.e. \$222,000 in current liabilities and \$400,000 in long-term borrowing. 		
Accept any other reasonable answer.		

Unit 4 – 16. Regulatory Bodies

Section 1

2023 Section 1 Question 7 Regulatory Bodies	<p>The Australian Securities Exchange (ASX) regulates and influences the general purpose financial reporting of companies by</p> <ul style="list-style-type: none">(a) conducting regular audits of the financial reports of companies that trade shares on the ASX.(b) setting listing rules that companies should follow but are not legally required to do so.(c) creating accounting standards setting out rules for companies listing their shares on the ASX.(d) setting listing rules that must be followed by all companies trading their shares on the ASX.
2022 Section 1 Question 8 Regulatory Bodies	<p>The Australian organisation that develops legally-enforceable accounting standards is the</p> <ul style="list-style-type: none">(a) Financial Accounting Standards Board.(b) Australian Securities Investment Commission.(c) Australian Accounting Standards Board.(d) Australian Securities Exchange.
2022 Section 1 Question 4 Regulatory Bodies	<p>The importance of the International Accounting Standards Board is to</p> <ul style="list-style-type: none">(a) develop international accounting standards that bring transparency, accountability and efficiency to financial markets around the world.(b) ensure companies around the world comply with corporations law.(c) ensure that general purpose financial reports follow a standard format.(d) develop international accounting standards and reports to the Financial Reporting Council.
2021 Section 1 Question 13 Regulatory Bodies	<p>The role of the Australian Securities and Investments Commission (ASIC) includes</p> <ul style="list-style-type: none">(a) setting of Australian Accounting Standards.(b) registration of Australian companies.(c) operating the Australian Securities Exchange (ASX).(d) collecting of company income tax.
2020 Section 1 Question 5 Regulatory Bodies	<p>An important role of the Australian Securities and Investments Commission (ASIC) is to</p> <p style="text-align: center;"><i>Copyright restrictions prohibit the release of this SCSA exam material.</i></p>

Section 2

<p>2023 Section 2 Question 19d</p> <p>Regulatory Bodies</p>	<p>(d) Explain the importance of the Australian Securities and Investments Commission (ASIC). (3 marks)</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
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Section 3

2020
Section 3
Question
21.e.

Regulatory
Bodies

A business magazine published the following article, including comments from its business analyst. Read the article and answer the questions that follow.

Woolworths maintains plans to close 30 Big W stores as profit tumbles

Woolworths is pushing ahead with plans to close 30 unprofitable Big W stores as it battles a tough consumer environment and a drop in profits. While Woolworths' full-year results were negatively affected by the loss of revenue from the sale of its petrol and convenience store wing, net profit for the continuing business still fell 7 per cent to \$1.49 billion over the year, or 9 per cent taking into account the extra week of trade in the 2019 financial year compared to 2018.

The market had expected a stronger profit of around \$1.7 billion. Woolworths said that, before one-off costs, its net profit from continuing operations was 9.2 per cent up on last year at \$1.75 billion, or 7.2 per cent up when you factor in for the extra week of trade. Including the net gain of almost \$1.1 billion from the sale of the petrol franchise into the mix, net profit rose 56 percent to \$2.7 billion. Those proceeds have been handed back to shareholders in the form of higher dividends, up almost 10 per cent to \$1.02 over the year.

Store closures

The Big W department store chain continued to be a drag on the group, losing \$85 million despite a pick up in sales. Earlier this year, Woolworths announced plans to close around 30 unprofitable stores to stem the bleeding. Distribution centres are also slated for closure. All up around 1,000 jobs are expected to be lost.

Woolworths chief executive Brad Banducci said he was not satisfied with the rate at which increased sales had translated into profits and the store closures would "accelerate the path to profitability". Mr Banducci said, after a challenging first half, momentum was picking up across the retail group, but conditions remained tough. "In the 2020 financial year, we expect the uncertain consumer environment and input cost pressures to remain, as well as an impact from new enterprise agreements", Mr Banducci said.

Sales picking up, but shares slip

JP Morgan analyst Shaun Cousins said while the result was below market expectations, Woolworths supermarkets appeared to have enjoyed a strong start to 2020. Mr Cousins said "... the consumer environment remains uncertain, with cost of living pressures despite the recent stimulus, and input cost pressures for retailers and suppliers ... while the robust 7.5 per cent like-for-like sales growth may not be sustainable." Woolworths had made strong gains in market share". Investors did not appear to share his optimism, with Woolworths shares down 1.5 per cent to \$35.61 in early trade.

Our business analyst provides the following interpretation of cost-volume-profit results of Woolworths and the decision to close down Big W stores: Woolworths group 2019 profit was \$1.72 billion, up from \$1.6 billion in 2018; Big W group had annual sales of \$3.8 billion up from \$3.6 billion in 2018; In 2019 Big W made a loss of \$85 million, whereas in 2018 the loss was \$100 million. Of note is that Big W employs over 18,000 people within its 183 stores Australia wide. Big W's loyal customer base has resulted in an 84% growth in the online shopping division as well as an increase in sales in the stores of 7.3%.

Explain the nature and the importance of the Australian Securities and Investments Commission (ASIC) and the Australian Stock Exchange (ASX). (6 marks)

**2019
Section 3
Question
22.d.
Regulatory
Bodies**

Read the following material about Karlid Ltd for the year ended 30 June 2020 before selecting the question you will answer.

Karlid Ltd is an Australian retailer specialising in consumer electronics. Karlid Ltd is renowned for its convenient store locations, range of leading brands, competitive process, customer service and knowledgeable staff.

**Karlid Ltd
Statements of financial position**

	as at 30 June 2019 \$	as at 30 June 2020 \$
Current assets		
Cash and cash equivalents	174,000	16,000
Inventory	120,000	180,000
Accounts receivable	45,000	82,000
Total current assets	339,000	278,000
Non-current assets		
Property, plant and equipment	650,000	650,000
Total non-current assets	650,000	650,000
Total assets	989,000	928,000
Current liabilities		
Trade and other payables	65,000	95,000
Short-term borrowings	0	82,000
Current tax payable	27,000	45,000
Total current liabilities	92,000	222,000
Non-current liabilities		
Long-term borrowings	400,000	400,000
Total non-current liabilities	400,000	400,000
Total liabilities	492,000	622,000
Net assets	497,000	306,000
Equity		
Share capital	300,000	300,000
Retained earnings	197,000	6,000
Total equity	497,000	306,000

Karlid Ltd Annual report 30 June 2020 (extract)

Corporate

The Board of Karlid Ltd believes that being a good corporate citizen involves more than achieving financial targets and encompasses social, ethical and environmental responsibilities that form an integral part of Karlid Ltd's business.

Employee ownership

Karlid Ltd recognises the contribution its employees make to the performance of the company and encourages them to share in the benefits of this performance through share ownership. Employees own approximately 8.1% of the company at the date of this report.

Ethical sourcing

Karlid Ltd has developed a detailed ethical sourcing policy which commits the company to upholding human rights, fair working conditions and environmental protection. The company, through its supply chain, operates responsibly within the community and expects the same from its suppliers. Suppliers must commit to complying with a number of requirements, many of which are drawn from the Ethical Trading Initiative and International Labour Organisation conventions.

Sustainability

Karlid Ltd promotes sustainable environmental practices throughout its stores and supply chain.

The company has implemented a number of sustainable initiatives and continues to monitor their effectiveness.

Social involvement

Karlid Ltd is passionate about local community support and building strong relationships in the communities in which it operates. In 2020, Karlid Ltd has committed \$700,000 to communities throughout Australia. The key objective of local community sponsorship is to develop strong relationships through community engagement and to give back to the local neighbourhoods.

In August 2020, the company released the following announcement to the Australian Securities Exchange.

Market conditions have been challenging over the last twelve months and this has led to a fall in sales and profitability, as reported in the recently-released financial statements.

Management has embarked on a cost-reduction strategy and will be reviewing all stores for profitability. It is anticipated that a number of stores will be closed, with customers being diverted to online sales through the company's website.

The company is currently **not** in default of its \$400,000 five-year loan agreement with the bank. Management remains confident that cost reductions will ensure that it does not default. If the company was to default, the bank has provision in its agreement to require repayment and to move to recover its funds by selling secured assets against the loan facility.

You have been asked by the directors of Karlid Ltd to prepare a report addressing the following points, with reference to the information provided where appropriate:

d. Describe the nature and importance of three groups that regulate and influence the general purpose financial reporting of companies in Australia. (6 marks)

Marking Guide – Section 1

2023 Section 1 Question 7 Regulatory Bodies	<p>The Australian Securities Exchange (ASX) regulates and influences the general purpose financial reporting of companies by</p> <p>(a) conducting regular audits of the financial reports of companies that trade shares on the ASX. (b) setting listing rules that companies should follow but are not legally required to do so. (c) creating accounting standards setting out rules for companies listing their shares on the ASX. (d) setting listing rules that must be followed by all companies trading their shares on the ASX. – Answer</p>
2022 Section 1 Question 8 Regulatory Bodies	<p>The Australian organisation that develops legally-enforceable accounting standards is the</p> <p>(a) Financial Accounting Standards Board. (b) Australian Securities Investment Commission. (c) Australian Accounting Standards Board. – Answer (d) Australian Securities Exchange.</p>
2022 Section 1 Question 4 Regulatory Bodies	<p>The importance of the International Accounting Standards Board is to</p> <p>(a) develop international accounting standards that bring transparency, accountability and efficiency to financial markets around the world. – Answer (b) ensure companies around the world comply with corporations law. (c) ensure that general purpose financial reports follow a standard format. (d) develop international accounting standards and reports to the Financial Reporting Council.</p>
2021 Section 1 Question 13 Regulatory Bodies	<p>The role of the Australian Securities and Investments Commission (ASIC) includes</p> <p>(a) setting of Australian Accounting Standards. (b) registration of Australian companies. – Answer (c) operating the Australian Securities Exchange (ASX). (d) collecting of company income tax.</p>
2020 Section 1 Question 5 Regulatory Bodies	<p>An important role of the Australian Securities and Investments Commission (ASIC) is to</p> <p style="text-align: center;">Copyright restrictions prohibit the release of this SCSA exam material.</p> <p>Answer was a.</p>

Marking Guide – Section 2

<p>2023 Section 2 Question 19d</p> <p>Regulatory Bodies</p>	(d) Explain the importance of the Australian Securities and Investments Commission (ASIC). (3 marks)										
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Description</th> <th style="text-align: center;">Marks</th> </tr> </thead> <tbody> <tr> <td>Explains the importance of ASIC</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Describes the importance of ASIC</td> <td style="text-align: center;">2</td> </tr> <tr> <td>Makes a statement about the importance of ASIC</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: center;">3</td> </tr> </tbody> </table>	Description	Marks	Explains the importance of ASIC	3	Describes the importance of ASIC	2	Makes a statement about the importance of ASIC	1	Total	3
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	Explains the importance of ASIC	3									
	Describes the importance of ASIC	2									
	Makes a statement about the importance of ASIC	1									
	Total	3									
	<p>Answers could include:</p> <ul style="list-style-type: none"> • maintain, facilitate and improve the performance of the financial system and entities in it • promote confident and informed participation by investors and consumers in the financial system • administer the law effectively and with minimal procedural requirements • receive, process and store information efficiently and quickly • make information about companies and other bodies available to the public as soon as practicable • take whatever action is necessary to enforce and give effect to the law. 										
	<p>Accept other relevant answers.</p>										

Marking Guide – Section 3

<p>2020 Section 3 Question 21.e.</p> <p>Regulatory Bodies</p>	<p>Explain the nature and the importance of the Australian Securities and Investments Commission (ASIC) and the Australian Stock Exchange (ASX). (6 marks)</p>																								
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Description</th> <th style="text-align: center;">Marks</th> </tr> </thead> <tbody> <tr> <td colspan="2" style="background-color: #e0e0e0;">Australian Securities and Investments Commission (ASIC):</td> </tr> <tr> <td>Explains the nature and the importance of ASIC</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Outlines the nature and the importance of ASIC</td> <td style="text-align: center;">2</td> </tr> <tr> <td>States a fact about the nature or importance of ASIC</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: right;">Subtotal</td> <td style="text-align: center;">3</td> </tr> <tr> <td colspan="2" style="background-color: #e0e0e0;">Australian Stock Exchange (ASX):</td> </tr> <tr> <td>Explains the nature and the importance of the ASX</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Outlines the nature and the importance of the ASX</td> <td style="text-align: center;">2</td> </tr> <tr> <td>States a fact about the nature or importance of the ASX</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: right;">Subtotal</td> <td style="text-align: center;">3</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: center;">6</td> </tr> </tbody> </table>	Description	Marks	Australian Securities and Investments Commission (ASIC):		Explains the nature and the importance of ASIC	3	Outlines the nature and the importance of ASIC	2	States a fact about the nature or importance of ASIC	1	Subtotal	3	Australian Stock Exchange (ASX):		Explains the nature and the importance of the ASX	3	Outlines the nature and the importance of the ASX	2	States a fact about the nature or importance of the ASX	1	Subtotal	3	Total	6
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	<p>Answer(s) could include but are not limited to:</p>																								
<p>The nature of ASIC: ASIC is an independent Australian Government body set up to administer the <i>Australian Securities and Investments Commission Act 2001</i> and to ensure adherence to the <i>Corporations Act 2001</i>.</p>																									
<p>The importance of ASIC:</p> <ul style="list-style-type: none"> • maintains, facilitates and improves the performance of the financial system and entities in it • promotes confident and informed participation by investors and consumers in the financial system • administers the law effectively and with minimal procedural requirements • receives, processes and stores information, efficiently and quickly • makes information about companies and other bodies available to the public as soon as practicable • takes whatever action it can, and which is necessary, to enforce and give effect to the law. 																									
<div style="border: 1px dashed gray; padding: 10px; margin: 10px auto; width: 80%;"> <p>For copyright reasons this text cannot be reproduced in the online version of this document, but may be viewed at the link listed on the acknowledgements page.</p> </div>																									
<p>The importance of the ASX:</p> <ul style="list-style-type: none"> • promotes standards of corporate governance • helps to educate retail investors • provides confidence in the trading of shares (through compliance with ASIC and the <i>Corporations Act 2001</i>). 																									
<p>Accept any other reasonable answer.</p>																									

**2019
Section 3
Question
22.d.**

**Regulatory
Bodies**

Describe the nature and importance of three groups that regulate and influence the general purpose financial reporting of companies in Australia. (6 marks)

Description	Marks
For each of three groups:	
Describes the nature and importance of the group	2
Identifies the group and states a fact about it	1
Total	6
<p>Answer(s) could include but are not limited to:</p> <ul style="list-style-type: none"> • The Australian Accounting Standards Board (AASB) is committed to developing, in the public interest, a single set of high quality, understandable accounting standards, with international comparability and requiring transparent and comparable information in general purpose financial statements. • The Financial Reporting Council (FRC) provides broad strategic direction to the AASB and influences accounting standards. • The International Accounting Standards Board (IASB) cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world. It is supported by numerous national accounting standards-setting interests. The goal of the IASB is to provide the world's integrated capital markets with a common language for financial reporting. • The Australian Securities and Investment Commission (ASIC) acts as a regulator for corporate markets and financial services. It enforces company and financial services laws designed to protect Australian consumers, investors and creditors. • The Australian Securities Exchange (ASX) is a public company providing a market place for the buying and selling of shares in public companies and other financial services. It ensures companies meet the regulatory requirements of listing. • Various lobby groups attempt to influence the deliberations of the AASB, with particular reference to standards that are relevant to their industry or interest. 	
Accept any other reasonable answer.	

Unit 4 – 17. Corporate Social Disclosure (CSD)

Section 1

There have been no questions on this topic for this section in the exams of recent years.

