



ACCOUNTING AND FINANCE

ATAR course examination 2021

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

Workings:**Question 2**

All candidates were awarded 1 mark (date required to calculate weighted average was omitted).

Question 12

Direct materials price variance
= $(AP - SP) \times AQP$
 $(\$12 - \$10) \times 1,800 \text{ m} = \$3,600$

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% (149 Marks)

Question 16

(20 marks)

- (a) Calculate the total direct materials cost of the pop-up sunshade tents and the per batch cost. (Round calculation to the whole dollar.) (6 marks)

Workings		Marks
Total direct materials	= cutting + sewing and assembly = $(11,000(1) \times \$2.45(1)) + 57,000(1)$ = $26,950 + 57,000$ = $\$83,950$	1–3
Number of batches per year	= total tents/number of tent in each batch = $1,050(1)/150(1)$ = 7	1–2
Cost per batch	= total cost/number of batches = $83,950/7$ = $\$11,993(1)$	1
Total		6

Total direct material cost: \$83,950

Direct materials cost per batch: \$11,993

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

- (b) Calculate the total direct labour cost of the pop-up sunshade tents and the per batch cost. (Round calculation to the whole dollar.) (5 marks)

Workings		Marks
Total direct labour	= cutting + sewing and assembly = $(2,100(1) \times \$24(1)) + (3,150(1) \times \$22(1))$ = $50,400 + 69,300$ = $\$119,700$	1–4
Cost per batch	= total cost/number of batches = $119,700/7$ = $\$17,100(1)$	1
Total		5

Total direct labour cost: \$119,700

Direct labour cost per batch: \$17,100

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 16 (continued)

- (c) Calculate the total manufacturing overhead costs and the costs applied to each batch of pop-up tents produced. (Round calculation to the whole dollar.) (5 marks)

Workings		Marks
Overheads		
Factory manager's salary	\$44,000	1
Factory rent	12,000	1
Cutting department overheads	12,000	1
Sewing and assembly department overheads	16,000	1
Total overheads	84,000	
Total overheads/number of batches = 84,000/7	12,000	1
	Total	5

Total manufacturing overhead costs: \$84,000

Manufacturing overhead costs applied to each batch: \$12,000

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

- (d) Calculate the total cost of manufacturing **one** pop-up sunshade tent. (Round to **two** decimal places.) (4 marks)

Workings		Marks
Direct material cost per batch	\$11,993	1
Direct labour cost per batch	17,100	1
Overhead cost	12,000	1
Total cost per batch	41,093	
Total cost per tent = cost per batch/number in batch = 41,093/150	\$273.95	1
	Total	4

Total cost of manufacturing **one** pop-up sunshade tent: \$273.95

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

Question 17

(26 marks)

- (a) Prepare a budgeted income statement for the **two** months ending 31 August 2022.
(22 marks)

Workings:

Total sales: \$25,000 (1) + \$28,500 (1) = \$53,500

(2 marks carried forward to budgeted income statement)

- Cost of sales

Inventory					
Opening balance	\$25,000	1	Cost of sales	\$20,000	
Purchases	10,000	1	Closing balance	15,000	1
	<u>35,000</u>			<u>35,000</u>	

or

\$25,000 (1) + \$10,000 (1) – \$15,000 (1) = \$20,000

(3 marks carried forward to budgeted income statement)

- Interest income

\$30,000 (1) x 0.02 (1) x 2/12 (1) = \$100

(3 marks carried forward to budgeted income statement)

- Wages expense

Accrued wages					
Bank	\$5,100	1	Opening balance	\$350	1
Closing balance	450	1	Wages expense	5,200	
	<u>5,550</u>			<u>5,550</u>	

or

\$5,100 (1) + \$450 (1) – \$350 (1) = \$5,200

(3 marks carried forward to budgeted income statement)

- Office rent expense

\$6,300 (1) x 2/3 (1) = \$4,200

(2 marks carried forward to budgeted income statement)

