



SYLLABUS SUPPORT MATERIALS

ACCOUNTING AND FINANCE
ATAR YEAR 11 AND YEAR 12

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Background

Changes in Australian Accounting Standards and the *Conceptual Framework for Financial Reporting* (the *Conceptual Framework*), which superseded the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*) on January 1, 2020 require changes to existing teaching practices for the Accounting and Finance ATAR Year 11 and Year 12 courses.

Key changes are:

- the qualitative characteristics of financial information
- the treatment of discount allowed and discount received
- the classification of financial expenses and finance costs.

Details of these changes are outlined below.

Qualitative characteristics of financial information

The *Conceptual Framework* outlines and defines the fundamental and enhancing characteristics of useful financial information. These characteristics apply to all financial information produced in financial reports.

| Current qualitative characteristics | Former qualitative characteristics |
|---|--|
| Fundamental qualitative characteristics <ul style="list-style-type: none"> • relevance <ul style="list-style-type: none"> ▪ materiality • faithful representation Enhancing qualitative characteristics <ul style="list-style-type: none"> • comparability • verifiability • timeliness • understandability | Principal qualitative characteristics <ul style="list-style-type: none"> • relevance • reliability • comparability • understandability |

Treatment of discounts allowed and received

The following extracts from Australian Accounting Standards specify how discounts should be treated.

AASB118 Revenue, paragraph 10

'The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.'

AASB102 Inventories, paragraph 11

'The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.'

The Australian Accounting Standards require discounts to form part of the calculation of net sales and cost of sales and hence the calculation of gross profit, as follows:

- Net sales = sales – sales returns – discount allowed
- Total cost of sales = cost of sales + import duties + cartage/freight inwards – discount received

This impacts on the preparation of an income statement/comprehensive income statement and the calculation of the debtor's collection period, inventory turnover, profit, gross profit and expense ratios. There is no change required for the recording of discounts in the general ledger or the general journal.

Financial expenses/Finance costs

For the purposes of Accounting and Finance ATAR Year 11 and Year 12, Financial Expenses and Finance Costs will include only borrowing costs. The Australian Accounting Standards defines borrowing costs as:

AASB123 Borrowing Costs, paragraph 5

'Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.'

The impacts on the classification of expenses in the income statement or comprehensive income statement. Doubtful debts and bad debts should now be treated as a selling expense.

Example 1 on pages 3–7 shows for a sole trader:

- An income statement (using both the new report layout and the former report layout)
- A balance sheet (showing that there is no change to the report as a result of these changes)
- Calculation of the profitability ratios (showing the impact on the profit, gross profit and expense ratios)

Example 2 on pages 8–13 shows for a company:

- A comprehensive income statement (using both the new report layout and former report layout)
- Calculation of ratios (showing the impact on debtor's collection, inventory turnover and profit ratio)

Example 1

This example demonstrates the:

- preparation of an income statement for the year ended 30 June, 2017
- preparation of a balance sheet as at 30 June, 2017
- calculation of the profitability ratios as at 30 June, 2017.

| Carousel Traders Trial Balance As at 30 June, 2017 | | |
|---|-------------------|--------------------|
| | Debit (\$) | Credit (\$) |
| Cash at bank | 35,000 | |
| Accounts Receivable | 21,000 | |
| Allowance for Doubtful Debts | | 1,900 |
| Accounts Payable | | 13,000 |
| Interest Received | | 900 |
| Cost of Sales | 481,000 | |
| Sales | | 793,000 |
| Discount Allowed | 1,750 | |
| Discount Received | | 2,100 |
| Sales Returns | 3,850 | |
| Equipment | 96,700 | |
| Accumulated Depreciation – Equipment | | 52,300 |
| Doubtful Debts | 980 | |
| Land and Premises | 900,000 | |
| Freight Inwards | 15,600 | |
| Depreciation – Equipment | 3,750 | |
| Customs Duty | 1,260 | |
| Delivery Vehicles | 125,000 | |
| Accumulated Depreciation – Delivery Vehicles | | 63,000 |
| Advertising | 17,900 | |
| Insurance | 15,000 | |
| Depreciation – Delivery Vehicles | 12,200 | |
| Stationery | 1,780 | |
| Interest Paid | 650 | |
| Mortgage (due 2027) | | 560,000 |
| Bank Fees and Charges on Loan | 85 | |
| Capital | | 430,785 |
| Drawings | 10,080 | |
| Bank Loan (due 2017) | | 14,000 |
| Inventory | 32,500 | |
| Wages – Sales Staff | 103,000 | |
| Wages – Office Staff | 51,900 | |
| | 1,930,985 | 1,930,985 |

