



# **ACCOUNTING AND FINANCE**

## **ATAR course examination 2019**

### **Marking key**

Marking keys are an explicit statement about what the examining panel expect of candidates when they respond to particular examination items. They help ensure a consistent interpretation of the criteria that guide the awarding of marks.

## Section One: Multiple-choice

15% (15 Marks)

Question	Answer
1	b
2	b
3	c
4	a
5	d
6	d
7	c
8	a
9	c
10	d
11	b
12	d
13	c
14	a
15	a

**Workings:****Question 6 – Sales**

$$\begin{aligned} \text{Profit} &= (\text{SP} \times \text{QS}) - [(\text{VC} \times \text{QS}) + \text{TFC}] \\ 27,200 &= (\text{sales}) - [36,300 + 50,000] \\ 27,200 &= (\text{sales}) - 86,300 \\ \text{Sales} &= 113,500 \end{aligned}$$

**Question 13 – Break-even**

$$\begin{aligned} &= \frac{\text{TFC}}{\text{SP} - \text{VC}} \\ &= \frac{4,800}{40 - 32} \\ &= 600 \end{aligned}$$

**Question 14 – Direct labour rate variance**

$$\begin{aligned} &= (\text{AR} - \text{SR}) \times \text{ADLH} \\ &= (51 - 50) \times 95 \\ &= 95\text{U} \end{aligned}$$

**Question 15 – Cost of job**

$$\text{Predetermined OH rate} = \frac{\text{Total OH}}{\text{DL hours}} = \frac{80,000}{4,000} = 20$$

$$\begin{aligned} \text{Cost} &= \text{DM} + \text{DL} + \text{OH} \\ &= 2,000 + (50 \times 100) + (20 \times 100) \\ &= 9,000 \end{aligned}$$

## GENERAL NOTES

The Australian Accounting Standards are prescriptive about the items that are to be included in financial statements and in some circumstances about how they are presented. In other cases, alternative formats are allowable and this should be taken into account when marking examination scripts.

Consequential errors should not be penalised.

## Section Two: Short answer

70% (181 Marks)

## Question 16

(37 marks)

(a) Calculate the predetermined overhead rate for each department.

(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
<b>Total</b>	<b>2</b>

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

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

(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
<b>Total</b>	<b>2</b>

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.**

(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
<b>Total</b>	<b>2</b>

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.**

## Question 16 (continued)

- (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
<b>Total</b>			<b>20</b>

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

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
<b>Total</b>		<b>3</b>

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 <b>each</b> 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
<b>Total</b>	<b>6</b>
Answer(s) could include but are not limited to:	
Behaviours: <ul style="list-style-type: none"> <li>• Variable costs vary with the level of production or other activity measure. As production increases, variable costs increase proportionally.</li> <li>• Fixed costs remain the same across levels of production or other activity measure. As production increases, fixed costs do not change.</li> <li>• Mixed costs have a component of variable and a component of fixed costs. As production increases, only the variable component will increase.</li> </ul>	
Relationships to cost objects: <ul style="list-style-type: none"> <li>• 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.</li> <li>• Indirect costs are costs incurred but not directly traceable to a cost object, such as manufacturing overheads for all products.</li> </ul>	
Accept any other reasonable answer.	

## Question 17

(29 marks)

- (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
					<b>Total</b>	<b>7</b>

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
	<b>Total</b>	<b>18</b>

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
<b>Total</b>	<b>4</b>
<p>Answer(s) could include but are not limited to:</p> <p>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.</p> <p>The master budget:</p> <ul style="list-style-type: none"> <li>• consists of a business' interrelated financial plans to achieve its strategic financial goals</li> <li>• 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</li> <li>• 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</li> <li>• provides a plan to achieve revenue goals, expense controls, profit goals and adequate cash availability and reserves</li> <li>• can be used to set financial key performance indicators (KPIs) such as management needing to achieve budgeted sales</li> <li>• provides operational plans consistent with the strategic plan to aid the business to meet its profitability, liquidity and management efficiency goals</li> <li>• provides a business with a set of objectives to be achieved</li> <li>• assists to identify potential problem areas in the business</li> <li>• facilitates coordination of business activities</li> <li>• can be used to motivate employees to achieve set business targets</li> <li>• can be used by a business to evaluate its performance.</li> </ul>	
Accept any other reasonable answer	

## Question 18

(44 marks)

