



# **ACCOUNTING AND FINANCE**

## **ATAR course examination 2024**

### **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	c
2	b
3	d
4	b
5	c
6	b
7	c
8	d
9	c
10	b
11	c
12	d
13	a
14	a
15	a

**Workings:****Question 11**

Earnings per share: Profit (after tax)/weighted number of shares

Earnings per share:  $(\$6,000 \times 70\%) / 1,200 \text{ shares} = \$3.50$ **Question 12**

Dividend yield: Dividend per share/market price per share

Dividend yield:  $(\$2,600 / 1,200) / \$36 = 6.02\%$ **Question 13**

Debt to equity: Total liabilities/Equity (end)

Debt to equity:  $\$1,910,000 / (4,560,000 - 1,910,000) = 72.08\%$

## 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 in both calculations and in interpretations should **not** be penalised.

## Section Two: Short answer

70% (166 Marks)

## Question 16

(23 marks)

- (a) Prepare a schedule of collections from debtors for each of the months of November and December 2024. Round all figures to the nearest whole dollar. (6 marks)

**ZBTQ Trading Pty Ltd**  
**Schedule of collections from debtors**  
**for each of the months of November and December 2024**

Description			Marks
Sales	November \$	December \$	
October (176,000 x 25%) (1) = 44,000	44,000		1
November (177,000 x 75%) (1) = (132,750 x 98.5%) (1) = 130,759 (177,000 x 25%) (1) = 44,250	130,759	44,250	1–3
December (187,500 x 75%) (1) = (140,625 x 98.5%) (1) = 138,516		138,516	1–2
Totals	174,759	182,766	
	<b>Total</b>		<b>6</b>

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

**Question 16** (continued)

- (b) Prepare a cash budget for each of the months of November and December 2024.  
Round all figures to the nearest whole dollar. (17 marks)

**Workings:****Loss on sale of plant and equipment**

\$10,500 (1) – \$9,250 (1) = \$1,250

i.e. 2 marks included in calculation of other expenses

**Other expenses**

	November \$	December \$	Marks
Total other expenses	32,000 (1)	38,000 (1)	1–2
Less loss on sale of plant and equipment	(1,250) (2)		1–2
Less depreciation	(3,500) (1)	(3,500) (1)	1–2
Total cash other expenses	27,250	34,500	

i.e. 6 marks for other expenses transferred to the cash budget

**Wages paid in cash**

November \$28,000 (1) – \$2,100 (1) = \$25,900

i.e. 2 marks for wages for November transferred to the cash budget

December \$30,000 (1) – \$2,100 + \$2,100 (November accrued) = \$30,000

i.e. 1 mark for wages for December transferred to the cash budget

**ZBTQ Trading Pty Ltd**  
**Cash budget**  
**for each of the months of November and December 2024**

Description			Marks
	November \$	December \$	
Cash balance at beginning	(10,500) (1)	(2,641) (1)	1–2
Collections from debtors	174,759 (1)	182,766 (1)	1–2
Sale of plant and equipment	9,250 (1)		1
Total estimated cash available	173,509	180,125	
Payment to creditors	98,000 (1)	99,000 (1)	1–2
Purchase of plant and equipment	25,000 (1)		1
Wages	25,900 (2)	30,000 (1)	1–3
Other expenses	27,250 (4)	34,500 (2)	1–6
Total estimated payments	176,150	163,500	
Cash balance at end	(2,641)	16,625	
	<b>Total</b>		<b>17</b>

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

**Deduct 1 mark for each foreign item, to a maximum of 2 marks.**

**Deduct 1 mark for not showing each month separately, to a maximum of 1 mark.**

## Question 17

(35 marks)

- (a) Calculate the net present value (NPV) for ROB E and, based on your calculations, state whether the ROB E proposal should be accepted or rejected. Round all calculations to the nearest whole dollar. (18 marks)

## Workings:

Year	Cash inflows	Less cash outflows	= Net cash flows	x discount rate @ 8%	= NPV future cash flows	Marks
	\$	\$	\$		\$	
1	130,000 (1) + 30,000 (1)	50,000 (1)	110,000	0.9259 (1)	101,849	1-4
2	150,000 (1) + 30,000	50,000	130,000	0.8573 (1)	111,449	1-2
3	165,000 (1) + 30,000	50,000	145,000	0.7938 (1)	115,101	1-2
4	155,000 (1) + 30,000	50,000	135,000	0.7350 (1)	99,225	1-2
5	145,000 (1) + 30,000 + 100,000 (1)	50,000	225,000	0.6806 (1)	153,135	1-3
			Total present value		580,759	
Initial cost of proposal = [\$250,000 (1) + (\$100,000 x 0.9259 (1)) = \$92,590] = \$342,590						1-2
NPV calculation = Present value of future net cash flows – present value of cost of project \$580,759 (1) – \$342,590 (1) = \$238,169						1-2
Accept proposed investment						1
<b>Total</b>						<b>18</b>

