



ACCOUNTING AND FINANCE

ATAR course examination 2020

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

Workings:**Question 6** $\$171,000 / \$57,000 = \$3.00$ selling price per unit $\$42,750 / \$57,000 = \$0.75$ variable cost per unit $\$3.00 - \$0.75 = \$2.25$

GENERAL NOTES

The Australian Accounting Standards are prescriptive about the items that are to be included in financial statements and in some circumstances about how they are presented. In other cases, alternative formats are allowable and this should be taken into account when marking examination scripts.

Consequential errors should **not** be penalised.

Section Two: Short answer

70% (164 Marks)

Question 16

(25 marks)

(a) Calculate the payback period for MAC1.

(9 marks)

Workings:

Outflows:

Machine operator salary	65,000	(1)
Maintenance costs	<u>12,000</u>	(1)
Total	77,000	(2)

Year	Inflows	Outflows	Net cash flows	Cumulative cash flows
1	110,000 (1)	77,000 (2)	33,000	33,000
2	134,000	77,000	57,000 (1)	90,000
3	127,000	77,000	50,000 (1)	140,000
4	148,000	77,000	71,000 (1)*	211,000

Description	Marks
<u>147,000 (1) – 140,000 (5)</u>	6
71,000 (1)*	1
<u>7,000</u>	
$71,000 = 0.098 \times 12 \text{ months (1)} = 1.18 \text{ or } 2 \text{ months}$	1
Payback period = 3 years 2 months (1)	1
Total	9

Payback period MAC1: 3 years, 2 months

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

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

Deduct 1 mark for not rounding to whole months, to a maximum of 1 mark.

Question 16 (continued)

- (b) Calculate the net present value (NPV) for MAC1, rounding all figures to the nearest dollar. (10 marks)

Workings:

Year	Inflows \$	Outflows \$	Residual value \$	Net cash flows \$	Discount factor 7% \$	Discounted cash flows \$	Marks	
1	110,000	77,000		33,000	0.9346	30,842	1	
2	134,000	77,000		57,000	0.8734	49,784	1	
3	127,000	77,000		50,000	0.8163	40,815	1	
4	148,000	77,000		71,000	0.7629	54,166	1	
5	140,000	77,000	45,000 (1)	108,000	0.7130	77,004	1 + 1	
						252,611		
						Initial cost	143,926*	3
						108,685	1	
Total							10	

Initial cost:

$$100,000 (1) + (47,000 (1) \times 0.9346 (1)) = 143,926 (3)^*$$

Note: Do not penalise 47,000 being treated as an outflow rather than initial cost.

Net present value MAC1: \$108,685

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.

- (c) Hooffeners Ltd has the option to purchase different machinery (MAC2) under the same conditions as MAC1 and it has a net present value of \$127,886. Explain, using your workings, how NPV assists management in deciding which machinery should be purchased. (3 marks)

Description	Marks
Explains NPV referring to the calculations and provides a logical reason to recommend MAC2 as the option in which to invest	3
Identifies MAC2 as the option in which to invest and makes a general comment regarding NPV	2
Makes a general comment regarding NPV	1
Total	3
Answer(s) could include but are not limited to:	
NPV is an analysis of discounted cash flows. These cash flows take into account the time value of money to estimate if a project is viable in the long term.	
MAC1 has a lower NPV amount so MAC2 is the recommended option for the company in which to invest. The NPV is over \$19,000 higher.	
Note: no marks are awarded for mentioning payback	
Accept any other reasonable answer.	

- (d) Describe the nature of capital investment decisions, providing **two** examples other than machinery. (3 marks)

Description	Marks
Describes the nature of capital investment decisions and provides two examples	3
Describes the nature of capital investment decisions and provides one example	2
Makes a general comment about the nature of capital investment decisions	1
Total	3
<p>Answer(s) could include but are not limited to:</p> <p>The nature of capital investment decisions include:</p> <ul style="list-style-type: none"> • the investment or purchase of assets for a long term involve a significant sum of money relative to the size of the business • cannot be easily reversed due to the long-term commitment of business resources. <p>Examples include:</p> <ul style="list-style-type: none"> • purchase of another business • purchase of a motor vehicle. <p>Accept any other reasonable answer.</p>	

Question 17

(22 marks)

- (a) The table below includes ratios for the years ended 30 June 2019 and 2020 for Laztoo Ltd. You are required to calculate the same ratios for the year ended 30 June 2021 and write your answers in the appropriate column of the table. Calculate your ratios to **two** decimal places. (7 marks)

Workings		Marks
Current ratio		
<u>Current assets</u>	<u>1,605,000</u> (1) = 2.97	1
Current liabilities	540,000 (1)	1
Total		2
Current asset ratio = 2.97:1 or 297%		

Workings		Marks
Quick asset ratio		
<u>Current assets (excluding inventory and prepayments)</u>		
Current liabilities (excluding bank overdraft)		
<u>730,000</u>	(1,605,000 – 875,000) (1) = 1.35	1
540,000	(1)	1
Total		2
Quick asset ratio = 1.35:1 or 135%		

Workings		Marks
Debt to equity ratio		
<u>Total liabilities</u>	<u>1,880,200</u> (1) = 0.95	1
Equity end	1,974,800 (3,855,000 (1) – 1,880,200 (1))	2
Total		3
Debt to equity ratio = 0.95:1 or 95%		

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

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

Deduct 1 mark if ratio is not expressed correctly as a percentage or a ratio, to a maximum of 1 mark.