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

**Workings:****Machine A**

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

**Present value of net cash flows**

<b>Year</b>	<b>Inflows</b>	<b>Outflows</b>	<b>Net cash flow</b>	<b>Present value factor (7%)</b>	<b>Present value</b>	<b>Marks</b>
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	
					<b>Subtotal</b>	<b>15</b>
Net present value = present value of net cash flow – present value of cost						
= 611,239 (1) – 600,000 (1) = 11,239						1–2
					<b>Subtotal</b>	<b>2</b>
					<b>Total</b>	<b>17</b>

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.**



- (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**

$$\text{Annuity} = (210,000 (1) - 88,000 (1)) \times 5.3893 (1) = 657,495$$

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

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.**

## Question 18 (continued)

- (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
<u>600,000 (1) – 562,500 (5)</u>	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	
<b>Total</b>	<b>9</b>

Payback period Machine A: 5 years 5 months

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

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

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

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
<b>Total</b>	<b>3</b>
<p>Answer(s) could include but are not limited to:</p> <ul style="list-style-type: none"> <li>Machine B has a higher NPV amount so is the recommended option for Joenas Ltd to invest in</li> <li>Payback for Machine B is less than for Machine A by five months. Machine B is recommended based on the payback period.</li> <li>Machine A's payback period is beyond management's criteria of five years so may be rejected on this basis.</li> </ul> <p>Accept any other reasonable answer.</p>	

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

Description	Marks
For each of <b>two</b> non-financial factors affecting capital investment decisions:	
Describes the factor	2
Makes a general statement about the factor	1
<b>Total</b>	<b>4</b>
<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"> <li>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.</li> <li>Competition exists between businesses. Capital investment decisions need to ensure that the business will remain competitive.</li> <li>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.</li> </ul> <p>Accept any other reasonable answer.</p>	

## Question 19

(30 marks)

- (a) 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	(1)
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
<b>Cash flows from operating activities</b>		
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
<b>Net cash from operating activities</b>	<b>112,050</b>	
<b>Cash flows from investing activities</b>		
Purchase of plant and equipment	(70,000)	1–3
Proceeds from sale of plant and equipment	3,000	1–2
<b>Net cash from investing activities</b>	<b>(67,000)</b>	
<b>Cash flows from financing activities</b>		
Dividends paid*	(45,950)	1–3
<b>Net cash from financing activities</b>	<b>(45,950)</b>	
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
<b>Total</b>		<b>26</b>

**\*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.**

**Question 19** (continued)

- (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 <b>not</b> 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 <b>not</b> 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
<b>Total</b>	<b>4</b>
<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"> <li>• income is recorded in the income statement when it is earned, as opposed to when it is received</li> <li>• expenses are recorded in the income statement when incurred, as opposed to when they are paid.</li> </ul> <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.</p> <p>The income statement will also include a number of non-cash items such as:</p> <ul style="list-style-type: none"> <li>• depreciation expenses that are notional and not a cash flow</li> <li>• increases and decreases in the allowance for doubtful debts.</li> </ul> <p>Accept any other reasonable answer.</p>	

## Question 20

(41 marks)

(a) Based on the financial information provided, calculate the following ratios for BibiRexha Ltd.

(i) Calculate the profit ratio. (2 marks)

Description		Marks
$\frac{\text{Profit (after income tax)}}{\text{Total revenue}}$		
$\frac{20,020 (1)}{900,000 (1)}$	= 2.22	1
		1
<b>Total</b>		<b>2</b>

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
$\frac{\text{Current assets}}{\text{Current liabilities}}$		
$\frac{81,580 (1)}{28,580 (1)}$	= 2.85	1
		1
<b>Total</b>		<b>2</b>

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
$\frac{\text{Cost of sales}}{\text{Cost of average inventory}}$		
$\frac{675,000 (1)}{(25,000 + 31,500)/2 (1)}$	= 23.89	1
		1
<b>Total</b>		<b>2</b>

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.**

## Question 20 (continued)

- (iv) Calculate the debtor's collection ratio. (3 marks)

Description		Marks
<u>Average debtors</u> x 365 Net credit sales		
$\frac{(41,000 + 35,000)/2 (1)}{900,000 (1)} \times 365 (1)$	= 15.41	2
		1
<b>Total</b>		<b>3</b>

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
<u>Total liabilities</u> Equity (end)		
$\frac{108,580 (1)}{63,000 (1)}$	= 1.72	1
		1
<b>Total</b>		<b>2</b>

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		
$\frac{40,000 (1)}{1.60 (1)}$	= 25,000	1
		1
<u>Profit (after income tax)</u> Weighted average number of ordinary shares issued		
$\frac{20,020 (1)}{25,000}$	= 80 cents or \$0.80	1
<b>Total</b>		<b>3</b>

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
<u>Market price per ordinary share</u>		
Earnings per share		
<u>5.00 (1)</u>	= 6.25	1
<u>0.80 (1)</u>		1
<b>Total</b>		<b>2</b>

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.**

- (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
<b>Total</b>	<b>8</b>
Answer(s) could include but are not limited to:	
<ul style="list-style-type: none"> <li>• Profitability – BibiRexha Ltd and S-Zzed-Aye Ltd have a similar profit margin.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul>	
Accept any other reasonable answer.	