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

**Deduct 1 mark for each foreign item, to a maximum of 2 marks.**

Net present value of ROB E: \$238,169

Accept or reject the ROB E investment proposal: Accept

**Question 17** (continued)

- (b) Calculate the payback period for ROB E and, based on your calculations, state whether the ROB E proposal should be accepted or rejected. (9 marks)

**Workings:**

Description			Marks
Initial cost of ROB E proposal		\$250,000 (1) + \$100,000 (1) = \$350,000	1–2
Year	Net cash flows \$	Accumulated net cash inflows \$	
1	110,000 (1)	110,000	1
2	130,000 (1)	240,000	1
3	145,000		
Calculation of payback period \$350,000 – \$240,000 (1) = \$110,000/\$145,000 (1) = 0.76 x 12 (1) = 9.12 rounded to 10 months (1)			1–4
Payback period 2 years 10 months			
Accept proposed investment			1
<b>Total</b>			<b>9</b>

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

**Deduct 1 mark for each foreign item, to a maximum of 1 mark.**

Payback period for ROB E: 2 years 10 months

Accept or reject the ROB E investment proposal: Accept

- (c) Describe **two** non-financial factors that the management of Twetzee Pty Ltd should consider before purchasing the ROB E equipment. (4 marks)

Description	Marks
For each non-financial factor (2 x 2 marks)	
Describes the non-financial factor	2
Identifies or makes a statement about the non-financial factor	1
<b>Total</b>	<b>4</b>
<p>Answers could include:</p> <p>Competition: Management is planning to increase production and the sale price of their products. Management should ascertain how their prices will compare with their competitors and whether the business will be able to increase sales if prices are increased.</p> <p>Government regulation: Management states that many more trucks will be moving in and out of the factory which will impact traffic in the local area. Management should check whether there are any government regulations concerning the traffic levels coming and going from the factory.</p> <p>Consumer preference: Consumers who become aware of changes in production processes may prefer less automation. They may also be aware of increased local traffic and certainly increased pricing.</p> <p>Accept other relevant answers.</p>	

- (d) Suggest whether the management of Twetzee Pty Ltd should proceed with the original or the alternative proposal and justify your response. (4 marks)

Description	Marks
States that management should proceed with the alternative proposal	1
<b>Subtotal</b>	<b>1</b>
Justifies why the proposal should be accepted	3
Describes why the proposal should be accepted	2
States a reason why the proposal 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>the business should proceed with the alternative proposal</li> <li>the alternative proposal exceeds the acceptable payback period by one month</li> <li>the NPV method accounts for all net cash flows over the entire project and adjusts future net cash flows to present day values based on a discount rate determined by management. Based on management's requirements this method is probably the best to evaluate the purchase of the ROB E project</li> <li>the payback period method uses net cash flows of the project to calculate how long it will take to cover the initial cost of the project. Any net cash flows beyond the payback period are ignored, so based on management's requirements, it is probably not the best method to assess the ROB E project</li> <li>the ability of business planners to predict cashflows and economic conditions becomes less reliable as the timeline increases</li> <li>overall, the NPV is much greater and the payback period, although longer, is almost within the acceptable period.</li> </ul> <p>Accept other relevant answers.</p>	

## Question 18

(23 marks)

- (a) Calculate the predetermined overhead recovery rate.

(8 marks)

**Workings:**

Description		Marks
Standard operating costs	\$	
Indirect materials	34,500	1
Fixed costs – miscellaneous pottery	36,500	1
Depreciation – pottery equipment	11,800	1
Pottery electricity and water	12,500	1
Cleaning – pottery	12,000	1
Total costs	107,300	

Direct labour hours: 300 units per month (1) x 10 hours per unit (1) x 12 months (1)  
= 36,000 hours p.a.

Predetermined overhead recovery rate  
=  $\frac{\text{total estimated manufacturing overheads}}{\text{total estimated allocation base}}$   
= \$107,300 (5)/36,000 hours (3)  
= \$2.98 per hour

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

**Deduct 1 mark for each foreign item, to a maximum of 1 mark.**

Predetermined overhead recovery rate: \$2.98 per hour

- (b) Calculate the cost of making
- one**
- handcrafted pottery item.

(8 marks)

**Workings:**

Description		Marks
Direct materials	\$183,000 (1)/12 (months) (1)/300 units (1) (amount produced)	\$50.83 1–3
Direct labour	\$720,000 (1)/36,000 hours (1) = \$20 per hour x 10 hours (1) per unit	\$200 1–3
Overheads	\$2.98 (1) x 10 hours (1)	\$29.80 1–2
Total cost		\$280.63
<b>Total</b>		<b>8</b>

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

**Deduct 1 mark for each foreign item, to a maximum of 1 mark.**

Cost of making one handcrafted pottery item: \$280.63



- (c) Calculate the direct labour efficiency variance per item using the information below. (4 marks)

**Workings:**

Direct labour efficiency variance:  $(ADLH - SDLHA) \times SR$   
 $(15 \text{ hours (1)} - 10 \text{ hours (1)}) \times \$20 \text{ (1)} = \$100 \text{ unfavourable (1)}$