- (b) Comment on the working capital/current and quick asset ratios, indicating what each measures, and specifying what the trend in both ratios indicates about the ability of Laztoo Ltd to meet its debts. (4 marks)

Description	Marks
Comments on both the working capital/current and quick asset ratios, indicating what each ratio measures, and specifying what the trend in both ratios indicates about the ability of Laztoo Ltd to meet its debts	4
Comments on both the working capital/current and quick asset ratios, indicating what each ratio measures, and makes a comment regarding the trend in the ratios about the ability of Laztoo Ltd to meet its debts	3
Indicates what the working capital/current ratio and the quick asset ratio measure and states a relevant fact about the liquidity of Laztoo Ltd	2
States a relevant fact about the liquidity of Laztoo Ltd	1
Total	4
<p>Answer(s) could include but are not limited to:</p> <p>Both the working capital/current ratio and quick asset ratio are used to indicate the liquidity of a business and its ability to meet debts as they fall due.</p> <p>For the three years, the working capital/current asset ratio has been approximately 2.97:1 meaning that for every \$1 of current liabilities, the company has approximately \$2.97 in current assets. This indicates that Laztoo Ltd should be able to meet debts as they fall due.</p> <p>Although the quick asset ratio has been declining, for each of the three years the ratio has exceeded 1:1. This means that Laztoo Ltd has in excess of \$1 in highly liquid assets for every \$1 of short term debt. This indicates that Laztoo Ltd should be able to pay day to day expenses/debts as they fall due.</p> <p>Accept any other reasonable answer.</p>	

- (c) Explain what the debt to equity ratio reveals about Laztoo Ltd. (3 marks)

Description	Marks
Explains the trend in the debt position of Laztoo Ltd, indicating how the trend will affect the company	3
Outlines the debt position of Laztoo Ltd with no reference to how the trend will affect the company	2
States the debt position of Laztoo Ltd	1
Sub total	3
<p>Answer(s) could include but are not limited to:</p> <p>The debt to equity ratio for Laztoo Ltd has been increasing over the three year period. This means that Laztoo Ltd is borrowing more from external sources such loans from banks or other financial institutions. The ratio in 2021 is 0.95 or 95% compared to 50% in 2019. This is a significant increase, which results in higher interest payments for the company.</p> <p>Accept any other reasonable answer.</p>	

Question 17 (continued)

- (d) Discuss how efficiency ratios can be used as target key performance indicators by directors for decision-making purposes. (8 marks)

Description	Marks
For each of debtor's collection ratio and inventory/stock turnover ratio:	
Discusses how the ratio can be used against the key performance indicator (KPI) by directors for decision-making purposes	4
Explains how the ratio can be used against the KPI by directors	3
Describes the ratio	2
Names the ratio	1
Total	8
Answer(s) could include but are not limited to:	
<ul style="list-style-type: none"> The KPI for the debtor's collection rates may be set, for example, at 30 days. If the KPI was reasonable and the actual ratio exceeds 30 days, then this indicates there is a problem with collecting amounts owing from debtors. The directors will ask management to look at ways to improve this ratio in the future. However, if it is unreasonable to expect to collect debts within 30 days, due to industry averages being much longer, then the KPI will need to be reviewed. The inventory/stock turnover ratio may be set, for example, at 24 times per year, which means that inventory is replaced 24 times over the year. If the ratio is 15 times per year, then management will be very concerned as inventory is moving too slowly. If 24 times per year is a reasonable KPI, the directors will be wanting management to investigate why inventory is not being sold more quickly and investigate ways to improve turnover. However, if 24 times per year is unreasonable then the KPI will need to be reviewed. 	
Accept any other reasonable answer.	

Question 18

(19 marks)

- (a) Calculate the cost of making
- one**
- bag of salted caramel chocolate buttons. (11 marks)

Description		Marks
Direct materials purchased – salted caramel chocolate	$\frac{\$5,040 (1)}{2,000 \text{ kg} (1)} \times 0.25 (1) = \0.63	3
Direct materials purchased – packaging	$\frac{\$2,000 (1)}{40,000 \text{ bags} (1)} = \0.05	2
Direct labour hours	$\$23 (1) \times \frac{15 (1)}{60 \text{ mins}} = \5.75	2
Overheads	$\frac{\$24,360 (1)}{1,800 \text{ hrs} (1)} \times \frac{15 (1)}{60 \text{ mins}} = \3.38	3
Total cost	$(\$0.63 + 0.05 + 5.75 + 3.38) (1) = \9.81	1
Total		11

Cost of **one** bag of salted caramel chocolate buttons: \$9.81.

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

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

- (b) Calculate the direct labour efficiency variance for the salted caramel chocolate buttons. (5 marks)

Workings:

$$35,200 (1) \div 22 (1) = 1,600$$

or

$$\frac{2,000}{0.25} (1) = 8,000 \text{ bags} \times \frac{12}{60} (1) = 1,600^*$$

Description	Marks
(Actual direct labour hours worked – Standard direct labour hours allowed for actual output) × Standard rate per direct labour hour	
= (1,800 (1) – *1,600 (2)) × 22 (1) = 4,400	4
Unfavourable (1)	1
Total	5

Direct labour efficiency variance: \$4,400 Unfavourable

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.

