



## ATAR course examination, 2021

### Question/Answer booklet

# ACCOUNTING AND FINANCE

Place one of your candidate identification labels in this box.  
Ensure the label is straight and within the lines of this box.

WA student number: In figures

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In words

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### Time allowed for this paper

Reading time before commencing work: ten minutes  
Working time: three hours

Number of additional  
answer booklets used  
(if applicable):

### Materials required/recommended for this paper

#### *To be provided by the supervisor*

This Question/Answer booklet  
Multiple-choice answer sheet  
Information booklet  
Specifications booklet

#### *To be provided by the candidate*

Standard items: pens (blue/black preferred), pencils (including coloured), sharpener, correction fluid/tape, eraser, ruler, highlighters

Special Items: up to three calculators, which do not have the capacity to create or store programmes or text, are permitted in this ATAR course examination

### Important note to candidates

No other items may be taken into the examination room. It is **your** responsibility to ensure that you do not have any unauthorised material. If you have any unauthorised material with you, hand it to the supervisor **before** reading any further.

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## Structure of this paper

Section	Number of questions available	Number of questions to be answered	Suggested working time (minutes)	Marks available	Percentage of examination
Section One Multiple-choice	15	15	25	15	15
Section Two Short answer	6	6	120	149	70
Section Three Extended answer	2	1	35	30	15
<b>Total</b>					100

## Instructions to candidates

- The rules for the conduct of the Western Australian external examinations are detailed in the *Year 12 Information Handbook 2021: Part II Examinations*. Sitting this examination implies that you agree to abide by these rules.

- Answer the questions according to the following instructions.

Section One: Answer all questions on the separate Multiple-choice answer sheet provided. For each question, shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. Do not use erasable or gel pens. If you make a mistake, place a cross through that square, then shade your new answer. Do not erase or use correction fluid/tape. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

Section Two: Answer all questions. Show all calculations clearly in the space marked Workings for questions where calculations are applicable. Marks will be awarded principally for the relevant accounting and finance content. Write your answer in this Question/Answer booklet.

Section Three: Answer one question from a choice of two. Write your answers in this Question/Answer booklet.

- You must be careful to confine your answers to the specific questions asked and to follow any instructions that are specific to a particular question.
- Supplementary pages for planning/continuing your answers to questions are provided at the end of this Question/Answer booklet. If you use these pages to continue an answer, indicate at the original answer where the answer is continued, i.e. give the page number.
- Some questions have been repeated in the Information booklet so that you can refer more easily to the information while answering the questions. Do not write your answers in the Information booklet. The Information and Specifications booklets are not to be handed in with your Question/Answer booklet.

**See next page**

## Australian Accounting Standards Material

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## Section One: Multiple-choice

15% (15 Marks)

This section has **15** questions. Answer **all** questions on the separate Multiple-choice answer sheet provided. For each question, shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. Do not use erasable or gel pens. If you make a mistake, place a cross through that square then shade your new answer. Do not erase or use correction fluid/tape. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

Suggested working time: 25 minutes.

1. According to the Conceptual Framework, in order for an asset to be recognised in the financial statements it **must**
- be relevant information about the asset.
  - meet the definition of an asset.
  - be a faithful representation of the asset.
  - all of the above.

2. Read the following information and then answer the question below.

**Financial information for  
Olleggia Ltd as at 30 June**

	<b>2021</b> \$	<b>2020</b> \$
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

- \$0.09 per share.
  - \$0.10 per share.
  - \$0.18 per share.
  - \$0.20 per share.
3. The current ratio indicates the
- level of debt relative to funds contributed by shareholders of the company.
  - amount of current assets to meet each dollar of current liabilities.
  - profitability of the business.
  - proportion of assets relative to the amount of liabilities.
4. Profit is relevant when calculating which of the following ratios?
- inventory/stock turnover
  - debtor's collection
  - quick asset
  - rate of return on assets

**See next page**

5. 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.
6. 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.
7. 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.
8. 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.
  - (c) budgeted profit and loss statement.
  - (d) cash budget.
9. 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.
10. 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

See next page

11. The role of an independent external auditor is to provide an opinion as to whether the financial statements of a company
- (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.
12. 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
- (a) \$4,000 (F).
  - (b) \$3,600 (F).
  - (c) \$3,600 (U).
  - (d) \$4,000 (U).
13. The role of the Australian Securities and Investments Commission (ASIC) includes
- (a) setting of Australian Accounting Standards.
  - (b) registration of Australian companies.
  - (c) operating the Australian Securities Exchange (ASX).
  - (d) collecting of company income tax.
14. 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.
15. 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.

**End of Section One**

**See next page**

**Section Two: Short answer****70% (149 Marks)**

This section has **six** questions. Answer **all** questions. Write your answers in the spaces provided.

Show **all** calculations clearly in the space marked **Workings** for questions where calculations are applicable. Marks will be awarded principally for the relevant accounting and finance content.