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

**Deduct 1 mark for each foreign item, to a maximum of 1 mark.**

**Deduct 1 mark for calculating as a batch, to a maximum of 1 mark.**

Direct labour efficiency variance per item: \$100 unfavourable

- (d) Explain how costs are classified according to time orientation. (3 marks)

Description	Marks
Explains how costs are classified	3
Describes how costs are classified	2
Identifies or makes a general statement about costs	1
<b>Total</b>	<b>3</b>
Answers could include: <ul style="list-style-type: none"> <li>• costs already incurred are classified as past costs and these cannot be changed. Past costs can influence current decision-making by serving as benchmarks for efficiency, and providing lessons from previous mistakes</li> <li>• future costs impact planning and budgeting as businesses anticipate expenditures, allowing for strategic resource allocation and the development of contingency plans to mitigate financial risks</li> <li>• the integration of both past and future cost considerations enables informed decision-making and effective long-term financial management.</li> </ul>	
Accept other relevant answers.	

## Question 19

(41 marks)

- (a) Prepare the Statement of comprehensive income for Oxchidna Ltd for the six months ending 31 December 2023. (20 marks)

**Workings:**

Revenue:

Sales \$1,555,050 (1) – discount allowed \$32,650 (1) = \$1,522,400

Other income:

Dividends received: \$12,450 (1) + interest received \$6,400 (1) + rent received \$24,600 (1) = \$43,450

Operating expenses:

Doubtful debts	3,300	1
Other expenses	228,000	1
Wages	320,000	1
Depreciation – buildings (1,250,000 (1) x 0.1 (1) x 6/12) (1)	62,500	1–3
Depreciation – motor vehicle (65,820 (1) – 13,000 (1)) x 0.05 (1) x 6/12 (1)	1,321	1–4
Total	615,121	

Income tax expense:

Profit before tax \$387,779 (1) x 0.3 (1) = \$116,334

**Oxchidna Ltd**  
**Statement of comprehensive income**  
**for the six months ended 30 June 2023**

Description		Marks
	\$	
Revenue	1,522,400	1–2
Less Cost of sales	550,000	1
Gross profit	972,400	
Other income	43,450	1–3
Operating expenses	(615,121)	1–10
Finance expenses	(12,950)	1
Profit before income tax	387,779	
Income tax expense	(116,334)	1–2
Profit for period	271,445	
Other comprehensive income		
Gain on revaluation of land	150,000	1
Total comprehensive income for the period	421,445	
	<b>Total</b>	<b>20</b>

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

**Deduct 1 mark for each foreign item, to a maximum of 2 marks.**

**Deduct 1 mark if format not to AASB 101, to a maximum of 1 mark.**

- (b) Prepare the Notes to the accounts for Property, plant and equipment as at 31 December 2023. (8 marks)

**Workings**

Accumulated depreciation – buildings: \$125,000 (1) + \$62,500 (1) = \$187,500

Accumulated depreciation – motor vehicles: \$13,000 (1) + \$1,321 (1) = \$14,321

**Oxchidna Ltd**  
**Notes to the accounts (extract)**  
**as at 31 December 2023**

Description			Marks
Property, plant and equipment	\$	\$	
Land (at cost)	1,450,000		1
Add revaluation	150,000	1,600,000	1
Buildings (at cost)	1,250,000		1
Less Accumulated depreciation	187,500	1,062,500	1–2
Motor vehicle (at cost)	65,820		1
Less Accumulated depreciation	14,321	51,499	1–2
Total Property, plant and equipment		2,713,999	
		<b>Total</b>	<b>8</b>

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

**Deduct 1 mark for each foreign item, to a maximum of 1 mark.**

**Deduct 1 mark if format not to AASB 101, to a maximum of 1 mark. (Need to show land at cost plus revaluation. Separate class of asset less accumulated depreciation.)**

- (c) Prepare an extract of the assets section of the Statement of financial position for Oxchidna Ltd as at 31 December 2023. (7 marks)

**Workings:**

Trade receivables:

Account receivables \$206,000 (1) – Allowance for doubtful debts \$1,200 (1). = \$204,800

**Oxchidna Ltd**  
**Statement of financial position (extract)**  
**as at 30 June 2023**

Description			Marks
	\$		
Current assets			
Cash and cash equivalents	83,370		1
Trade and receivables	204,800		1–2
Inventories	234,000		1
Total current assets	522,170		
Non-current assets			
Property plant and equipment	2,713,999		1
Goodwill	120,000		1
Term deposit	250,000		1
Total non-current assets	3,083,999		
Total assets		3,606,169	
		<b>Total</b>	<b>7</b>

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

**Deduct 1 mark for each foreign item, to a maximum of 1 mark.**

## Question 19 (continued)

- (d) Explain the effect on the general ledger of the declaration of interim dividends on 19 September 2023. (3 marks)