- Selling expense

\$53,500 (1) x 0.05 (1) = \$2,675

(2 marks carried forward to budgeted income statement)

- Depreciation of delivery van

\$9,500 (1) x 0.15 (1) x 2/12 (1) = \$237.50 = \$238

(3 marks carried forward to budgeted income statement)

- Income tax

\$18,887 (1) x 0.30 (1) = \$5,666.10 = \$5,666 (rounded)

(2 marks carried forward to budgeted income statement)

Question 17 (continued)

ExDex Modulares Ltd
Budgeted income statement
for two months ending 31 August 2022

Description	\$	\$	Marks
Sales		53,500	2
Less cost of sales		20,000	3
Gross profit		33,500	
Add other income			
Interest income		100	3
		33,600	
Less other expenses			
Interest expense	1,200		1
Wages	5,200		3
Office rent	4,200		2
Office administration	1,200		1
Selling expense	2,675		2
Depreciation of delivery van	238	14,713	3
Budgeted profit before tax		18,887	
Less income tax		5,666	2
Budgeted profit after tax		13,221	
		Total	22

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

(b) Outline **two** purposes of a budgeted income statement.

(4 marks)

Description	Marks
For each of two purposes of a budgeted income statement:	
Outlines its purpose	2
States a fact about its purpose	1
Total	4
Answer(s) could include:	
<ul style="list-style-type: none">• assists in determining if budget expectations are realistic• highlights problems such as low sales/income and/or excessive expenses• compares budget with actual outcome to identify good/poor performance over the budgeted period.	
Accept any other correct, logical answer.	

Question 18

(15 marks)

- (a) Calculate the contribution margin per unit for Shiraz bottles of wine. (2 marks)

Workings		Marks
CM per unit = SP per unit – VC per unit = 60 (1) – (15 + 10) (1) = \$35/bottle		1–2
Total		2
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		

Contribution margin per unit for Shiraz bottles of wine: \$35

- (b) Calculate the sales mix for 2022. (4 marks)

Workings		Marks
Total sales	60,000 + 40,000 + 25,000 = 125,000	1
Sales mix %	= $\frac{\text{number of units sold of a given product}}{\text{total units sold of all products}} \times 100\%$	
Shiraz	= 60,000/125,000 = 48%	1
Pinot Noir	= 40,000/125,000 = 32%	1
Cabernet Merlot	= 25,000/125,000 = 20%	1
Total		4
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		

Sales mix for Shiraz for 2022: 48%

Sales mix for Pinot Noir for 2022: 32%

Sales mix for Cabernet Merlot for 2022: 20%

- (c) The contribution margin for Pinot Noir is \$50/bottle and for Cabernet Merlot is \$65/bottle. Calculate the weighted average contribution margin for Winerack. (4 marks)

Workings		Marks
Weighted average contribution margin per unit = $\sum (\text{Contribution margin per unit} \times \text{Sales mix \%})$		
= (\$35 x 48%) + (\$50 x 32%) + (\$65 x 20%) = = 16.80 (1) + 16.00 (1) + 13.00 (1) = \$45.80 (1)		1–4
Total		4
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		

Weighted average contribution margin: \$45.80

- (d) Calculate the breakeven point, in bottles, for Winerack for 2022. (3 marks)

Workings	Marks
Breakeven point (in units) for a multi-product firm	
= $\frac{\text{TFC}}{\text{Weighted average contribution margin per unit}}$	
$(\$3,500,000 \text{ (1)} + \$1,309,000 \text{ (1)}) / \$45.80 \text{ (1)} = 105,000 \text{ bottles}$	1–3
Total	3
Deduct 1 mark for each calculation error, to a maximum of 1 mark Deduct 1 mark for incorrect rounding to whole unit, to a maximum of 1 mark Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks	

Break-even point, in bottles, for Winerack: 105,000 bottles

- (e) Calculate the number of bottles of Pinot Noir required for break-even, applying the sales mix calculated in part (b). (2 marks)

