



ATAR course examination, 2020

ACCOUNTING AND FINANCE

INFORMATION BOOKLET

This booklet contains information from the Question/Answer booklet. No answers are to be written on this booklet. Do not hand this booklet in with your answer.

Question 19

Stuzweec Ltd, a retail business, provided the following financial information.

**Stuzweec Ltd
Trial balance (extract)
as at 30 June 2021**

Account name	Debit \$	Credit \$
Accounts receivable	22,000	
Accounts payable		24,710
Accumulated depreciation – buildings		57,000
Allowance for doubtful debts		290
Cleaning fees	550	
Bank loan		25,000
Building (at cost)	220,000	
Cost of sales	100,000	
Discount allowed	1,100	
Dividends received		2,100
Bad debts expense	250	
Electricity expense	25,000	
Insurance expense	6,000	
Interest income		2,000
Interest expense	3,000	
Interim dividend	20,000	
Inventory	55,000	
Land (at cost)	176,500	
Other expenses	8,200	
Sales		320,000
Sales returns	12,500	
Wages	43,000	

**Stuzweec Ltd
Balance sheet (extract)
as at 1 July 2020**

	\$
Cash at bank	127,000
Retained earnings	120,000
Ordinary share capital (200,000 ordinary shares at \$1.50 each)	300,000
General reserve	45,000

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Additional information:

- On 1 November 2020, a further 50,000 ordinary shares were offered to the public at a price of \$1.00 each. The share issue closed on 25 November 2020 fully subscribed. Shares were issued on 30 November 2020. Share issue costs of \$5,000 were paid on 25 November 2020. It is company policy to close share issue costs on the date of allotment.
- On 1 March 2021 the company issued **one** bonus share for every **ten** shares currently held. The issue price was \$1.00 fully paid and was made from the General reserve account.
- \$30,000 is to be transferred from Retained earnings to the General reserve account.
- On 30 June 2021, the directors proposed a final dividend of \$0.20 per share. The company's annual general meeting (AGM) will take place on 30 September 2021.
- The directors have determined that the land is to be recorded at market value of \$200,000.
- Buildings are depreciated using the reducing balance method at a rate of 10% per annum.
- Allowance for doubtful debts is to be set at \$400.
- The trial balance extract includes all income and expense items for the year.
- The company tax rate is 30%.

Question 20

The following information has been extracted from the comparative financial statements of Veezarp Ltd for the 2020 and 2021 financial years.

Veezarp Ltd
Statement of financial position
as at 30 June 2021

	2020 \$	2021 \$
Current assets		
Cash	120,000	306,500
Petty cash	8,000	8,000
Term deposits	–	20,000
Accounts receivable	185,000	112,000
Inventory	210,000	170,000
Prepaid rent	8,000	3,000
Accrued interest	4,000	1,500
Total current assets	535,000	621,000
Non-current assets		
Land	295,100	361,100
Buildings (net)	770,000	685,000
Motor vehicles (at cost)	600,000	600,000
Accumulated depreciation on motor vehicles	(360,000)	(390,000)
Machinery (at cost)	320,000	345,000
Accumulated depreciation on machinery	(110,000)	(125,000)
Total non-current assets	1,515,100	1,476,100
Total assets	2,050,100	2,097,100
Current liabilities		
Income tax payable	–	29,100
Accounts payable	120,000	95,000
Interest payable	18,000	14,000
Accrued wages	160,000	110,000
Total current liabilities	298,000	248,100
Non-current liabilities		
Loan payable	700,000	677,000
Total non-current liabilities	700,000	677,000
Total liabilities	998,000	925,100
Net assets	1,052,100	1,172,000
Equity		
Share capital	870,000	897,000
General reserve	5,000	10,000
Asset revaluation reserve	50,000	100,000
Retained earnings	127,100	165,000
Total equity	1,052,100	1,172,000

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Veezarp Ltd
Income statement
for the year ended 30 June 2021

	\$	\$
Sales – cash	280,000	
– credit	325,000	605,000
Less sales returns		9,500
Net sales		595,500
Less cost of sales		215,000
Gross profit		380,500
Add other income		
Interest	8,500	8,500
		389,000
Less expenses		
Rent	15,000	
Depreciation of buildings	85,000	
Depreciation of motor vehicles	30,000	
Depreciation of machinery	43,000	
Wages	66,000	
Other expenses	27,000	
Interest	21,000	
Loss on sale of machinery	5,000	292,000
Profit before tax		97,000

Additional information:

- The term deposit will mature in August 2021.
- A share issue of 20,000 shares at \$1.50 each was made during the year. Share issue costs of \$3,000 were paid.
- Dividends of \$25,000 were paid.
- \$5,000 was transferred from retained earnings to the general reserve.
- Land was revalued upwards by \$50,000.
- Machinery with an original cost of \$40,000 and a carrying value of \$12,000 was sold for \$7,000 cash. New machinery was purchased for cash.
- All other non-current assets were purchased for cash.