Description	Marks
Explains the effect on the general ledger of the declaration of dividends	3
Describes the effect on the general ledger of the declaration of dividends	2
Makes a general comment about dividends	1
<b>Total</b>	<b>3</b>
<p>Answers could include:</p> <p>Dividends represent a distribution of profits to shareholders. When dividends are declared, the retained earnings account in the ledger decreases (debited) by the amount of the dividend. There would be a corresponding increase (credit) in a current liability account for dividends payable. Retained earnings represent the accumulated profits of the company that have not been distributed to shareholders or used for other purposes. There is no change to the cash at bank account at this point in time.</p> <p>Accept other relevant answers.</p>	

- (e) Applying the recognition criteria as per the *Conceptual Framework for Financial Reporting*, explain whether an employee would be recognised as an asset in the financial statements of the company. (3 marks)

Description	Marks
Explains the application of the asset recognition criteria with reference to employees	3
Describes the application of the asset recognition criteria	2
States a fact about asset recognition	1
<b>Total</b>	<b>3</b>
<p>Answers could include:</p> <p>An asset is recognised when it provides users of financial statements with information that is useful, i.e. with:</p> <ul style="list-style-type: none"> <li>• relevant information that is capable of making a difference in the decisions made by users</li> <li>• faithful representation – it must be able to be measured and is complete, neutral and free from error.</li> </ul> <p>Therefore, an employee does not meet the recognition criteria because:</p> <ul style="list-style-type: none"> <li>• their particular skill set is unlikely to make a difference in the decisions made by users</li> <li>• there is no measurement certainty regarding their value as this cannot be quantified in monetary terms.</li> </ul> <p>Accept other relevant answers.</p>	

## Question 20

(27 marks)

- (a) Calculate the current profit or loss for each of the three regions. (16 marks)

## Workings:

	Metropolitan	Coral Coast	Great Southern	Marks
Revenue	1,650,000 (1)	972,000 (1)	601,000 (1)	1–3
Direct labour	(760,000) (1)	(532,000) (1)	(380,000) (1)	1–3
Direct materials	(463,000) (1)	(324,000) (1)	(251,000) (1)	1–3
Fixed costs	311,000 x 48% (1) = (149,280)	311,000 x 32% (1) = (99,520)	311,000 x 20% (1) = (62,200)	1–3
Profit/Loss	\$277,720	\$16,480	(\$92,200)	
Sales mix	3,000,000 (1) /6,200,000 (1) = 48%	2,000,000 (1) /6,200,000 = 32%	1,200,000 (1) /6,200,000 = 20%	1–4
			<b>Total</b>	<b>16</b>
Note: Accept other mathematically correct calculations.				

**Deduct 1 mark for each calculation error, to a maximum of 2 marks.****Deduct 1 mark for each foreign item, to a maximum of 2 marks.****Deduct 1 mark if profit or loss not indicated, to a maximum of 1 mark.**

Current profit or loss for the Metropolitan region: \$277,720 profit

Current profit or loss for the Coral Coast region: \$16,480 profit

Current profit or loss for the Great Southern region: \$92,200 loss

- (b) Calculate the effect on profit or loss for the company if the Great Southern service is closed. (9 marks)

## Workings:

Current overall profit:

$$\$277,720 (1) + \$16,480 (1) - \$92,200 (1) = \$202,000$$

If the Great Southern service is closed:

$$\text{Revenue} = 1,650,000 + 972,000 = 2,622,000 (1)$$

$$\text{Direct labour} = (760,000) + (532,000) = (1,292,000) (1)$$

$$\text{Direct materials} = (463,000) + (324,000) = (787,000) (1)$$

$$\text{Fixed costs} = 311,000 (1) \times 90\% (1) = 279,900$$

$$\text{Total profit} = \underline{\underline{\$263,100}}$$

$$\text{Therefore } (\$263,100 - \$202,000) (1) = \$61,100$$

Effect on profit or loss if the Great Southern service is closed: increased profit of \$61,100

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

**Question 20** (continued)

- (c) On the basis of your calculations, would you recommend to the managers to go ahead with the plan to close the Great Southern service? Justify your answer. (2 marks)

Description	Marks
Makes a recommendation, with a reason	2
States a relevant fact	1
<b>Total</b>	<b>2</b>
Answers could include:	
Recommend to close the Great Southern service because:	
<ul style="list-style-type: none"><li>• the business would be more profitable</li><li>• there is a greater contribution margin from the other services.</li></ul>	
Accept other relevant answers.	

## Question 21

(17 marks)

- (a) Prepare entries in the following general ledger accounts for the transactions for the period from 1 July 2023 until 31 October 2023. Balancing of accounts is **not** required. (9 marks)

**Workings:**

Share issue: 350,000 (1) x \$3.50 (1) = \$1,225,000

Description						Marks
Date 2023	Details	Amount \$	Date 2023	Details	Amount \$	
<b>Applications account</b>						
Oct 22	Ord share capital	(1) 1,225,000	Oct 18	Bank	(2) 1,225,000	1-3
<b>Bank account</b>						
Jul 1	Opening balance	(1) 685,000	Sep 18	Share issue costs	(1) 50,000	1-2
Oct 18	Application	(1) 1,225,000				1
<b>Ordinary share capital account</b>						
			Jul 1	Opening balance	(1) 900,000	1
			Oct 22	Application	(1) 1,225,000	1
<b>Share issue costs account</b>						
Sep 18	Bank	(1) 50,000				1
<b>Total</b>						<b>9</b>

Deduct 1 mark for each foreign item, to a maximum of 1 mark.