Workings	Marks
Pinot Noir bottles for breakeven	
= breakeven number of bottles x sales mix %	
= 105,000 bottles (1) x 32% (1) = 33,600 bottles	1–2
Total	2
Deduct 1 mark for calculation error to a maximum 1 mark Deduct 1 mark for incorrect rounding to whole unit to a maximum 1 mark Deduct 1 mark for inclusion of foreign items to a maximum 2 marks	

Break-even point, in bottles, for Pinot Noir: 33,600 bottles

Question 19

(37 marks)

- (a) Prepare general journal entries to record the share issue. The transfer of the share issue costs to the share capital is **not** required. (9 marks)

Workings:

800,000 ordinary shares (1) @ \$1.25 (1) each fully paid = \$1,000,000

Booksbank Traders Ltd
General journal

Description				Marks
Date	Particulars	Debit \$	Credit \$	
2021				
Oct 20	Cash at bank (1)	1,000,000 (2)		1 + 2
	Application (1)		1,000,000	1
	<i>Cash received for 800,000 ordinary shares at \$1.25 each</i>			
Nov 1	Application (1)	1,000,000		1
	Share capital (1)		1,000,000	1
	<i>Allotment of shares</i>			
	Share issue costs (1)	70,000 (1)		1 + 1
	Cash at bank (1)		70,000	1
	<i>Payment of share issue costs</i>			
			Total	9

Deduct 1 mark if correct dates not shown, to a maximum of 1 mark

Deduct 1 mark if narrations not shown, to a maximum of 1 mark

- (b) Prepare notes to the accounts for Property, plant and equipment, Share capital, Other components of equity, and Dividends. (20 marks)

Workings:

- Share capital
5,000,000 (1) ordinary shares @ \$0.50 (1) fully paid = \$2,500,000
800,000 (1) ordinary shares @ \$1.25 (1) = \$1,000,000
less share issue costs \$70,000 (1) = \$930,000
- General reserve
\$300,000 (1) + \$400,000 (1) = \$700,000
- Dividends
Final 2021: \$250,000 (1)/5,000,000 share (1) = \$0.50 per share
Interim 2022: \$232,000 (1)/5,800,000 shares (1) = \$0.40 per share
Proposed 2022: 5,800,000 (1) ordinary shares @ \$0.06 (1) per share = \$348,000

Booksbank Traders Ltd
Notes to the accounts (extract)
for the period ended 30 June 2022

Description		Marks
Property, plant and equipment	\$	
Land (at cost)	2,550,000	
Add asset revaluation	1,200,000	1
	3,750,000	1
Furniture and fittings (at cost)	342,000	1
Less Accumulated depreciation of furniture and fittings	98,000	1
	244,000	
Plant and equipment (at cost)	3,672,000	1
Less Accumulated depreciation of plant and equipment	894,000	1
	2,778,000	
Total property, plant and equipment	6,772,000	
Share capital		
5,000,000 ordinary shares @ \$0.50 each, fully paid	2,500,000	2
800,000 ordinary shares @ \$1.25 each, fully paid less share issue costs	930,000	3
Total share capital	3,430,000	
Other components of equity (Reserves)		
General reserve	700,000	2
Asset revaluation reserve	1,200,000	1
Total reserves	1,900,000	
Dividends		
Dividends paid as at 30 June 2022:		
Final dividend as per 2021 AGM 5,000,000 Ordinary shares @ \$0.05 per share	250,000	2
Interim dividends 5,800,000 Ordinary shares @ \$0.04 per share	232,000	2
Dividends declared by Directors:		
Final dividend 5,800,000 Ordinary shares @ \$0.06 per share	348,000	2
	Total	20

Deduct 1 mark if land not shown at cost and revaluation

Deduct 1 mark if each class of depreciable asset with associated accumulated depreciation not shown separately

Deduct 1 mark if number of shares, description of shares and share capital, not shown for each share issue