- (c) Explain the nature of cost concepts for overheads. (3 marks)

Description	Marks
Explains the nature of cost concepts for overheads	3
Describes the nature of cost concepts for overheads	2
Identifies an example of an overhead	1
Total	3
Answer(s) could include but are not limited to:	
The nature of overheads are all costs on the income statement except for direct labour, direct materials and direct expenses. Overhead expenses can include period costs such as advertising, insurance etc. This is then allocated to the cost of a product based on either labour or machine hours, dependant on the type of business.	
Accept any other reasonable answer.	

Question 19

(57 marks)

- (a) Prepare the general ledger accounts to record the issue of the new shares in November 2020. Opening balances **are** required. (8 marks)

**Stuzweec Limited
General ledger**

Cash at Bank

1/7/20	Balance	127,000		25/11/20	Share issue cost	5,000	(1)
25/11/20	Application	50,000	(1)				

Application

30/11/20	Ordinary share capital	50,000	(1)	25/11/20	Cash at bank	50,000	(1)
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Share issue cost

25/11/20	Cash at bank	5,000	(1)	30/11/20	Ordinary share capital	5,000	(1)
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Ordinary share capital

30/11/20	Share issue cost	5,000	(1)	1/7/20	Balance	300,000	
				30/11/20	Application	50,000	(1)

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

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

Deduct 1 mark for not including opening entries, to a maximum of 2 marks.

- (b) Prepare a Statement of comprehensive income for the year ended 30 June 2021. (21 marks)

Revenue		Marks
Workings		
Sales – Sales returns – Discount allowed 320,000 (1) – 12,500 (1) – 1,100 (1) = 306,400		3
Total		3

(i.e. 3 marks carried forward to the Statement of comprehensive income)

Other income		Marks
Workings		
Interest income + Dividend received 2,000 (1) + 2,100 (1) = 4,100		2
Total		2

(i.e. 2 marks carried forward to the Statement of comprehensive income)

Expenses (excluding finance costs)		Marks
Workings		
Cleaning fees + Depreciation of buildings + Electricity + Insurance + Other expenses + Wages + Doubtful debts 550 (1) + 16,300 *(3) + 25,000 (1) + 6,000 (1) + 8,200 (1) + 43,000 (1) + 360** (3) = 99,410		11
Total		11

*depreciation (220 000 (1) – 57 000 (1)) x 10%(1) = 16,300

(i.e. 11 marks carried forward to the Statement of comprehensive income)

** Allowance for doubtful debts

Bad debts	250	(1)	Opening Balance	290	(1)
Balance c/d	400	(1)	Doubtful debts	360	
	650			650	
			Balance b/d	400	

Finance costs		Marks
Workings		
Interest expense 3,000 (1) = 3,000		1
Total		1

(i.e. 1 mark carried forward to the Statement of comprehensive income)

Income tax		Marks
Workings		
Profit before income tax x 30% 108,090 (1) x 30% = 32,427		1
Total		1

(i.e. 2 marks carried forward to the Statement of comprehensive income)

Gain on asset revaluation		Marks
Workings		
Land (market value) – Land (at cost) 200,000 (1) – 176,500 (1) = 23,500		2
Total		2

(i.e. 2 marks carried forward to the Statement of comprehensive income)

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

Question 19 (continued)

Stuzweec Limited Statement of comprehensive income for the year ended 30 June 2021	\$	Marks
Revenue	306,400	3
Less cost of sales	(100,000)	1
Gross profit	206,400	
Other income	4,100	2
Expenses (excluding finance costs)	(99,410)	11
Finance costs	(3,000)	1
Profit before income tax	108,090	
Income tax	(32,427)	1
Profit after tax for the period	75,663	
Other comprehensive income		
Gain on asset revaluation	23,500	2
Total other comprehensive income	23,500	
Total comprehensive income for the period	99,163	
Total		21

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

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

Deduct 1 mark for incorrect classification, to a maximum of 2 marks.

- (c) Prepare the Statement of changes in equity for the year ended 30 June 2021. (14 marks)

Issue of share capital

Workings	Marks
50,000 (1) x \$1 = \$50,000	1
Total	1

(i.e. 1 mark carried forward to the Statement of changes in equity)

Issue of bonus shares

Workings	Marks
Number of ordinary shares 300,000/1.50 (1) = 200,000 ordinary shares	1
Total number of ordinary shares + additional shares issued 200,000 + 50,000 (1) = 250,000	1
Bonus shares issued 250,000/10 (1) = 25,000 x \$1 = 25,000	1
Total	3

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

Stuzweec Limited Statement of changes in equity for the year ended 30 June 2021	\$	Marks
Profit for the period	75,663	
Changes in Revaluation reserve during period	23,500	
Total recognised income and expenses for the period	99,163	
Ordinary share capital		
Balance at start of the period	300,000	1
Issue of share capital	50,000	1
Share issue costs	(5,000)	1
Bonus share issue	25,000	3
Total share capital	370,000	
Reserves		
Asset revaluation reserve		
Balance at start of the period	0	
Gain on revaluation	23,500	1
Balance at end of the period	23,500	
General reserve		
Balance at start of the period	45,000	1
Bonus share issue	(25,000)	1
Transfer from retained earnings	30,000	1
Balance at end of the period	50,000	
Total reserves	73,500	
Retained earnings		
Balance at start of the period	120,000	1
Profit for the period	75,663	1
Total for the period	195,663	
Transfer to general reserve	(30,000)	1
Dividends	(20,000)	1
Balance at end of the period	145,663	
Total		14

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.

Deduct 1 mark for incorrect classification, to a maximum of 2 marks.