Additional information as at 30 June, 2016:

- Current Assets totalled \$84,000
- Non-Current Assets totalled \$1,090,000

Example 1 suggested solution – Income Statement

New report layout (reflecting changes to discounts and financial expenses)

| Carousel Traders | | | |
|---|---------|---------|---------------|
| Income Statement | | | |
| For the year ended 30 June, 2017 | | | |
| | \$ | \$ | \$ |
| Sales | | 793,000 | |
| Less Sales Returns | | 3,850 | |
| Discount Allowed | | 1,750 | |
| Net Sales | | | 787,400 |
| Less Cost of Sales | 481,000 | | |
| Freight Inwards | 15,600 | | |
| Customs Duty | 1,260 | 497,860 | |
| Less Discount Received | | 2,100 | |
| Total Cost of Sales | | | 495,760 |
| Gross Profit | | | 291,640 |
| | | | |
| Add Other Income | | | |
| Interest Received | | 900 | 900 |
| | | | 292,540 |
| | | | |
| Less Other Expenses | | | |
| Selling and Distribution | | | |
| Doubtful Debts | 980 | | |
| Advertising | 17,900 | | |
| Depreciation – Delivery Vehicle | 12,200 | | |
| Wages – Sales Staff | 103,000 | 134,080 | |
| | | | |
| General and Administrative | | | |
| Depreciation – Equipment | 3,750 | | |
| Insurance | 15,000 | | |
| Stationery | 1,780 | | |
| Wages – Office Staff | 51,900 | 72,430 | |
| | | | |
| Financial | | | |
| Interest Paid | 650 | | |
| Bank Fees and Charges on Loan | 85 | 735 | 207,245 |
| Profit for the period | | | <u>85,295</u> |

Example 1 suggested solution – Income Statement

Former report layout (prior to changes to discounts and financial expenses)

| Carousel Traders | | | |
|---|---------|---------|---------------|
| Income Statement | | | |
| For the year ended 30 June, 2017 | | | |
| | \$ | \$ | \$ |
| Sales | | 793,000 | |
| Less Sales Returns | | 3,850 | |
| Net Sales | | | 789,150 |
| Less Cost of Sales | | 481,000 | |
| Freight Inwards | | 15,600 | |
| Customs Duty | | 1,260 | |
| Total Cost of Sales | | | 497,860 |
| Gross Profit | | | 291,290 |
| Add Other Income | | | |
| Discount Received | | 2,100 | |
| Interest Received | | 900 | 3,000 |
| | | | 294,290 |
| Less Other Expenses | | | |
| Selling and Distribution | | | |
| Advertising | 17,900 | | |
| Depreciation – Delivery Vehicle | 12,200 | | |
| Wages – Sales Staff | 103,000 | 133,100 | |
| General and Administrative | | | |
| Depreciation – Equipment | 3,750 | | |
| Insurance | 15,000 | | |
| Stationery | 1,780 | | |
| Wages – Office Staff | 51,900 | 72,430 | |
| Financial | | | |
| Interest Paid | 650 | | |
| Discount Allowed | 1,750 | | |
| Doubtful Debts | 980 | | |
| Bank Fees and Charges on Loan | 85 | 3,465 | 208,995 |
| Profit for the period | | | <u>85,295</u> |