Question 21

A business magazine published the following article, including comments from its business analyst. Read the article and answer the questions that follow.

Woolworths maintains plans to close 30 Big W stores as profit tumbles

Woolworths is pushing ahead with plans to close 30 unprofitable Big W stores as it battles a tough consumer environment and a drop in 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 7 per cent to \$1.49 billion over the year, or 9 per cent taking into account the extra week of trade in the 2019 financial year compared to 2018.

The market had expected a stronger profit of around \$1.7 billion. Woolworths said that, before one-off costs, its net profit from continuing operations was 9.2 per cent up on last year at \$1.75 billion, or 7.2 per cent up when you factor in for the extra week of trade. Including the net gain of almost \$1.1 billion from the sale of the petrol franchise into the mix, net profit rose 56 per cent to \$2.7 billion. Those proceeds have been handed back to shareholders in the form of higher dividends, up almost 10 per cent to \$1.02 over the year.

Store closures

The Big W department store chain continued to be a drag on the group, losing \$85 million despite a pick up in sales. Earlier this year, Woolworths announced plans to close around 30 unprofitable stores to stem the bleeding. Distribution centres are also slated for closure. All up around 1,000 jobs are expected to be lost.

Woolworths chief executive 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". Mr Banducci said, after a challenging first half, momentum was picking up across the retail group, but conditions remained tough. "In the 2020 financial year, we expect the uncertain consumer environment and input cost pressures to remain, as well as an impact from new enterprise agreements", Mr Banducci said.

Sales picking up, but shares slip

JP Morgan analyst Shaun Cousins said while the result was below market expectations, Woolworths supermarkets appeared to have enjoyed a strong start to 2020. 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 ... while the robust 7.5 per cent like-for-like sales growth may not be sustainable." Woolworths had made strong gains in market share". Investors did not appear to share his optimism, with Woolworths shares down 1.5 per cent to \$35.61 in early trade.

Our business analyst provides the following interpretation of cost-volume-profit results of Woolworths and the decision to close down Big W stores: Woolworths group 2019 profit was \$1.72 billion, up from \$1.6 billion in 2018; Big W group had annual sales of \$3.8 billion up from \$3.6 billion in 2018; In 2019 Big W made a loss of \$85 million, whereas in 2018 the loss was \$100 million. Of note is that Big W employs over 18,000 people within its 183 stores Australia wide. Big W's loyal customer base has resulted in an 84% growth in the online shopping division as well as an increase in sales in the stores of 7.3%

Question 22

Junapara Pty Ltd is a retail business currently located in Western Australia. The directors are planning to expand by setting up an online business to sell their products worldwide. To this end, they have purchased a new warehouse to hold the additional inventory.

The directors are planning to employ additional staff to receive and dispatch orders. Contractors will be engaged to set up the website and create a social media profile.

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In the meantime, the directors are concerned about the cash position of the business as at 30 June 2020. They know the expansion will involve a significant increase in costs and there are plans to increase borrowing. Currently the business' debt/equity ratio is 102%, an increase from the previous year.

The cash budget performance report and budgeted income statement performance report for the year ended 30 June 2020 are provided for your information. Note: the variances have not been identified as favourable or unfavourable.

Junapara Pty Ltd
Cash budget performance report
for year ended 30 June 2020

	Budget \$	Actual \$	Variance \$
Opening cash balance	92,000	92,000	
Receipts			
Cash sales	40,200	30,000	10,200
Cash collected from accounts receivable	281,160	302,040	20,880
Bank loan	200,000	200,000	
Total receipts	613,360	624,040	10,680
Payments			
Cash paid to accounts payable	116,000	132,000	16,000
Loan	11,200	11,200	
Property, plant and equipment	325,200	325,200	
Wages	120,000	130,000	10,000
Administration	20,000	25,000	5,000
Total payments	592,400	623,400	31,000
Closing cash balance	20,960	640	20,320

Junapara Pty Ltd
Budgeted income statement performance report
for the year ended 30 June 2020

	Budget \$	Actual \$	Variance \$
Credit sales	316,000	340,000	24,000
Cash Sales	40,200	30,000	10,200
	356,200	370,000	13,800
Less cost of sales	166,000	180,000	14,000
Budgeted gross profit	190,200	190,000	200
Expenses			
Interest	7,800	7,800	
Depreciation office equipment	3,760	3,760	
Wages	127,000	132,000	5,000
Administration	21,000	24,000	3,000
Total expenses	159,560	167,560	8,000
Budgeted profit	30,640	22,440	8,200

ACKNOWLEDGEMENTS

Question 21

Article adapted from: Letts, S. (2019). *Woolworths maintains plans to close 30 Big W stores as profit tumbles*. Retrieved April, 2020, from <https://www.abc.net.au/news/2019-08-29/woolworths-to-close-stores-as-profit-tumbles/11459848>

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