Deduct 1 mark if number of shares and dividend rate per share for each dividend paid and/or declared not shown

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 classification error, to a maximum of 2 marks

Question 19 (continued)

- (c) Prepare the retained earnings general ledger account showing all entries from 1 July 2021 to 30 June 2022. (6 marks)

Workings:

Retained earnings account					
Date	Details	Debit	Credit	Balance	Marks
2021		\$	\$	\$	
Jul 1	Balance			1,369,000 Cr (1)	1
Sep 30	Final dividend	250,000 (1)		1,119,000 Cr	1
2022					
Mar 30	Interim dividend	232,000 (1)		887,000 Cr	1
Jun 30	Profit after tax		1,435,000 (1)	2,322,000 Cr	1
Jun 30	General reserve	400,000 (1)		1,922,000 Cr (1)	1 + 1
Total					6

or

Retained earnings account						
Date	Details	Amount	Date	Details	Amount	Marks
2021		\$	2021		\$	
Sep 30	Final dividend	250,000 (1)	Jul 1	Balance b/d	1,369,000 (1)	1 + 1
2022			2022			
Mar 30	Interim dividend	232,000 (1)	Jun 30	Profit after tax	1,435,000 (1)	1 + 1
Jun 30	General reserve	400,000 (1)				1
	Balance c/d	1,922,000				
		2,804,000			2,804,000	
			Jul 1	Balance b/d	1,922,000 (1)	1
Total					6	

Note: Do not penalise for using June 30 for final dividend

Deduct 1 mark for incorrect or no dates, to a maximum of 1 mark

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

- (d) Describe the purpose of a written constitution for a company. (2 marks)

Description	Marks
Describes the purpose of a written constitution for a company	2
State a fact about the written constitution for a company	1
Total	2
Answer(s) could include:	
The purpose of a written constitution for a company is to set out:	
<ul style="list-style-type: none"> • the rights, roles and responsibilities of the directors and the shareholders • the rules that govern the internal management of the company. 	
Accept any other correct, relevant answer.	

Question 20

(16 marks)

- (a) Calculate the net present value (NPV) for Option 2. (6 marks)

Workings				Marks
Year	Net cash inflow \$	12% present value discount factor	Present value (PV) \$	
2	1,050,000	0.7972	837,060	1
3	1,050,000	0.7118	747,390	1
4	1,100,000	0.6355	699,050	1
5	1,100,000	0.5674	624,140	1
Residual	490,000	0.5674	278,026	1
Total PV cash inflows			3,185,666	
Less PV cash outflows			3,100,000	1
NPV			85,666	
Total				6

NPV for Option 2: \$85,666

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

- (b) Calculate the payback period for Option 2. (5 marks)

Workings			Marks
Year	Net cash inflows	Accumulated net cash inflows	
1	Nil	Nil	
2	1,050,000	1,050,000	1
3	1,050,000	2,100,000	1
4	1,100,000	3,200,000 (beyond value of asset)	
Payback period between 3 and 4 years, i.e. 3 years + part year			
$\frac{3,100,000 - 2,100,000}{1,100,000}$ (1) = 0.91 of year			1
			1
12 months \times 0.91 (1) = 11 months (rounded)			1
Total			5

Payback period for Option 2: 3 years 11 months

Deduct 1 mark if payback period is not expressed in years and months

Question 20 (continued)

- (c) The NPV for Option 1 is \$82,104 and the payback period is 3 years and 6 months. Provide your investment recommendation for the business. Justify your response with reference to your calculations. (3 marks)

