



# **ACCOUNTING AND FINANCE**

## **ATAR course examination 2023**

### **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)

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

**Workings:****Question 5**

$$\begin{aligned} & (\text{AP} - \text{SP}) \times \text{AQP} \\ & = (\$3.50 - \$3.45) \times 1750 \\ & = \$87.50(\text{U}) \end{aligned}$$

**Question 6**

$$\begin{aligned} & (\text{AQI} - \text{SQA}) \times \text{SP} \\ & = (1,750 - 1,950) \times \$3.45 \\ & = -\$690(\text{F}) \end{aligned}$$

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

## 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% (148 Marks)

## Question 16

(16 marks)

- (a) Calculate the net present value of equipment purchase Option 2. Calculate 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
<b>Total</b>				<b>12</b>

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**

**Question 16** (continued)

- (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
<b>Subtotal</b>	<b>1</b>
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
<b>Subtotal</b>	<b>3</b>
<b>Total</b>	<b>4</b>
<p>Answers could include:</p> <ul style="list-style-type: none"> <li>• Most acceptable equipment purchase option is Option 2.</li> <li>• 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.</li> <li>• Equipment purchase Option 2 has a higher NPV at \$182,626 compared with equipment purchase Option 1 at \$169,963.</li> <li>• Equipment purchase Option 2 is the more acceptable option because equipment purchase Option 2 has a higher NPV compared to Option 1.</li> </ul>	
Accept other relevant answers.	

Question 17

(28 marks)

- (a) Prepare a budgeted income statement for the six months ending 31 December 2023. The company uses the accrual method of accounting. Round all calculations to the nearest 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
<b>Credit sales</b>	<b>182,000</b>	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
<b>Gain on sale</b>	<b>500</b>	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

## Question 17 (continued)

**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
<b>Gross profit</b>		<b>179,195</b>	
<b>Add other income</b>			
Gain on sale of pastry oven		500	1–3
Interest on term deposit		250	1
<b>Total income</b>		<b>179,945</b>	
<b>Less operating expenses</b>			
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
<b>Estimated profit</b>		<b>77,725</b>	
Less Income tax payable		23,318	1–2
<b>Estimated profit after tax</b>		<b>54,407</b>	
		<b>Total</b>	<b>25</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**

- (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
<b>Total</b>	<b>3</b>
Answers could include:	
A purpose of a budgeted income statement is to:	
<ul style="list-style-type: none"> <li>• give management the opportunity to estimate income and expenses for a future period of time to determine future profitability or otherwise</li> <li>• 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</li> <li>• enable management to plan and coordinate processes to meet targets set in the budget, e.g. planning purchases to meet sales target.</li> </ul>	
Accept other relevant answers.	

## Question 18

(26 marks)

- (a) Calculate the standard cost per batch **and** per unit for both the vases **and** the figurines. Round unit cost calculations 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
<b>Vases</b>			
	<b>Cost per batch</b>	<b>\$</b>	
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
	<b>Total cost per batch</b>	<b>12,070</b>	
<b>Subtotal</b>			<b>7</b>
<b>Cost per unit</b>			
	$\$12,070/2,000$ (1)	<b>6.04</b>	1
<b>Subtotal</b>			<b>1</b>
<b>Figurines</b>			
	<b>Cost per batch</b>	<b>\$</b>	
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
	<b>Total cost per batch</b>	<b>18,296</b>	
<b>Subtotal</b>			<b>5</b>
<b>Cost per unit</b>			
	$\$18,296/500$ (1)	<b>36.59</b>	1
<b>Subtotal</b>			<b>1</b>
<b>Total</b>			<b>14</b>

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**

## Question 18 (continued)

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

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
<b>Total</b>				<b>4</b>

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 calculations to two decimal places. (4 marks)

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
<b>Total</b>				<b>4</b>

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**

- (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)

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
<b>Total</b>		<b>4</b>
Answers could include:		
Reports prepared for internal reporting are:		
<ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> <li>• 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.</li> </ul>		
Accept other relevant answers.		