Supplementary pages for planning/continuing your answers to questions are provided at the end of this Question/Answer booklet. If you use these pages to continue an answer, indicate at the original answer where the answer is continued, i.e. give the page number.

Suggested working time: 120 minutes.

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**Question 16****(20 marks)**

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.

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

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

<b>Other costs</b>	
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: \_\_\_\_\_

**See next page**

**Question 16** (continued)

- (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: \_\_\_\_\_

**See next page**

- (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: \_\_\_\_\_

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## Question 17

(26 marks)

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:**



Question 17 (continued)

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

One: \_\_\_\_\_

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Two: \_\_\_\_\_

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**Question 18****(15 marks)**

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:

	<b>Shiraz</b>	<b>Pinot Noir</b>	<b>Cabernet Merlot</b>
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: \_\_\_\_\_

**See next page**

**Question 18** (continued)

- (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 point, 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: \_\_\_\_\_

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## Question 19

(37 marks)

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.

See next page









**Question 20****(16 marks)**

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:

	<b>Option 1</b>	<b>Option 2</b>
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: \_\_\_\_\_

**See next page**





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

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## Question 21

(35 marks)

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 \$
<b>Current assets</b>		
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
<b>Total current assets</b>	<b>162,089</b>	<b>160,847</b>
<b>Non-current assets</b>		
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
<b>Total non-current assets</b>	<b>336,500</b>	<b>321,259</b>
<b>Total assets</b>	<b>498,589</b>	<b>482,106</b>
<b>Current liabilities</b>		
Accounts payable	33,245	31,878
Accrued wages	2,500	1,900
Accrued interest expense	500	625
Income tax payable	6,252	6,200
<b>Total current liabilities</b>	<b>42,497</b>	<b>40,603</b>
<b>Non-current liabilities</b>		
Term loan (repayable June 2026)	120,000	120,000
<b>Total non-current liabilities</b>	<b>120,000</b>	<b>120,000</b>
<b>Total liabilities</b>	<b>162,497</b>	<b>160,603</b>
<b>Net assets</b>	<b>336,092</b>	<b>321,503</b>
<b>Equity</b>		
Share capital	230,000	230,000
Retained earnings	106,092	91,503
<b>Total equity</b>	<b>336,092</b>	<b>321,503</b>

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**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
<b>Gross profit</b>		<b>251,600</b>
Add other income		
Interest income		1,500
Gain on sale of motor vehicle		500
		<b>253,600</b>
<b>Less expenses</b>		
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
<b>Profit before tax</b>		<b>20,841</b>
Less income tax expense		6,252
<b>Profit after tax</b>		<b>14,589</b>

**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)

See next page

Question 21 (continued)

Workings:

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**Zwenda Ltd**  
**Cash flow statement (extract)**  
**for the year ended 30 June 2022**

Cash flows from operating activities

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Cash flows from investing activities

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Question 21 (continued)

(b) Identify **four** benefits of a Cash flow statement. (4 marks)

One: \_\_\_\_\_

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Two: \_\_\_\_\_

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Three: \_\_\_\_\_

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Four: \_\_\_\_\_

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**End of Section Two**

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**Section Three: Extended answer****15% (30 Marks)**

This section has **two** questions. You must answer **one** question. Write your answer in the space provided following Question 23.

If you use a page for planning, indicate this clearly at the top of the page.

Suggested working time: 35 minutes.

**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
<b>Total</b>	<b>588</b>		<b>724</b>

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.

**See next page**



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.

**Question 22****(30 marks)**

Use the information provided to address the following:

- (a) Explain, with the use of an example, the concept of mark-up. (4 marks)
- (b) Describe both the cost leadership and differentiation strategies. Recommend, with a reason, the strategy the company should choose. (6 marks)
- (c) Describe **four** duties of the directors of a company. (8 marks)
- (d) Explain **two** functions of an external audit. (6 marks)
- (e) Explain the nature of corporate social disclosure through **two** examples that might be used by the company in its prospectus. (6 marks)

or

**Question 23****(30 marks)**

Use the information provided to address the following:

- (a) Explain the classification of costs according to their relationship to cost objects. Provide an example of each to illustrate your answer. (6 marks)
- (b) Outline **two** costs and **two** potential sources of income associated with the company engaging in socially and environmentally responsible practices. (4 marks)
- (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)
- (e) Explain **three** purposes of accounting standards. (9 marks)

**End of questions**































## ACKNOWLEDGEMENTS

### Question 14

Australian Accounting Standards Board. (2019). Definition of cash equivalents. In *Statement of cash flows* (AASB Standard 107). Retrieved May, 2021, from [https://www.aasb.gov.au/admin/file/content105/c9/AASB107\\_08-15\\_COMPmar16\\_01-19.pdf](https://www.aasb.gov.au/admin/file/content105/c9/AASB107_08-15_COMPmar16_01-19.pdf)

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