



ACCOUNTING AND FINANCE

ATAR course examination 2018

Ratified 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	A
2	C
3	A
4	C
5	B
6	C
7	A
8	B
9	A
10	B
11	D
12	B
13	D
14	D
15	C

Workings**Question 7 – Present value**

$$PV = 4,000,000 \times 3.6847 = 14,738,800$$

Question 8 – Payback period

$$\frac{13,000,000}{4,000,000} = 3.25 \text{ years} = 3 \text{ years } 3 \text{ months}$$

Question 9 – Dividend yield

$$\frac{(\$225,000/450,000)}{5} = 10\%$$

GENERAL NOTES

Consequential errors should not be penalised.

Section Two: Short answer

70% (169 Marks)

Question 16

(33 marks)

- (a) Calculate the budgeted contribution margin per unit for the cruiser and the longboard. (4 marks)

Workings	Marks
CM = SP – VC	
Cruiser: 180 (1) – 70 (1) = 110	1–2
Longboard: 240 (1) – 100 (1) = 140	1–2
Total	4
Cruiser budgeted contribution margin per unit: \$110 Longboard budgeted contribution margin per unit: \$140	

Deduct 1 mark for each calculation error and/or inclusion of foreign items, to a maximum of 1 mark.

- (b) Calculate the number of units required to be sold of each product in order to break even. (12 marks)

Workings	Marks
Weighted average contribution margin (WACM) = \sum (contribution margin per unit x sales mix%) Break-even = $\frac{\text{TFC}}{\text{WACM}}$	
Total sales = 3,600 (Cruiser) + 2,400 (Longboard) = 6,000 (1)	1
Sales Mix: Cruiser = $\frac{3,600 (1)}{6,000} = 60\%$	1
Sales Mix: Longboard = $\frac{2,400 (1)}{6,000} = 40\%$	1
Weighted average contribution margin = [(110 (1) x 60% (1)) + [140 (1) x 40% (1)] = 66 + 56 = 122	1–4
Break-even = $\frac{170,800 (1)}{122 (1)}$	1–2
Cruiser break-even = *1,400 (1) x 60% (1) = 840	1–2
Longboard break-even = *1,400 x 40% (1) = 560 *1 mark awarded once only for total sales of 1,400	1
Total	12
Cruiser break-even units: 840 Longboard break-even units: 560	

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

- (c) (i) Calculate the total profit for New Skate of Mind before accepting the special order. (5 marks)

Workings	Marks
Total revenue: Cruiser: 3,600 x 180 = 648,000 (1) Longboard: 2,400 x 240 = <u>576,000</u> (1) 1,224,000	1–2
Variable costs: Cruiser: 3,600 x 70 = 252,000 (1) Longboard: 2,400 x 100 = <u>240,000</u> (1) 492,000	1–3
Fixed costs: 170,800 (1)	
Profit = Total revenue – total costs = 1,224,000 – 492,000 – 170,800 = 561,200	
Total	5
Total profit before accepting the special order: \$561,200	

Deduct 1 mark for calculation error in total profit.

- (ii) Due to capacity constraints, in order to accept the special order New Skate of Mind will have to forego some production in either the cruiser or the longboard. Outline how the business will determine which of these two skateboards will have its production levels reduced. (2 marks)

Description	Marks
Outlines how the business will determine which skateboard will have its production levels reduced	2
Identifies how the business will determine which skateboard will have its production levels reduced	1
Total	2
Answers could include: The business will need to compare the contribution margin of each skateboard per limited resource (e.g. machine hours). The skateboard with the lowest result is that which should have its production reduced.	

- (iii) New Skate of Mind has determined that in order to accept the special order it will reduce production of the longboard by 400 units. Calculate the gain or loss on the special order. (8 marks)

Workings	Marks
Gain/loss = (SP x QS) – (VC x QS) – new FC – OC	
Opportunity costs = units forgone x usual CM longboard = (500 – 100) x 140 = 400 (1) x 140 (1) = 56,000	1–2
Gain/loss = (500 (1) x 200 (1)) – (500 (1) x 100 (1)) – 4,000 (1) – 56,000 = 100,000 – 50,000 – 4,000 – 56,000 = (10,000) loss (1)	1–6
Total	8
Loss on the special order: \$10,000	

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.

- (d) Describe how break-even analysis can assist New Skate of Mind in the decision-making process. (2 marks)

Description	Marks
Describes how break-even analysis can assist New Skate of Mind in the decision-making process.	2
Makes a general statement about break-even analysis	1
Total	2
Answer(s) could include but are not limited to:	
Break-even analysis:	
<ul style="list-style-type: none">• allows managers to ascertain at what volume of production it will cover all of its fixed and variable costs• can assist managers to make informed decisions when evaluating short-term alternatives and plans.	
Accept any other reasonable answer.	

Question 17

(26 marks)

- (a) Calculate the predetermined overhead rate. (2 marks)

Workings	Marks
Overhead rate = $\frac{\text{total estimated manufacturing overhead}}{\text{budgeted direct labour hours}}$ $= \frac{1,680,000 \text{ (1)}}{120,000 \text{ (1)}}$ $= 14$	1–2
Total	2
Predetermined overhead rate: \$14 per hour	

Deduct 1 mark for each calculation error and/or inclusion of foreign items, to a maximum of 1 mark.

- (b) Calculate the standard cost for
- one**
- kaftan manufactured during the month ended 31 October 2020. (6 marks)

Workings	Marks
Cost = direct materials + direct labour + indirect manufacturing/overhead $= 3.70 \text{ (1)} \times 25.00 \text{ (1)} = 92.50$ $+ 2.00 \text{ (1)} \times 18.00 \text{ (1)} = 36.00$ $+ 2.00 \text{ (1)} \times 14.00 \text{ (1)} = 28.00$ $= 92.50 + 36.00 + 28.00 = 156.50$	1–6
Total	6
Standard cost for one kaftan: \$156.50	

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

- (c) Calculate the following standard cost variances for the month of October 2020.