Example 1 suggested solution – Balance Sheet

| Carousel Traders Balance Sheet As at 30 June, 2017 | | | |
|---|---------|---------|-----------|
| | \$ | \$ | \$ |
| Current Assets | | | |
| Cash at Bank | | 35,000 | |
| Accounts Receivable | 21,000 | | |
| Less Allowance for Doubtful Debts | 1,900 | 19,100 | |
| Inventory | | 32,500 | |
| Total Current Assets | | | 86,600 |
| Non-Current Assets | | | |
| Equipment | 96,700 | | |
| Less Accumulated Depreciation – Equipment | 52,300 | 44,400 | |
| Land and Premises | | 900,000 | |
| Delivery Vehicles | 125,000 | | |
| Less Accumulated Depreciation – Delivery Vehicles | 63,000 | 62,000 | |
| Total Non-Current Assets | | | 1,006,400 |
| Total Assets | | | 1,093,000 |
| | | | |
| Current Liabilities | | | |
| Accounts Payable | | 13,000 | |
| Bank Loan | | 14,000 | |
| Total Current Liabilities | | | 27,000 |
| Non-Current Liabilities | | | |
| Mortgage | | 560,000 | |
| Total Non-Current Liabilities | | | 560,000 |
| Total Liabilities | | | 587,000 |
| Net Assets | | | 506,000 |
| | | | |
| Equity | | | |
| Capital | | 430,785 | |
| Add Profit for the period | | 85,295 | |
| | | 516,080 | |
| Less Drawings | | 10,080 | |
| Total Equity | | | 506,000 |

Note: these changes to the Australian Accounting Standards have no impact on the balance sheet.

Example 1 suggested solution – Profitability ratios

| Profitability ratio | Calculations (reflecting changes to discounts and financial expenses) | Calculations (prior to changes to discounts and financial expenses) |
|--|--|--|
| Profit <u>profit</u> net sales | $= \frac{85,295}{787,400} \times 100$ $= 10.83\%$ | $= \frac{85,295}{789,150} \times 100$ $= 10.81\%$ |
| Gross profit <u>gross profit</u> net sales | $= \frac{291,640}{787,400} \times 100$ $= 37.04\%$ | $= \frac{291,290}{789,150} \times 100$ $= 36.91\%$ |
| Expenses <u>operating expenses</u> net sales | $= \frac{207,245}{787,400} \times 100$ $= 26.32\%$ | $= \frac{208,995}{789,150} \times 100$ $= 26.48\%$ |
| Rate of return on assets <u>profit</u> average total assets | No change | Average Assets $= \frac{(84,000 + 1,090,000) + 1,093,000}{2}$ $= 1,133,500$ Rate of return on assets $= \frac{85,295}{1,133,500} \times 100$ $= 7.52\%$ |

Example 2

This example demonstrates the:

- preparation of a comprehensive income statement for the year ended 30 June, 2017
- calculation of
 - debtor's collection
 - inventory turnover
 - profit ratio.

| Seven Oaks Ltd Trial Balance Extract As at 30 June, 2017 | | |
|---|-------------------|--------------------|
| | Debit (\$) | Credit (\$) |
| Sales | | 2,340,000 |
| Cash and Cash Equivalents | 291,000 | |
| Account Payable | | 65,000 |
| Sales Returns | 15,900 | |
| Advertising | 136,000 | |
| Cost of Sales | 1,481,300 | |
| Accounts Receivable | 125,000 | |
| Discount Received | | 7,350 |
| Discount Allowed | 5,220 | |
| Inventory | 215,000 | |
| Dividends Received | | 6,900 |
| Sales Commission Paid | 190,000 | |
| Doubtful Debts | 2,340 | |
| Land | 5,200,000 | |
| Retained Earnings | | 163,000 |
| Interim Dividends Paid | 62,000 | |
| Share Capital | | 7,000,000 |
| Share Issue Costs | 150,000 | |
| Interest Income | | 1,400 |
| Interest Expense | 6,850 | |
| Cartage Inwards | 12,850 | |
| Wages – Sales Staff | 215,000 | |
| Administrative Staff Salaries | 193,000 | |
| Insurance | 12,000 | |

Additional information

- the following balances were recorded in the company's financial records as at 30 June, 2016:
 - Land \$4,500,000
 - Inventory \$228,000
 - Accounts Receivable \$109,000
- no land has been purchased or sold during the year
- during the year, delivery vehicle that was originally purchased for \$65,700 was sold for \$12,900. The delivery vehicle had been depreciated by \$51,000 over its life
- the company calculates tax at the company tax rate of 30%
- all sales are made on credit.