Question 19 (continued)

Alternative presentation

Stuzweec Limited
Statement of changes in equity
for the year ended 30 June 2021

	Ordinary share capital	Retained earnings	Asset revaluation reserve	General reserve	Total equity	Marks
Balance at beginning	300,000 (1)	120,000 (1)	0	45,000 (1)	465,000	3
Issue of share capital	50,000 (1)				50,000	1
Share issue costs	(5,000) (1)				(5,000)	1
Issue of bonus shares	25,000 (3)			(25,000) (1)	0	4
Dividends		(20,000) (1)			(20,000)	1
Total comprehensive income for the period		75,663 (1)	23,500 (1)		99,163	2
Transfer to general reserve		(30,000) (1)		30,000 (1)	0	2
Balance as at 30 June 2021	370,000	145,663	23,500	50,000	589,163	
					Total	14

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.

Deduct 1 mark for incorrect classification, to a maximum of 2 marks.

- (d) Outline **three** ways in which the Australian Accounting Standards help protect the external users of general purpose financial reports. (6 marks)

Description	Marks
For each of three ways the Australian Accounting Standards (AAS) help in protecting the external users of general purpose financial reports (GPFRs):	
Outlines how it protects external users	2
Makes a superficial statement about the protection of external users	1
Total	6
Answer(s) could include but are not limited to:	
<ul style="list-style-type: none"> • Provides a set of rules governing the presentation of general purpose financial reports – this helps investors to make informed and comparable decisions regarding investments. Since GPFRs must be produced in accordance with the AAS, this results in all public companies producing financial reports according to the same set of rules (Australian Accounting Standards Board). • Assists creditors and investors and other external users to analyse and make informed decisions about a company – because the information in the GPFRs is faithfully represented and relevant when making investing decisions. • Provides reports that are comparable – the GPFRs can be compared between different entities and across years. 	
Accept any other reasonable answer.	

- (e) Identify **four** characteristics of companies and compare each for public and large proprietary companies. (8 marks)

Description	Marks
For each of four characteristics of companies:	
Identifies the characteristic	1
Compares the characteristic for public and large proprietary companies	1
Total	8
<p>Answer(s) could include but are not limited to:</p> <p>Liability of owners:</p> <ul style="list-style-type: none"> the liability of the owners (shareholders/members) for debts of the company is limited to any unpaid amounts owing on their shares this is the same for both public and large proprietary companies. <p>Number of shareholders/members:</p> <ul style="list-style-type: none"> there is a minimum of one and no maximum number of shareholders/members for a public company there is a minimum of one and a maximum of 50 non-employee shareholders/ members for a large proprietary company. <p>Number of directors:</p> <ul style="list-style-type: none"> a public company must have a minimum of three directors a large proprietary company must have a least one director. <p>Transferability of ownership:</p> <ul style="list-style-type: none"> the shareholders (members) of a public company can sell their shares without restriction the shareholders (members) of a large proprietary company can sell their shares only in accordance with conditions contained in the constitution of the company. <p>Access to capital:</p> <ul style="list-style-type: none"> public companies are able to approach the general public for capital through share issues large proprietary companies cannot raise capital from the general public. 	
Accept any other reasonable answer.	

Question 20

(41 marks)

Prepare a Cash flow statement for Veezarp Ltd for the year ended 30 June 2021.

Workings:

Accounts receivable

Opening balance	185,000	(1)	Sales returns	9,500	(1)
Credit sales	325,000	(1)	Bank	388,500	
			Balance c/d	112,000	(1)
	510,000			510,000	
Balance b/d	112,000				

(i.e. 4 marks carried forward to Receipts from customers)

Receipts from customers

Receipts from credit sales/accounts receivable	388,500	(4)
Cash sales	280,000	(1)
	668,500	

(i.e. 5 marks carried forward to Cash flow statement)

Inventory

Opening balance	210,000	(1)	Cost of goods sold	215,000	(1)
Purchases	175,000		Balance c/d	170,000	(1)
	385,000			385,000	
Balance b/d	170,000				

(i.e. 3 marks carried forward to Accounts payable)

Accounts payable

Bank	200,000		Opening balance	120,000	(1)
Balance c/d	95,000	(1)	Purchases	175,000	(3)
	295,000			295,000	
			Balance b/d	95,000	

(i.e. 5 marks carried forward to Payments to suppliers and employees)

Wages payable/accrued wages

Bank	116,000		Opening balance	160,000	(1)
Closing accrual	110,000	(1)	Wages	66,000	(1)
	226,000			226,000	

(i.e. 3 marks carried forward to Payments to suppliers and employees)

Prepaid rent

Opening balance	8,000	(1)	Rent expense	15,000	(1)
Bank	10,000		Balance c/d	3,000	(1)
	18,000			18,000	
Balance b/d	3,000				

(i.e. 3 marks carried forward to Payments to suppliers and employees)

Payments to suppliers and employees

Accounts payable	200,000	5
Rent	10,000	3
Wages	116,000	3
Other expenses	27,000	1
	353,000	
	Total	12

(i.e. 12 marks carried forward to Cash flow statement)

Interest payable

Bank	25,000		Opening balance	18,000	(1)
Balance c/d	14,000	(1)	Interest expense	21,000	(1)
	39,000			39,000	
			Balance b/d	14,000	

(i.e. 3 marks carried forward to Cash flow statement)

Land

Opening balance	295,100	(1)	Balance c/d	361,100	(1)
Asset revaluation reserve	50,000	(1)			
Bank	16,000			361,100	
	361,100				
Balance b/d	361,100				