**Question 20** (continued)

- (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
<b>Total</b>	<b>4</b>
Answer(s) could include but are not limited to: <ul style="list-style-type: none"> <li>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.</li> <li>Reasons to invest in BibiRexha Ltd: high debt levels but can be serviced; higher EPS.</li> <li>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.</li> </ul> Accept any other reasonable answer	

- (d) Prepare BibiRexha Ltd's Retained earnings general ledger account for the year ended 30 June 2020. (6 marks)

**Workings:**

2019 Final ordinary dividends =  $0.02 \times 25,000 = 500$  (1)

2020 Interim ordinary dividends =  $0.05 \times 25,000 = 1,250$  (1)

Profit after tax =  $78,000 \times 70\% = 54,600$  (1)

**BibiRexha Ltd**  
**General ledger (extract)**  
**Retained earnings account**

Date	Details	Amount		Date	Details			Marks
15/8/19	Final ordinary dividends paid	500	(1)	1/7/19	Balance	23,000	(1)	2
1/2/20	Interim ordinary dividends paid	1,250	(1)	30/6/20	Profit after tax	54,600	(1)	2
30/6/20	General reserve	5,000	(1)					1
	Balance c/d	70,850						
		77,600				77,600		
				1/7/20	Balance b/d	70,850	(1)	1
<b>Total</b>								<b>6</b>

or

## 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
				<b>Total</b>	<b>6</b>

**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
<b>Share capital</b>		
25,000 Ordinary shares at \$1.60 each fully paid	40,000 (1)	1
	40,000	
<b>Dividends</b>		
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	
<b>Total</b>		<b>7</b>

or

Description	Cents per share	\$	Marks
<b>Share capital</b>			
25,000 Ordinary shares @ \$1.60 each fully paid		40,000 (1)	1
		40,000	
<b>Dividends</b>			
<b>Recognised amounts</b>			
Final dividend – previous financial year	2 (1)	500 (1)	2
Interim dividend – current financial year	5 (1)	1,250 (1)	2
		1,750	
<b>Unrecognised amounts</b>			
Final dividend – current financial year	10 (1)	2,500 (1)	2
		2,500	
<b>Total</b>			<b>7</b>

**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.**

## Section Three: Extended answer

15% (30 Marks)

## Question 21

(30 marks)

- (a) 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
<b>Total</b>	<b>6</b>
<p>Answer(s) could include by are not limited to:</p> <p>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.</p> <p>The purpose of the <i>Act</i> includes:</p> <ul style="list-style-type: none"> <li>• defining and giving a legal existence to a company</li> <li>• setting out the duties of the directors of a company</li> <li>• setting out the external audit requirements of a public company</li> <li>• 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</li> <li>• requiring that the financial reports for a financial year of public and large proprietary companies must comply with the AASB accounting standards.</li> </ul> <p>The <i>Act</i> is the primary basis of Australian corporations law and assists to protect company stakeholders.</p> <p>Accept any other reasonable answer.</p>	

- (b) 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
<b>Total</b>	<b>4</b>
<p>Answer(s) could include by are not limited to:</p> <p>A director must:</p> <ul style="list-style-type: none"> <li>• carry out their duties with reasonable care and diligence</li> <li>• act in the best interest of the company</li> <li>• ensure that they do not make improper use of their position and/or information to gain an advantage for themselves or for another person</li> <li>• ensure that a company does not trade when it is insolvent.</li> </ul> <p>Accept any other reasonable answer.</p>	

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

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 <b>or</b> the appropriate management of cash	1
<b>Total</b>	<b>6</b>
<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"> <li>• separation of duties between handling/receiving cash and its recording</li> <li>• proper authorisation to access cash</li> <li>• proper documentation of receipts and payments</li> <li>• regular reconciliation against bank records</li> <li>• accurate audit trails to allow transactions to be traced – identifying losses</li> <li>• regular cash budget preparation to highlight surpluses and deficits – so planning ahead can take place.</li> </ul> <p>Accept any other reasonable answer.</p>	