Example 2 suggested solution**Workings (reflecting changes to discounts and finance costs)**

| | |
|--|---|
| Revenue (net credit sales) | = Sales – sales returns – discount allowed = 2,340,000 – 15,900 – 5,220 = 2,318,880 |
| Cost of Sales | = cost of sales + cartage inwards – discount received = 1,481,300 + 12,850 – 7,350 = 1,486,800 |
| Gain/loss on sale of del veh Loss | = Proceeds – carrying amount = Proceeds – (cost – accumulated depreciation) = 12,900 – (65,700 – 51,000) = 1,800 |
| Other Income | = Dividends received + interest income = 6,900 + 1,400 = 8,300 |
| Finance costs | = Interest paid = 6,850 |
| Other expenses | = Loss on sale of delivery vehicle + advertising + sales commission paid + doubtful debts + wages sales staff + administrative staff salaries + insurance = 1,800 + 136,000 + 190,000 + 2,340 + 215,000 + 193,000 + 12,000 = 750,140 |
| Revaluation of land | = 5,200,000 – 4,500,000 = 700,000 |
| Note: other expenses may also be grouped by nature or function, for example: | |
| Selling expenses | = Loss on sale of delivery vehicle + advertising + sales commission paid + doubtful debts + wages sales staff = 1,800 + 136,000 + 190,000 + 2,340 + 215,000 = 545,140 |
| Administrative and other expenses | = administrative staff salaries + insurance = 193,000 + 12,000 = 205,000 |
| Income tax | = Profit before tax x 30% = 83,390 x 30% = 25,017 |

Example 2 suggested solution – Comprehensive Income Statement
New report layout (reflecting changes to discounts and finance costs)

Option 1

| Seven Oaks Ltd | |
|---|----------------|
| Statement of Comprehensive Income | |
| For the year ended 30 June, 2017 | |
| | \$ |
| Revenue | 2,318,880 |
| Less Cost of Sales | (1,486,800) |
| Gross Profit | 832,080 |
| Other Income | 8,300 |
| Expenses (excluding Finance Costs) | (750,140) |
| Finance Costs | (6,850) |
| Profit before income tax | 83,390 |
| Income Tax | (25,017) |
| Profit after tax for the period | 58,373 |
| Other Comprehensive Income | |
| Gain on asset revaluation | 700,000 |
| Total Other Comprehensive Income | 700,000 |
| Total Comprehensive Income for the period | <u>758,373</u> |

Option 2

| Seven Oaks Ltd | |
|---|----------------|
| Statement of Comprehensive Income | |
| For the year ended 30 June, 2017 | |
| | \$ |
| Revenue | 2,318,880 |
| Less Cost of Sales | (1,486,800) |
| Gross Profit | 832,080 |
| Other Income | 8,300 |
| Selling expenses | (545,140) |
| Administrative and Other expenses | (205,000) |
| Finance Costs | (6,850) |
| Profit before income tax | 83,390 |
| Income Tax | (25,017) |
| Profit after tax for the period | 58,373 |
| Other Comprehensive Income | |
| Gain on asset revaluation | 700,000 |
| Total Other Comprehensive Income | 700,000 |
| Total Comprehensive Income for the period | <u>758,373</u> |

Example 2 suggested solution**Workings (prior to changes to discounts and finance costs)**