- (i) Direct materials price variance: (4 marks)

Workings	Marks
$(AP - SP) \times AQP$ $(25.50 \text{ (1)} - 25.00 \text{ (1)}) \times 8,750 \text{ (1)} = 4,375 \text{ (Unfavourable (1))}$	1–4
Total	4
Alternate workings	
Direct materials purchased and used at actual price: 8,750 (1) square metres at 25.50 (1) per square metre = 223,125 Direct materials purchased and used at standard price: 8,750 square metres at 25.00 (1) per square metre = 218,750 $223,125 - 218,750 = 4,375 \text{ (Unfavourable (1))}$ *1 mark awarded only once for 8,750 square meters	1–4
Total	4
Direct materials price variance: \$4,375 Unfavourable	

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

- (ii) Direct materials usage variance: (5 marks)

Workings	Marks
(AQI – SQA) x SP	
$[8,750 \text{ (1)} - (3.7 \text{ (1)} \times 2,500 \text{ (1)})] \times 25.00 \text{ (1)} = 12,500 \text{ (Favourable (1))}$	1–5
Total	5
Alternate workings	
Direct materials purchased and used at standard price: 8,750 square metres (1) at 25.00* per metre (1) = 218,750	
Standard direct material cost allowed for actual output: (3.7 metres (1) x 2,500 kaftans (1)) x 25.00* per metre = 231,250	1–5
218,750 – 231,250 = 12,500 (Favourable (1)) *1 mark awarded once only for 25.00 per metre	
Total	5
Direct materials usage variance: \$12,500 Favourable	

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

- (iii) Direct labour rate variance: (4 marks)

Workings	Marks
(AR – SR) x ADLH	
$(17.00 \text{ (1)} - 18.00 \text{ (1)}) \times 6,250 \text{ (1)} = 6,250 \text{ (Favourable (1))}$	1–4
Total	4
Alternate workings	Marks
Actual DLH at actual rate per DLH: 6,250 (1) DLHs at 17.00 (1) per DLH = 106,250	
Actual DLH at standard rate per DLH: 6,250 DLHs at 18.00 (1) per DLH = 112,500	1–4
106,250 – 112,500 = 6,250 (Favourable (1))	
Total	4
Direct labour rate variance: \$6,250 (Favourable)	

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

- (iv) Direct labour efficiency variance: (5 marks)

Workings	Marks
(ADLH – SDLHA) x SR	
[6,250 (1) – (2 (1) x 2,500 (1))] x 18.00 (1) = 22,500 (Unfavourable (1))	1–5
Total	5
Alternate workings	Marks
Actual DLH at standard rate per DLH: 6,250 (1) DLHs at *18.00 (1) per DLH = 112,500	
Standard DLHs allowed at standard rate per DLH: (2,500 kaftans (1) x 2 DHL per kaftan (1) x *18.00 per DLH = 90,000	1–5
112,500 – 90,000 = 22,500 (Unfavourable (1)) *1 mark awarded once only for 18.00 per DLH	
Total	5
Direct labour efficiency variance: \$22,500 (Unfavourable)	

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

Question 18

(41 marks)

- (a) Prepare a Budgeted income statement for S-Bend Plumbing Pty Ltd for the month ending 31 July 2020. (19 marks)

Sales

Workings	Marks
<u>July cash sales</u> 80% = <u>52,200 (1)</u> = 65,250 80% (1) or July cash sales + August collections = 52,200 (1) + 13,050 (1) = 65,250	1–2
Total	2

(i.e. 2 marks carried forward to Budgeted income statement)

Discount received

Workings	Marks
Discount received = total purchases – payments to creditors Total purchases: <u>July total payments to creditors</u> 95% = <u>34,920 (1)</u> = 36,758 95% (1) Discount received: = (36,758 – 34,920) (1) = 1,838 or = (36,758 x 5%) (1) = 1,838	1–3
Total	3

(i.e. 3 marks carried forward to Budgeted income statement)

Gain/loss on sale of investment

Workings	Marks
Proceeds – carrying amount 81,900 (1) – 85,000 (1) = (3,100) i.e. loss	1–2
Total	2

(i.e. 2 marks carried forward to Budgeted income statement)

Rent expense

	Marks
6,000 (1) ÷ 3 months (1) = 2,000	1–2
Total	2

(i.e. 2 marks carried forward to Budgeted income statement)

S-Bend Plumbing Pty Ltd
Budgeted income statement
for the month ending 31 July 2020

	\$	\$	Marks
Sales		65,250 (2)	2
Less cost of sales	45,072 (1)		1
Add freight inwards	3,750 (1)		1
Less discount received	1,838 (3)	46,984	3
Gross Profit (1)		18,266 (1)	2
Add other income			
Interest on Investments	600 (1)	600	1
		18,866	
Less other expenses			
Salesperson's salary	3,600 (1)		1
Administration expenses	2,700 (1)		1
Rent	2,000 (2)		2
Interest on loan	826 (1)		1
Loss on sale of equipment	3,100 (2)		2
Depreciation – equipment	1,212 (1)	13,438	1
Profit (1)		5,428	1
		Total	19

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) (i) Use the information above to complete a Cash budget performance report for S-Bend Plumbing Pty Ltd for the month ended 31 July 2020. (11 marks)

Cash sales

Workings	Marks
52,200 (1) x 92% (1) = 48,024	1-2
Total	2

(i.e. 2 marks carried forward to Cash budget performance report)

Proceeds from sale of equipment

Workings	Marks
Carrying amount + gain = 85,000 (1) + 5,900 (1) = 90,900	1-2
Total	2

(i.e. 2 marks carried forward to Cash budget performance report)

S-Bend Plumbing Pty Ltd
Cash budget performance report
For the month ended 31 July 2020

	Budget \$	Actual \$	Variance \$	Marks
Opening bank balance	120,000	120,000	–	
Receipts				
Cash sales	52,200	48,024	4,176 U	2+1
Collections from debtors/accounts receivable	10,950	7,050	3,900 U	1
Interest on investments	600	600	–	
Proceeds from sale of equipment	81,900	90,900	9,000 F	2+1
Total cash available	265,650	266,574	924 F	
Payments				
Salesperson's salary	3,600	5,100	1,500 U	1
Administration expenses	2,700	2,500	200 F	1
Rent	6,000	6,000	–	
Freight inwards	3,750	3,750	–	
Equipment	108,000	130,000	22,000 U	1
Payments to creditors	34,920	38,900	3,980 U	1
Interest on loan	826	826	–	
Total payments	159,796	187,076	27,280 U	
Closing bank balance	105,854	79,498	26,356 U	
Total				11

Award marks only when both amount and variance are given.