## Question 19

(36 marks)

- (a) Prepare a Statement of changes in equity for the year ended 30 June 2023. Round all calculations 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	
	<b>274,000</b>	
<b>Share capital</b>		
<b>Ordinary shares</b>		
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	<b>523,000</b>	1
<b>Reserves</b>		
<b>Asset revaluation reserve</b>		
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	<b>134,000</b>	1
<b>General reserve</b>		
Balance at start of the period	75,000	1
Transfer from retained earnings	30,000	1
Balance at end of the period	<b>105,000</b>	
Total reserves	<b>239,000</b>	
<b>Retained earnings</b>		
Balance at start of the period	169,000	1
Profit for the period	210,000	1
Total for the period	<b>379,000</b>	
Transfer to general reserve	(30,000)	1
Dividends	(37,000)	1
Balance at end of the period	<b>312,000</b>	
	<b>Total</b>	<b>14</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 2 marks**

## Question 19 (continued)

## 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	
	\$	\$	\$	\$	\$	
<b>Balance at beginning</b>	480,000	169,000 (1)	130,000	75,000 (1)	854,000	1–2
<b>Changes during the year</b>						
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
<b>Balance at end</b>	523,000 (1)	312,000	134,000 (1)	105,000	1,074,000	1–2
	<b>Total</b>					<b>14</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 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	
	<b>Total</b>	<b>2</b>

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

- (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:**

Share issue = 200,000 (1) x 1.75 (1) = 350,000

**Prizright Limited**  
**General journal**

Description				Marks
Date	Particulars	Debit \$	Credit \$	
<b>2023</b>				
Oct 10	Cash at bank	350,000		1+2
	Application		350,000	1
	<i>Cash received on new share issue</i>			
15	Application	350,000		1
	Share capital		350,000	1
	<i>Allocation of new share issue</i>			
15	Share issue costs	2,500		1
	Cash at bank		2,500	1
	<i>Payment of share issue costs</i>			
15	Share capital	2,500		1
	Share issue costs		2,500	1
	<i>Share issue costs transferred</i>			
			<b>Subtotal</b>	<b>10</b>
	All narrations			1
			<b>Subtotal</b>	<b>1</b>
			<b>Total</b>	<b>11</b>

**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**

## Question 19 (continued)

- (d) Explain the importance of the Australian Securities and Investments Commission (ASIC). (3 marks)

Description	Marks
Explains the importance of ASIC	3
Describes the importance of ASIC	2
Makes a statement about the importance of ASIC	1
<b>Total</b>	<b>3</b>
Answers could include: <ul style="list-style-type: none"> <li>• maintain, facilitate and improve the performance of the financial system and entities in it</li> <li>• promote confident and informed participation by investors and consumers in the financial system</li> <li>• administer the law effectively and with minimal procedural requirements</li> <li>• receive, process and store information efficiently and quickly</li> <li>• make information about companies and other bodies available to the public as soon as practicable</li> <li>• take whatever action is necessary to enforce and give effect to the law.</li> </ul>	
Accept other relevant answers.	

- (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
<b>Total</b>	<b>6</b>
Answers could include: <p>The right to:</p> <ul style="list-style-type: none"> <li>• attend meetings, such as general meetings or special meetings of the company</li> <li>• receive annual reports to assess the company's performance/make economic decisions</li> <li>• receive dividends if they have been declared by directors</li> <li>• participate in decisions of the company that are reserved for shareholders</li> <li>• sell shares (although there may be some restrictions, such as for a Pty Ltd company)</li> <li>• participate in rights and share issues and share buybacks offered by the company.</li> </ul>	
Accept other relevant answers.	