Section 2

2022 Section 2 Question 20d CSD	(d) Describe three difficulties faced by accountants in producing social and environmental information. (6 marks) One: <hr/> <hr/> <hr/> Two: <hr/> <hr/> <hr/> Three: <hr/> <hr/> <hr/>
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Section 3

**2023
Section 3
Question
22d

CSD**

Plaxion Limited is a manufacturing company that has produced financial reports for the year ending 30 June 2023. An extract from the company's financial reports is shown below, together with a selection of ratios and an extract of relevant social and environmental information.

Plaxion Limited Statement of financial position (extract) for the years ended 30 June		
	2023 \$	2022 \$
Assets		
Cash	30,000	45,000
Accounts receivable	95,000	75,000
Inventory	85,000	55,000
Other assets	100,000	100,000
Total assets	310,000	275,000
Liabilities		
Accounts payable	35,000	26,000
Other liabilities	85,000	95,000
Total liabilities	120,000	121,000
Net assets	190,000	154,000

Profit after tax for the year ending 2023 was \$26,000, and for the year ending 2022 it was \$36,000.

Ratio	2023	Target set by company for 2023
Quick asset	3.57:1	2:1
Working capital/current	6:1	2.5:1
Inventory turnover	4.5 times per year	6 times per year
Extract of social and environmental information from the annual report		
Details	2023	Target set by company for 2023
Increase in number of women in management roles	5%	3%
Reduction in use of plastic packaging across all product lines	50%	45%
Carbon emissions reduction	15% reduction	15% reduction

2021
Section 3
Question
22.e.

CSD

Stimulus material for Questions 22 and 23

Read the following material about Surecut Lawn 'n Grass Mowers Pty Ltd before selecting the question you will complete. The material is relevant to **both** questions.

Surecut Lawn 'n Grass Mowers Pty Ltd is a Western Australian family-owned company that specialises in garden and outdoor equipment. It manufactures lawn mowers and other machinery for the national market. The company is committed to contributing to the 'green economy' and also to being active citizens within the community through their sponsorship of the local junior football club.

In 2019, the business decided to invest significant time and money in researching and developing a more environmentally-friendly motor for its lawn mower range. By the beginning of 2021, it had successfully developed a motor that would emit 80% less carbon dioxide.

The business uses standard costing to determine the price of its lawn mowers. Below are the current and projected costings.

Current costings		Projected costings	
Direct materials	\$228	Direct materials incorporating new motor	\$250
Direct labour	240	Direct labour	240
Overheads	120	Overheads	234
Total	588		724

The significant rise in overheads is due mainly to the company wishing to recoup its research and development costs and its commitment to providing extensive training to the factory staff involved in the assembly of the new motor.

On the advice of its accountant, the business continued to apply a mark-up of 50%.

Surecut Lawn 'n Grass Mowers Pty Ltd proceeded with the launch of their new environmentally-friendly lawn mower range in April 2021.

After only six months on the national market, sales of the new range exceeded all expectations. There was also considerable interest from overseas buyers. The current owners of this large proprietary company believed the time was right to expand its operations. To achieve this, they needed a large injection of capital in order to open a second manufacturing plant on the east coast of Australia.

Following much deliberation, it was decided to list the company on the Australian Securities Exchange. The company directors have employed the services of a lawyer to commence the formation process. The current shareholders will maintain a 51% majority share in the new public company.

To improve their chances of attracting potential investors, the prospectus will include a section highlighting the company's corporate social responsibility practices.

e. Explain the nature of corporate social disclosure through two examples that might be used by the company in its prospectus. (6 marks)

**2019
Section 3
Question
22.a.

CSD**

Read the following material about Karlid Ltd for the year ended 30 June 2020 before selecting the question you will answer.

Karlid Ltd is an Australian retailer specialising in consumer electronics. Karlid Ltd is renowned for its convenient store locations, range of leading brands, competitive process, customer service and knowledgeable staff.

**Karlid Ltd
Statements of financial position**

	as at 30 June 2019 \$	as at 30 June 2020 \$
Current assets		
Cash and cash equivalents	174,000	16,000
Inventory	120,000	180,000
Accounts receivable	45,000	82,000
Total current assets	339,000	278,000
Non-current assets		
Property, plant and equipment	650,000	650,000
Total non-current assets	650,000	650,000
Total assets	989,000	928,000
Current liabilities		
Trade and other payables	65,000	95,000
Short-term borrowings	0	82,000
Current tax payable	27,000	45,000
Total current liabilities	92,000	222,000
Non-current liabilities		
Long-term borrowings	400,000	400,000
Total non-current liabilities	400,000	400,000
Total liabilities	492,000	622,000
Net assets	497,000	306,000
Equity		
Share capital	300,000	300,000
Retained earnings	197,000	6,000
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Karlid Ltd Annual report 30 June 2020 (extract)

Corporate

The Board of Karlid Ltd believes that being a good corporate citizen involves more than achieving financial targets and encompasses social, ethical and environmental responsibilities that form an integral part of Karlid Ltd's business.

Employee ownership

Karlid Ltd recognises the contribution its employees make to the performance of the company and encourages them to share in the benefits of this performance through share ownership. Employees own approximately 8.1% of the company at the date of this report.

Ethical sourcing

Karlid Ltd has developed a detailed ethical sourcing policy which commits the company to upholding human rights, fair working conditions and environmental protection. The company, through its supply chain, operates responsibly within the community and expects the same from its suppliers. Suppliers must commit to complying with a number of requirements, many of which are drawn from the Ethical Trading Initiative and International Labour Organisation conventions.

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Karlid Ltd promotes sustainable environmental practices throughout its stores and supply chain.

The company has implemented a number of sustainable initiatives and continues to monitor their effectiveness.

Social involvement

Karlid Ltd is passionate about local community support and building strong relationships in the communities in which it operates. In 2020, Karlid Ltd has committed \$700,000 to communities throughout Australia. The key objective of local community sponsorship is to develop strong relationships through community engagement and to give back to the local neighbourhoods.

In August 2020, the company released the following announcement to the Australian Securities Exchange.

Market conditions have been challenging over the last twelve months and this has led to a fall in sales and profitability, as reported in the recently-released financial statements.

Management has embarked on a cost-reduction strategy and will be reviewing all stores for profitability. It is anticipated that a number of stores will be closed, with customers being diverted to online sales through the company's website.

The company is currently **not** in default of its \$400,000 five-year loan agreement with the bank. Management remains confident that cost reductions will ensure that it does not default. If the company was to default, the bank has provision in its agreement to require repayment and to move to recover its funds by selling secured assets against the loan facility.

You have been asked by the directors of Karlid Ltd to prepare a report addressing the following points, with reference to the information provided where appropriate:

a. Explain the extent and nature of corporate social disclosure. (4 marks)

2019
Section 3
Question
22.c.

CSD

Read the following material about Karlid Ltd for the year ended 30 June 2020 before selecting the question you will answer.

Karlid Ltd is an Australian retailer specialising in consumer electronics. Karlid Ltd is renowned for its convenient store locations, range of leading brands, competitive process, customer service and knowledgeable staff.

Karlid Ltd
Statements of financial position

	as at 30 June 2019 \$	as at 30 June 2020 \$
Current assets		
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Total non-current assets	650,000	650,000
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Non-current liabilities		
Long-term borrowings	400,000	400,000
Total non-current liabilities	400,000	400,000
Total liabilities	492,000	622,000
Net assets	497,000	306,000
Equity		
Share capital	300,000	300,000
Retained earnings	197,000	6,000
Total equity	497,000	306,000

Karlid Ltd Annual report 30 June 2020 (extract)

Corporate

The Board of Karlid Ltd believes that being a good corporate citizen involves more than achieving financial targets and encompasses social, ethical and environmental responsibilities that form an integral part of Karlid Ltd's business.

Employee ownership

Karlid Ltd recognises the contribution its employees make to the performance of the company and encourages them to share in the benefits of this performance through share ownership. Employees own approximately 8.1% of the company at the date of this report.

Ethical sourcing

Karlid Ltd has developed a detailed ethical sourcing policy which commits the company to upholding human rights, fair working conditions and environmental protection. The company, through its supply chain, operates responsibly within the community and expects the same from its suppliers. Suppliers must commit to complying with a number of requirements, many of which are drawn from the Ethical Trading Initiative and International Labour Organisation conventions.

Sustainability

Karlid Ltd promotes sustainable environmental practices throughout its stores and supply chain.

The company has implemented a number of sustainable initiatives and continues to monitor their effectiveness.

Social involvement

Karlid Ltd is passionate about local community support and building strong relationships in the communities in which it operates. In 2020, Karlid Ltd has committed \$700,000 to communities throughout Australia. The key objective of local community sponsorship is to develop strong relationships through community engagement and to give back to the local neighbourhoods.

In August 2020, the company released the following announcement to the Australian Securities Exchange.

Market conditions have been challenging over the last twelve months and this has led to a fall in sales and profitability, as reported in the recently-released financial statements.

Management has embarked on a cost-reduction strategy and will be reviewing all stores for profitability. It is anticipated that a number of stores will be closed, with customers being diverted to online sales through the company's website.

The company is currently **not** in default of its \$400,000 five-year loan agreement with the bank. Management remains confident that cost reductions will ensure that it does not default. If the company was to default, the bank has provision in its agreement to require repayment and to move to recover its funds by selling secured assets against the loan facility.

Marking Guide – Section 1

There have been no questions on this topic for this section in the exams of recent years.

Marking Guide – Section 2

<p>2022 Section 2 Question 20d</p> <p>CSD</p>	(d) Describe three difficulties faced by accountants in producing social and environmental information. (6 marks)										
	<table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 80%;">Description</th> <th style="width: 20%;">Marks</th> </tr> </thead> <tbody> <tr> <td colspan="2">For each of three difficulties faced by accountants in producing social and environmental information (3 x 2 marks)</td> </tr> <tr> <td>Describes the difficulty.</td> <td style="text-align: center;">2</td> </tr> <tr> <td>States a fact regarding the difficulty.</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: center;">6</td> </tr> </tbody> </table>	Description	Marks	For each of three difficulties faced by accountants in producing social and environmental information (3 x 2 marks)		Describes the difficulty.	2	States a fact regarding the difficulty.	1	Total	6
	Description	Marks									
	For each of three difficulties faced by accountants in producing social and environmental information (3 x 2 marks)										
	Describes the difficulty.	2									
	States a fact regarding the difficulty.	1									
	Total	6									
	Answers could include:										
	<ul style="list-style-type: none"> • Lack of resources: for measuring, collecting, recording and reporting social and environmental information. Management may see social and environmental information as having little immediate positive effect on the profit or net worth of a business, so may not allocate adequate resources to enable accountants to properly account for it • Source of information: no standards set for measuring, collecting or recording social and environmental information. Different businesses will measure the information in different ways • Reporting: No standards for reporting social and environmental information, so accountants will present the information differently. Statutory authorities may have specific report formats, which may not line up with general financial reporting • Report locations: Businesses may use different report styles e.g. tables, graphs, written reports, video. Management may expect accountants to disclose information on a website, in GPFR's, in media releases. All this makes comparisons between entities difficult • Timeliness: Statutory authorities may have specific reporting timetables, which may not line up with financial reporting dates. Accountants may have to adjust the information on different reports • Completeness of information: Businesses tend to highlight 'good news' and not report or bury 'not so good news'. Reports may lack balance. It is hard to provide all information that different end-users may desire. 										
	Accept other relevant answers.										

Marking Guide – Section 3

2023
Section 3
Question
22d

CSD

Plaxion Limited is a manufacturing company that has produced financial reports for the year ending 30 June 2023. An extract from the company's financial reports is shown below, together with a selection of ratios and an extract of relevant social and environmental information.

Plaxion Limited		
Statement of financial position (extract)		
for the years ended 30 June		
	2023	2022
	\$	\$
Assets		
Cash	30,000	45,000
Accounts receivable	95,000	75,000
Inventory	85,000	55,000
Other assets	100,000	100,000
Total assets	310,000	275,000
Liabilities		
Accounts payable	35,000	26,000
Other liabilities	85,000	95,000
Total liabilities	120,000	121,000
Net assets	190,000	154,000

Profit after tax for the year ending 2023 was \$26,000, and for the year ending 2022 it was \$36,000.

Ratio	2023	Target set by company for 2023
Quick asset	3.57:1	2:1
Working capital/current	6:1	2.5:1
Inventory turnover	4.5 times per year	6 times per year
Extract of social and environmental information from the annual report		
Details	2023	Target set by company for 2023
Increase in number of women in management roles	5%	3%
Reduction in use of plastic packaging across all product lines	50%	45%
Carbon emissions reduction	15% reduction	15% reduction

(d) Explain the use made of corporate social disclosure by the company and other users of information in Plaxion Limited's annual report. (6 marks)

Description	Marks
For each of Plaxion Limited and users (2 x 3 marks)	
Explains how corporate social disclosure information can be used with reference to data in the annual report	3
Describes how corporate social disclosure information can be used	2
Makes a statement as to how corporate social disclosure information can be used	1
Total	6

Answers could include:

Plaxion use:

- Corporate social disclosure is not compulsory in Australia. More and more companies are finding it is in their best interests to report on matters such as their interaction and support for the local community in which they operate, employment equity and sustainability reporting
- Plaxion Limited has reported some important corporate social responsibility (CSR) information to highlight their achievements in employment equity with the increase of women in management roles
- Plaxion has also reported an important sustainability issue with information on the reduction of the use of plastic across all product lines
- Plaxion Limited knows that this is information users want to know (including staff). The information gives the impression that the company is a 'good corporate citizen'
- Plaxion Limited can use the current CSR information to highlight how the business will continue to build on the current figures and improve their CSR targets.

Other users:

- there are many investors/users of financial reports who take a keen interest in CSR information in company financial reports. Many investors are looking for 'ethical' investing opportunities and take interest in information reported by companies
- some users, including potential investors, insist that companies take their responsibilities to society seriously and demand to see CSR information from companies
- the users of financial information can have a powerful influence over the operation of companies. They can affect the operations of the business by withdrawing their investment or choosing to buy products elsewhere. Plaxion Limited might be an attractive investment option because the company is either meeting or exceeding its CSR targets.

2021 Section 3 Question 22.e. CSD	Explain the nature of corporate social disclosure through two examples that might be used by the company in its prospectus. (6 marks)												
	<table border="1"> <thead> <tr> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>For each of two examples of corporate social disclosure (CSD) that might be used by the company in its prospectus:</td> <td></td> </tr> <tr> <td>Explains the nature of CSD through an example relevant to the case study</td> <td>3</td> </tr> <tr> <td>Describes the nature of CSD and provides an example relevant to the case study</td> <td>2</td> </tr> <tr> <td>States a fact about CSD or provides an example relevant to the case study</td> <td>1</td> </tr> <tr> <td style="text-align: right;">Total</td> <td>6</td> </tr> </tbody> </table>	Description	Marks	For each of two examples of corporate social disclosure (CSD) that might be used by the company in its prospectus:		Explains the nature of CSD through an example relevant to the case study	3	Describes the nature of CSD and provides an example relevant to the case study	2	States a fact about CSD or provides an example relevant to the case study	1	Total	6
	Description	Marks											
	For each of two examples of corporate social disclosure (CSD) that might be used by the company in its prospectus:												
	Explains the nature of CSD through an example relevant to the case study	3											
	Describes the nature of CSD and provides an example relevant to the case study	2											
	States a fact about CSD or provides an example relevant to the case study	1											
	Total	6											
	Answer(s) could include:												
	<ul style="list-style-type: none"> • Their social impact: this includes disclosures about social issues, such as the diversity of the entity's employees, treatment of minorities, its health and safety record, employment conditions for employees, community activities and support for developing countries. Examples for Surecut Lawn 'n Grass Mowers Pty Ltd are the sponsorship of the local junior football club and re-training of factory staff involved with assembling the new motor. • Their environmental impact: this includes disclosures about many issues associated with the environment and the entity's activities within this area. Companies may report on their impact on the environment and how they are contributing to sustainable development. Examples for Surecut Lawn 'n Grass Mowers Pty Ltd investment in research and development of an environmentally-friendly motor for its lawn mower range and the launch of the new lawn mower range that produces 80% less carbon emissions. 												
Accept any other correct, relevant answer.													