(i.e. 3 marks carried forward to Cash flow statement)

Accrued interest received

Opening balance	4,000	(1)	Bank	11,000	
Interest income	8,500	(1)	Balance c/d	1,500	(1)
	12,500			12,500	
Balance b/d	1,500				

(i.e. 3 marks carried forward to Cash flow statement)

Machinery

Opening balance	320,000	(1)	Sale of machine	40,000	(1)
Bank	65,000		Balance c/d	345,000	(1)
	385,000			385,000	
Balance b/d	345,000				

(i.e. 3 marks carried forward to Cash flow statement)

Loan repayable

Bank	23,000		Opening balance	700,000	(1)
Balance b/d	677,000	(1)		700,000	
	700,000		Balance c/d	677,000	

(i.e. 2 marks carried forward to Cash flow statement)

Question 20 (continued)

Share capital

Bank	3,000	(1)	Balance	870,000	(1)
Balance c/d	897,000	(1)	Bank	30,000	
	900,000			900,000	
			Balance b/d	897,000	

(i.e. 3 marks carried forward to Cash flow statement)

Cash and cash equivalents at the beginning of the period

Cash	120,000	(1)
Petty cash	8,000	(1)
	128,000	

(i.e. 2 marks carried forward to Cash flow statement)

Cash and cash equivalents at the end of the period

Cash	306,500	(1)
Petty cash	8,000	(1)
Term deposit	20,000	(1)
	334,500	

(i.e. 3 marks carried forward to Cash flow statement)

Veezarp Ltd
Cash flow statement
for the year ended 30 June 2021

Description	\$	Marks
Cash flows from operating activities		
Cash receipts from customers	668,500	5
Cash payments to suppliers and employees	(353,000)	12
Cash generated from operations	315,500	
Interest paid	(25,000)	3
Net cash from operating activities	290,500	
Cash flows from investing activities		
Interest received	11,000	3
Purchase of machinery	(65,000)	3
Purchase of land	(16,000)	3
Proceeds from sale of machinery	7,000	1
Net cash from investing activities	(63,000)	
Cash flows from financing activities		
Dividends paid*	(25,000)	1
Repayment of loan	(23,000)	2
Share issue costs	(3,000)	1
Proceeds from share issue	30,000	2
Net cash from financing activities	(21,000)	
Net increase/decrease in cash and cash equivalents	206,500	
Cash and cash equivalents at the beginning of the period	128,000	2
Cash and cash equivalents at the end of the period	334,500	3
Total		41

*As per AASB 107 (Section 34) Dividends paid may also be classified as a cash flow from operating activities.

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

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

Deduct 1 mark for each omission to the statement, to a maximum of 2 marks.

Section Three: Extended answer

15% (30 Marks)

Question 21

(30 marks)

- (a) Use an example from the article to explain how the relationship between volume of activity, costs and profits can affect performance. (4 marks)

Description	Marks
Explains how the relationship between volume of activity, costs and profits can affect performance and illustrates correctly by using an example from the article	4
Explains how the relationship between volume of activity, costs and profits can affect performance and refers to an example from the article	3
Outlines the relationship between volume of activity, costs and profits that affects performance	2
States a fact about the volume of activity, costs or profits that affect performance	1
Total	4
<p>Answer(s) could include by are not limited to:</p> <p>The article states that 'the Big W department store chain continued to be a drag on the group, losing \$85 million despite a pick up in sales'. Brad Banducci said he was "not satisfied with the rate at which increased sales had translated into profits and the store closures would accelerate the path to profitability". This directly relates to cost-volume-profit (CVP) analysis. The volume of products has increased, which is indicated through the increase of sales. However, the costs are higher, which has not translated to greater profits. This indicates that the costs for Woolworths has increased at a greater rate than sales.</p> <div style="border: 1px dashed gray; padding: 20px; text-align: center; margin: 20px 0;"> <p>For copyright reasons this text cannot be reproduced in the online version of this document, but may be viewed at the link listed on the acknowledgements page.</p> </div> <p>CVP analysis is a way to find out how changes in variable and fixed costs affect a business' profit. Businesses can use the results of the analysis to see how many units they need to sell to break even (cover all costs) or reach a certain minimum profit margin.</p>	
Accept any other reasonable answer.	

Question 21 (continued)

- (b) With reference to the article, comment on **two** financial reasons for Woolworths closing down 30 Big W stores. (4 marks)

Description	Marks
For each of two financial reasons for Woolworths closing down 30 Big W stores:	
Comments appropriately on the financial reason	2
Identifies the financial reason	1
Total	4
Answer(s) could include by are not limited to:	
<ul style="list-style-type: none"> • Low profits – while Woolworths’ full-year results were negatively affected by the loss of revenue from the sale of its petrol and convenience store wing, net profit for the continuing business still fell. This business analyst indicated this, as the increase in profits of \$100 million was not in line with Woolworths’ predictions. • Economic conditions – Mr Cousins said “the consumer environment remains uncertain, with cost of living pressures despite the recent stimulus, and input cost pressures for retailers and suppliers”. Mr Banducci said “in the 2020 financial year, we expect the uncertain consumer environment and input cost pressures to remain”. Investors did not appear to share this optimism “with Woolworths’ shares down 1.5 percent ... in early trade”. • Costs – Big W is costing Woolworths \$85 million even with a pick-up of sales. Closing down the 30 unprofitable stores will help Woolworths achieve a higher profit. 	
Accept any other reasonable answer.	