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

Deduct 1 mark for omitting items without a variance or including a foreign variance, to a maximum of 2 marks.

- (ii) Identify **two** significant variances in the Cash budget performance report for S-Bend Plumbing Pty Ltd for the month ended 31 July 2020, outlining why each variance might have occurred. (4 marks)

Description	Marks
For each of two significant variances:	
Identifies the variance and outlines correctly why it might have occurred	2
Identifies the variance without outlining correctly why it might have occurred	1
Total	4
Answer(s) could include but are not limited to:	
<ul style="list-style-type: none"> • The lower than budgeted cash sales amount could be because the volume of cash sales has decreased or the sales price has been reduced, perhaps because of a more competitive market. • The lower than budgeted collections from debtors/accounts receivable amount could also be the result of lower selling prices or because of poor debt collection. • The greater than budgeted proceeds from the sale of equipment amount could be because the budgeted figure could have been based on the written down value of the equipment rather than its market value. The written down value could have been lower due to the depreciation rate applied being higher. • The greater than budgeted purchase of equipment amount could be due to a price increase in the equipment from the time that this capital investment decision was originally made. It could also be due to the equipment being purchased from overseas and the exchange rate being unfavourable. • The greater than budgeted payment to creditors/accounts payable amount could be due to increased prices being charged by suppliers. • The greater than budgeted salesperson's salary amount could be due to the salesperson being paid more: <ul style="list-style-type: none"> ○ for the volume they have sold; however, it would be expected that sales volume would also increase as a result of this ○ for the number of hours they have worked, perhaps in an attempt to increase sales. 	
Accept any other reasonable answer.	

- (c) Explain the purpose of a cash budget performance report. (3 marks)

Description	Marks
Explains the purpose of a cash budget performance report	3
Provides a limited explanation of the purpose of a cash budget performance report	2
Makes a general comment about a cash budget performance report	1
Total	3
Answer(s) could include but are not limited to:	
<p>At the end of the budgeted period it is important to match the actual outcomes against the budgeted forecast to identify and quantify differences, both positive and negative. The variances are examined to evaluate the quality of the planning and to assist in shaping actions and future planning. This ensures that adequate cash reserves are available to meet the business' needs, particularly for significant investments such as equipment purchases.</p>	
Accept any other reasonable answer.	

- (d) Describe **two** possible causes an unfavourable variance in a business gross profit. (4 marks)

Description	Marks
For each of two causes:	
Describes how the cause results in an unfavourable variance in the gross profit	2
Identifies an item that can cause an unfavourable variance in the gross profit	1
Total	4
Answer(s) could include but are not limited to:	
An unfavourable variance in a business' gross profit could be caused by:	
<ul style="list-style-type: none">• an increase in the cost of sales because of an increase in purchases (volume or prices), freight costs or import duties, without an accompanying increase in sales• a decrease in the volume of sales or a decrease in the sales price, without an accompanying decrease in the cost of sales.	
Accept any other reasonable answer.	

Question 19

(42 marks)

- (a) Prepare One Deduction Ltd's Retained earnings general ledger account for the year ended 30 June 2020. Round all answers to the nearest dollar. (9 marks)

Dividends paid

Workings		Marks
Final dividend (1 August 2019) 2,500,000 (1) x 0.06 (1) = 150,000		1-2
Interim dividend 2,500,000 (1) x 0.05 (1) = 125,000		1-2
Total		4

(i.e. 2 + 2 marks carried forward to Retained earnings account)

Profit after tax

Workings		Marks
Profit before tax 1,021,430 (1) x 70% (1) = 715,001 or Profit before tax 1,021,430 (1) – (1,021,430 x 30%) (1) = 715,001		1-2
Total		2

(i.e. 2 marks carried forward to Retained earnings account)

**One Deduction Ltd
General ledger (extract)
Retained earnings account**

Date	Account	Debit \$	Date	Account	Credit \$	Marks
1/7/19	Balance	85,000 (1)	30/6/20	Profit and loss	715,001 (2)	3
1/8/19	Final dividend	150,000 (2)				2
22/1/20	Interim dividend	125,000 (2)				2
30/6/20	General reserve	20,000 (1)				1
	Balance c/d	335,001				
		715,001			715,001	
			1/7/20	Balance b/d	335,001 (1)	1
Total						9

or

Date	Particulars	Debit \$	Credit \$	Balance \$		Marks
1/7/19	Balance			85,000DR	(1)	1
1/8/19	Final dividend	150,000 (2)		235,000DR		2
22/1/20	Interim dividend	125,000 (2)		360,000DR		2
30/6/20	Profit and loss		715,001 (2)	355,001CR		2
	Transfer to general reserve	20,000 (1)		335,001CR	(1)	2
Total						9

Deduct 1 mark for inclusion of foreign items/omission of date/s, to a maximum of 2 marks. Accept 30/6/20 for all dates.