2019 Section 3 Question 22.a. CSD	Explain the extent and nature of corporate social disclosure. (4 marks)												
	<table border="1"> <thead> <tr> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>Explains the extent and nature of corporate social disclosure</td> <td>4</td> </tr> <tr> <td>Outlines the extent and nature of corporate social disclosure</td> <td>3</td> </tr> <tr> <td>Makes reference to the extent and/or nature of corporate social disclosure</td> <td>2</td> </tr> <tr> <td>Makes a statement about corporate social disclosure</td> <td>1</td> </tr> <tr> <td style="text-align: right;">Total</td> <td>4</td> </tr> </tbody> </table>	Description	Marks	Explains the extent and nature of corporate social disclosure	4	Outlines the extent and nature of corporate social disclosure	3	Makes reference to the extent and/or nature of corporate social disclosure	2	Makes a statement about corporate social disclosure	1	Total	4
	Description	Marks											
	Explains the extent and nature of corporate social disclosure	4											
	Outlines the extent and nature of corporate social disclosure	3											
	Makes reference to the extent and/or nature of corporate social disclosure	2											
	Makes a statement about corporate social disclosure	1											
	Total	4											
	Answer(s) could include but are not limited to:												
	<ul style="list-style-type: none"> • Corporate social disclosure (CSD) is the process whereby a company reports on its social and environmental impacts, that is, its corporate social responsibility (CSR), and the extent to which it may have met standards or performance targets in those areas. • CSD is the reporting of the action taken by a company to act in a fair and ethical manner in its dealings with all those with whom it interacts, having regard to its social and environmental, as well as purely economic impacts. • CSD may include targets the company has set and how it is achieving them. • CSD is voluntary. 												
Accept any other reasonable answer.													

2019
Section 3
Question
22.c.

CSD

Comment on the difficulties faced by accountants in producing social and environmental information. (6 marks)

Description	Marks
Comments on difficulties of producing social and environmental information	5–6
Outlines difficulties of producing social and environmental information	3–4
Identifies a difficulty of producing social and environmental information	2
States a fact about producing social and environmental information	1
Total	6
<p>Answer(s) could include but are not limited to:</p> <ul style="list-style-type: none"> • there is an absence in many areas of well-defined standards and benchmarks against which performance may be measured: companies may set their own standards, but those reading the reports may have no means of judging the validity of such standards, nor of comparing achievement with other companies that may not use the same measurements • social and environmental information is difficult to measure, such as how to judge the extent to which a company may have behaved ethically towards its employees or its suppliers • many social and environmental issues are long-term: it is difficult to produce a meaningful assessment of progress in a report covering a relatively short period, such as a year • the nature and structure of social and environmental reporting is not well established, and there are few guidelines that will assist companies in their preparation. 	
Accept any other reasonable answer.	

Unit 4 – 18. Cash Flows

Section 1

2023 Section 1 Question 14 Cash Flows	One of the benefits of the statement of cash flows information is that it can assist users to evaluate the (a) changes in equity of an entity. (b) future profitability of an entity. (c) ability of an entity to estimate its future expenses. (d) financial structure of an entity, including liquidity and solvency.
2021 Section 1 Question 14 Cash Flows	Under the Accounting Standard AASB 107 relating to Statements of Cash Flows, 'cash equivalents' are defined as (a) short-term, highly-liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. (b) long-term, highly-liquid investments that are convertible to known amounts of cash and are subject to an insignificant risk of changes in value. (c) short-term, highly-liquid investments that are convertible to known amounts of cash and are subject to a significant risk of changes in value. (d) long-term, highly-liquid investments that are readily convertible to known amounts of cash and are subject to a significant risk of changes in value.
2020 Section 1 Question 9 Cash flows	Cash flow statements provide information about the (a) cash received from the organisation's creditors. (b) amount of expenses paid and accrued by the organisation. (c) after tax profit of the organisation. (d) cash amount received and paid by the organisation

Section 2

**2023
Section 2
Question
20a**

Cash Flows

Halloz Limited has provided the following Balance sheet (extracts) and Income statement for your information.

**Halloz Limited
Balance sheet (extracts)
as at 30 June**

	2023 \$	2022 \$
Assets		
Cash at bank	2,105	2,500
Accounts receivable	5,200	4,300
Inventory	5,000	5,200
Prepaid insurance	300	500
Accrued interest income	10	15
Investments	2,000	1,000
Equipment	20,000	18,000
Accumulated depreciation of equipment	(5,000)	(4,500)
Total assets	29,615	27,015
Liabilities		
Accounts payable	3,800	3,200
Accrued wages and salaries	600	400
Other accrued expenses	200	300
Income tax liability	1,170	1,440
Total liabilities	5,770	5,340
Net assets	23,845	21,675

**Halloz Limited
Income statement
for the year ended 30 June 2023**

	\$	\$
Income		
Sales	48,000	
Cost of sales	(33,600)	
Gross profit	14,400	
Other income		
Interest revenue from investments	100	14,500
Expenses		
Wages and salaries	6,500	
Insurance	800	
Loss on sale of equipment	200	
Depreciation of equipment	2,000	
Other expenses	1,100	10,600
Profit		3,900
Income tax		(1,170)
Net profit		2,730

Additional information:

- Equipment at an original cost of \$2,000, and with a carrying value of \$500, was sold at a loss.
- New equipment was purchased during the year for cash.
- All sales and purchases of inventory were on credit.
- Additional investments were purchased for cash.
- Interest is treated as an investing activity.

Required

(a) Prepare a Cash flow statement extract for Halloz Limited showing operating and investing activities for the year ended 30 June 2023. (30 marks)

Workings:

2022
Section 2
Question
19

Cash Flows
+ Ratios

The following are extracts from the most recent annual report for Xunobus Ltd.

Xunobus Ltd
Balance sheet
as at 30 June

	2022	2021
	\$	\$
Total assets	3,422,400	3,058,200
Current liabilities		
Borrowings (bank overdraft)	17,900	0
Accounts payable	33,000	29,000
Income tax payable	59,100	73,200
Lease liabilities	10,000	10,000
Accrued interest expense	6,000	8,000
Total current liabilities	126,000	120,200
Non-current liabilities		
Borrowings	200,000	100,000
Lease liabilities	50,000	50,000
Total non-current liabilities	250,000	150,000
Total liabilities	376,000	270,200
Net assets	3,046,400	2,788,000
Shareholders' equity		
Share capital	2,800,000	2,500,000
Reserves	100,000	50,000
Retained earnings	146,400	238,000
Total equity	3,046,400	2,788,000

Additional information

- The company transferred \$50,000 from retained earnings into a general reserve during the year.
- The company paid its 2021 income tax liability in September 2021. The company tax rate is 30%.
- There was a cash issue of 150,000 shares on 1 January 2022. All the company's shares have been issued at \$2 each.
- The number of shares issued at 30 June 2021 was 1,250,000.
- The company classifies interest and dividends received and paid as financing activities.

Xunobus Ltd
Income statement
for the year ended 30 June

	2022	2021
	\$	\$
Sales (all on credit)	1,043,000	986,000
Less: Cost of sales	596,000	540,000
Gross Profit	447,000	446,000
Other income – interest revenue	0	6,000
Total operating income	447,000	452,000
Less expenses		
Interest	35,000	4,000
Other	215,000	204,000
Total expenses	250,000	208,000
Operating profit before tax	197,000	244,000

Required

(a) Prepare the financing activities section of the statement of cash flows for the company for the year ended 30 June 2022. (12 marks)

Workings:

Xunobus Ltd
Statement of cash flows (extract)
for the year ended 30 June 2022

Cash flows from financing activities

(b) Based on the information provided, calculate the following ratios for the 2022 financial year. (13 marks)

Ratio	Workings	2022
Times interest earned (3 marks)		
Earnings per share (5 marks)		
Debt to equity (2 marks)		
Rate of return on assets (3 marks)		

**2021
Section 2
Question
21.a-b.**

Cash Flows

The management of Zwenda Ltd has provided the following comparative financial reports for the financial years ending 2021 and 2022.

**Zwenda Ltd
Balance sheet
as at 30 June**

	2022 \$	2021 \$
Current assets		
Cash at bank	35,214	40,039
Term deposit (matures 10 July 2022)	40,000	40,000
Accounts receivable	35,425	33,578
Inventories	45,450	43,230
Prepaid factory rent	6,000	4,000
Total current assets	162,089	160,847
Non-current assets		
Motor vehicles (at cost)	65,000	55,425
Accumulated depreciation of motor vehicles	(25,300)	(27,500)
Plant and equipment (at cost)	78,000	65,000
Accumulated depreciation of plant and equipment	(31,200)	(21,666)
Land	250,000	250,000
Total non-current assets	336,500	321,259
Total assets	498,589	482,106
Current liabilities		
Accounts payable	33,245	31,878
Accrued wages	2,500	1,900
Accrued interest expense	500	625
Income tax payable	6,252	6,200
Total current liabilities	42,497	40,603
Non-current liabilities		
Term loan (repayable June 2026)	120,000	120,000
Total non-current liabilities	120,000	120,000
Total liabilities	162,497	160,603
Net assets	336,092	321,503
Equity		
Share capital	230,000	230,000
Retained earnings	106,092	91,503
Total equity	336,092	321,503

Zwenda Ltd
Income statement
for the year ended 30 June 2022

	\$	\$
Credit sales	251,000	
Cash sales	120,000	371,000
Less sales returns		10,200
Net sales		360,800
Less cost of sales		109,200
Gross profit		251,600
Add other income		
Interest income		1,500
Gain on sale of motor vehicle		500
		253,600
Less expenses		
Administration expenses	25,000	
Factory rent	60,000	
Wages	110,000	
Interest	5,500	
Depreciation of plant and equipment	9,534	
Depreciation of motor vehicles	7,725	
Other expenses	15,000	232,759
Profit before tax		20,841
Less income tax expense		6,252
Profit after tax		14,589

Additional information:

- Additional plant and equipment was purchased in 2022.
- Sales returns are all for credit sales.
- A motor vehicle with an original cost of \$15,425 and accumulated depreciation of \$9,925 was sold for cash in 2022. A new motor vehicle was purchased for cash in 2022.
- Income tax payable as at the end of 2021 was paid in 2022.
- The company classifies interest received as an investing activity and interest paid as an operating activity to ensure consistency from year to year.

Required

a. Prepare the operating activities and investing activities sections of the Cash flow statement for Zwenda Ltd for the year ended 30 June 2022. (31 marks)

Workings:

Zwenda Ltd
Cash flow statement (extract)
for the year ended 30 June 2022

Cash flows from operating activities

Cash flows from investing activities

b. Identify four benefits of a Cash flow statement. (4 marks)

One:

Two:

Three:

Four:

**2020
Section 2
Question
20**

Cash Flows

The following information has been extracted from the comparative financial statements of Veezarp Ltd for the 2020 and 2021 financial years.

**Veezarp Ltd
Statement of financial position
as at 30 June 2021**

	2020 \$	2021 \$
Current assets		
Cash	120,000	306,500
Petty cash	8,000	8,000
Term deposits	–	20,000
Accounts receivable	185,000	112,000
Inventory	210,000	170,000
Prepaid rent	8,000	3,000
Accrued interest	4,000	1,500
Total current assets	535,000	621,000
Non-current assets		
Land	295,100	361,100
Buildings (net)	770,000	685,000
Motor vehicles (at cost)	600,000	600,000
Accumulated depreciation on motor vehicles	(360,000)	(390,000)
Machinery (at cost)	320,000	345,000
Accumulated depreciation on machinery	(110,000)	(125,000)
Total non-current assets	1,515,100	1,476,100
Total assets	2,050,100	2,097,100
Current liabilities		
Income tax payable	–	29,100
Accounts payable	120,000	95,000
Interest payable	18,000	14,000
Accrued wages	160,000	110,000
Total current liabilities	298,000	248,100
Non-current liabilities		
Loan payable	700,000	677,000
Total non-current liabilities	700,000	677,000
Total liabilities	998,000	925,100
Net assets	1,052,100	1,172,000
Equity		
Share capital	870,000	897,000
General reserve	5,000	10,000
Asset revaluation reserve	50,000	100,000
Retained earnings	127,100	165,000
Total equity	1,052,100	1,172,000

Veezarp Ltd
Income statement
for the year ended 30 June 2021

	\$	\$
Sales – cash	280,000	
– credit	325,000	605,000
Less sales returns		9,500
Net sales		595,500
Less cost of sales		215,000
Gross profit		380,500
Add other income		
Interest	8,500	8,500
		389,000
Less expenses		
Rent	15,000	
Depreciation of buildings	85,000	
Depreciation of motor vehicles	30,000	
Depreciation of machinery	43,000	
Wages	66,000	
Other expenses	27,000	
Interest	21,000	
Loss on sale of machinery	5,000	292,000
Profit before tax		97,000

Additional information:

- The term deposit will mature in August 2021.
- A share issue of 20,000 shares at \$1.50 each was made during the year. Share issue costs of \$3,000 were paid.
- Dividends of \$25,000 were paid.
- \$5,000 was transferred from retained earnings to the general reserve.
- Land was revalued upwards by \$50,000.
- Machinery with an original cost of \$40,000 and a carrying value of \$12,000 was sold for \$7,000 cash. New machinery was purchased for cash.
- All other non-current assets were purchased for cash.

Prepare a Cash flow statement for Veezarp Ltd for the year ended 30 June 2021. (41 marks)

Workings

**2019
Section 2
Question
19.a-b.**

Cash Flows

The following information has been extracted from the comparative financial statements of Tgrizlee Ltd for the 2019 and 2020 financial years. (30 marks)

**Tgrizlee Ltd
Balance sheet**

	as at 30 June 2020 \$	as at 30 June 2019 \$
Assets		
Cash at bank	22,667	23,567
Accounts receivable	43,000	40,600
Inventory	65,700	58,600
Prepaid insurance	4,000	3,000
Plant and equipment	300,000	250,000
Less Accumulated depreciation	(50,000)	(45,000)
Total assets	385,367	330,767
Liabilities		
Accounts payable	42,000	37,400
Tax payable	23,500	22,000
Other expenses payable	4,000	3,000
Loan payable	50,000	50,000
Total liabilities	119,500	112,400
Net assets	265,867	218,367
Equity		
Share capital	100,000	100,000
Retained earnings	165,867	118,367
Total equity	265,867	218,367

**Tgrizlee Ltd
Income statement
for the year ended 30 June 2020**

	\$
Sales	662,000
Less Cost of sales	(385,000)
Gross profit	277,000
Expenses	
Insurance expense	(8,500)
Loss on sale of equipment	(2,000)
Depreciation expense – plant and equipment	(20,000)
Other expenses	(113,000)
Profit before tax	133,500
Tax expense	(40,050)
Profit after tax	93,450

Additional information:

- The tax liability for 2019 and a proportion of the current year's tax expense have been paid in the year ended 30 June 2020.
- Credit purchases of inventory for the period are \$392,100.
- The loss on sale of equipment relates to an item that originally cost \$20,000 and had a carrying amount of \$5,000 when sold.
- Dividends were paid in cash during the current year.
- There were no other changes to the retained earnings account.