## Question 21 (continued)

- (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
<b>Total</b>	<b>6</b>
<p>Answer(s) could include by are not limited to:</p> <p>If the bank does not renew the loan facility, Karlid Ltd will be required to repay \$400,000 by 30 September 2020.</p> <p>Possible implications:</p> <ul style="list-style-type: none"> <li>• Karlid Ltd does not have the cash resources to fund the repayment of the loan, current cash and cash equivalents is \$16,000</li> <li>• the bank has the right to sell assets secured against the loan facility so Karlid Ltd could lose valuable assets</li> <li>• 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</li> <li>• 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.</li> </ul> <p>Accept any other reasonable answer.</p>	

- (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 <b>two</b> of voluntary administration, receivership or liquidation	2
Defines <b>one</b> of voluntary administration, receivership or liquidation	1
<b>Total</b>	<b>8</b>
<p>Answer(s) could include but are not limited to:</p> <ul style="list-style-type: none"> <li>• Voluntary administration occurs where a business seeks external management (the administrator) to assist them to pay their debts to avoid liquidation.</li> <li>• 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.</li> <li>• 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.</li> </ul> <p>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.</p> <p>Accept any other reasonable answer.</p>	

## Question 22

(30 marks)

(a) Explain the extent and nature of corporate social disclosure.

(4 marks)

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
<b>Total</b>	<b>4</b>
Answer(s) could include but are not limited to:	
<ul style="list-style-type: none"><li>• 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.</li><li>• 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.</li><li>• CSD may include targets the company has set and how it is achieving them.</li><li>• CSD is voluntary.</li></ul>	
Accept any other reasonable answer.	



- (b) 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
<b>Subtotal</b>	<b>4</b>
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
<b>Subtotal</b>	<b>4</b>
<b>Total</b>	<b>8</b>
<p>Answer(s) could include but are not limited to:</p> <p>The costs associated with engaging in corporate social responsibility (CSR) can include:</p> <ul style="list-style-type: none"> <li>• providing sponsorship, donations or other forms of community support</li> <li>• 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</li> <li>• the distraction of the company's focus on creating profits.</li> </ul> <p>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.</p> <p>The potential income of engaging in CSR can include:</p> <ul style="list-style-type: none"> <li>• a favorable perception of the company by customers may lead to greater sales or market share</li> <li>• 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</li> <li>• 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.</li> </ul> <p>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.</p> <p>Accept any other reasonable answer.</p>	

**Question 22** (continued)

- (c) 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
<b>Total</b>	<b>6</b>
<p>Answer(s) could include but are not limited to:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> <li>• 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</li> <li>• 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.</li> </ul>	
Accept any other reasonable answer.	

- (d) 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 <b>three</b> groups:	
Describes the nature and importance of the group	2
Identifies the group and states a fact about it	1
<b>Total</b>	<b>6</b>
<p>Answer(s) could include but are not limited to:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• The Financial Reporting Council (FRC) provides broad strategic direction to the AASB and influences accounting standards.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• Various lobby groups attempt to influence the deliberations of the AASB, with particular reference to standards that are relevant to their industry or interest.</li> </ul> <p>Accept any other reasonable answer.</p>	

**Question 22** (continued)

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

(6 marks)

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 <b>or</b> the function of the accountant	1
<b>Total</b>	<b>6</b>
<p>Answer(s) could include but are not limited to:</p> <ul style="list-style-type: none"> <li>• accountants fill a wide range of roles in business</li> <li>• accountants can be employed directly by the business or can work for professional accounting firms or external agencies</li> <li>• 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</li> <li>• the accountant's role includes: <ul style="list-style-type: none"> <li>◦ designing and maintaining financial systems</li> <li>◦ recording financial transactions</li> <li>◦ producing financial reports</li> <li>◦ analysing financial reports and data</li> <li>◦ cash budgeting</li> <li>◦ capital budgeting</li> <li>◦ implementing strategies for internal control over an organisation's assets</li> <li>◦ internal auditing</li> <li>◦ producing cost accounting information.</li> </ul> </li> </ul>	
Accept any other reasonable answer.	

## ACKNOWLEDGEMENTS

### Question 22(d)

Information under answers could include adapted from: © Australian Accounting Standards Board (2016). About the AASB: *Student queries*. Retrieved December, 2019, from <https://www.aasb.gov.au/About-the-AASB/For-students.aspx>

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