- (b) Prepare the Property plant and equipment note to the accounts for One Deduction Ltd as at 30 June 2020. (8 marks)

Workings:

Land revaluation = 2,800,000 – 2,500,000 = 300,000

**One Deduction Ltd
Notes to the accounts (extract)
as at 30 June 2020**

Property Plant and Equipment	\$	\$	Marks
Land (at cost)	2,500,000 (1)		1
Revaluation of land	300,000 (1)	2,800,000	1
Office equipment (at cost)	210,000 (1)		1
Less accumulated depreciation – office equipment	70,000 (1)	140,000	1
Plant and equipment (at cost)	950,000 (1)		1
Less accumulated depreciation – plant and equipment	110,000 (1)	840,000	1
Buildings (at cost)	1,280,000 (1)		1
Less accumulated depreciation – buildings	320,000 (1)	960,000	1
Total property plant and equipment		4,740,000	
		Total	8

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks.

- (c) Prepare the Statement of financial position for One Deduction Ltd as at 30 June 2020. (19 marks)

Trade and other receivables

Workings	Marks
Debtors/accounts receivable – Allowance for doubtful debts = 115,000 (1) – 25,000 (1) = 90,000	1–2
Total	2

(i.e. 2 marks carried forward to Statement of financial position)

Trade and other payables

Workings	Marks
Creditors/accounts payable + Accrued wages = 90,000 (1) + 20,000 (1) = 110,000	1–2
Total	2

(i.e. 2 marks carried forward to Statement of financial position)

Tax payable

Workings	Marks
1,021,430 (1) x 30% (1) = 306,429	1–2
Total	2

(i.e. 2 marks carried forward to Statement of financial position)

Other equity

Workings	Marks
General reserve = 770,000 (1) + 20,000 (1) = 790,000	1–3
Revaluation reserve = 0 + 300,000 (1)	
790,000 + 300,000 = 1,090,000	
Total	3

(i.e. 3 marks carried forward to Statement of financial position)

One Deduction Ltd
Statement of financial position as at 30 June 2020

	\$	Marks
Current assets		
Cash and cash equivalents	15,000 (1)	1
Trade and other receivables	90,000 (2)	2
Inventories	225,000 (1)	1
Financial assets	80,000 (1)	1
Other current assets	30,000 (1)	1
Total current assets	440,000	
Non-current assets		
Property, plant and equipment	4,740,000 (1)	1
Total non-current assets	4,740,000	
Total assets	5,180,000	
Current liabilities		
Trade and other payables	110,000 (2)	2
Short-term borrowings	90,000 (1)	1
Tax payable	306,429 (2)	2
Total current liabilities	506,429	
Non-current liabilities		
Long-term borrowings	748,570 (1)	1
Total non-current liabilities	748,570	
Total liabilities	1,254,999	
Net assets (1)	3,925,001	1
Equity		
Share capital	2,500,000 (1)	1
Retained earnings	335,001 (1)	1
Other components of equity	1,090,000 (3)	3
Total equity	3,925,001	
	Total	19

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks.

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

As per AASB 101:

Deduct 1 mark for not classifying into current/non-current, to a maximum of 1 mark.

Deduct 1 mark for not presenting Property, plant and equipment as a line item, to a maximum of 1 mark.

- (d) (i) The management of One Deduction Ltd has asked you to explain the importance of liquidity when analysing and interpreting financial statements. (3 marks)

Description	Marks
Explains the importance of liquidity when analysing and interpreting financial statements	3
Makes a statement about liquidity when analysing and interpreting financial statements	2
States a fact about liquidity	1
Total	3
Answer(s) could include but are not limited to: Liquidity refers to the ease with which assets can be turned into cash as part of the normal business operations of paying debts as they become due. Liquidity can be assessed by studying the relationship between current assets and current liabilities in the company's statement of financial position. To pay its short-term debts (current liabilities) the business must have sufficient cash and other assets likely to be turned into cash in the short-term (current assets). Accept any other reasonable answer.	

- (ii) Identify and calculate **one** ratio to provide a measure of One Deduction Ltd's liquidity. (3 marks)

Workings	Marks
Working capital/current ratio (1) = $\frac{440,000}{506,429}$ (1) = 86.88% (0.87:1)	1-3
Total	3
Ratio: Working capital/current ratio is 86.88% (or 0.87:1)	

or

Workings	Marks
Quick asset ratio (1) = $\frac{440,000 - 225,000 - 30,000}{506,429 - 90,000}$ (1) = 44.43% (0.44:1)	1-3
Total	3
Ratio: Quick asset ratio is 44.43% (or 0.44:1)	

Question 20

(27 marks)

- (a) Prepare the General journal entries needed to record the cash share issue and subsequent share costs, including any closing entries required. (8 marks)

Workings:

Share Issue = 300,000 x 4 = 1,200,000

**Timberpool Ltd
General journal (extract)**

Date	Particulars	Debit \$	Credit \$	Marks
5/11/19	Cash at bank	1,200,000		1
	Application – ordinary share capital		1,200,000	1
	<i>Application monies received for 300,000 ordinary shares fully paid at \$4.00 per share</i>			
15/11/19	Application – ordinary share capital	1,200,000		1
	Ordinary share capital		1,200,000	1
	<i>Allotment of 300,000 ordinary shares fully paid at \$4.00 per share</i>			
	Share issue costs	40,000		1
	Cash at bank		40,000	1
	<i>Payment of share issue costs</i>			
	Ordinary share capital	40,000		1
	Share issue costs		40,000	1
	<i>Transfer of share issue costs</i>			
	Total			8

Accept 30/6/20 as alternative dates for transfer of share issue costs.

Deduct 1 mark if date/s or narrations are omitted or incorrect, to a maximum of 2 marks.