Complete the Cash flow statement for Tgrizlee Ltd for the year ended 30 June 2020. (26 marks)

Workings

Marking Guide – Section 1

2023 Section 1 Question 14 Cash Flows	One of the benefits of the statement of cash flows information is that it can assist users to evaluate the (a) changes in equity of an entity. (b) future profitability of an entity. (c) ability of an entity to estimate its future expenses. (d) financial structure of an entity, including liquidity and solvency. – Answer
2021 Section 1 Question 14 Cash Flows	Under the Accounting Standard AASB 107 relating to Statements of Cash Flows, 'cash equivalents' are defined as (a) short-term, highly-liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. – Answer (b) long-term, highly-liquid investments that are convertible to known amounts of cash and are subject to an insignificant risk of changes in value. (c) short-term, highly-liquid investments that are convertible to known amounts of cash and are subject to a significant risk of changes in value. (d) long-term, highly-liquid investments that are readily convertible to known amounts of cash and are subject to a significant risk of changes in value.
2020 Section 1 Question 9 Cash flows	Cash flow statements provide information about the (a) cash received from the organisation's creditors. (b) amount of expenses paid and accrued by the organisation. (c) after tax profit of the organisation. (d) cash amount received and paid by the organisation – Answer

Marking Guide – Section 2

2023
Section 2
Question
20a

Cash Flows

Halloz Limited has provided the following Balance sheet (extracts) and Income statement for your information.

Halloz Limited
Balance sheet (extracts)
as at 30 June

	2023 \$	2022 \$
Assets		
Cash at bank	2,105	2,500
Accounts receivable	5,200	4,300
Inventory	5,000	5,200
Prepaid insurance	300	500
Accrued interest income	10	15
Investments	2,000	1,000
Equipment	20,000	18,000
Accumulated depreciation of equipment	(5,000)	(4,500)
Total assets	29,615	27,015
Liabilities		
Accounts payable	3,800	3,200
Accrued wages and salaries	600	400
Other accrued expenses	200	300
Income tax liability	1,170	1,440
Total liabilities	5,770	5,340
Net assets	23,845	21,675

Halloz Limited
Income statement
for the year ended 30 June 2023

	\$	\$
Income		
Sales	48,000	
Cost of sales	(33,600)	
Gross profit	14,400	
Other income		
Interest revenue from investments	100	14,500
Expenses		
Wages and salaries	6,500	
Insurance	800	
Loss on sale of equipment	200	
Depreciation of equipment	2,000	
Other expenses	1,100	10,600
Profit		3,900
Income tax		(1,170)
Net profit		2,730

Additional information:

- Equipment at an original cost of \$2,000, and with a carrying value of \$500, was sold at a loss.
- New equipment was purchased during the year for cash.
- All sales and purchases of inventory were on credit.
- Additional investments were purchased for cash.
- Interest is treated as an investing activity.

Required

(a) Prepare a Cash flow statement extract for Halloz Limited showing operating and investing activities for the year ended 30 June 2023. (30 marks)

Workings:

Accounts receivable			
Opening balance	(1) 4,300	Bank	47,100
Credit sales	(1) 48,000	Closing balance	(1) 5,200
	52,300		52,300

i.e. 3 marks carried forward to Cash flow statement as Accounts receivable

Inventory			
Opening balance	(1) 5,200	Cost of sales	(1) 33,600
Accounts payable	33,400	Closing balance	(1) 5,000
	38,600		38,600

i.e. *3 marks carried forward to Accounts payable as Inventory

Accounts payable			
Bank	32,800	Opening balance	(1) 3,200
Closing balance	(1) 3,800	Inventory	(3) *33,400
	36,600		36,600

i.e. 5 marks carried forward to Cash paid to suppliers and employees as Accounts payable

Prepaid insurance			
Opening balance	(1) 500	Insurance expense	(1) 800
Bank	600	Closing balance	(1) 300
	1,100		1,100

i.e. 3 marks carried forward to Cash paid to suppliers and employees as Insurance

Accrued interest income			
Opening balance	(1) 15	Bank	105
Interest income	(1) 100	Closing balance	(1) 10
	115		115

i.e. 3 marks carried forward to Cash flow statement as Interest received

Investments			
Opening balance	(1) 1,000	Closing balance	(1) 2,000
Bank	1,000		
	2,000		2,000

i.e. 2 marks carried forward to Cash flow statement as Purchase of investments

Equipment			
Opening balance	(1) 18,000	Sale of asset	(1) 2,000
Bank	4,000	Closing balance	(1) 20,000
	22,000		22,000

i.e. 3 marks carried forward to Cash flow statement as Proceeds from the sale of equipment

Accumulated depreciation of equipment =
 Cost of equipment 2,000 (1) – Carrying value 500 (1) = 1,500
 i.e. *2 marks carried forward to Sale of equipment account

Sale of equipment

Equipment	(1) 2,000	Accumulated depreciation	(2) *1,500
		Bank	300
		Loss on sale	(1) 200
	2,000		2,000

i.e. 4 marks carried forward to Cash flow statement as proceeds from the sale of equipment

Accrued wages and salaries

Bank	6,300	Opening balance	(1) 400
Closing balance	(1) 600	Wages and salaries expense	(1) 6,500
	6,900		6,900

i.e. 3 marks carried forward to Cash paid to suppliers and employees as Wages and salaries

Other accrued expenses

Bank	1,200	Opening balance	(1) 300
Closing balance	(1) 200	Other expenses	(1) 1,100
	1,400		1,400

i.e. 3 marks carried forward to Cash paid to suppliers and employees

Cash paid to suppliers and employees	\$	Marks
Accounts payable	32,800	5
Insurance	600	3
Wages and salaries	6,300	3
Other expenses	1,200	3
Total paid to suppliers and employees	40,900	14

Halloz Limited
Cash flow statement (extract)
for the year ended 30 June 2023

Description	\$	Marks
Cash flows from operating activities	\$	
Cash receipts from customers	47,100	3
Cash paid to suppliers and employees	(40,900)	14
Cash generated from operations	6,200	
Income tax paid	(1,440)	1
Net cash from operating activities	4,760	
Cash flows from investing activities		
Purchase of equipment	(4,000)	3
Proceeds from the sale of equipment	300	4
Purchase of investments	(1,000)	2
Interest received	105	3
Net cash from investing activities	(4,595)	
Total		30

Deduct 1 mark for each calculation error, to a maximum of 2 marks
Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

2022
Section 2
Question
19

Cash Flows
+ Ratios

The following are extracts from the most recent annual report for Xunobus Ltd.

Xunobus Ltd
Balance sheet
as at 30 June

	2022	2021
	\$	\$
Total assets	3,422,400	3,058,200
Current liabilities		
Borrowings (bank overdraft)	17,900	0
Accounts payable	33,000	29,000
Income tax payable	59,100	73,200
Lease liabilities	10,000	10,000
Accrued interest expense	6,000	8,000
Total current liabilities	126,000	120,200
Non-current liabilities		
Borrowings	200,000	100,000
Lease liabilities	50,000	50,000
Total non-current liabilities	250,000	150,000
Total liabilities	376,000	270,200
Net assets	3,046,400	2,788,000
Shareholders' equity		
Share capital	2,800,000	2,500,000
Reserves	100,000	50,000
Retained earnings	146,400	238,000
Total equity	3,046,400	2,788,000

Additional information

- The company transferred \$50,000 from retained earnings into a general reserve during the year.
- The company paid its 2021 income tax liability in September 2021. The company tax rate is 30%.
- There was a cash issue of 150,000 shares on 1 January 2022. All the company's shares have been issued at \$2 each.
- The number of shares issued at 30 June 2021 was 1,250,000.
- The company classifies interest and dividends received and paid as financing activities.

Xunobus Ltd
Income statement
for the year ended 30 June

	2022	2021
	\$	\$
Sales (all on credit)	1,043,000	986,000
Less: Cost of sales	596,000	540,000
Gross Profit	447,000	446,000
Other income – interest revenue	0	6,000
Total operating income	447,000	452,000
Less expenses		
Interest	35,000	4,000
Other	215,000	204,000
Total expenses	250,000	208,000
Operating profit before tax	197,000	244,000

Required

(a) Prepare the financing activities section of the statement of cash flows for the company for the year ended 30 June 2022. (12 marks)

Workings:

Proceeds from share issue = \$2,800,000 (1) – \$2,500,000 (1) = \$300,000
i.e. 2 marks transferred to the statement of cash flows

Proceeds from borrowings = \$200,000 (1) – \$100,000 (1) = \$100,000
i.e. 2 marks transferred to the statement of cash flows

Profit after tax: \$197,000 (1) x 70% (1) = \$137,900
i.e. 2 marks transferred to the retained earnings ledger account below

Retained earnings ledger account

Dividends paid	\$179,500	Balance b/d (1)	\$238,000
Transfer to General res. (1)	\$50,000	Profit after tax (2)	\$137,900
Balance c/d (1)	\$146,400		
	\$375,900		\$375,900

i.e. 5 marks transferred to the statement of cash flows as dividends paid

Accrued interest ledger account

Balance c/d (1)	\$6,000	Balance b/d (1)	\$8,000
Bank	\$37,000	Interest expense (1)	\$35,000
	\$43,000		\$43,000

i.e. 3 marks transferred to the statement of cash flows as interest paid

Xunobus Ltd
Statement of cash flows (extract)
for the year ended 30 June 2022

Description		Marks
Cash flows from financing activities		
Proceeds from the issue of shares	\$300,000	2
Proceeds from borrowings	\$100,000	2
Dividends paid	(\$179,500)	5
Interest paid	(\$37,000)	3
Net cash flows from financing activities	\$183,500	
	Total	12

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks
Deduct 1 mark for each calculation error, to a maximum of 2 marks
Deduct 1 mark for not presenting information in a manner that provides relevant, reliable, comparable and understandable information (as per AASB 101 clause 17 part (b)) e.g. abbreviations, to a maximum of 1 mark

(b) Based on the information provided, calculate the following ratios for the 2022 financial year. (13 marks)

Workings:

Profit after tax: \$197,000 (1) x 70% (1) = \$137,900
i.e. 2 marks transferred to ratio calculation for earnings per share

Number of shares: 2021 = 2,500,000/2 = 1,250,000
Weighted Average = (1,250,000 x 6/12) (1) + ((1,250,000 + 150,000) (1) x 6/12) (1)
= 625,000 + 700,000
= 1,325,000

i.e. 3 marks transferred to ratio calculation for earnings per share

Ratio	Description		Marks
	Calculation	2022	
Times interest earned	$\frac{197,000 (1) + 35,000 (1)}{35,000 (1)}$	6.63 times	3
Earnings per share	$\frac{137,900 (2)}{1,325,000 (3)}$	\$0.10 per share	5
Debt to equity	$\frac{376,000 (1)}{3,046,400 (1)}$	12.34%	2
Rate of return on assets	$\frac{(197,000 + 35,000) (1)}{(3,058,200 + 3,422,400) (1)/2 (1)}$	7.16%	3
		Total	13

Deduct 1 mark for each calculation error, to a maximum of 2 marks
Deduct 1 mark for calculations not given to two decimal places, to a maximum of 1 mark
Deduct 1 mark if ratio is not expressed correctly as a percentage or ratio etc., to a maximum of 1 mark

(c) To assess management efficiency, identify the ratio/s that could be used by a business that sells inventory on credit. Discuss what each ratio measures and how it might be used to evaluate the performance of a business. (8 marks)

Description	Marks
For each of debtor's collection period and inventory/stock turnover (2 x 4 marks)	
Discusses what the ratio measures and how it might be used to evaluate the performance of a business	4
Describes what the ratio measures and how it might be used by a business	3
States what the ratio measures or how it might be used by a business	2
Identifies the ratio	1
Total	8

Answers could include:

Debtors' collection period

This measures the efficiency of management to collect amounts owing by debtors from credit sales within a reasonable period of time. It is an average over the year. The ratio is used by management to check efficiencies in the credit sales processing and the credit department. The shortest possible collection period, within normal trading terms, is considered best. Collection times may be influenced by the business' normal trading terms and conditions, general economic conditions, and comparison with competitors. Financially, holding too much in debtors is an undesirable use of capital.

Inventory/stock turnover

This measures the efficiency of management to effectively manage inventory levels. It is an average over the year and across all stock for sale. The ratio is used by management to check efficiencies in inventory and the supply chain. It is desirable to have an adequate stock level to ensure prompt supply to customers, without carrying too much stock that may deteriorate if unsold. Financially, holding too much stock is an undesirable use of capital.

Accept other relevant answers.

**2021
Section 2
Question
21.a-b.**

Cash Flows

a. Prepare the operating activities and investing activities sections of the Cash flow statement for Zwenda Ltd for the year ended 30 June 2022. (31 marks)

Accounts receivable

Opening balance	\$33,578	1	Sales returns	\$10,200	1
Credit sales	251,000	1	Bank	238,953	
			Closing balance	35,425	1
	284,578			284,578	

(4 marks transferred to receipts from customers)

Receipts from customers

Receipts from Accounts receivable	\$238,953	4
Cash receipts	120,000	1
Total cash receipts from customers	358,953	

(5 marks carried forward to cash flow statement)

Inventories

Opening balance	\$43,230	1	Cost of sales	\$109,200	1
Purchases	111,420		Closing balance	45,450	1
	154,650			154,650	

or

$$\$45,450 (1) + \$109,200 (1) - \$43,230 (1) = \$111,420$$

(3 marks transferred to accounts payable)

Accounts payable

Bank	\$110,053		Opening balance	\$31,878	1
Closing balance	33,245	1	Inventories	111,420	3
	143,298			143,298	

or

$$\$31,878 (1) + \$111,420 (3) - \$33,245 (1) = \$110,053$$

(5 marks transferred to payments to suppliers and employees)

Prepaid factory rent

Opening balance	\$4,000	1	Rent expense	\$60,000	1
Bank	62,000		Closing balance	6,000	1
	66,000			66,000	

or

$$\$6,000 (1) + \$60,000 (1) - \$4,000 (1) = \$62,000$$

(3 marks transferred to payments to suppliers and employees)

Accrued wages

Bank	\$109,400		Opening balance	\$1,900	1
Closing Balance	2,500	1	Wages expense	110,000	1
	111,900			111,900	

or

$$\$1,900 (1) + \$110,000 (1) - \$2,500 (1) = \$109,400$$

(3 marks transferred to payments to suppliers and employees)

Accrued interest expense

Bank	\$5,625		Opening balance	\$625	1
Closing balance	500	1	Interest expense	5,500	1
	6,125			6,125	

or

$$\$625 (1) + \$5,500 (1) - \$500 (1) = \$5,625$$

(3 marks transferred to cash flow statement)

Payments to suppliers and employees

Accounts payable	\$110,053	5
Factory rent	62,000	3
Wages	109,400	3
Other expenses	15,000	1
Administration expenses	25,000	1
Total payments to suppliers and employees	321,453	

(13 marks transferred to cash flow statement)

Purchase of new plant and equipment:

\$78,000 (1) – \$65,000 (1) = \$13,000

(2 marks transferred to cash flow statement)

Motor vehicle:

Sale of motor vehicle

Motor vehicle	\$15,425	1	Accum dep'n of motor vehicle	\$9,925	1
Gain on sale of motor vehicle	500	1	Cash received sale of motor vehicle	6,000	
	<u>15,925</u>			<u>15,925</u>	

or

\$15,425 (1) + \$500 (1) – \$9,925 (1) = \$6,000

(3 marks transferred to cash flow statement)

Motor vehicles

Opening balance	\$55,425	1	Sale of motor vehicle	\$15,425	1
Bank	25,000		Closing balance	65,000	1
	<u>80,425</u>			<u>80,425</u>	

or

\$65,000 (1) + \$15,425 (1) – \$55,425 (1) = \$25,000

(3 marks transferred to cash flow statement)

Zwenda Ltd

**Cash flow statement (extract)
for the year ended 30 June 2022**

Description	\$	Marks
Cash flows from operating activities	\$	
Cash receipts from customers	358,953	5
Payments to suppliers and employees	(321,453)	13
Cash generated from operations	<u>37,500</u>	
Interest paid	(5,625)	3
Income tax paid	(6,200)	1
Net cash flows from operating activities	25,675	
Cash flows from investing activities		
Interest received	1,500	1
Payment for plant and equipment	(13,000)	2
Payment for motor vehicle	(25,000)	3
Proceeds from sale of motor vehicle	6,000	3
Net cash flows from investing activities	(30,500)	
Total	31	

Deduct 1 mark for each calculation error, to a maximum of 2 marks

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

Deduct 1 mark each for not disclosing separately Interest paid and Income tax paid, to a maximum of 2 marks

b. Identify four benefits of a Cash flow statement. (4 marks)

Description	Marks
Identifies four benefits of the cash flow statement	4
Identifies three benefits of the cash flow statement	3
Identifies two benefits of the cash flow statement	2
Identifies one benefit of the cash flow statement	1
Total	4

Answer(s) could include:

The cash flow statement allows users to:

- evaluate the entity's liquidity and solvency
- assess the ability of an entity to generate cash and cash equivalents
- compare the operating performance of different entities because the cash flow statement eliminates the effects of different accounting treatments
- check the accuracy of past assessments of future cash flow
- determine if cash flow from operations is positive or negative, that is, the extent to which operations are generating cash flow
- determine if cash flow from operations funds investment in the entity and/or contributes to a reduction in finance sources
- examine how the business is financed (via debt or equity raisings), particularly if cash flow from operations is negative
- assess how the entity is investing in the business and what type of investments, such as acquiring companies or plant and equipment
- determine the net cash funds flow in a year as either positive or negative
- examine the relationship between profitability and net cash flow.