Description	Marks
Recommends Option 2 for investment and justifies by referring to NPV and payback calculations	3
Recommends Option 2 for investment and justifies by referring to NPV or payback calculations	2
Recommends Option 2 for investment	1
Total	3
Answer(s) could include:	
<ul style="list-style-type: none"> The capital expenditure budget is limited to \$3,500,000 which allows for investments in either Option 1 or Option 2 but not both projects. Recommendation is Option 2 as it has a higher NPV value (\$85,666) than Option 1 (\$82,104) even though Option 1 has a shorter payback period (3 years 6 months) than Option 2 (3 years 11 months). NPV is a better method for making capital investment decisions as it takes into account the company's required rate of return, the time value of money and the initial investment required. Payback method does not take into account the time value of money or the company's required rate of return. Identifies that Option 2 has a higher NPV than option 1 Identifies that Option 1 has a shorter payback period than Option 2. States that estimates of net cash flows, and cost of capital become increasingly difficult to estimate the longer the future time periods, leading to increased business risk. 	
Accept any other correct, relevant answer.	

- (d) Describe **one** non-financial factor that may affect capital investment decisions. (2 marks)

Description	Marks
Describes one factor that may affect capital investment decisions	2
Identifies one factor that may affect capital investment decisions	1
Total	2
Answer(s) could include:	
<ul style="list-style-type: none"> Consumer preferences: Customer may prefer a product made by a particular manufacturer, or in a certain country. Competition: Other manufacturers may also be developing similar products. The efficacy of the product and its timing is vital for a successful result. Government regulation: For public health reasons all pharmaceuticals must be registered by Government before being available to the public. Environmental or social implications. 	
Accept any other correct, relevant answer.	

Question 21

(35 marks)

- (a) Prepare the operating activities and investing activities sections of the Cash flow statement for Zwenda Ltd for the year ended 30 June 2022. (31 marks)

Workings:**Accounts receivable**

Opening balance	\$33,578	1	Sales returns	\$10,200	1
Credit sales	251,000	1	Bank	238,953	
			Closing balance	35,425	1
	284,578			284,578	

(4 marks transferred to receipts from customers)

Receipts from customers

Receipts from Accounts receivable	\$238,953	4
Cash receipts	120,000	1
Total cash receipts from customers	358,953	

(5 marks carried forward to cash flow statement)

Inventories

Opening balance	\$43,230	1	Cost of sales	\$109,200	1
Purchases	111,420		Closing balance	45,450	1
	154,650			154,650	

or

$$\$45,450 \text{ (1)} + \$109,200 \text{ (1)} - \$43,230 \text{ (1)} = \$111,420$$

(3 marks transferred to accounts payable)

Accounts payable

Bank	\$110,053		Opening balance	\$31,878	1
Closing balance	33,245	1	Inventories	111,420	3
	143,298			143,298	

or

$$\$31,878 \text{ (1)} + \$111,420 \text{ (3)} - \$33,245 \text{ (1)} = \$110,053$$

(5 marks transferred to payments to suppliers and employees)

Question 21 (continued)

Prepaid factory rent

Opening balance	\$4,000	1	Rent expense	\$60,000	1
Bank	62,000		Closing balance	6,000	1
	66,000			66,000	

or

$$\$6,000 (1) + \$60,000 (1) - \$4,000 (1) = \$62,000$$

(3 marks transferred to payments to suppliers and employees)

Accrued wages

Bank	\$109,400		Opening balance	\$1,900	1
Closing Balance	2,500	1	Wages expense	110,000	1
	111,900			111,900	

or

$$\$1,900 (1) + \$110,000 (1) - \$2,500 (1) = \$109,400$$

(3 marks transferred to payments to suppliers and employees)

Accrued interest expense

Bank	\$5,625		Opening balance	\$625	1
Closing balance	500	1	Interest expense	5,500	1
	6,125			6,125	

or

$$\$625 (1) + \$5,500 (1) - \$500 (1) = \$5,625$$

(3 marks transferred to cash flow statement)

Payments to suppliers and employees

Accounts payable	\$110,053	5			
Factory rent	62,000	3			
Wages	109,400	3			
Other expenses	15,000	1			
Administration expenses	25,000	1			
Total payments to suppliers and employees	321,453				

(13 marks transferred to cash flow statement)

Purchase of new plant and equipment:

$$\$78,000 (1) - \$65,000 (1) = \$13,000$$

(2 marks transferred to cash flow statement)