- (b) Prepare the Statement of changes in equity for Timberpool Ltd for the year ended 30 June 2020. (13 marks)

Profit after tax

Workings	Marks
1,184,000 (1) – 355,000 (1) = 829,000	1–2
Total	2

(i.e. 2 marks carried forward to Statement of changes in equity)

Interim dividend paid

Workings	Marks
(4,200,000 (1) + 300,000 (1)) x 0.14 (1) = 630,000	1–3
Total	3

(i.e. 3 marks carried forward to Statement of changes in equity)

Timberpool Ltd
Statement of changes in equity
for the year ended 30 June 2020

	Ordinary share capital	Retained earnings	Revaluation reserve	General reserve	Total equity	Marks
Balance at beginning	4,200,000 (1)	239,000 (1)	–	98,000 (1)	4,537,000	3
Changes during the year						
Share issue	1,200,000 (1)				1,200,000	1
Share issue costs	(40,000) (1)				(40,000)	1
Dividends		(630,000) (3)			(630,000)	3
Total comprehensive income		829,000 (2)	400,000 (1)		1,229,000	3
Transfer to reserves		(150,000) (1)		150,000 (1)		2
Balance at end	5,360,000	288,000	400,000	248,000	6,296,000	
Total						13

or

		Marks
Profit for the period	829,000	
Asset revaluation	400,000	
Total comprehensive income	1,229,000	
Ordinary share capital		
Balance at start of period	4,200,000 (1)	1
Share issue	1,200,000 (1)	1
Share issue costs	(40,000) (1)	1
Balance at end of period	5,360,000	
Other components of equity		
General reserve		
Balance at start of period	98,000 (1)	1
Transfer from retained earnings	150,000 (1)	1
Balance at end of period	248,000	
Revaluation reserve		
Balance at start of period	-	
Asset revaluation	400,000 (1)	1
Balance at end of period	400,000	
Total other components of equity	648,000	
Retained earnings		
Balance at start of period	239,000 (1)	1
Profit for period	829,000 (2)	2
	1,068,000	
Interim dividend	(630,000) (3)	3
Transfer to general reserve	(150,000) (1)	1
Balance at end of period	288,000	
Total		13

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

Deduct 1 mark for the inclusion of incorrect items, to a maximum of 2 marks.

- (c) Describe the role and **two** key elements of *The Framework for the Preparation and Presentation of General Purpose Financial Reports*. (6 marks)

Description	Marks
Describes the role of <i>The Framework for the Preparation and Presentation of General Purpose Financial Reports</i> (The Framework)	2
Makes a statement about The Framework	1
Subtotal	2
For each of two key elements of The Framework:	
Describes the element	2
Makes a statement about the element	1
Subtotal	4
Total	6
Answer(s) could include but are not limited to:	
<p>Role of The Framework: <i>The Framework for the Preparation and Presentation of General Purpose Financial Reports</i> sets out the concepts that underlie the preparation and presentation of financial statements for external users.</p>	
<p>Elements of The Framework:</p> <ul style="list-style-type: none"> • The Framework can enable the resolution of accounting problems without the need to issue additional accounting standards. With fewer accounting standards, this assists businesses in the preparation of financial reports because it reduces the time and costs associated with the preparation of these reports and the large number of standards to be complied with. • Accounting standards conform to The Framework and, as such, are more consistent with each other. • The Framework outlines the qualitative characteristics of useful financial information which is applied to financial information provided in financial statements and other ways. • The Framework provides common definitions for key reportable items such as income, expenses, assets, liabilities and equity. This provides for better communication and understanding between accountants, standard-setting bodies and users of general purpose financial reports. • The Framework provides a concise and well-defined set of concepts that has increased the credibility of financial reporting. • Standard-setting bodies are able to defend accounting standards on the basis that they are consistent with The Framework. • The Framework helps to reduce the ability of outside organisations, such as lobby groups, to influence the standard-setting process. 	
Accept any other reasonable answer.	

Section Three: Extended answer

15% (30 Marks)

Question 21

(30 marks)

- (a) Explain the purpose of an internal audit and an external audit of a company, with specific reference to the functions performed by each. (4 marks)

Description	Marks
Explains the purpose of an internal audit with specific reference to the function it performs	2
Provides a limited explanation of the purpose of an internal audit	1
Subtotal	2
Explains the purpose of an external audit with specific reference to the function it performs	2
Provides a limited explanation of the purpose of an external audit	1
Subtotal	2
Total	4
Answer(s) could include by are not limited to:	
<p>Internal audit: The purpose of an internal audit is to review the procedures, systems and policies of a company to ensure that they are being adhered to and working efficiently and effectively/to detect and correct errors, and to identify deficiencies in operations so that improvements can be made. This function is carried out by internal auditors who report to the management of the company.</p>	
<p>External audit: The purpose of an external audit is to check that the company's financial records have been properly maintained and that they accurately represent the company's performance and position for the period being audited. A formal report to this effect must be attached to the company's accounts which are distributed to shareholders and approved at the Annual General Meeting (AGM). The external auditor must be independent and acts on behalf of the shareholders and is appointed by them at the company's AGM.</p>	
Accept any other reasonable answer.	

- (b) Accounting generates different forms of accounting information for different user groups. Explain the difference between internal and external reporting with respect to:
- the users of internal and external reports
 - the types of reports prepared for internal and external users of accounting information
 - the impact of accounting and other regulation on the preparation and distribution of internal and external reports.
- (8 marks)