Accept any correct, relevant answer.

2020
Section 2
Question
20

Cash Flows

Prepare a Cash flow statement for Veezarp Ltd for the year ended 30 June 2021.

Workings:

Accounts receivable

Opening balance	185,000	(1)	Sales returns	9,500	(1)
Credit sales	325,000	(1)	Bank	388,500	
			Balance c/d	112,000	(1)
	510,000			510,000	
Balance b/d	112,000				

(i.e. 4 marks carried forward to Receipts from customers)

Receipts from customers

Receipts from credit sales/accounts receivable	388,500	(4)
Cash sales	280,000	(1)
	668,500	

(i.e. 5 marks carried forward to Cash flow statement)

Inventory

Opening balance	210,000	(1)	Cost of goods sold	215,000	(1)
Purchases	175,000		Balance c/d	170,000	(1)
	385,000			385,000	
Balance b/d	170,000				

(i.e. 3 marks carried forward to Accounts payable)

Accounts payable

Bank	200,000		Opening balance	120,000	(1)
Balance c/d	95,000	(1)	Purchases	175,000	(3)
	295,000			295,000	
			Balance b/d	95,000	

(i.e. 5 marks carried forward to Payments to suppliers and employees)

Wages payable/accrued wages

Bank	116,000		Opening balance	160,000	(1)
Closing accrual	110,000	(1)	Wages	66,000	(1)
	226,000			226,000	

(i.e. 3 marks carried forward to Payments to suppliers and employees)

Prepaid rent

Opening balance	8,000	(1)	Rent expense	15,000	(1)
Bank	10,000		Balance c/d	3,000	(1)
	18,000			18,000	
Balance b/d	3,000				

(i.e. 3 marks carried forward to Payments to suppliers and employees)

Payments to suppliers and employees

Accounts payable	200,000	5
Rent	10,000	3
Wages	116,000	3
Other expenses	27,000	1
	353,000	
Total		12

(i.e. 12 marks carried forward to Cash flow statement)

Interest payable

Bank	25,000		Opening balance	18,000	(1)
Balance c/d	14,000	(1)	Interest expense	21,000	(1)
	39,000			39,000	
			Balance b/d	14,000	

(i.e. 3 marks carried forward to Cash flow statement)

Land

Opening balance	295,100	(1)	Balance c/d	361,100	(1)
Asset revaluation reserve	50,000	(1)			
Bank	16,000			361,100	
	361,100				
Balance b/d	361,100				

(i.e. 3 marks carried forward to Cash flow statement)

Accrued interest received

Opening balance	4,000	(1)	Bank	11,000	(1)
Interest income	8,500	(1)	Balance c/d	1,500	(1)
	12,500			12,500	
Balance b/d	1,500				

(i.e. 3 marks carried forward to Cash flow statement)

Machinery

Opening balance	320,000	(1)	Sale of machine	40,000	(1)
Bank	65,000		Balance c/d	345,000	(1)
	385,000			385,000	
Balance b/d	345,000				

(i.e. 3 marks carried forward to Cash flow statement)

Loan repayable

Bank	23,000		Opening balance	700,000	(1)
Balance b/d	677,000	(1)		700,000	
	700,000		Balance c/d	677,000	

(i.e. 2 marks carried forward to Cash flow statement)

Share capital

Bank	3,000	(1)	Balance	870,000	(1)
Balance c/d	897,000	(1)	Bank	30,000	
	900,000			900,000	
			Balance b/d	897,000	

(i.e. 3 marks carried forward to Cash flow statement)

Cash and cash equivalents at the beginning of the period

Cash	120,000	(1)
Petty cash	8,000	(1)
	128,000	

(i.e. 2 marks carried forward to Cash flow statement)

Cash and cash equivalents at the end of the period

Cash	306,500	(1)
Petty cash	8,000	(1)
Term deposit	20,000	(1)
	334,500	

(i.e. 3 marks carried forward to Cash flow statement)

**Veezarp Ltd
Cash flow statement
for the year ended 30 June 2021**

Description	\$	Marks
Cash flows from operating activities	\$	
Cash receipts from customers	668,500	5
Cash payments to suppliers and employees	(353,000)	12
Cash generated from operations	315,500	
Interest paid	(25,000)	3
Net cash from operating activities	290,500	
Cash flows from investing activities		
Interest received	11,000	3
Purchase of machinery	(65,000)	3
Purchase of land	(16,000)	3
Proceeds from sale of machinery	7,000	1
Net cash from investing activities	(63,000)	
Cash flows from financing activities		
Dividends paid*	(25,000)	1
Repayment of loan	(23,000)	2
Share issue costs	(3,000)	1
Proceeds from share issue	30,000	2
Net cash from financing activities	(21,000)	
Net increase/decrease in cash and cash equivalents	206,500	
Cash and cash equivalents at the beginning of the period	128,000	2
Cash and cash equivalents at the end of the period	334,500	3
Total		41

*As per AASB 107 (Section 34) Dividends paid may also be classified as a cash flow from operating activities.

Deduct 1 mark for each calculation error, to a maximum of 2 marks.

Deduct 1 mark for the inclusion of foreign items, to a maximum of 2 marks.

Deduct 1 mark for each omission to the statement, to a maximum of 2 marks.

2019
Section 2
Question
19.a.-b.

Cash Flows

Complete the Cash flow statement for Tgrizlee Ltd for the year ended 30 June 2020. (26 marks)

Workings:

Accounts receivable

Balance	40,600	(1)	Bank	659,600	
Sales	662,000	(1)	Balance c/d	43,000	(1)
	702,600			702,600	
Balance b/d	43,000				

\$659,600 carried forward to Cash flow statement (3 marks)

Accounts payable

Bank	387,500		Balance	37,400	(1)
Balance c/d	42,000	(1)	Purchases	392,100	(1)
	429,500			429,500	
			Balance b/d	42,000	

\$387,500 carried forward to Payments to suppliers and employees (3 marks)

Other expenses payable

Bank	112,000		Balance	3,000	(1)
Balance c/d	4,000	(1)	Expenses	113,000	(1)
	116,000			116,000	
			Balance b/d	4,000	

\$112,000 carried forward to Payments to suppliers and employees (3 marks)

Prepaid insurance

Balance	3,000	(1)	Insurance expense	8,500	
Bank	9,500	(1)	Balance c/d	4,000	(1)
	12,500			12,500	
Balance b/d	4,000				

\$9,500 carried forward to Payments to suppliers and employees (3 marks)

Payments to suppliers and employees

Accounts payable	387,500	(3)
Insurance expense	9,500	(3)
Other expenses payable	112,000	(3)
	509,000	

\$509,000 carried forward to Cash flow statement (9 marks)

Tax payable

Bank	38,550		Balance	22,000	(1)
Balance c/d	23,500	(1)	Tax expense	40,050	(1)
	62,050			62,050	
			Balance b/d	23,500	

\$38,550 carried forward to Cash flow statement (3 marks)

Gain/loss on sale of equipment (2,000) (1) = proceeds less carrying amount (5,000) (1)

Therefore proceeds = \$3,000 carried forward to Cash flow statement (2 marks)

Plant and equipment

Balance	250,000	(1)	Sale of equipment	20,000	(1)
Bank	70,000		Balance c/d	300,000	(1)
	320,000			320,000	
Balance b/d	300,000				

\$70,000 carried forward to Cash flow statement (3 marks)

Retained earnings					
Dividends	45,950		Balance	118,367	(1)
Balance c/d	165,867	(1)	Profit after tax	93,450	(1)
	211,817			211,817	
			Balance b/d	165,867	

\$45,950 carried forward to Cash flow statement (3 marks)

Tgrizlee Ltd
Cash flow statement
for the year ended 30 June 2020

Description		Marks
Cash flows from operating activities		
Cash receipts from customers	659,600	1-3
Cash paid to suppliers and employees	(509,000)	1-9
Cash generated from operations	150,600	
Income tax paid	(38,550)	1-3
Net cash from operating activities	112,050	
Cash flows from investing activities		
Purchase of plant and equipment	(70,000)	1-3
Proceeds from sale of plant and equipment	3,000	1-2
Net cash from investing activities	(67,000)	
Cash flows from financing activities		
Dividends paid*	(45,950)	1-3
Net cash from financing activities	(45,950)	
Net increase/decrease in cash and cash equivalents	(900)	1
Cash and cash equivalents at the beginning of the period	23,567	1
Cash and cash equivalents at the end of the period	22,667	1
	Total	26

*As per AASB 107 (Section 34) Dividends paid may be also be classified as a cash flow from operating activities

Deduct 1 mark for each calculation error, to a maximum of 2 marks.
Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks.

b. Explain why a business' cash balance at the end of a financial year is not a reliable indicator of its profitability. (4 marks)

Description	Marks
Explains why a business' cash balance at the end of a financial year is not a reliable indicator of its profitability, detailing the effects of cash and accrual accounting	4
Explains why a business' cash balance at the end of a financial year is not a reliable indicator of its profitability and makes reference to cash and accrual accounting	3
Makes reference to the difference between cash and profit	2
Makes a general statement about cash and profit	1
Total	4
<p>Answer(s) could include but are not limited to:</p> <p>A business' cash balance will not always be a reliable indicator of whether or not it has had a profitable year due to the income statement, which shows the profit, being prepared on a different basis to the cash flow statement, which shows the movement in the bank balance.</p> <p>The income statement is prepared on the basis of accrual accounting which is different from cash accounting. Under accrual accounting:</p> <ul style="list-style-type: none"> • income is recorded in the income statement when it is earned, as opposed to when it is received • expenses are recorded in the income statement when incurred, as opposed to when they are paid. <p>The cash flow statement shows only cash received and paid. If a business collects less than is sold on credit or pays out more to creditors than the expense incurred in the income statement, the cash balance/movement will be less than the profit. The income statement will also include a number of non-cash items such as:</p> <ul style="list-style-type: none"> • depreciation expenses that are notional and not a cash flow • increases and decreases in the allowance for doubtful debts. <p>Accept any other reasonable answer.</p>	

Marking Guide – Section 3

<p>2022 Section 3 Question 22e</p> <p>Cash Flows</p>	<p>Krebsaw Ltd is a manufacturing company located in Western Australia. It produces large storage sheds for both urban and rural properties. It has built a reputation for excellence, and demand for its sheds is increasing. Many orders are now coming from all over Australia.</p> <p>Management is considering establishing another factory in one of two different locations in Australia, believing it will lead to an increase in sales and reduction in transport costs. The cost of transporting sheds from the current factory to the proposed new locations is significant. In addition, the company has problems competing on price with existing shed makers in other parts of Australia.</p> <p>Krebsaw Ltd has provided the information below regarding payback period and net present value (NPV).</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2">Location 1: Factory</th> <th colspan="2">Location 2: Factory</th> </tr> <tr> <th>Payback period</th> <th>NPV</th> <th>Payback period</th> <th>NPV</th> </tr> </thead> <tbody> <tr> <td>4 years 6 months</td> <td>\$125,000</td> <td>4 years 8 months</td> <td>\$120,000</td> </tr> </tbody> </table> <p>The factory proposal for Location 1 will be in a city urban area and will be close to all transport systems. Government officials in Location 1 have not indicated their support for the factory project at this stage.</p> <p>The factory proposal for Location 2 will be in a rural area and close to rural customers. Government officials in Location 2 have already given approval for development of the proposed factory. They believe the factory will provide much-needed employment opportunities for people in the area.</p> <p>Management of Krebsaw Ltd expects that other manufacturers of sheds in both proposed locations will reduce their prices to ensure that they remain competitive. Krebsaw Ltd believes that its product is superior and will be able to compete successfully within a few months of its commencement. Management also believes that the company has better after-sales service than its competitors.</p> <p>Krebsaw Ltd is considering a long-term business finance option for the proposed purchase.</p>	Location 1: Factory		Location 2: Factory		Payback period	NPV	Payback period	NPV	4 years 6 months	\$125,000	4 years 8 months	\$120,000
Location 1: Factory		Location 2: Factory											
Payback period	NPV	Payback period	NPV										
4 years 6 months	\$125,000	4 years 8 months	\$120,000										

(e) Describe four benefits to internal and/or external users of a cash flow statement. (8 marks)

Description	Marks
For each of four benefits to internal and/or external users of the cash flow statement information from Krebsshaw Ltd (4 x 2 marks)	
Describes the benefit.	2
Identifies the benefit.	1
Total	8
<p>Answers could include:</p> <p>Information from the cash flow statement will benefit internal and external users by assisting them to assess how a company</p> <ul style="list-style-type: none"> • has been able to generate net cash flows in the past which then enables end-users to make predictions about future net cash flows. • compares to other companies operating in a similar market. This will help the end-user to determine if the company is generating net cash flows more favourably or less favourably than other comparable companies. • has been able to generate cash to meet its debts. End-users want to assess the ability of the company to pay dividends to shareholders and interest payments to other investors who have lent funds to the company. • maintains an adequate level of solvency of the company as they don't want to transact with a company that could become insolvent. End-users will want to ensure that net cash flows are being generated from a continuing and reliable source such as sales. <p>Accept other relevant answers.</p>	

Section 3

**2023
Section 3
Question
22a**

**KPIs +
Introduction
to
Management
and
Financial
Accounting**

Plaxion Limited is a manufacturing company that has produced financial reports for the year ending 30 June 2023. An extract from the company's financial reports is shown below, together with a selection of ratios and an extract of relevant social and environmental information.

Plaxion Limited Statement of financial position (extract) for the years ended 30 June		
	2023 \$	2022 \$
Assets		
Cash	30,000	45,000
Accounts receivable	95,000	75,000
Inventory	85,000	55,000
Other assets	100,000	100,000
Total assets	310,000	275,000
Liabilities		
Accounts payable	35,000	26,000
Other liabilities	85,000	95,000
Total liabilities	120,000	121,000
Net assets	190,000	154,000

Profit after tax for the year ending 2023 was \$26,000, and for the year ending 2022 it was \$36,000.