Deduct 1 mark for each incorrect or omission of dates, to a maximum of 2 marks.

## Question 21 (continued)

## Alternative presentation

Description					Marks
Date 2023	Details	Debit \$	Credit \$	Balance \$	
<b>Applications account</b>					
Oct 18	Bank		(2) 1,225,000	1,225,000 Cr	2
22	Ord share capital	(1) 1,225,000		Nil	1
<b>Bank account</b>					
Jul 1	Opening balance	(1) 685,000		685,000 Dr	1
Sep18	Share issue costs		(1) 50,000	635,000 Dr	1
Oct 18	Application	(1) 1,225,000		1,860,000 Dr	1
<b>Ordinary share capital account</b>					
Jul 1	Opening balance		(1) 900,000	900,000 Cr	1
Oct 18	Application		(1) 1,225,000	2,125,000 Cr	1
<b>Share issue costs account</b>					
Sep 18	Bank	(1) 50,000		50,000 Dr	1
<b>Total</b>					<b>9</b>

Deduct 1 mark for each foreign item, to a maximum of 1 mark.

Deduct 1 mark for each incorrect or omission of dates, to a maximum of 2 marks.

Note: Do not penalise errors in the balance column.

- (b) Describe legal entity **and** liability of owners as characteristics of public companies. (4 marks)

Description	Marks
<b>Legal entity</b>	
Describes the legal entity of a public company	2
States a fact about the legal entity of a public company	1
<b>Subtotal</b>	<b>2</b>
<b>Liability of owners</b>	
Describes the liability of owners in a public company	2
States a fact about the liability of owners in a public company	1
<b>Subtotal</b>	<b>2</b>
<b>Total</b>	<b>4</b>
Answers could include:	
<p>Legal entity: Public companies are a separate legal entity in law. As such they can enter into contracts in their own right, sue and be sued, pay tax and own assets.</p>	
<p>Liability of owners: Liability of owners that is shareholders, in a public company is limited to the unpaid portion of shares they have agreed to buy. Shareholders will not be liable to pay debts incurred by the company.</p>	
Accept other relevant answers.	



(c) Discuss the role of an external auditor.

(4 marks)

Description	Marks
Discusses the role of the external auditor	4
Explains the role of the external auditor	3
Describes the role of the external editor	2
Makes a general comment about the role of the external auditor	1
<b>Total</b>	<b>4</b>
Answers could include:	
<ul style="list-style-type: none"><li>• performs an independent review of a company's financial records and systems to enable them to provide accurate information for the preparation of financial reports</li><li>• ensures the general purpose financial reports present a 'true and fair view' of the company's financial position</li><li>• ensures that the financial reports comply with the <i>Corporations Act 2001</i>, other relevant laws and accounting standards</li><li>• ensures that other information required by law to be included in the financial reports, such as directors, environmental and remuneration information are materially correct.</li></ul>	
Accept other relevant answers.	

## Section Three: Extended answer

15% (30 Marks)

## Question 22

(30 marks)

- (a) Explain the importance of business planning for the company and suggest a strategy that it could implement to improve business performance. (4 marks)

Description	Marks
Explains the importance of business planning to the company	3
Describes the importance of business planning generally	2
Makes a general comment about the importance of business planning	1
<b>Subtotal</b>	<b>3</b>
Suggests an improvement strategy	1
<b>Subtotal</b>	<b>1</b>
<b>Total</b>	<b>4</b>
<p>Answers could include:</p> <p>Business planning:</p> <ul style="list-style-type: none"> <li>• provides a roadmap for achieving goals, allocating resources efficiently and navigating challenges effectively</li> <li>• effective planning provides a structured approach for navigating challenges, minimising losses, and ensuring long-term viability</li> <li>• can provide motivation for employees</li> <li>• can monitor the company's cash to avoid liquidity problems</li> <li>• can reduce costs and risks.</li> </ul> <p>Business strategy:</p> <ul style="list-style-type: none"> <li>• improved budgeting</li> <li>• raising additional cash through increasing the number of shareholders or loans</li> <li>• improved internal control.</li> </ul> <p>Accept other relevant answers.</p>	

- (b) Describe insolvency to the directors of FrameForm Pty Ltd and discuss the process of voluntary administration. (6 marks)