Description	Marks
Identifies user groups and distinguishes each group as a user of either internal or external accounting reports	2
Identifies user groups of accounting reports	1
Subtotal	2
Explains a wide range of reports prepared for internal and external users	3
Describes some reports prepared for internal and external users	2
Lists some reports prepared for internal and external users	1
Subtotal	3
Explains the impact of accounting and other regulation on the preparation and distribution of internal and external reports	3
Provides a limited explanation of the impact of accounting and other regulation on the preparation and distribution of internal and external reports	2
Makes a general statement about the impact of accounting and other regulation on the preparation and distribution of internal and external reports	1
Subtotal	3
Total	8
<p>Answer(s) could include but are not limited to:</p> <p>The users of internal and external reports:</p> <ul style="list-style-type: none"> • Users of internal financial reports are managers within the business. • Users external to a company include shareholders/investors, lenders, creditors and government agencies. <p>The types of reports prepared for internal and external users of accounting information:</p> <ul style="list-style-type: none"> • Internal reporting supports the managerial decision-making process and assists with day-to-day operations of the business. Internal reports include cash budgets, performance reports and budgeted income statements. • The main focus of external reporting is the financial statements, or annual report. The main purpose of financial statements is to provide information about the financial position and performance of a company that is useful to a wide range of users in making economic decisions. The Annual report includes the Statement of financial position, Statement of comprehensive income, Statement of changes in equity and Statement of cash flows. <p>The impact of accounting and other regulation on the preparation and distribution of internal and external reports:</p> <ul style="list-style-type: none"> • No legal obligations are involved in meeting internal reporting requirements. • Regulation is required in relation to external reporting of financial statements, including the Corporations Act, the Australian Accounting Standards and (where applicable) the Australian Securities Exchange. The Australian Securities and Investments Commission also require the lodgement of annual reports for all public and large proprietary companies. Annual reports may also be required to be audited. 	
Accept any other reasonable answer.	

- (c) With reference to the information provided, explain the purpose of annual reporting and the use of key performance indicators by the directors of B-Onn-Say Ltd for decision-making purposes. (4 marks)

Description	Marks
Makes comprehensive reference to the source material to explain the purpose of annual reporting and the use of key performance indicators for decision-making purposes	4
Makes some reference to the source material to explain the purpose of annual reporting and the use of key performance indicators for decision-making purposes	3
Makes superficial reference to the source material to make a general statement about the purpose of annual reporting or the use of key performance indicators	2
Makes a general statement about the purpose of annual reporting or the use of key performance indicators	1
Total	4
<p>Answer(s) could include but are not limited to:</p> <p>Annual reporting provides information about the financial position and performance of the company that is useful to a wide range of users in making economic decisions. B-Onn-Say Ltd's annual reporting:</p> <ul style="list-style-type: none"> provides information showing profit for the period and comparatives to the previous year in the Statement of comprehensive income, cash flow for the period in the Statement of cash flows, liquidity through the working capital/current ratios (including comparison with the previous year), leverage through the debt to equity ratio (including comparison with the previous year) and the efficiency with which it collects its debts through the debtor's collection period ratio (including comparison with the previous year) complies with the legal obligations of the Corporations Act, the Australian Accounting Standards, the Australian Securities Exchange and the Australian Securities and Investments Commission. <p>Key performance indicators (KPIs) are financial or non-financial, quantifiable measures that assist businesses to evaluate how successful they have been in achieving their goals. For decision-making purposes, KPIs are useful because they:</p> <ul style="list-style-type: none"> track actual results against target KPIs to identify possible trends highlight where the business is performing better or worse than target KPIs provide an indication of where action needs to be taken. <p>Accept any other reasonable answer.</p>	

- (d) Using the information provided, assess the profitability of B-Onn-Say Ltd as at 30 June 2019 and 30 June 2020. (4 marks)

Description	Marks
Provides a comprehensive assessment of B-Onn-Say Ltd's profitability	4
Provides a limited assessment of B-Onn-Say Ltd's profitability	3
States that B-Onn-Say Ltd's profitability has improved over the period	2
Makes a general statement about the profitability of B-Onn-Say Ltd or calculates a profitability ratio for both years	1
Total	4
<p>Answer(s) could include but are not limited to:</p> <p>B-Onn-Say Ltd's profitability has improved over the period 30 June 2019 to 30 June 2020 indicating that they are using their resources more efficiently.</p> <p>Factors contributing to this are:</p> <ul style="list-style-type: none"> • the profit after income tax has more than doubled between 2019 (\$49,896) and 2020 (\$100,562) • the revenue increased by 25% from \$599,526 to \$750,000 • the gross profit relative to revenue has also improved. <p>Accept any other reasonable answer.</p>	

- (e) Identify **two** additional sources of information and describe how they would assist you in assessing the financial position and performance of B-Onn-Say Ltd. (4 marks)

Description		Marks
For each of two additional sources of information:		
Identifies the sources and describes how it would assist in assessing the financial performance of B-Onn-Say Ltd		2
Identifies the sources and makes a general statement about how it would assist in assessing the financial performance of B-Onn-Say Ltd		1
Total		4
Answer(s) could include but are not limited to:		
Additional sources of information:	Assists in:	
Master budget, Cash budget, Performance report, Budgeted income statement	the cash budget, budgeted income statements and other forecasted statements can be used to generate a reasonable estimate of the company's future cash position and profits forecast, but equally important is the process of thinking through the financial plan to improve the insight of the company's managers	
Statement of financial position	provides a comprehensive statement of assets, liabilities and equity at a particular point in time	
Statement of changes in equity	provides details regarding all changes to equity during a financial period, including profit, share issues and dividends paid	
External auditor's report	provides an independent opinion of the true and fair nature of the information contained in the financial reports, to increase user confidence in the company's reports	
Directors' report	contains information that stakeholders would reasonably require to make an informed assessment of the company's operations, financial position and future prospects.	
Accept any other reasonable answer.		

- (f) B-Onn-Say Ltd has given the Chief Financial Officer shares in the company. Discuss the statement 'Employee share plans can pose an ethical issue as management is focused on short-term profitability to increase their share price as opposed to long-term business growth for the benefit of business owners/shareholders.' (6 marks)

