



Government of **Western Australia**
School Curriculum and Standards Authority



ATAR course examination, 2019

ACCOUNTING AND FINANCE

INFORMATION BOOKLET

This booklet contains information from the Question/Answer booklet. No answers are to be written on this booklet. Do not hand this booklet in with your answers.

Question 17

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		88,685
Less Expenses		
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		20,730

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.

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Question 18

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 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.

Question 20

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

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**Statements of comprehensive income
for the year ended 30 June 2019**

	BibiRexha Ltd	S-Zzed-Aye Ltd
	\$	\$
Sales revenue	900,000	400,000
<i>Less</i> 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.

Stimulus material for Questions 21 and 22

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

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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.

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.

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