- (c) Describe **two** non-financial factors that Woolworths could have considered before deciding to close down the Big W stores. (4 marks)

Description	Marks
For each of two non-financial factors that Woolworths could have considered before deciding to close down the Big W stores:	
Describes appropriately the factor	2
Names the factor	1
Total	4
Answer(s) could include by are not limited to:	
<p>Customers – regular customers who go to the Woolworths group will be upset that they can no longer shop at Big W. This could lead them to shop at a competitor’s store. The online store had an 84 per cent growth. There was also an increase of 7.3 per cent of sales in stores. Some of these customers will shop elsewhere as a result of the Big W closures.</p> <p>Employees – morale could decrease, with staff worrying about jobs, and relocation of departments could cause stress. If changes are not communicated well by the business, this could lead to inefficiencies. Around 6 per cent of current Big W employees will lose their jobs (1,000/1,800 employees). Many remaining employees will be concerned that Woolworths is putting profit ahead of them.</p> <p>Investors – Woolworths should consider being an attractive investment for current and future shareholders, who would want the company to be sustainable in the future and to receive dividends.</p>	
Accept any other reasonable answer.	

- (d) Explain **two** ethical issues that directors of companies (such as Woolworths) may have encountered in their financial dealings that involve investors. (6 marks)

Description	Marks
For each of two ethical issues that directors of companies may have encountered in their financial dealings that involve investors:	
Explains the ethical issue in the context of financial dealings that involve investors	3
Describes the ethical issue	2
Identifies the ethical issue	1
Total	6
<p>Answer(s) could include by are not limited to:</p> <p>Conflict of interest – a conflict of interest occurs when a business owner or employee has competing interests in a decision that must be made, e.g. directors need to declare any relevant conflict of interest at the board meetings when a decision needs to be made. If this does not occur, investors might be affected. This is because the directors might not be making decisions in the best interest of the company, but for their own interests. This could negatively affect the share price.</p> <p>Confidentiality – directors have access to confidential information. They must not release this information to others to the disadvantage of the company. This ensures that the investors' financial interests are protected.</p> <p>Making use of financial information for personal gain – having access to confidential information, directors must not use this to benefit themselves or others. They are not allowed to use confidential information regarding the financial dealings of the organisation for personal gain because other investors would not have access to the information, which could have influenced them regarding where to invest their funds.</p> <p>Manipulation of financial information – directors make decisions which affect shareholder 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.</p> <p>Accept any other reasonable answer.</p>	

Question 21 (continued)

- (e) Explain the nature and the importance of the Australian Securities and Investments Commission (ASIC) and the Australian Stock Exchange (ASX). (6 marks)

Description	Marks
Australian Securities and Investments Commission (ASIC):	
Explains the nature and the importance of ASIC	3
Outlines the nature and the importance of ASIC	2
States a fact about the nature or importance of ASIC	1
Subtotal	3
Australian Stock Exchange (ASX):	
Explains the nature and the importance of the ASX	3
Outlines the nature and the importance of the ASX	2
States a fact about the nature or importance of the ASX	1
Subtotal	3
Total	6
<p>Answer(s) could include but are not limited to:</p> <p>The nature of ASIC: ASIC is an independent Australian Government body set up to administer the <i>Australian Securities and Investments Commission Act 2001</i> and to ensure adherence to the <i>Corporations Act 2001</i>.</p> <p>The importance of ASIC:</p> <ul style="list-style-type: none"> • maintains, facilitates and improves the performance of the financial system and entities in it • promotes confident and informed participation by investors and consumers in the financial system • administers the law effectively and with minimal procedural requirements • receives, processes and stores information, efficiently and quickly • makes information about companies and other bodies available to the public as soon as practicable • takes whatever action it can, and which is necessary, to enforce and give effect to the law. <div style="border: 1px dashed gray; padding: 10px; text-align: center; margin: 10px 0;"> <p>For copyright reasons this text cannot be reproduced in the online version of this document, but may be viewed at the link listed on the acknowledgements page.</p> </div> <p>The importance of the ASX:</p> <ul style="list-style-type: none"> • promotes standards of corporate governance • helps to educate retail investors • provides confidence in the trading of shares (through compliance with ASIC and the <i>Corporations Act 2001</i>). <p>Accept any other reasonable answer.</p>	

- (f) Explain the role of the accountant in managing business operations, and identify **three** functions they perform. (6 marks)

Description	Marks
Role of the accountant:	
Explains the role of the accountant in managing business operations	3
Describes the role of the accountant in managing business operations	2
States a fact about the role of the accountant in managing business operations	1
Three functions accountants perform:	
Identifies three functions	3
Identifies two functions	2
Identifies one function	1
Total	6
Answer(s) could include by are not limited to:	
<p>Role of the accountant: The accountant's role is to perform financial functions related to the collection, recording, analysis and presentation of a business organisation or company's financial operations. Accountants do this to provide sound financial advice to businesses.</p> <p>Functions of the accountant:</p> <ul style="list-style-type: none"> • preparation of general purpose financial reports • analysis of capital investment decisions • preparation of taxation reports • preparation of budgets • CVP analysis. 	
Accept any other reasonable answer.	

Question 22

(30 marks)

- (a) Describe the purpose of performance reports and their function, and provide **two** examples from Junapara Pty Ltd's financial information where this is illustrated.