Description	Marks
Discusses the statement by including detailed reasons for and/or against employee share plans, and linking relevant supporting evidence to ethical issues	5–6
Discusses the statement by including reasons for and/or against employee share plans, and making a link to ethical issues	3–4
Attempts to link the statement to ethical issues associated with employee share plans	1–2
Total	6
<p>Answer(s) could include but are not limited to:</p> <p>Reasons for employee share plans:</p> <ul style="list-style-type: none"> • Employee share plans can provide positive benefits such as providing employees with financial rewards, linked to individual and organisational performance or a long-term savings and ownership structure. • Employees have an increased sense of 'ownership' and association with the business and have an improved awareness about the 'big picture' decisions, directions and corporate plans of the enterprise. • Employees who are part of an employee share plan are found to have better communication and partnership between management and other employees. • Employee share plans are often linked with employee engagement and involvement and this presents the opportunity to influence decisions about products and process. <p>Reasons against employee share plans:</p> <ul style="list-style-type: none"> • The involvement of senior management and directors in share plans may introduce conflicts of interest between employees, directors and shareholders. • While share plans can bring benefits to all parties, they can also be used by management and directors to further self-interests. • Employee share plans can result in employees having 'all their eggs in one basket' with regard to their future employability. • The employee can be over-exposed to the company's shares, so if the company does not perform well or goes into administration the employee's investment could be lost (this problem can be minimised by limiting the amount of shares that the employee can buy). • The share price can decrease and this can impact the value of the holding for an employee. • The employee might not feel that they can influence the share price or performance measures and that, as a result, the plan has no value for them. This can also lead to employees in certain positions influencing decisions for their own benefit, that is to maximise profit for the benefit of the share price and subsequent dividend. <p>Accept any other reasonable answer.</p>	

Question 22

(30 marks)

- (a) Define the debt to equity ratio and explain why the ratio has decreased from 2019 to 2020, despite the increase in bank borrowings. (4 marks)

Description	Marks
Defines the debt to equity ratio correctly	1
Subtotal	1
Explains why the debt to equity ratio has decreased from 2019 to 2020, despite the increase in bank borrowings	3
Provides a limited explanation of why the debt to equity ratio has decreased from 2019 to 2020, despite the increase in bank borrowings	2
Makes a relevant statement about the change in the debt to equity ratio	1
Subtotal	3
Total	4
<p>Answer(s) could include but are not limited to:</p> <p>Definition of the debt to equity ratio: The debt to equity ratio is a measure of the degree to which assets of the business are financed by the debts and the shareholders' equity of the company.</p> <p>Reason it has decreased despite the increase in bank borrowings: The ratio decreased from 1.40 to 1.32. This is despite an increase in borrowings (as shown in the cash flow statement at \$183,727). At the same time as borrowings increased, equity increased due to the issue of shares (as shown in the cash flow statement at \$117,136) and the business' total comprehensive income increased to \$127,523. This resulted in total equity increasing greater than total debt during the year. This led to a decrease in the debt to equity ratio. This is a positive change showing a slightly lower reliance on debt financing.</p> <p>Accept any other reasonable answer.</p>	

- (b) How could B-Onn-Say Ltd use the efficiency ratio of debtor's collection for planning, coordinating and controlling? Give an example of a step that could be taken if the standard credit terms are 30 days. (4 marks)

Description	Marks
Describes how B-Onn-Say Ltd could use the ratio of debtor's collection for planning, coordinating and controlling	2
Defines the ratio for debtor's collection	1
Subtotal	2
Gives an example of a step that B-Onn-Say Ltd could take to improve the debtor's collection period and provides a logical reason	2
Gives an example of a step that B-Onn-Say Ltd could take to improve the debtor's collection period	1
Subtotal	2
Total	4
<p>Answer(s) could include but are not limited to:</p> <p>The efficiency ratio of debtor's collection provides information about how long 'on average' it takes to convert the company's debtors into cash (i.e. the average time to receive payment). B-Onn-Say Ltd can use the information revealed by this ratio to estimate when they will receive payment from their debtors and, therefore, how much cash they will have to put to operational costs. If normal credit terms by the company are 30 days, and debtor's collection has increased to 67 days, then there is a concern about receiving cash payment, or liquidity. The company will be covering the cost of the increase in debtor's collection period as they will be receiving cash later rather than sooner. This could result in the company having insufficient cash to cover their operational costs.</p> <p>Steps that could be taken to improve collection of debts:</p> <ul style="list-style-type: none"> • follow up outstanding debtors to remind them of their debt – this will encourage prompt payment of what is already owed • not extending further credit to customers who have not paid their accounts – this will encourage them to pay what is owed • initiate or increase credit checks/references before extending credit to new customers – this will assist in identifying those customers with a poor credit history so that credit will not be extended to them • offer early payment discounts – this will encourage existing customers to pay their accounts on time. 	
Accept any other reasonable answer.	

- (c) Explain why there is an amount relating to shares and dividends in both cash flows from investing activities and cash flows from financing activities. (4 marks)

Description	Marks
For each of financing and investing activities:	
Explains a reason for there being amounts relating to shares and dividends	2
States a reason for there being amounts relating to shares and dividends	1
Total	4
Answer(s) could include but are not limited to:	
<p>Cash flows from investing activities:</p> <ul style="list-style-type: none"> Investing cash flows refers to the acquisition and disposal of long-term assets and other investments not included in cash equivalents. They tend to be transactions affecting the assets, or future income generating resources, of a business. Information relating to shares in investing activities relates to shares in other companies purchased by B-Onn-Say Ltd. They are an asset in their accounts and will generate income through dividends. These are classified as investments and are an outflow in the Statement of cash flows as they were a payment. The dividends amount in the Investing activities is an inflow of cash. This is a receipt of income in the form of a dividend from investments in other companies in which B-Onn-Say Ltd has purchased shares. <p>Cash flows from financing activities:</p> <ul style="list-style-type: none"> Financing cash flows refers to the activities that result in changes in the size and composition of the capital and borrowings of an entity. They are transactions that affect the liability and equity of the company. Shares in financing cash flows are an inflow. This is money raised by a share issue by B-Onn-Say Ltd for additional capital and is an equity item in their accounts. The amount for dividends in the financing section of the Statement of cash flows represents money in the form of dividends paid to B-Onn-Say Ltd's shareholders. 	
Accept any other reasonable answer.	