| | |
|---|--|
| Revenue (net credit sales) | = Sales – sales returns = 2,340,000 – 15,900 = 2,324,100 |
| Cost of Sales | = cost of sales + cartage inwards = 1,481,300 + 12,850 = 1,494,150 |
| Gain/loss on sale of del veh Loss | = Proceeds – carrying amount = Proceeds – (cost – accumulated depreciation) = 12,900 – (65,700 – 51,000) = 1,800 |
| Other Income | = Dividends received + interest income + discount received = 6,900 + 1,400 + 7,350 = 15,650 |
| Finance costs | = Interest paid + discount allowed + doubtful debts = 6,850 + 5,220 + 2,340 = 14,410 |
| Other expenses | = Loss on sale of delivery vehicle + advertising + sales commission paid + wages sales staff + administrative staff salaries + insurance = 1,800 + 136,000 + 190,000 + 215,000 + 193,000 + 12,000 = 747,800 |
| Revaluation of land | = 5,200,000 – 4,500,000 = 700,000 |
| Note: Other expenses may also be grouped by nature or function, for example | |
| Selling expenses | = Loss on sale of delivery vehicle + advertising + sales commission paid + wages sales staff = 1,800 + 136,000 + 190,000 + 215,000 = 542,800 |
| Administrative and other expenses | = administrative staff salaries + insurance = 193,000 + 12,000 = 205,000 |
| Income tax | = Profit before tax x 30% = 83,390 x 30% = 25,017 |

Example 2 suggested solution – Comprehensive Income Statement
Former report layout (prior to changes to discounts and finance costs)

Option 1

| Seven Oaks Ltd | |
|---|----------------|
| Statement of Comprehensive Income | |
| For the year ended 30 June, 2017 | |
| | \$ |
| Revenue | 2,324,100 |
| Less Cost of Sales | (1,494,150) |
| Gross Profit | 829,950 |
| Other Income | 15,650 |
| Expenses (excluding Finance Costs) | (747,800) |
| Finance Costs | (14,410) |
| Profit before income tax | 83,390 |
| Income Tax | (25,017) |
| Profit after tax for the period | 58,373 |
| Other Comprehensive Income | |
| Gain on asset revaluation | 700,000 |
| Total Other Comprehensive Income | 700,000 |
| Total Comprehensive Income for the period | <u>758,373</u> |

Option 2

| Seven Oaks Ltd | |
|---|----------------|
| Statement of Comprehensive Income | |
| For the year ended 30 June, 2017 | |
| | \$ |
| Revenue | 2,324,100 |
| Less Cost of Sales | (1,494,150) |
| Gross Profit | 829,950 |
| Other Income | 15,650 |
| Selling expenses | (542,800) |
| Administrative and Other expenses | (205,000) |
| Finance Costs | (14,410) |
| Profit before income tax | 83,390 |
| Income Tax | (25,017) |
| Profit after tax for the period | 58,373 |
| Other Comprehensive Income | |
| Gain on asset revaluation | 700,000 |
| Total Other Comprehensive Income | 700,000 |
| Total Comprehensive Income for the period | <u>758,373</u> |

Example 2 suggested solutions – Ratios

| Ratio | Calculations (reflecting changes to discounts and finance costs) | Calculations (prior to changes to discounts and finance costs) |
|--|--|--|
| Debtor's collection $\frac{\text{Average debtors}}{\text{Net credit sales}} \times 365$ | Average debtors $= (109,000 + 125,000) / 2$ $= 117,000$ Debtor's collection $= \frac{117,000}{2,318,880} \times 365$ $= 18.42 \text{ days}$ | Average debtors $= (109,000 + 125,000) / 2$ $= 117,000$ Debtor's collection $= \frac{117,000}{2,324,100} \times 365$ $= 18.37 \text{ days}$ |
| Inventory turnover $\frac{\text{Cost of sales}}{\text{Cost of average inventory}}$ | Average inventory $= (228,000 + 215,000) / 2$ $= 221,500$ Inventory turnover $= \frac{1,486,800}{221,500}$ $= 6.71 \text{ times}$ | Average inventory $= (228,000 + 215,000) / 2$ $= 221,500$ Inventory turnover $= \frac{1,494,150}{221,500}$ $= 6.75 \text{ times}$ |
| Profit $\frac{\text{Profit (after income tax)}}{\text{Total revenue}}$ | $= \frac{58,373}{2,318,880} \times 100$ $= 2.52\%$ | $= \frac{58,373}{2,324,100} \times 100$ $= 2.51\%$ |

The impact of these changes in relation to a budgeted income statement is demonstrated in Task 2 in the Year 12 ATAR Accounting and Finance Sample Assessment Tasks available on the course page of the Authority website at <https://senior-secondary.scsa.wa.edu.au/syllabus-and-support-materials>.