(6 marks)

Description	Marks
Describes the purpose of performance reports and their function	2
Describes the purpose of performance reports or their function	1
Subtotal	2
For each of two examples from Junapara Pty Ltd's financial information where this is illustrated:	
Provides a relevant example of the performance report highlighting an issue	2
Identifies a relevant variance	1
Subtotal	4
Total	6
<p>Answer(s) could include but are not limited to:</p> <p>Purpose of performance reports:</p> <ul style="list-style-type: none"> • a tool of management for control over performance • assist in analysing financial results compared to budgeted targets set by management • help in identifying variations in financial performance between budgeted and actual performance • identify positive and/or negative movements in financial performance. <p>Function of performance reports:</p> <ul style="list-style-type: none"> • unfavourable variations can be investigated and action taken to identify problems • unfavourable variations can be investigated and action taken to improve performance • favourable variations can be investigated and used to continue improvements in performance • favourable variations can be used to reward and encourage employees • used to investigate variations and make changes to future budget expectations. <p>Examples could include:</p> <ul style="list-style-type: none"> • the cash sales have decreased by \$10,200. Junapara Pty Ltd will need to investigate this and identify the problems that contributed to this decrease • the credit sales have increased by \$24,000. Junapara Pty Ltd will need to investigate this and identify the reasons to see if these can be implemented into the cash sales. 	
Accept any other reasonable answer.	

- (b) The performance reports of Junapara Pty Ltd identify the amount of the variances in cost of sales and cash collected from accounts receivable. For each of these variances, state whether they are favourable or unfavourable and provide a possible reason for each variance.

(4 marks)

Description	Marks
Identifies the variance as favourable or unfavourable for both cost of sales and cash collected from accounts receivable	2
Identifies the variance as favourable or unfavourable for cost of sales or cash collected from accounts receivable	1
Subtotal	2
Outlines a possible reason for variances for both cost of sales and cash collected from accounts receivable	2
Outlines a possible reason for variances for cost of sales or cash collected from accounts receivable	1
Subtotal	2
Total	4
<p>Answer(s) could include but are not limited to:</p> <p>Variances:</p> <ul style="list-style-type: none"> • debtor receipts – favourable (actual greater than budgeted figure) • cost of sales – unfavourable (actual greater than budgeted figure). <p>Reasons for variances – cash collected from accounts receivable:</p> <ul style="list-style-type: none"> • increase in credit sales resulting in increase in receipts from accounts receivable • increased monitoring and control of outstanding accounts receivable to ensure payments are received within the credit time frame. <p>Reasons for variances – cost of sales:</p> <ul style="list-style-type: none"> • increase in sales compared to budget will probably result in an increase in cost of sales • increase in cost of inventory compared to budgeted cost of inventory. <p>Accept any other reasonable answer.</p>	

Question 22 (continued)

- (c) Analyse the information provided by Junapara Pty Ltd to evaluate **two** financial issues that will adversely affect their ability to expand the business. (6 marks)

Description	Marks
For each of two financial issues that will adversely affect Junapara Pty Ltd's ability to expand the business:	
Evaluates the issue	3
Describes the issue	2
Identifies the issue	1
Total	6
Answer(s) could include but are not limited to:	
<p>Cash flow problems:</p> <ul style="list-style-type: none"> • limited cash within the business available for expansion – Junapara Pty Ltd has only \$640 cash available within the business • cash will flow into the business from sales over the coming year, but the business also expects to have significant outflows of funds to start up their online business. Junapara Pty Ltd will need access to cash early in the new financial year to meet these costs and this could present a problem • the business will need to have access to cash as it expects to employ more staff who will need to be paid regularly • the business will need access to cash to pay creditors providing online and social media set-up services • once the online orders start flowing in, the business will have to pay delivery costs. <p>Problems borrowing funds from external source:</p> <ul style="list-style-type: none"> • Junapara Pty Ltd may have difficulty borrowing funds as it is already highly geared • debt/equity ratio is already at 102%. This means that for every \$1 of its equity the business has borrowed \$1.02 externally e.g. bank loan • Junapara Pty Ltd could have problems obtaining further borrowings from external sources due to the high debt/equity ratio • borrowing externally will also involve higher interest payments which must be met on time. As Junapara Pty Ltd may have some cash flow problems, then higher interest payments may present a problem. 	
Accept any other reasonable answer.	

- (d) Use the information in the performance reports of Junapara Pty Ltd to explain the difference between cash and accrual performance reporting and provide **two** examples to illustrate your answer. (4 marks)

Description	Marks
Explains the difference between cash and accrual performance reporting	2
Outlines the difference between cash and accrual performance reporting	1
Subtotal	2
Provides two examples from Junapara Pty Ltd's performance reports	2
Provides one example from Junapara Pty Ltd's performance reports	1
Subtotal	2
Total	4
<p>Answer(s) could include but are not limited to:</p> <p>Cash performance reporting compares budgeted and actual cash flows to determine cash variances whereas accrual performance reporting compares budgeted income earned and expenses incurred with the actual income earned and expenses incurred to determine accrual variances.</p> <p>Examples from Junapara Pty Ltd's performance reports:</p> <ul style="list-style-type: none"> • interest is shown as an expense in the income statement but not in the cash budget indicating that the interest is due as at the end of June 2020 but not yet paid • wages is shown as \$130,000 in the cash budget but \$132,000 in the income statement meaning \$2,000 was owing at balance date but not paid • administration expense in the cash budget is shown as \$25,000 while only \$24,000 in the income statement, meaning that \$1,000 was paid in advance as at balance date. 	
Accept any other reasonable answer.	