Ratio	2023	Target set by company for 2023
Quick asset	3.57:1	2:1
Working capital/current	6:1	2.5:1
Inventory turnover	4.5 times per year	6 times per year
Extract of social and environmental information from the annual report		
Details	2023	Target set by company for 2023
Increase in number of women in management roles	5%	3%
Reduction in use of plastic packaging across all product lines	50%	45%
Carbon emissions reduction	15% reduction	15% reduction

Marking Guide – Section 1

<p>2019 Section 1 Question 7</p> <p>KPIs</p>	<p>Key performance indicators</p> <p>(a) are referred to in the standard setting by the AASB. (b) are set by the ASX to assist evaluation of listed companies. (c) provide a measurable value of performance. – Answer (d) are standards laid down in the Corporations Law.</p>
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Marking Guide – Section 2

<p>2020 Section 2 Question 17.a-d.</p> <p>Ratios + KPIs</p>	<p>d. Discuss how efficiency ratios can be used as target key performance indicators by directors for decision-making purposes. (8 marks)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;">Description</th> <th style="width: 20%;">Marks</th> </tr> </thead> <tbody> <tr> <td colspan="2">For each of debtor's collection ratio and inventory/stock turnover ratio:</td> </tr> <tr> <td>Discusses how the ratio can be used against the key performance indicator (KPI) by directors for decision-making purposes</td> <td style="text-align: center;">4</td> </tr> <tr> <td>Explains how the ratio can be used against the KPI by directors</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Describes the ratio</td> <td style="text-align: center;">2</td> </tr> <tr> <td>Names the ratio</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: center;">8</td> </tr> </tbody> </table> <p>Answer(s) could include but are not limited to:</p> <ul style="list-style-type: none"> • The KPI for the debtor's collection rates may be set, for example, at 30 days. If the KPI was reasonable and the actual ratio exceeds 30 days, then this indicates there is a problem with collecting amounts owing from debtors. The directors will ask management to look at ways to improve this ratio in the future. However, if it is unreasonable to expect to collect debts within 30 days, due to industry averages being much longer, then the KPI will need to be reviewed. • The inventory/stock turnover ratio may be set, for example, at 24 times per year, which means that inventory is replaced 24 times over the year. If the ratio is 15 times per year, then management will be very concerned as inventory is moving too slowly. If 24 times per year is a reasonable KPI, the directors will be wanting management to investigate why inventory is not being sold more quickly and investigate ways to improve turnover. However, if 24 times per year is unreasonable then the KPI will need to be reviewed. <p>Accept any other reasonable answer.</p>	Description	Marks	For each of debtor's collection ratio and inventory/stock turnover ratio:		Discusses how the ratio can be used against the key performance indicator (KPI) by directors for decision-making purposes	4	Explains how the ratio can be used against the KPI by directors	3	Describes the ratio	2	Names the ratio	1	Total	8
Description	Marks														
For each of debtor's collection ratio and inventory/stock turnover ratio:															
Discusses how the ratio can be used against the key performance indicator (KPI) by directors for decision-making purposes	4														
Explains how the ratio can be used against the KPI by directors	3														
Describes the ratio	2														
Names the ratio	1														
Total	8														

Marking Guide – Section 3

2023
Section 3
Question
22a

KPIs +
Introduction
to
Management
and
Financial
Accounting

Plaxion Limited is a manufacturing company that has produced financial reports for the year ending 30 June 2023. An extract from the company’s financial reports is shown below, together with a selection of ratios and an extract of relevant social and environmental information.

Plaxion Limited		
Statement of financial position (extract)		
for the years ended 30 June		
	2023	2022
	\$	\$
Assets		
Cash	30,000	45,000
Accounts receivable	95,000	75,000
Inventory	85,000	55,000
Other assets	100,000	100,000
Total assets	310,000	275,000
Liabilities		
Accounts payable	35,000	26,000
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Total liabilities	120,000	121,000
Net assets	190,000	154,000

Profit after tax for the year ending 2023 was \$26,000, and for the year ending 2022 it was \$36,000.

Ratio	2023	Target set by company for 2023
Quick asset	3.57:1	2:1
Working capital/current	6:1	2.5:1
Inventory turnover	4.5 times per year	6 times per year
Extract of social and environmental information from the annual report		
Details	2023	Target set by company for 2023
Increase in number of women in management roles	5%	3%
Reduction in use of plastic packaging across all product lines	50%	45%
Carbon emissions reduction	15% reduction	15% reduction

(a) Describe the purpose of annual reporting and explain how the managers of Plaxion Limited can use their key performance indicators (KPIs) for accountability **and** decision-making purposes. (8 marks)

Description	Marks
Describes the purpose of annual reporting	2
Makes a statement about the purpose of annual reporting	1
Subtotal	2
For each accountability and decision making purposes (2 x 3 marks)	
Explains how the KPIs can be used by Plaxion Limited	3
Describes how the KPIs can be used	2
Makes a statement about how the KPIs can be used	1
Subtotal	6
Total	8

Answers could include:

Purpose of annual reports:

- annual reports are required under the *Corporations Act 2001*
- shareholders are entitled to receive a copy of the annual report of a company
- annual reports communicate financial information to shareholders and other users of the reports
- they provide a way for the company to communicate other important information, such as corporate social responsibility activities
- the company can use annual reports to communicate information about its future strategies.

Plaxion Limited KPIs for accountability:

- management sets targets for various areas of their business, e.g. sales targets, profit targets, inventory control levels
- a financial report enables management to compare ratios and other KPIs to the set targets. As can be seen in the Plaxion Limited report, some KPIs have not been met. The target for inventory turnover was 6 times per year, when 4.5 was achieved. However, some CSR KPIs reported have been exceeded. The target for reduction in plastic packaging was 45%, when a 50% reduction was achieved
- management reviews the KPIs from the financial information and other information contained in the financial report to see if its targets are met, exceeded or not met
- management can make plans for the future based on analysis of the KPIs.

Plaxion Limited KPIs for decision-making purposes:

- KPIs provide a basis on which management can aim for strategic and operational improvement
- KPIs can be reviewed by management at any time during the year. Management does not need to wait for the annual financial report
- KPIs can, and are, regularly reviewed so that plans can be amended. If KPI targets are not being met then the KPIs can be reviewed and management has the opportunity to amend targets or review the way business is being conducted. The same applies, if targets are being exceeded. Management can determine why, and try to build on their success.

Accept other relevant answers.

Unit 4 – 20. Ratios

Section 1

2023 Section 1 Question 3 Ratios	The best measure of the long-term financial stability of a business is the (a) inventory/stock turnover ratio. (b) current ratio/working capital ratio. (c) debt to equity ratio. (d) rate of return on assets ratio.
2023 Section 1 Question 15 Ratios	Assuming that all else remains the same, which of the following would cause the profit ratio to decline? (a) repayment of debentures (b) higher depreciation charges (c) increased sales (d) payment of interim dividends
2022 Section 1 Question 1 Ratios	Which of the following best describes the concept of 'leverage'? (a) the relationship between net assets and equity (b) equity divided by non-current liabilities (c) the relationship between all borrowings and equity (d) the relationship between creditors and equity
2021 Section 1 Question 3 Ratios	The current ratio indicates the (a) level of debt relative to funds contributed by shareholders of the company. (b) amount of current assets to meet each dollar of current liabilities. (c) profitability of the business. (d) proportion of assets relative to the amount of liabilities.
2021 Section 1 Question 4 Ratios	Profit is relevant when calculating which of the following ratios? (a) inventory/stock turnover (b) debtor's collection (c) quick asset (d) rate of return on assets
2020 Section 1 Question 4 Ratios	The inventory/stock turnover ratio measures the (a) liquidity of a company. (b) market perception of a company. (c) efficiency of management. (d) return on total assets.

Section 2

**2023
Section 2
Question
20b-c

Ratios**

Halloz Limited has provided the following Balance sheet (extracts) and Income statement for your information.

**Halloz Limited
Balance sheet (extracts)
as at 30 June**

	2023	2022
	\$	\$
Assets		
Cash at bank	2,105	2,500
Accounts receivable	5,200	4,300
Inventory	5,000	5,200
Prepaid insurance	300	500
Accrued interest income	10	15
Investments	2,000	1,000
Equipment	20,000	18,000
Accumulated depreciation of equipment	(5,000)	(4,500)
Total assets	29,615	27,015
Liabilities		
Accounts payable	3,800	3,200
Accrued wages and salaries	600	400
Other accrued expenses	200	300
Income tax liability	1,170	1,440
Total liabilities	5,770	5,340
Net assets	23,845	21,675

**Halloz Limited
Income statement
for the year ended 30 June 2023**

	\$	\$
Income		
Sales	48,000	
Cost of sales	(33,600)	
Gross profit	14,400	
Other income		
Interest revenue from investments	100	14,500
Expenses		
Wages and salaries	6,500	
Insurance	800	
Loss on sale of equipment	200	
Depreciation of equipment	2,000	
Other expenses	1,100	10,600
Profit		3,900
Income tax		(1,170)
Net profit		2,730

Additional information:

- Equipment at an original cost of \$2,000, and with a carrying value of \$500, was sold at a loss.
- New equipment was purchased during the year for cash.
- All sales and purchases of inventory were on credit.
- Additional investments were purchased for cash.
- Interest is treated as an investing activity.

Required

(b) On the basis of the financial information provided by Halloz Limited, calculate the following ratios for the 2023 financial year. (10 marks)

Ratio	Workings	2023
Debtor's collection $\frac{\text{Average debtors}}{\text{Net credit sales}} \times 365$ (4 marks)		
Inventory turnover $\frac{\text{Cost of sales}}{\text{Cost of average inventory}}$ (4 marks)		
Debt to equity $\frac{\text{Total liabilities}}{\text{Equity (end)}}$ (2 marks)		

(c) Compare and comment on the debtor's collection ratio for Halloz Limited with the industry average of 28 days. (2 marks)

2022
Section 2
Question
19

Cash Flows
+ Ratios

The following are extracts from the most recent annual report for Xunobus Ltd.

Xunobus Ltd
Balance sheet
as at 30 June

	2022	2021
	\$	\$
Total assets	3,422,400	3,058,200
Current liabilities		
Borrowings (bank overdraft)	17,900	0
Accounts payable	33,000	29,000
Income tax payable	59,100	73,200
Lease liabilities	10,000	10,000
Accrued interest expense	6,000	8,000
Total current liabilities	126,000	120,200
Non-current liabilities		
Borrowings	200,000	100,000
Lease liabilities	50,000	50,000
Total non-current liabilities	250,000	150,000
Total liabilities	376,000	270,200
Net assets	3,046,400	2,788,000
Shareholders' equity		
Share capital	2,800,000	2,500,000
Reserves	100,000	50,000
Retained earnings	146,400	238,000
Total equity	3,046,400	2,788,000

Additional information

- The company transferred \$50,000 from retained earnings into a general reserve during the year.
- The company paid its 2021 income tax liability in September 2021. The company tax rate is 30%.
- There was a cash issue of 150,000 shares on 1 January 2022. All the company's shares have been issued at \$2 each.
- The number of shares issued at 30 June 2021 was 1,250,000.
- The company classifies interest and dividends received and paid as financing activities.

Xunobus Ltd
Income statement
for the year ended 30 June

	2022	2021
	\$	\$
Sales (all on credit)	1,043,000	986,000
Less: Cost of sales	596,000	540,000
Gross Profit	447,000	446,000
Other income – interest revenue	0	6,000
Total operating income	447,000	452,000
Less expenses		
Interest	35,000	4,000
Other	215,000	204,000
Total expenses	250,000	208,000
Operating profit before tax	197,000	244,000

Required

(a) Prepare the financing activities section of the statement of cash flows for the company for the year ended 30 June 2022. (12 marks)

Workings:

Xunobus Ltd
Statement of cash flows (extract)
for the year ended 30 June 2022

Cash flows from financing activities

(b) Based on the information provided, calculate the following ratios for the 2022 financial year. (13 marks)

Ratio	Workings	2022
Times interest earned (3 marks)		
Earnings per share (5 marks)		
Debt to equity (2 marks)		
Rate of return on assets (3 marks)		

**2020
Section 2
Question
17.a-d.**

**Ratios +
KPIs**

Laztoo Ltd has provided the following financial information for the year ended 30 June 2021.

**Laztoo Ltd
Balance sheet (extract)
as at 30 June 2021**

Current assets	\$
Cash and cash equivalents	200,000
Receivables	530,000
Inventories	875,000
Total current assets	1,605,000
Non-current assets	
Property, plant and equipment	2,250,000
Total non-current assets	2,250,000
Total assets	3,855,000
Current liabilities	
Payables	540,000
Total current liabilities	540,000
Non-current liabilities	
Borrowings	1,340,200
Total non-current liabilities	1,340,200
Total liabilities	1,880,200

a. The table below includes ratios for the years ended 30 June 2019 and 2020 for Laztoo Ltd. You are required to calculate the same ratios for the year ended 30 June 2021 and write your answers in the appropriate column of the table. Calculate your ratios to two decimal places. (7 marks)

Ratio	2019	2020	2021
Working capital/current	2.90:1 or 290%	2.87:1 or 287%	
Quick asset ratio	1.60:1 or 160%	1.51:1 or 151%	
Debt to equity ratio	0.50:1 or 50%	0.68:1 or 68%	

b. Comment on the working capital/current and quick asset ratios, indicating what each measures, and specifying what the trend in both ratios indicates about the ability of Laztoo Ltd to meet its debts. (4 marks)

c. Explain what the debt to equity ratio reveals about Laztoo Ltd. (3 marks)

2019
Section 2
Question
20.a-c.

Ratios

The following financial information is provided for two companies. BibiRexha Ltd is in a mature industry with a stable cash flow and profitability. S-Zzed-Aye Ltd is involved in new technology developments. There are a number of finance companies interested in its products.

Statements of financial position
as at 30 June 2019

	BibiRexha Ltd \$	S-Zzed-Aye Ltd \$
Assets		
Cash	9,080	15,000
Accounts receivable	41,000	30,000
Inventories	31,500	14,300
Property, plant and equipment	90,000	7,000
Intangible assets	0	150,000
Total assets	171,580	216,300
Liabilities		
Accounts payable	20,000	67,280
Tax payable	8,580	4,020
Long-term debt	80,000	20,000
Total liabilities	108,580	91,300
Equity		
Share capital	40,000	130,000
Retained earnings	23,000	(5,000)
Total equity	63,000	125,000
Total liabilities and equity	171,580	216,300

Statements of comprehensive income
for the year ended 30 June 2019

	BibiRexha Ltd \$	S-Zzed-Aye Ltd \$
Sales revenue	900,000	400,000
Less Cost of sales	(675,000)	(100,000)
Gross profit	225,000	300,000
Expenses		
Selling, general and administrative	(150,000)	(250,000)
Finance costs	(6,400)	(1,600)
Other expenses	(40,000)	(35,000)
Total expenses	196,400	286,600
Profit before tax	28,600	13,400
Income tax expense	(8,580)	(4,020)
Profit after tax	20,020	9,380

Additional Information:

- All sales are on credit.
- Accounts receivable at 30 June 2018 for BibiRexha Ltd is \$35,000 and for S-Zzed-Aye Ltd \$25,000.
- Inventory at 30 June 2018 for BibiRexha Ltd is \$25,000 and for S-Zzed-Aye Ltd \$25,000.
- Current market price for ordinary shares at 30 June 2019 is \$5 for both BibiRexha Ltd and S-Zzed-Aye Ltd.
- Shares were originally issued at a value of \$1.60 per share for BibiRexha Ltd and \$0.50 per share for S-Zzed-Aye Ltd.
- No shares were issued during the year.

a.vi. Calculate the earnings per share ratio. (3 marks)

a.vii. Calculate the price/earnings ratio. (2 marks)

Section 3

**2023
Section 3
Question
22b-c

Ratios**

Plaxion Limited is a manufacturing company that has produced financial reports for the year ending 30 June 2023. An extract from the company's financial reports is shown below, together with a selection of ratios and an extract of relevant social and environmental information.

Plaxion Limited Statement of financial position (extract) for the years ended 30 June		
	2023 \$	2022 \$
Assets		
Cash	30,000	45,000
Accounts receivable	95,000	75,000
Inventory	85,000	55,000
Other assets	100,000	100,000
Total assets	310,000	275,000
Liabilities		
Accounts payable	35,000	26,000
Other liabilities	85,000	95,000
Total liabilities	120,000	121,000
Net assets	190,000	154,000

Profit after tax for the year ending 2023 was \$26,000, and for the year ending 2022 it was \$36,000.