Description	Marks
<b>Insolvency</b>	
Describes insolvency to the directors	2
Makes a general comment about insolvency	1
<b>Subtotal</b>	<b>2</b>
<b>Voluntary administration</b>	
Discusses the process of voluntary administration	4
Explains the process of voluntary administration	3
Describes the process of voluntary administration	2
Makes a general comment about the process of voluntary administration	1
<b>Subtotal</b>	<b>4</b>
<b>Total</b>	<b>6</b>
<p>Answers could include:</p> <p><b>Insolvency:</b>  Insolvency refers to a financial state where a company is unable to pay its debts as they become due. Directors have a responsibility to ensure that the company does not trade while insolvent.</p> <p><b>Voluntary administration:</b>  Voluntary administration is where the directors of a financially-troubled company, or a secured creditor with a charge over certain company assets applies to the court to appoint an external administrator called a voluntary administrator.</p> <p>The voluntary administrator investigates and reports to the directors or creditors on the company's business, property, affairs and financial circumstances, and on the three options available:</p> <ul style="list-style-type: none"> <li>• end the voluntary administration and return the company to the directors' control</li> <li>• approve a deed of company arrangement through which the company will pay all or part of its debts and then be free of those debts, or</li> <li>• wind up the company and appoint a liquidator.</li> </ul> <p>The voluntary administrator must give an opinion on each option and recommend which option is in the best interests of creditors.</p> <p>The voluntary administrator has all the powers of the company and its directors. This includes the power to sell or close down the company's business or sell individual assets in the lead up to the creditors' decision on the company's future.</p> <p>The voluntary administrator must also report to ASIC on possible offences by people involved with the company.</p> <p>If a deed of company arrangement is approved, the voluntary administrator will usually become the deed administrator and oversee its operation.</p>	
Accept other relevant answers.	

## Question 22 (continued)

- (c) Discuss **two** ethical issues that FrameForm Pty Ltd has encountered in its financial operations. (8 marks)

Description	Marks
For each ethical issue (2 x 4 marks)	
Discusses the ethical issue related to FrameForm Pty Ltd	4
Explains the ethical issue related to FrameForm Pty Ltd	3
Describes the ethical issue	2
Makes a general comment about the ethical issue	1
<b>Total</b>	<b>8</b>
<p>Answers could include:</p> <p><b>Conflict of interest:</b>            Business owners/managers need to declare any relevant conflict of interest when a decision needs to be made. Directors with an interest in a competitor's business are trying to serve two masters, to the detriment of this company. A gain by the competitor is a loss to this company. The recent decline in business may be due to a director favouring the other company for their own financial gain.</p> <p><b>Confidentiality:</b>            Business owners/managers have access to confidential information held by the company about employees, clients and investors. They must not release this information to others to the advantage of the company or to the disadvantage of the employees, clients or investors. FrameForm Pty Ltd's costings and budgets may be being used by the competitor to undercut for sales contracts and to pressure suppliers for better deals. If suppliers/customers become aware of the company's financial crisis they may be reluctant to continue to do business with them.</p> <p><b>Making use of financial information for personal gain:</b>            Having access to confidential information, business owners/managers must not use this to benefit themselves or others. They are not allowed to use confidential information regarding the financial dealings of the company for personal gain. The risk of being taken over by a competitor who has inside knowledge of the company's finances could mean shareholders do not receive full value for their shareholdings. A competitor with such inside knowledge could price their takeover at the minimum value.</p> <p><b>Manipulation of financial information:</b>            Business owners/managers make decisions which, in turn affect other investor decisions. This financial information must be timely and readily available. It must comply with the guidelines of the Australian Accounting Standards Board to ensure that they are presenting relevant and comparable financial reports to those interested stakeholders, including investors, who can then make informed decisions about where to invest their funds. Clients who rely on financial information for contract negotiations will be disadvantaged. If shareholders do not receive full disclosure of FrameForm Pty Ltd's financial performance and position, they will not be able to fairly assess the value of any takeover or further investment of additional capital to refinance the company. Budgeting and costing of the company products are always difficult, made harder if not all information is available or correct.</p> <p>Accept other relevant answers.</p>	

- (d) Discuss the purpose of accounting standards in providing confidence to investors in Australian capital markets **and** assisting directors in discharging their obligations. (8 marks)