Question 22 (continued)

- (e) Explain the purpose of an internal audit and identify **two** issues that an internal audit could reveal. (4 marks)

Description	Marks
Explains the purpose of an internal audit	2
Outlines the purpose of an internal audit	1
Subtotal	2
Identifies two issues that an internal audit could reveal	2
Identifies one issue that an internal audit could reveal	1
Subtotal	2
Total	4
<p>Answer(s) could include but are not limited to:</p> <p>The purpose of the internal audit is for a business to monitor and review policies, procedures and systems to ensure they are being followed and complied with by all within the business.</p> <p>The monitoring and reviewing role:</p> <ul style="list-style-type: none"> • monitors and reviews policies, e.g. does management have in place good policies for protection of employees and assets? • monitors and reviews procedures, e.g. cash handling, security of inventory • monitors and reviews systems, e.g. systems for storage of inventory, IT security. <p>The reporting role:</p> <ul style="list-style-type: none"> • reports any difficulties with current policies • suggests new policies to be implemented to protect employees or assets • reports situations where procedures are not being followed by employees • reports any discrepancies or fraud detected. <p>Examples of issues:</p> <ul style="list-style-type: none"> • theft of cash or inventory • collusion between employees discovered • fraudulent activities discovered when checks and balances do not reconcile • unauthorised procedures are discovered, creating a spike in expenditure. <p>Accept any other reasonable answer.</p>	

- (f) Explain to the directors of Junapara Pty Ltd the importance of business planning and how it could contribute to the reduction of the costs involved in the company's planned expansion. (6 marks)

Description	Marks
Explains the importance of business planning when undertaking a major expansion with comprehensive links to Junapara Pty Ltd's expansion	3
Describes the importance of business planning when undertaking a major expansion and makes a link/s to Junapara Pty Ltd's expansion	2
States a fact/s about business planning	1
Subtotal	3
Identifies three costs associated with Junapara Pty Ltd's planned expansion	3
Identifies two costs associated with Junapara Pty Ltd's planned expansion	2
Identifies one cost associated with Junapara Pty Ltd's planned expansion	1
Subtotal	3
Total	6
<p>Answer(s) could include but are not limited to:</p> <p>Business planning helps business owners make better decisions. A business plan sets out all the issues to be considered by management for a major expansion, giving all the ramifications of any given decision. This is especially important for the major online expansion planned by Junapara Pty Ltd. The directors need to consider the cost of the expansion, the appeal of their products to a worldwide audience and the anticipated return the company expects to receive for the additional borrowings they will make. Business planning will allow Junapara Pty Ltd to determine the answer to some of these most critical business decisions ahead of time. It provides an opportunity for questions to be answered before they arise.</p> <p>Costs associated with Junapara Pty Ltd's planned expansion include:</p> <ul style="list-style-type: none"> • cost of the new warehouse is a past cost which has already been incurred – this is a long-term commitment so it is imperative that the inventory it will house is turned over at a rate that will generate sufficient funds to pay for the warehouse • cost of sourcing staff for the anticipated orders – the number of staff required for the orders received and dispatched needs to be maintained to facilitate sales • cost of contracting the website and online presence – this must appeal to the anticipated audience to generate sales • cost and choice of inventory to sell – inventory needs to appeal to an international market and sales need to be maintained in order to finance the anticipated increase in borrowings. <p>Accept any other reasonable answer.</p>	

ACKNOWLEDGEMENTS

- Question 18(c)** Paragraph 1 adapted from: Overhead (business). (2020). In *Wikipedia*. Retrieved August, 2020, from [https://en.wikipedia.org/wiki/Overhead_\(business\)](https://en.wikipedia.org/wiki/Overhead_(business))
Used under a Creative Commons Attribution-ShareAlike 3.0 Unported licence.
- Question 21(a)** Paragraph 1 (sentences 1–2) adapted from: Letts; S. (2019, August 29). *Woolworths maintains plans to close 30 Big W stores as profit tumbles*. ABC News. Retrieved August, 2020, from <https://www.abc.net.au/news/2019-08-29/woolworths-to-close-stores-as-profit-tumbles/11459848>
Paragraphs 2–4 adapted from: Backman, M. (2016). *What is CVP, and how is it important to managerial accounting?* Retrieved August, 2020, from <https://www.fool.com/knowledge-center/what-is-cvp-and-how-is-it-important-to-managerial.aspx>
Paragraph 5 adapted from: Kenton, W., & Berry-Johnson, J. (2020). *Cost-volume-profit –CVP analysis definition*. Retrieved August, 2020, from <https://www.investopedia.com/terms/c/cost-volume-profit-analysis.asp>
- Question 21(b)** Dot points 1–2 adapted from: Letts; S. (2019, August 29). *Woolworths maintains plans to close 30 Big W stores as profit tumbles*. ABC News. Retrieved August, 2020, from <https://www.abc.net.au/news/2019-08-29/woolworths-to-close-stores-as-profit-tumbles/11459848>
- Question 21(e)** Paragraph 1 and dot points under ‘The importance of ASIC’ adapted from: Australian Securities & Investment Commission. (2020). *Our role*. Retrieved August, 2020, from <https://asic.gov.au/about-asic/what-we-do/our-role/>
Paragraph 3 adapted from: ASX Group. (2020). *The ASX Group*. Retrieved August, 2020, from <https://www.asx.com.au/about/asx-group.htm>

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