## Question 20

(42 marks)

- (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	<b>Bank</b>	<b>47,100</b>
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
<b>Accounts payable</b>	<b>33,400</b>	Closing balance	(1) 5,000
	38,600		38,600

i.e. \*3 marks carried forward to Accounts payable as Inventory

## Accounts payable

<b>Bank</b>	<b>32,800</b>	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
<b>Bank</b>	<b>600</b>	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	<b>Bank</b>	<b>105</b>
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
<b>Bank</b>	<b>1,000</b>		
	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
<b>Bank</b>	<b>4,000</b>	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

## Question 20 (continued)

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
		<b>Bank</b>	<b>300</b>
		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

<b>Bank</b>	<b>6,300</b>	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

<b>Bank</b>	<b>1,200</b>	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

<b>Cash paid to suppliers and employees</b>	<b>\$</b>	<b>Marks</b>
Accounts payable	32,800	5
Insurance	600	3
Wages and salaries	6,300	3
Other expenses	1,200	3
<b>Total paid to suppliers and employees</b>	<b>40,900</b>	<b>14</b>

**Halloz Limited**  
**Cash flow statement (extract)**  
**for the year ended 30 June 2023**

<b>Description</b>	<b>\$</b>	<b>Marks</b>
<b>Cash flows from operating activities</b>	<b>\$</b>	
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
<b>Net cash from operating activities</b>	<b>4,760</b>	
<b>Cash flows from investing activities</b>		
Purchase of equipment	(4,000)	3
Proceeds from the sale of equipment	300	4
Purchase of investments	(1,000)	2
Interest received	105	3
<b>Net cash from investing activities</b>	<b>(4,595)</b>	
<b>Total</b>		<b>30</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**

- (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 $\frac{\text{Average debtors} \times 365}{\text{Net credit sales}}$	$(4,300 (1) + 5,200 (1))/2 (1)$ = 4,750 $4,750/48,000 (1) \times 365$ = 36.11 days	36.11 days	1–4
Inventory turnover $\frac{\text{Cost of sales}}{\text{Cost of average inventory}}$	$33,600 (1) / (5,200 (1) + 5,000 (1))/2 (1)$ = $33,600/5,100$ = 6.59	6.59 times per year	1–4
Debt to equity $\frac{\text{Total liabilities}}{\text{Equity (end)}}$	$5,770 (1)/23,845 (1)$ = 24.20	24.20%	1–2
<b>Total</b>			<b>10</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 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
<b>Total</b>	<b>2</b>
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.	

## Section Three: Extended answer

15% (30 Marks)

## Question 21

(30 marks)

- (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
<b>Subtotal</b>	<b>4</b>
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
<b>Subtotal</b>	<b>3</b>
<b>Total</b>	<b>7</b>
<p>Answers could include:</p> <p>Variable and fixed costs:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul> <p>Increase in the break-even point:</p> <ul style="list-style-type: none"> <li>• Break-even point (sales dollars) is that point at which the sales dollars received equals total costs.</li> <li>• Any increase in variable and/or fixed costs resulted in an increase in the break-even (sales dollar) figure of \$752,000 in 2023.</li> <li>• 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.</li> </ul> <p>Accept other relevant answers.</p>	



(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
<b>Subtotal</b>	<b>3</b>
Identifies three components of a master budget	3
Identifies two components of a master budget	2
Identifies one component of a master budget	1
<b>Subtotal</b>	<b>3</b>
<b>Total</b>	<b>6</b>
<p>Answers could include:</p> <p>Importance of a master budget:</p> <ul style="list-style-type: none"> <li>• set key performance indicators in monetary terms</li> <li>• acts as a motivator by setting targets staff need to meet</li> <li>• helps identify future problems that will need to be addressed during the budget period</li> <li>• helps to identify resources required during the budget period.</li> </ul> <p>Components of a master budget:</p> <ul style="list-style-type: none"> <li>• operating budget</li> <li>• capital expenditure budget</li> <li>• financial budget.</li> </ul> <p>Accept other relevant answers.</p>	

(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
<b>Total</b>	<b>4</b>
<p>Answers could include:</p> <p>Reducing costs:</p> <ul style="list-style-type: none"> <li>• a business needs to understand the type and amount of costs contributing to the running of the business</li> <li>• 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.</li> </ul> <p>Reducing risks:</p> <ul style="list-style-type: none"> <li>• business planning will help in foreseeing potential future risks</li> <li>• a cash budget can assist in planning for those times when cash is running low.</li> </ul> <p>Accept other relevant answers.</p>	

## Question 21 (continued)

- (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
<b>Total</b>	<b>9</b>
Answers could include:	
<ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> <li>• 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.</li> </ul>	
Accept other relevant answers.	