Ratio	2023	Target set by company for 2023
Quick asset	3.57:1	2:1
Working capital/current	6:1	2.5:1
Inventory turnover	4.5 times per year	6 times per year
Extract of social and environmental information from the annual report		
Details	2023	Target set by company for 2023
Increase in number of women in management roles	5%	3%
Reduction in use of plastic packaging across all product lines	50%	45%
Carbon emissions reduction	15% reduction	15% reduction

(b) Examine the information provided by Plaxion Limited to evaluate whether the company is managing inventory efficiently. (4 marks)

(c) Explain **two** limitations in assessing the performance of a company from financial statement analysis. (6 marks)

Marking Guide – Section 1

2023 Section 1 Question 3 Ratios	The best measure of the long-term financial stability of a business is the (a) inventory/stock turnover ratio. (b) current ratio/working capital ratio. (c) debt to equity ratio. – Answer (d) rate of return on assets ratio.
2023 Section 1 Question 15 Ratios	Assuming that all else remains the same, which of the following would cause the profit ratio to decline? (a) repayment of debentures (b) higher depreciation charges – Answer (c) increased sales (d) payment of interim dividends
2022 Section 1 Question 1 Ratios	Which of the following best describes the concept of ‘leverage’? (a) the relationship between net assets and equity (b) equity divided by non-current liabilities (c) the relationship between all borrowings and equity – Answer (d) the relationship between creditors and equity
2021 Section 1 Question 3 Ratios	The current ratio indicates the (a) level of debt relative to funds contributed by shareholders of the company. (b) amount of current assets to meet each dollar of current liabilities. – Answer (c) profitability of the business. (d) proportion of assets relative to the amount of liabilities.
2021 Section 1 Question 4 Ratios	Profit is relevant when calculating which of the following ratios? (a) inventory/stock turnover (b) debtor’s collection (c) quick asset (d) rate of return on assets – Answer
2020 Section 1 Question 4 Ratios	The inventory/stock turnover ratio measures the (a) liquidity of a company. (b) market perception of a company. (c) efficiency of management. – Answer (d) return on total assets.

Marking Guide – Section 2

2023
Section 2
Question
20b-c

Ratios

Halloz Limited has provided the following Balance sheet (extracts) and Income statement for your information.

**Halloz Limited
Balance sheet (extracts)
as at 30 June**

	2023 \$	2022 \$
Assets		
Cash at bank	2,105	2,500
Accounts receivable	5,200	4,300
Inventory	5,000	5,200
Prepaid insurance	300	500
Accrued interest income	10	15
Investments	2,000	1,000
Equipment	20,000	18,000
Accumulated depreciation of equipment	(5,000)	(4,500)
Total assets	29,615	27,015
Liabilities		
Accounts payable	3,800	3,200
Accrued wages and salaries	600	400
Other accrued expenses	200	300
Income tax liability	1,170	1,440
Total liabilities	5,770	5,340
Net assets	23,845	21,675

**Halloz Limited
Income statement
for the year ended 30 June 2023**

	\$	\$
Income		
Sales	48,000	
Cost of sales	(33,600)	
Gross profit	14,400	
Other income		
Interest revenue from investments	100	14,500
Expenses		
Wages and salaries	6,500	
Insurance	800	
Loss on sale of equipment	200	
Depreciation of equipment	2,000	
Other expenses	1,100	10,600
Profit		3,900
Income tax		(1,170)
Net profit		2,730

Additional information:

- Equipment at an original cost of \$2,000, and with a carrying value of \$500, was sold at a loss.
- New equipment was purchased during the year for cash.
- All sales and purchases of inventory were on credit.
- Additional investments were purchased for cash.
- Interest is treated as an investing activity.

Required

(b) On the basis of the financial information provided by Halloz Limited, calculate the following ratios for the 2023 financial year. (10 marks)

Ratio	Workings	2023	Marks
Debtor's collection <u>Average debtors</u> x 365 Net credit sales	$(4,300 (1) + 5,200 (1))/2 (1)$ = 4,750 $4,750/48,000 (1) \times 365$ = 36.11 days	36.11 days	1–4
Inventory turnover <u>Cost of sales</u> Cost of average inventory	$33,600 (1)/$ $(5,200 (1) + 5,000 (1))/2 (1)$ = $33,600/5,100$ = 6.59	6.59 times per year	1–4
Debt to equity <u>Total liabilities</u> Equity (end)	$5,770 (1)/23,845 (1)$ = 24.20	24.20%	1–2
Total			10

Deduct 1 mark for each calculation error, to a maximum of 2 marks

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks

Deduct 1 mark for not rounding to two decimal places, to a maximum of 1 mark

Deduct 1 mark for not expressing ratio in appropriate manner, to a maximum of 1 mark

(c) Compare and comment on the debtor's collection ratio for Halloz Limited with the industry average of 28 days. (2 marks)

Description	Marks
Compares and comments on the debtor's collection ratio with the industry standard	2
States a fact about the debtor's collection ratio	1
Total	2
Answers could include:	
Halloz Limited has returned a debtor's collection ratio of 36 days, which exceeds the industry average by eight days. This would indicate that Halloz Limited is not efficiently following up on outstanding debts. Halloz Limited needs to take steps to improve its control over outstanding debtors, as the longer a debt is outstanding the higher the risk of loss.	
Accept other relevant answers.	

2022
Section 2
Question
19

Cash Flows
+ Ratios

The following are extracts from the most recent annual report for Xunobus Ltd.

Xunobus Ltd
Balance sheet
as at 30 June

	2022	2021
	\$	\$
Total assets	3,422,400	3,058,200
Current liabilities		
Borrowings (bank overdraft)	17,900	0
Accounts payable	33,000	29,000
Income tax payable	59,100	73,200
Lease liabilities	10,000	10,000
Accrued interest expense	6,000	8,000
Total current liabilities	126,000	120,200
Non-current liabilities		
Borrowings	200,000	100,000
Lease liabilities	50,000	50,000
Total non-current liabilities	250,000	150,000
Total liabilities	376,000	270,200
Net assets	3,046,400	2,788,000
Shareholders' equity		
Share capital	2,800,000	2,500,000
Reserves	100,000	50,000
Retained earnings	146,400	238,000
Total equity	3,046,400	2,788,000

Additional information

- The company transferred \$50,000 from retained earnings into a general reserve during the year.
- The company paid its 2021 income tax liability in September 2021. The company tax rate is 30%.
- There was a cash issue of 150,000 shares on 1 January 2022. All the company's shares have been issued at \$2 each.
- The number of shares issued at 30 June 2021 was 1,250,000.
- The company classifies interest and dividends received and paid as financing activities.

Xunobus Ltd
Income statement
for the year ended 30 June

	2022 \$	2021 \$
Sales (all on credit)	1,043,000	986,000
Less: Cost of sales	596,000	540,000
Gross Profit	447,000	446,000
Other income – interest revenue	0	6,000
Total operating income	447,000	452,000
Less expenses		
Interest	35,000	4,000
Other	215,000	204,000
Total expenses	250,000	208,000
Operating profit before tax	197,000	244,000

Required

(a) Prepare the financing activities section of the statement of cash flows for the company for the year ended 30 June 2022. (12 marks)

Workings:

Proceeds from share issue = \$2,800,000 (1) – \$2,500,000 (1) = \$300,000
i.e. 2 marks transferred to the statement of cash flows

Proceeds from borrowings = \$200,000 (1) – \$100,000 (1) = \$100,000
i.e. 2 marks transferred to the statement of cash flows

Profit after tax: \$197,000 (1) x 70% (1) = \$137,900
i.e. 2 marks transferred to the retained earnings ledger account below

Retained earnings ledger account

Dividends paid	\$179,500	Balance b/d (1)	\$238,000
Transfer to General res. (1)	\$50,000	Profit after tax (2)	\$137,900
Balance c/d (1)	\$146,400		
	\$375,900		\$375,900

i.e. 5 marks transferred to the statement of cash flows as dividends paid

Accrued interest ledger account

Balance c/d (1)	\$6,000	Balance b/d (1)	\$8,000
Bank	\$37,000	Interest expense (1)	\$35,000
	\$43,000		\$43,000

i.e. 3 marks transferred to the statement of cash flows as interest paid

Xunobus Ltd
Statement of cash flows (extract)
for the year ended 30 June 2022

Description		Marks
Cash flows from financing activities		
Proceeds from the issue of shares	\$300,000	2
Proceeds from borrowings	\$100,000	2
Dividends paid	(\$179,500)	5
Interest paid	(\$37,000)	3
Net cash flows from financing activities	\$183,500	
Total		12

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks
Deduct 1 mark for each calculation error, to a maximum of 2 marks
Deduct 1 mark for not presenting information in a manner that provides relevant, reliable, comparable and understandable information (as per AASB 101 clause 17 part (b)) e.g. abbreviations, to a maximum of 1 mark

(b) Based on the information provided, calculate the following ratios for the 2022 financial year. (13 marks)

Workings:

Profit after tax: \$197,000 (1) x 70% (1) = \$137,900
i.e. 2 marks transferred to ratio calculation for earnings per share

Number of shares: 2021 = 2,500,000/2 = 1,250,000
Weighted Average = (1,250,000 x 6/12) (1) + ((1,250,000 + 150,000) (1) x 6/12) (1)
= 625,000 + 700,000
= 1,325,000

i.e. 3 marks transferred to ratio calculation for earnings per share

Ratio	Description		Marks
	Calculation	2022	
Times interest earned	$\frac{197,000 (1) + 35,000 (1)}{35,000 (1)}$	6.63 times	3
Earnings per share	$\frac{137,900 (2)}{1,325,000 (3)}$	\$0.10 per share	5
Debt to equity	$\frac{376,000 (1)}{3,046,400 (1)}$	12.34%	2
Rate of return on assets	$\frac{(197,000 + 35,000) (1)}{(3,058,200 + 3,422,400) (1)/2 (1)}$	7.16%	3
Total			13

Deduct 1 mark for each calculation error, to a maximum of 2 marks
Deduct 1 mark for calculations not given to two decimal places, to a maximum of 1 mark
Deduct 1 mark if ratio is not expressed correctly as a percentage or ratio etc., to a maximum of 1 mark

(c) To assess management efficiency, identify the ratio/s that could be used by a business that sells inventory on credit. Discuss what each ratio measures and how it might be used to evaluate the performance of a business. (8 marks)

Description	Marks
For each of debtor's collection period and inventory/stock turnover (2 x 4 marks)	
Discusses what the ratio measures and how it might be used to evaluate the performance of a business	4
Describes what the ratio measures and how it might be used by a business	3
States what the ratio measures or how it might be used by a business	2
Identifies the ratio	1
Total	8

Answers could include:

Debtors' collection period

This measures the efficiency of management to collect amounts owing by debtors from credit sales within a reasonable period of time. It is an average over the year. The ratio is used by management to check efficiencies in the credit sales processing and the credit department. The shortest possible collection period, within normal trading terms, is considered best. Collection times may be influenced by the business' normal trading terms and conditions, general economic conditions, and comparison with competitors. Financially, holding too much in debtors is an undesirable use of capital.

Inventory/stock turnover

This measures the efficiency of management to effectively manage inventory levels. It is an average over the year and across all stock for sale. The ratio is used by management to check efficiencies in inventory and the supply chain. It is desirable to have an adequate stock level to ensure prompt supply to customers, without carrying too much stock that may deteriorate if unsold. Financially, holding too much stock is an undesirable use of capital.

Accept other relevant answers.

**2020
Section 2
Question
17.a-d.**

**Ratios +
KPIs**

Laztoo Ltd has provided the following financial information for the year ended 30 June 2021.

**Laztoo Ltd
Balance sheet (extract)
as at 30 June 2021**

Current assets	\$
Cash and cash equivalents	200,000
Receivables	530,000
Inventories	875,000
Total current assets	1,605,000
Non-current assets	
Property, plant and equipment	2,250,000
Total non-current assets	2,250,000
Total assets	3,855,000
Current liabilities	
Payables	540,000
Total current liabilities	540,000
Non-current liabilities	
Borrowings	1,340,200
Total non-current liabilities	1,340,200
Total liabilities	1,880,200

a. The table below includes ratios for the years ended 30 June 2019 and 2020 for Laztoo Ltd. You are required to calculate the same ratios for the year ended 30 June 2021 and write your answers in the appropriate column of the table. Calculate your ratios to two decimal places. (7 marks)

Workings	Marks
Current ratio	
<u>Current assets</u> 1,605,000 (1) = 2.97	1
<u>Current liabilities</u> 540,000 (1)	1
Total	2
Current asset ratio = 2.97:1 or 297%	

Workings	Marks
Quick asset ratio	
<u>Current assets (excluding inventory and prepayments)</u>	
<u>Current liabilities (excluding bank overdraft)</u>	
 730,000 (1,605,000 – 875,000) (1) = 1.35	1
540,000 (1)	1
Total	2
Quick asset ratio = 1.35:1 or 135%	

Workings	Marks
Debt to equity ratio	
<u>Total liabilities</u> 1,880,200 (1)	1
<u>Equity end</u> 1,974,800 (3,855,000 (1) – 1,880,200 (1)) = 0.95	2
Total	3
Debt to equity ratio = 0.95:1 or 95%	

**Deduct 1 mark for each calculation error, to a maximum of 1 mark.
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.
Deduct 1 mark if ratio is not expressed correctly as a percentage or a ratio, to a maximum of 1 mark.**

b. Comment on the working capital/current and quick asset ratios, indicating what each measures, and specifying what the trend in both ratios indicates about the ability of Laztoo Ltd to meet its debts. (4 marks)

Description	Marks
Comments on both the working capital/current and quick asset ratios, indicating what each ratio measures, and specifying what the trend in both ratios indicates about the ability of Laztoo Ltd to meet its debts	4
Comments on both the working capital/current and quick asset ratios, indicating what each ratio measures, and makes a comment regarding the trend in the ratios about the ability of Laztoo Ltd to meet its debts	3
Indicates what the working capital/current ratio and the quick asset ratio measure and states a relevant fact about the liquidity of Laztoo Ltd	2
States a relevant fact about the liquidity of Laztoo Ltd	1
Total	4

Answer(s) could include but are not limited to:

Both the working capital/current ratio and quick asset ratio are used to indicate the liquidity of a business and its ability to meet debts as they fall due.

For the three years, the working capital/current asset ratio has been approximately 2.97:1 meaning that for every \$1 of current liabilities, the company has approximately \$2.97 in current assets. This indicates that Laztoo Ltd should be able to meet debts as they fall due.

Although the quick asset ratio has been declining, for each of the three years the ratio has exceeded 1:1. This means that Laztoo Ltd has in excess of \$1 in highly liquid assets for every \$1 of short term debt. This indicates that Laztoo Ltd should be able to pay day to day expenses/debts as they fall due.

Accept any other reasonable answer.

c. Explain what the debt to equity ratio reveals about Laztoo Ltd. (3 marks)

Description	Marks
Explains the trend in the debt position of Laztoo Ltd, indicating how the trend will affect the company	3
Outlines the debt position of Laztoo Ltd with no reference to how the trend will affect the company	2
States the debt position of Laztoo Ltd	1
Sub total	3

Answer(s) could include but are not limited to:

The debt to equity ratio for Laztoo Ltd has been increasing over the three year period. This means that Laztoo Ltd is borrowing more from external sources such loans from banks or other financial institutions. The ratio in 2021 is 0.95 or 95% compared to 50% in 2019. This is a significant increase, which results in higher interest payments for the company.