Description	Marks
<b>Providing confidence to investors in Australian capital markets</b>	
Discusses the purpose of accounting standards in providing confidence to investors in Australian capital markets	4
Explains the purpose of accounting standards in providing confidence to investors in Australian capital markets	3
Describes the purpose of accounting standards in providing confidence to investors in Australian capital markets	2
Makes a general comment about accounting standards in providing confidence to investors in Australian capital markets	1
<b>Subtotal</b>	<b>4</b>
<b>Assisting directors in discharging their obligations</b>	
Discusses how accounting standards assist directors in discharging their obligations	4
Explains how accounting standards assist directors in discharging their obligations	3
Describes how accounting standards assist directors in discharging their obligations	2
Makes a general comment about accounting standards in assisting directors in discharging their obligations	1
<b>Subtotal</b>	<b>4</b>
<b>Total</b>	<b>8</b>
<p>Answers could include:</p> <p>The primary purpose of accounting standards is to enhance the confidence of investors in the accuracy and integrity of financial reporting, thereby facilitating informed decision-making and fostering trust in the capital markets.</p> <p>Providing confidence to investors in Australian capital markets:</p> <ul style="list-style-type: none"> <li>By adhering to accounting standards, companies in Australia ensure that their financial statements are prepared using uniform principles and guidelines, enabling investors to compare the financial performance and position of different entities more effectively. This comparability enhances market efficiency and reduces incompatible information, as investors can make more informed investment decisions, based on reliable and comparable financial information.</li> <li>Accounting standards promote transparency and accountability by requiring companies to disclose relevant information about their financial transactions, risks, and uncertainties. This transparency enhances the quality and reliability of financial reporting, instilling investor confidence and contributing to the overall integrity and efficiency of Australian capital markets.</li> </ul> <p>Assisting directors in discharging their obligations:</p> <ul style="list-style-type: none"> <li>Accounting standards help directors in discharging their obligations by providing clear guidance on financial reporting requirements and ensuring compliance with legal and regulatory obligations.</li> <li>Directors are responsible for preparing financial statements that fairly present the financial position, performance, and cash flows of the company, and adherence to accounting standards assists them in fulfilling this responsibility.</li> </ul> <p>Accept other relevant answers.</p>	

## Question 22 (continued)

- (e) Discuss the importance of the Financial Reporting Council (FRC). (4 marks)

Description	Marks
Discusses the importance of the FRC	4
Explains the importance of the FRC	3
Describes the importance of the FRC	2
Makes a general comment about the FRC	1
<b>Total</b>	<b>4</b>
Answers could include:	
<ul style="list-style-type: none"><li>• the FRC is an Australian Government statutory body under the ASIC Act</li><li>•</li><li>•</li><li>•</li><li>•</li></ul>	
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Accept other relevant answers.	

## Question 23

(30 marks)

- (a) Use the information provided to comment on how the business is managing its inventory and debtors, and identify an action it could take to improve its performance in each of these areas. (6 marks)

Description	Marks
For each of inventory and debtors (2 x 3 marks)	
Comments on the business' management	2
Makes a general statement about the business' management	1
<b>Subtotal</b>	<b>2</b>
Identifies an action to improve performance	1
<b>Subtotal</b>	<b>1</b>
<b>Total</b>	<b>6</b>
Answers could include:	
Inventory:	
<ul style="list-style-type: none"> <li>The inventory turnover measures the efficiency of the business to manage its stock. It has improved slightly from 2.2 to 4.2 times per year. However, this is a low turnover compared to the industry average, indicating that stock stays in the business for about three months before being sold. As a food business, to keep stock fresh, it needs to be sold quicker.</li> <li>The business needs to improve its inventory holdings practices to move the stock to customers quicker, which will lead to improved cashflow.</li> </ul>	
Debtors:	
<ul style="list-style-type: none"> <li>The debtor's collection measures the efficiency of the business to manage amounts owing from debtors. It has increased by 8 days, from 30 days to 38 days, meaning it is taking longer to collect debts, and taking far longer than the industry average of 20 days.</li> <li>The business needs to improve its debtor's collection practices by following up on slow payers. The longer debts are outstanding, the increased likelihood of bad debts. Collecting from customers quicker will lead to improved cashflow.</li> </ul>	
Accept other relevant answers.	

**Question 23** (continued)

- (b) Discuss the costs and potential income associated with the company engaging in environmentally responsible practices. (4 marks)

Description	Marks
Discusses the costs and potential income	4
Explains the costs and potential income	3
Describes the costs and potential income	2
Makes a general statement about the costs or potential income	1
<b>Total</b>	<b>4</b>
<p>Answers could include:</p> <p>Costs:</p> <ul style="list-style-type: none"> <li>• the initial investment in technologies and equipment can be high</li> <li>• disposal of materials in an environmentally responsible manner can be expensive</li> <li>• increased packaging costs</li> <li>• increased utility costs</li> <li>• increased recording and reporting of environmental practices could be necessary.</li> </ul> <p>Potential income:</p> <ul style="list-style-type: none"> <li>• an increase in sales to existing and new customers resulting from the enhanced reputation of environmentally responsible activity of the company</li> <li>• a competitive advantage over other suppliers due to the company's enhanced reputation</li> <li>• an increase in sales income due to the potential reduction of international competition as a result of better environmental practices</li> <li>• the eligibility for grants from government and environmental organisations for engaging in environmentally responsible practices.</li> </ul> <p>Accept other relevant answers.</p>	



- (c) Describe the change in the overall cash position of the company, and analyse the effect of the cash flows from operating and financing activities that have contributed to the change. (10 marks)