- (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
<b>Total</b>	<b>4</b>
Answers could include:	
<ul style="list-style-type: none"> <li>• 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</li> <li>• 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.</li> </ul>	
Accept other relevant answers.	

## Question 22

(30 marks)

- (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
<b>Subtotal</b>	<b>2</b>
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
<b>Subtotal</b>	<b>6</b>
<b>Total</b>	<b>8</b>
<p>Answers could include:</p> <p>Purpose of annual reports:</p> <ul style="list-style-type: none"> <li>• annual reports are required under the <i>Corporations Act 2001</i></li> <li>• shareholders are entitled to receive a copy of the annual report of a company</li> <li>• annual reports communicate financial information to shareholders and other users of the reports</li> <li>• they provide a way for the company to communicate other important information, such as corporate social responsibility activities</li> <li>• the company can use annual reports to communicate information about its future strategies.</li> </ul> <p>Plaxion Limited KPIs for accountability:</p> <ul style="list-style-type: none"> <li>• management sets targets for various areas of their business, e.g. sales targets, profit targets, inventory control levels</li> <li>• 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</li> <li>• 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</li> <li>• management can make plans for the future based on analysis of the KPIs.</li> </ul> <p>Plaxion Limited KPIs for decision-making purposes:</p> <ul style="list-style-type: none"> <li>• KPIs provide a basis on which management can aim for strategic and operational improvement</li> <li>• KPIs can be reviewed by management at any time during the year. Management does not need to wait for the annual financial report</li> <li>• 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.</li> </ul> <p>Accept other relevant answers.</p>	

## Question 22 (continued)

- (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
<b>Total</b>	<b>4</b>
Answers could include:	
<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"> <li>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.</li> <li>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.</li> </ul>	
Accept other relevant answers.	

- (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
<b>Total</b>	<b>6</b>
Answers could include:	
<ul style="list-style-type: none"> <li>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</li> <li>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</li> <li>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</li> <li>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.</li> </ul>	
Accept other relevant answers.	

- (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
<b>Total</b>	<b>6</b>
<p>Answers could include:</p> <p>Plaxion use:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> <li>• Plaxion has also reported an important sustainability issue with information on the reduction of the use of plastic across all product lines</li> <li>• 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'</li> <li>• 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.</li> </ul> <p>Other users:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• some users, including potential investors, insist that companies take their responsibilities to society seriously and demand to see CSR information from companies</li> <li>• 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.</li> </ul>	

## Question 22 (continued)

- (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
<b>Total</b>	<b>6</b>
<p>Answers could include:</p> <p>Financial and data collection:</p> <ul style="list-style-type: none"> <li>the accountant is responsible for collecting and maintaining financial information of a business</li> <li>the accountant is responsible for the accuracy of the financial information</li> <li>the accountant ensures the information is maintained and presented according to legal requirements.</li> </ul> <p>Analysis and advice:</p> <ul style="list-style-type: none"> <li>the accountant can be responsible for analysing financial information to ensure compliance with procedures</li> <li>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</li> <li>the accountant working for a business may also be responsible for the monitoring of control procedures.</li> </ul> <p>Regulatory and reporting compliance:</p> <ul style="list-style-type: none"> <li>the accountant may be responsible for interaction with various government organisations, such as ASIC or the ATO</li> <li>the accountant may be responsible for ensuring legal reporting requirements are met and tax/GST returns are completed in line with legal requirements</li> <li>the accountant may be responsible for liaising with various government bodies, such as ASIC or ATO</li> <li>the accountant may also assist with any external auditing arrangements.</li> </ul>	
Accept other relevant answers.	

## ACKNOWLEDGEMENTS

- Question 19(d)** Australian Securities & Investment Commission. (2023). *Our Role*. Retrieved August, 2023, from <https://asic.gov.au/about-asic/what-we-do/our-role/>
- Question 19(e)** Slater and Gordon. (2019). *Your Rights and Obligations as a Shareholder in a Company*. Retrieved August, 2023, from <https://www.slatergordon.com.au/blog/business-law/your-rights-and-obligations-as-a-shareholder-in-a-company?loc=wa&save=1>

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