- (d) The total comprehensive income for the company is different from the net cash flow from operating activities. Provide **three** possible reasons why these amounts are different and explain how they contribute to a difference between reporting of cash and accrual performance. (6 marks)

Description	Marks
For each of three reasons:	
Explains how the reason contributes to a difference between reporting of cash and accrual performance	2
Provides the reason for the difference between reporting of cash and accrual performance	1
Total	6
Answer(s) could include but are not limited to:	
Reasons for differences:	
<ul style="list-style-type: none"> • Depreciation is an expense affecting the profit shown in the Statement of comprehensive income that is prepared on an accrual basis; it is not shown in the Statement of cash flows that is prepared on a cash basis. • Income earned, but that has not yet been received in cash, will affect the profit shown in the Statement of comprehensive income that is prepared on an accrual basis; it will not be shown in the Statement of cash flows that is prepared on a cash basis. • Expenses incurred, but not yet paid in cash, will affect the profit shown in the Statement of comprehensive income that is prepared on an accrual basis; they will not be shown in the Statement of cash flows that is prepared on a cash basis. • Income received in advance involves an inflow of cash and forms part of the operating activities shown in the Statement of cash flows that is prepared on a cash basis; the amount of income received in advance is not included in the income figure affecting the profit shown in the Statement of comprehensive income that is prepared on an accrual basis and shows only the amount of income earned. • Prepaid expenses involves an outflow of cash and forms part of the operating activities shown in the Statement of cash flows that is prepared on a cash basis; these are not shown in the Statement of comprehensive income that is prepared on an accrual basis and shows only the amount of expenses incurred. • Asset revaluation amounts are shown in the Statement of comprehensive income and do not involve a cash flow and, therefore, will not be shown in the Statement of cash flows. 	
Accept any other reasonable answer.	

- (e) Describe **three** limitations to assessing business performance from financial statement analysis and traditional financial accounting. (6 marks)

Description	Marks
For each of three limitations:	
Describes the limitation	2
Identifies the limitation	1
Total	6
<p>Answer(s) could include but are not limited to:</p> <ul style="list-style-type: none"> • financial reports are produced some time after the end of the financial period for which it is relevant • the data is historical whereas the performance of a business is often impacted by future events. Financial statements report historical performance and are three to six months out of date by the time they are published to stakeholders • data can be manipulated at balance date to reflect desired outcomes • the use of historical costs for assets. If assets are valued at historical cost, and not revalued, their market values may differ significantly from their historical cost • the lack of comparability between entities where businesses can differ in size, accounting methods, diversification of product lines and geographic location. Therefore, comparing the performance of one business against another is not an exact science • the figures presented in statements are often consolidated and do not show individual amounts • ratio analysis and analysis of trends can be difficult to calculate and/or require estimation and may need a number of years before a trend is evident. Ratios need to be compared to an industry-wide standard to allow further evaluation and they do not identify the cause of the problem • information provided in the Statement of cash flows showing cash generated from operations and payments paid to suppliers and employees provides no detail as to what these amounts are made up of. 	
Accept any other reasonable answer.	

- (f) The bank borrowings sourced were a standard five-year bank loan facility. Other than a bank loan, describe **three** other sources of long-term funds that might be available to B-Onn-Say Ltd. (6 marks)

Description	Marks
For each of three sources of long-term funds:	
Describes the source	2
Identifies the source	1
Total	6
<p>Answer(s) could include but are not limited to:</p> <ul style="list-style-type: none"> • equity finance, where the company could issue additional shares to raise funds; however, the company would then be responsible for paying dividends for these additional shares in the future • debentures are loan securities issued by public companies that must be repaid at a fixed time in the future. Interest would be paid by the company on a regular period, usually monthly, and the debentures are secured with a charge over the company's assets • unsecured notes are similar to debentures but generally for a shorter period of time and there would be no charge over the assets • convertible notes are loan securities with a fixed interest rate issued by companies, where the loan can be swapped by for a fixed number of shares at maturity • leasing or hire purchase of assets which would otherwise be financed by a loan: <ul style="list-style-type: none"> ○ leasing – the ownership of the asset would remain with the funds provider. The company would have the rights of an owner except they would not be able to sell the asset. At the end of the lease there could be a provision to purchase the asset ○ hire purchase – similar to a lease but ownership would pass to the company at the end of the hire purchase period. <p>Accept any other reasonable answer.</p>	

ACKNOWLEDGEMENTS

- Question 21(f)** Text under 'Answer(s) could include' 'Reasons for Employee share plans' (1st to 4th dot points) adapted from: Employee Ownership Australia. (2012). *The Advantages And Disadvantages Of Employee Share Ownership For A Company And An Employee*. Retrieved August, 2018 from <https://employeeownership.com.au/the-advantages-and-disadvantage/>
- Text under 'Answer(s) could include' 'Reasons against Employee share plans' (3rd and 4th dot points) (5th dot point) sentence 1 from: Employee Ownership Australia. (2012). *The Advantages And Disadvantages Of Employee Share Ownership For A Company And An Employee*. Retrieved August, 2018 from <https://employeeownership.com.au/the-advantages-and-disadvantage/>
- Question 22(a)** Text under 'Answer(s) could include' 'Definition of the debt to equity ratio' (paragraph one) adapted from: Jan, I. (n.d) Accounting Explained, *Debt-to-Equity Ratio*. Retrieved August, 2018, from <https://accountingexplained.com/financial/ratios/debt-to-equity>
- Question 22(c)** Text under 'Answer(s) could include' 'Cash flows from investing activities' (1st dot point) sentence 1 adapted from: Australian Accounting Standards Board. (2017). *Cash Flow Statements*. Retrieved August, 2018, from https://www.aasb.gov.au/admin/file/content105/c9/AASB107_07-04_COMPjul07_07-07.pdf
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- Text under 'Answer(s) could include' 'Cash flows from financing activities' (1st dot point) sentence 1 adapted from: Australian Accounting Standards Board. (2017). *Cash Flow Statements*. Retrieved August, 2018, from https://www.aasb.gov.au/admin/file/content105/c9/AASB107_07-04_COMPjul07_07-07.pdf
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