Description	Marks
Cash position of the company overall	
Describes the cash position of the company	2
Makes a general comment about the cash position of the company	1
<b>Subtotal</b>	<b>2</b>
Cash position for each of operating and financing activity areas (2 x 4 marks)	
Analyses the change in the cash position using data provided	4
Explains the change in the cash position using data provided	3
Outlines the change in the cash position	2
Makes a general comment about the change in the cash position	1
<b>Subtotal</b>	<b>8</b>
<b>Total</b>	<b>10</b>
<p>Answers could include:</p> <p>Overall cash position:</p> <ul style="list-style-type: none"> <li>The cash position has deteriorated from a positive balance to a negative balance.</li> <li>The company has a small surplus from operating activities, offset by negative cashflows in both investing and financing activities. Some of these outflows may have been reduced to ensure a positive balance of cash and cash equivalents, e.g. sale of and replacement of the vehicle, purchase of shares, payment of loan and reduced payment of dividends.</li> </ul> <p>Operating activities:</p> <ul style="list-style-type: none"> <li>Cash flows from operating activities represent relatively short term receipts and payments.</li> <li>Ideally any surplus should be used for payment of dividends, with a surplus directed into long term payments.</li> <li>The net cash inflow from operating activities of \$55,000 has been mainly used for payments of dividends of \$60,000, leaving little surplus. It would appear that the amount of the dividends for this period is too high.</li> </ul> <p>Financing activities:</p> <ul style="list-style-type: none"> <li>The business has paid off a \$50,000 loan, contributing to a negative cash flow.</li> <li>The business has paid \$60,000 in dividends.</li> <li>To help fund these cash outflows, the business has raised \$10,000 additional capital from the sale of shares. However, this was not sufficient to cover these payments and the shortfall has come from the cash reserves and the rest by going into an overdraft of \$50,000.</li> <li>Overall, this is not a good strategy because the business is using a short-term source of finance to pay dividends.</li> <li>It would have been a better strategy for the business to reconsider what it pays as dividends to shareholders rather than go into the large overdraft it finds itself in.</li> </ul> <p>Accept other relevant answers.</p>	

## Question 23 (continued)

- (d) Explain **two** limitations investors and other stakeholders may have in assessing financial information from available resources. (6 marks)

Description	Marks
For each limitation (2 x 3 marks)	
Explains the limitation for investors and/or other stakeholders	3
Describes the limitation for investors and/or other stakeholders	2
Identifies or makes a general comment about a limitation for investors and/or other stakeholders	1
<b>Total</b>	<b>6</b>
<p>Answers could include:</p> <p>Lack of disclosure: In general purpose financial statements, businesses may make the minimum disclosure required to protect their commercial interest from competitors. This may make accurate evaluation more difficult, e.g. consolidation of figures such as 'other expenses' as one amount, or 'Property, plant and equipment' lacking any details.</p> <p>Lack of comparability: Although financial reports are prepared using accounting standards, there is still variations in comparability, e.g. different end of period dates, methods of depreciation, variations in balance day adjustments and asset valuations.</p> <p>Historical cost: Transactions are recorded in units of currency at the time of the transaction. This may be months or years before the time the reports are being assessed. The current value or economic value of assets at the time of assessment may be different, e.g. assets such as land, bought years ago may now be worth much more.</p> <p>Accept other relevant answers.</p>	

- (e) Explain what is meant by cash equivalents as per AASB 107. Provide an example to support your response. (4 marks)

Description	Marks
Explains cash equivalents as per AASB 107	3
Describes cash equivalents	2
Makes a general comment about cash equivalents	1
<b>Subtotal</b>	<b>3</b>
Provides an example	1
<b>Subtotal</b>	<b>1</b>
<b>Total</b>	<b>4</b>
<p>Answers could include:</p> <p>Cash equivalents as per AASB 107:</p> <ul style="list-style-type: none"> <li>• are highly liquid investments</li> <li>• with a short term to mature</li> <li>• with an insignificant risk.</li> </ul> <p>Examples: include highly liquid investments with a short term to maturity such as short-term bank deposits or commercial bills.</p> <p>Accept other relevant answers.</p>	

## ACKNOWLEDGEMENTS

- Question 19(d)** Adapted from: *Capital Adjustment Understanding Capital Adjustment in Financial Accounting*. (2024). Retrieved July, 2024, from <https://fastercapital.com/content/Capital-Adjustment-Understanding-Capital-Adjustment-in-Financial-Accounting.html#Introduction-to-Capital-Adjustment.html>
- Question 19(e)** Answer paragraph 1 and dot points 1–2 adapted from: © (2024) Australian Accounting Standards Board (AASB). The text, graphics and layout of this publication are protected by Australian copyright law and the comparable law of other countries. No part of the publication may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AASB except as permitted by law. For reproduction or publication permission should be sought in writing from the Australian Accounting Standards Board. Requests in the first instance should be addressed to the National Director, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007.
- Question 22(b)** Answer excluding paragraph 1 adapted from: Australian Securities & Investments Commission (ASIC). (n.d.). *Voluntary Administration*. Retrieved July, 2024, from <https://web.archive.org/web/20140626065339/http://asic.gov.au/asic/ASIC.NSF/byHeadline/Shareholders%20-%20Voluntary%20administration>  
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- Question 22(e)** Dot points 2–5 adapted from: Financial Reporting Council. (2023). *About the FRC*. Retrieved July, 2024, from <https://frc.gov.au/about-frc>

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