Accept any other reasonable answer.

d. Discuss how efficiency ratios can be used as target key performance indicators by directors for decision-making purposes. (8 marks)

Description	Marks
For each of debtor's collection ratio and inventory/stock turnover ratio:	
Discusses how the ratio can be used against the key performance indicator (KPI) by directors for decision-making purposes	4
Explains how the ratio can be used against the KPI by directors	3
Describes the ratio	2
Names the ratio	1
Total	8
Answer(s) could include but are not limited to:	
<ul style="list-style-type: none"> The KPI for the debtor's collection rates may be set, for example, at 30 days. If the KPI was reasonable and the actual ratio exceeds 30 days, then this indicates there is a problem with collecting amounts owing from debtors. The directors will ask management to look at ways to improve this ratio in the future. However, if it is unreasonable to expect to collect debts within 30 days, due to industry averages being much longer, then the KPI will need to be reviewed. The inventory/stock turnover ratio may be set, for example, at 24 times per year, which means that inventory is replaced 24 times over the year. If the ratio is 15 times per year, then management will be very concerned as inventory is moving too slowly. If 24 times per year is a reasonable KPI, the directors will be wanting management to investigate why inventory is not being sold more quickly and investigate ways to improve turnover. However, if 24 times per year is unreasonable then the KPI will need to be reviewed. 	
Accept any other reasonable answer.	

**2019
Section 2
Question
20.a-c.**

Ratios

The following financial information is provided for two companies. BibiRexha Ltd is in a mature industry with a stable cash flow and profitability. S-Zzed-Aye Ltd is involved in new technology developments. There are a number of finance companies interested in its products.

**Statements of financial position
as at 30 June 2019**

	BibiRexha Ltd \$	S-Zzed-Aye Ltd \$
Assets		
Cash	9,080	15,000
Accounts receivable	41,000	30,000
Inventories	31,500	14,300
Property, plant and equipment	90,000	7,000
Intangible assets	0	150,000
Total assets	171,580	216,300
Liabilities		
Accounts payable	20,000	67,280
Tax payable	8,580	4,020
Long-term debt	80,000	20,000
Total liabilities	108,580	91,300
Equity		
Share capital	40,000	130,000
Retained earnings	23,000	(5,000)
Total equity	63,000	125,000
Total liabilities and equity	171,580	216,300

**Statements of comprehensive income
for the year ended 30 June 2019**

	BibiRexha Ltd \$	S-Zzed-Aye Ltd \$
Sales revenue	900,000	400,000
Less Cost of sales	(675,000)	(100,000)
Gross profit	225,000	300,000
Expenses		
Selling, general and administrative	(150,000)	(250,000)
Finance costs	(6,400)	(1,600)
Other expenses	(40,000)	(35,000)
Total expenses	196,400	286,600
Profit before tax	28,600	13,400
Income tax expense	(8,580)	(4,020)
Profit after tax	20,020	9,380

Additional Information:

- All sales are on credit.
- Accounts receivable at 30 June 2018 for BibiRexha Ltd is \$35,000 and for S-Zzed-Aye Ltd \$25,000.
- Inventory at 30 June 2018 for BibiRexha Ltd is \$25,000 and for S-Zzed-Aye Ltd \$25,000.
- Current market price for ordinary shares at 30 June 2019 is \$5 for both BibiRexha Ltd and S-Zzed-Aye Ltd.
- Shares were originally issued at a value of \$1.60 per share for BibiRexha Ltd and \$0.50 per share for S-Zzed-Aye Ltd.
- No shares were issued during the year.

- a. Based on the financial information provided, calculate the following ratios for BibiRexha Ltd.
- a.i. Calculate the profit ratio. (2 marks)
- a.ii. Calculate the working capital ratio. (2 marks)
- a.iii. Calculate the inventory turnover ratio. (2 marks)
- a.iv. Calculate the debtor's collection ratio. (3 marks)
- a.v. Calculate the debt-to-equity ratio. (3 marks)
- a.vi. Calculate the earnings per share ratio. (3 marks)
- a.vii. Calculate the price/earnings ratio. (2 marks)

- (i) Calculate the profit ratio. (2 marks)

Description		Marks
<u>Profit (after income tax)</u> Total revenue		
<u>20,020 (1)</u>	= 2.22	1
<u>900,000 (1)</u>		1
Total		2

Profit ratio: 2.22%

Deduct 1 mark for each calculation error, to a maximum of 1 mark.
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.
Deduct 1 mark if ratio is not expressed correctly as a percentage.
Deduct 1 mark for not rounding to two decimal places.

- (ii) Calculate the working capital ratio. (2 marks)

Description		Marks
<u>Current assets</u> Current liabilities		
<u>81,580 (1)</u>	= 2.85	1
<u>28,580 (1)</u>		1
Total		2

Working capital ratio: 2.85:1 or 285.44%

Deduct 1 mark for each calculation error, to a maximum of 1 mark.
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.
Deduct 1 mark if ratio is not expressed as x:1 or as a percentage.
Deduct 1 mark for not rounding to two decimal places.

- (iii) Calculate the inventory turnover ratio. (2 marks)

Description		Marks
<u>Cost of sales</u> Cost of average inventory		
<u>675,000 (1)</u>	= 23.89	1
<u>(25,000 + 31,500)/2 (1)</u>		1
Total		2

Inventory turnover ratio: 23.89 times

Deduct 1 mark for each calculation error, to a maximum of 1 mark.
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.
Deduct 1 mark if ratio is not expressed as times.
Deduct 1 mark for not rounding to two decimal places.

- (iv) Calculate the debtor's collection ratio. (3 marks)

Description		Marks
Average debtors x 365 Net credit sales		
$\frac{(41,000 + 35,000)}{2} \times 365$	= 15.41	2
900,000		1
Total		3

Debtor's collection ratio: 15.41 days

Deduct 1 mark for each calculation error, to a maximum of 1 mark.
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.
Deduct 1 mark if ratio is not expressed in days.
Deduct 1 mark for not rounding to two decimal places.

- (v) Calculate the debt to equity ratio. (2 marks)

Description		Marks
Total liabilities Equity (end)		
108,580	= 1.72	1
63,000		1
Total		2

Debt to equity ratio: 1.72:1 or 172.30%

Deduct 1 mark for each calculation error, to a maximum of 1 mark.
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.
Deduct 1 mark if ratio is not expressed as x:1 or as a percentage.
Deduct 1 mark for not rounding to two decimal places.

- (vi) Calculate the earnings per share ratio. (3 marks)

Description		Marks
Number of shares		
$\frac{40,000}{1.60}$	= 25,000	1
		1
Profit (after income tax) Weighted average number of ordinary shares issued		
$\frac{20,020}{25,000}$	= 80 cents or \$0.80	1
Total		3

Earnings per share ratio: 80 cents per share

Deduct 1 mark for each calculation error, to a maximum of 1 mark.
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.
Deduct 1 mark if ratio is not expressed correctly as cents per share.
Deduct 1 mark for not rounding to two decimal places.

(vii) Calculate the price/earnings ratio.

(2 marks)

Description		Marks
Market price per ordinary share		
Earnings per share		
5.00 (1)	= 6.25	1
0.80 (1)		1
Total		2

Price/earnings ratio: 6.25 times

Deduct 1 mark for each calculation error, to a maximum of 1 mark.
Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.
Deduct 1 mark if ratio is not expressed correctly as times.
Deduct 1 mark for not rounding to two decimal places.

The following ratios were calculated for S-Zzed-Aye on 30 June 2019.

Profit ratio	2.34%
Working capital ratio	0.83:1
Inventory turnover ratio	5.09 times
Debtor's collection ratio	25.09 days
Debt to equity ratio	73.04%
Earnings per share ratio	4 cents per share
Price/earnings ratio	125 times

b. With reference to the information above and your calculations made in part (a), contrast the profitability, liquidity, efficiency and leverage of BibiRexha Ltd and S-Zzed-Aye Ltd. (8 marks)

Description	Marks
Refers comprehensively to the data to contrast the profitability, liquidity, efficiency and leverage of BibiRexha and S-Zzed-Aye Ltd	8
Refers to the data to contrast the profitability, liquidity, efficiency and leverage of BibiRexha and S-Zzed-Aye Ltd	6–7
Makes general reference to the data to compare the profitability, liquidity, efficiency and leverage of BibiRexha and S-Zzed-Aye Ltd	4–5
Makes a general comment about some of the data for BibiRexha Ltd against the data for S-Zzed-Aye Ltd	2–3
Makes a general statement about profitability, liquidity, efficiency, or leverage	1
Total	8

Answer(s) could include but are not limited to:

- Profitability – BibiRexha Ltd and S-Zzed-Aye Ltd have a similar profit margin.
- Liquidity – BibiRexha Ltd has a good working capital position. S-Zzed-Aye Ltd is in a more perilous situation with current assets not sufficient to cover current liabilities, with a large accounts payable balance. However, since it has low debt levels, management could consider increasing debt or further capital raising if these options are available.
- Efficiency – the debtor's collection for BibiRexha Ltd, receivables and inventory turnover are very good, particularly payment by debtors on average every 15 days, whereas S-Zzed-Aye Ltd averages 25.
- Leverage – Bibi Rexha Ltd has higher debt levels than S-Zzed-Aye Ltd. Whether Bibi Rexha Ltd has problems obtaining further debt from a bank will depend on its ability to service the debt as well as the bank's view of the riskiness of its financial structure. Finance costs compared to profit indicate that Bibi Rexha Ltd can comfortably service the debt.

Accept any other reasonable answer.

c. With reference to the market ratios provided for S-Zzed-Aye Ltd in part (b) and those you calculated for BibiRexha Ltd in part (a), in which of these two companies would you choose to invest? Justify your answer. (4 marks)

Description	Marks
Explains the market ratios calculated to justify in which company they would choose to invest	4
Describes the market ratios calculated and provides some justification for choosing the company in which to invest	3
States which company in which they would choose to invest with general reference to the market ratios	2
Makes a superficial statement about market ratios	1
Total	4

Answer(s) could include but are not limited to:

- BibiRexha Ltd has a significantly higher earnings per share (EPS) related to its stable profitability. S-Zzed-Aye Ltd has a significantly lower EPS due to lower profitability relative to the number of shares (issued equity relative to BibiRexha Ltd). However, the price/earnings ratio for S-Zzed-Aye Ltd is a lot higher than for BibiRexha Ltd. This indicates that the market believes there is future growth potential with S-Zzed-Aye Ltd.
- Reasons to invest in BibiRexha Ltd: high debt levels but can be serviced; higher EPS.
- Reasons to invest in S-Zzed-Aye Ltd: lower debt levels, future growth potential, equity market has rated the value of the company's products highly but lower EPS.

Accept any other reasonable answer

Marking Guide – Section 3

**2023
Section 3
Question
22b-c

Ratios**

Plaxion Limited is a manufacturing company that has produced financial reports for the year ending 30 June 2023. An extract from the company's financial reports is shown below, together with a selection of ratios and an extract of relevant social and environmental information.

Plaxion Limited Statement of financial position (extract) for the years ended 30 June		
	2023 \$	2022 \$
Assets		
Cash	30,000	45,000
Accounts receivable	95,000	75,000
Inventory	85,000	55,000
Other assets	100,000	100,000
Total assets	310,000	275,000
Liabilities		
Accounts payable	35,000	26,000
Other liabilities	85,000	95,000
Total liabilities	120,000	121,000
Net assets	190,000	154,000

Profit after tax for the year ending 2023 was \$26,000, and for the year ending 2022 it was \$36,000.

Ratio	2023	Target set by company for 2023
Quick asset	3.57:1	2:1
Working capital/current	6:1	2.5:1
Inventory turnover	4.5 times per year	6 times per year
Extract of social and environmental information from the annual report		
Details	2023	Target set by company for 2023
Increase in number of women in management roles	5%	3%
Reduction in use of plastic packaging across all product lines	50%	45%
Carbon emissions reduction	15% reduction	15% reduction

(b) Examine the information provided by Plaxion Limited to evaluate whether the company is managing inventory efficiently. (4 marks)

Description	Marks
Evaluates if Plaxion Limited is managing inventory efficiently	4
Explains if Plaxion Limited is managing inventory efficiently	3
Describes if a company is managing inventory efficiently	2
Makes a statement about a company's management of inventory	1
Total	4
<p>Answers could include:</p> <p>From an evaluation of the information provided by Plaxion Limited it seems that the company is not managing inventory efficiently. The evaluation is based on the following observations:</p> <ul style="list-style-type: none"> Inventory turnover calculation is below the target level of 6 times per year. The inventory turnover ratio indicates inventory is being turned over only 4.5 times a year. This results in a build up of inventory on hand and can result in the business having difficulties generating cash to pay creditors. The balance in the inventory account has increased by \$30,000 from 2022 to 2023. This is another indicator that inventory is not being sold as planned. <p>Accept other relevant answers.</p>	

(c) Explain **two** limitations in assessing the performance of a company from financial statement analysis. (6 marks)

Description	Marks
For each of two limitations (2 x 3 marks)	
Explains the limitation in assessing the performance of a company from financial statement analysis	3
Describes the limitation in assessing the performance of a company from financial statement analysis	2
Makes a statement about the limitations in assessing the performance of a company from financial statement analysis	1
Total	6
<p>Answers could include:</p> <ul style="list-style-type: none"> financial statements are prepared on an historical cost basis so there is no adjustment for inflation in the information presented. For example, assets purchased are often shown at original cost price in the balance sheet it can be difficult to compare financial information between companies. Management of various companies can make different decisions on how information is reported or disclosed and this can affect the ability to compare across different companies. For example, the method of depreciation on depreciable assets can vary between companies each financial report is limited to one period of time. To make decisions, users will need to collect financial reports for several years to make an assessment about the financial position of a company there is no predictive value in financial reports as they contain past information. Users do not have access to real-time financial information about a company's financial position and need to make decisions based on past information. <p>Accept other relevant answers.</p>	

2022
Section 3
Question
22d

Ratios

Krebsaw Ltd is a manufacturing company located in Western Australia. It produces large storage sheds for both urban and rural properties. It has built a reputation for excellence, and demand for its sheds is increasing. Many orders are now coming from all over Australia.

Management is considering establishing another factory in one of two different locations in Australia, believing it will lead to an increase in sales and reduction in transport costs. The cost of transporting sheds from the current factory to the proposed new locations is significant. In addition, the company has problems competing on price with existing shed makers in other parts of Australia.

Krebsaw Ltd has provided the information below regarding payback period and net present value (NPV).

Location 1: Factory		Location 2: Factory	
Payback period	NPV	Payback period	NPV
4 years 6 months	\$125,000	4 years 8 months	\$120,000

The factory proposal for Location 1 will be in a city urban area and will be close to all transport systems. Government officials in Location 1 have not indicated their support for the factory project at this stage.

The factory proposal for Location 2 will be in a rural area and close to rural customers. Government officials in Location 2 have already given approval for development of the proposed factory. They believe the factory will provide much-needed employment opportunities for people in the area.

Management of Krebsaw Ltd expects that other manufacturers of sheds in both proposed locations will reduce their prices to ensure that they remain competitive. Krebsaw Ltd believes that its product is superior and will be able to compete successfully within a few months of its commencement. Management also believes that the company has better after-sales service than its competitors.

Krebsaw Ltd is considering a long-term business finance option for the proposed purchase.

(d) Explain three limitations in assessing performance from financial statement analysis and/or traditional financial accounting. (9 marks)

Description	Marks
For each of three limitations (3 x 3 marks)	
Explains the limitation.	3
Describes the limitation.	2
States a fact about the limitation.	1
Total	9
<p>Answers could include:</p> <p>Lack of comparability between entities: The information in the financial reports makes comparison between different companies difficult because the variation in accounting policies will produce different financial data. Some of the policy variations include:</p> <ul style="list-style-type: none"> • use of cash or accrual accounting • different depreciation policies • historic or fair value accounting • different inventory valuation method. • balance day adjustment policies. <p>Lack of disclosure: Information contained in financial reports summarises the financial affairs of the company. Various disclosures provide more detailed information but companies can be selective about how they present the information and what information is disclosed. Some detailed information is not required to be disclosed, such as individual expenses of a company which can limit ratio analysis. (Note: this information can be financial or non-financial.)</p> <p>Historical cost: The historical cost concept is commonly used in valuing assets presented in financial reports. The historical cost concept, while easy to understand and use, does not provide up to date information on the value of assets. Ratio analysis based on information from financial reports prepared using the historical cost concept therefore produces ratios that are not current.</p> <p>Accept other relevant answers.</p>	