Motor vehicle:

Sale of motor vehicle

Motor vehicle	\$15,425	1	Accum dep'n of motor vehicle	\$9,925	1
Gain on sale of motor vehicle	500	1	Cash received sale of motor vehicle	6,000	
	15,925			15,925	

or

$$\$15,425 (1) + \$500 (1) - \$9,925 (1) = \$6,000$$

(3 marks transferred to cash flow statement)

Motor vehicles

Opening balance	\$55,425	1	Sale of motor vehicle	\$15,425	1
Bank	25,000		Closing balance	65,000	1
	80,425			80,425	

or

$$\$65,000 (1) + \$15,425 (1) - \$55,425 (1) = \$25,000$$

(3 marks transferred to cash flow statement)

Zwenda Ltd
Cash flow statement (extract)
for the year ended 30 June 2022

Description		Marks
Cash flows from operating activities	\$	
Cash receipts from customers	358,953	5
Payments to suppliers and employees	(321,453)	13
Cash generated from operations	37,500	
Interest paid	(5,625)	3
Income tax paid	(6,200)	1
Net cash flows from operating activities	25,675	
Cash flows from investing activities		
Interest received	1,500	1
Payment for plant and equipment	(13,000)	2
Payment for motor vehicle	(25,000)	3
Proceeds from sale of motor vehicle	6,000	3
Net cash flows from investing activities	(30,500)	
	Total	31

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

Deduct 1 mark each for not disclosing separately Interest paid and Income tax paid, to a maximum of 2 marks

- (b) Identify **four** benefits of a Cash flow statement. (4 marks)

Description	Marks
Identifies four benefits of the cash flow statement	4
Identifies three benefits of the cash flow statement	3
Identifies two benefits of the cash flow statement	2
Identifies one benefit of the cash flow statement	1
Total	4
Answer(s) could include:	
<p>The cash flow statement allows users to:</p> <ul style="list-style-type: none"> • evaluate the entity's liquidity and solvency • assess the ability of an entity to generate cash and cash equivalents • compare the operating performance of different entities because the cash flow statement eliminates the effects of different accounting treatments • check the accuracy of past assessments of future cash flow • determine if cash flow from operations is positive or negative, that is, the extent to which operations are generating cash flow • determine if cash flow from operations funds investment in the entity and/or contributes to a reduction in finance sources • examine how the business is financed (via debt or equity raisings), particularly if cash flow from operations is negative • assess how the entity is investing in the business and what type of investments, such as acquiring companies or plant and equipment • determine the net cash funds flow in a year as either positive or negative • examine the relationship between profitability and net cash flow. 	
Accept any correct, relevant answer.	

Section Three: Extended answer

15% (30 Marks)

Question 22

(30 Marks)

(a) Explain, with the use of an example, the concept of mark-up.

(4 marks)

Description	Marks
Explains the concept of mark-up, using an example	4
Explains the concept of mark-up	3
Describes the concept of mark-up	2
States a fact about the concept of mark-up	1
Total	4
Answer(s) could include:	
A business must be competitive and it must charge a selling price that customers are willing to pay. From an accountant's perspective, it is important to cover costs and to make a profit when selling a product or service.	
The mark-up is the amount added to the unit cost to determine the selling price and will include a profit margin. This mark-up is usually a percentage of the unit cost of the product.	
For example, if the standard cost of the new lawn mower is \$724 and the business applies their mark-up of 50% this means the selling price will be \$1,086. (calculations not required)	
Accept any other correct, relevant answer.	

(b) Describe both the cost leadership and differentiation strategies. Recommend, with a reason, the strategy the company should choose.

(6 marks)

Description	Marks
Describes the cost leadership strategy	2
States a fact about the cost leadership strategy	1
Subtotal	2
Describes the differentiation strategy	2
States a fact about the differentiation strategy	1
Subtotal	2
Recommends, with a reason, the strategy the company should choose	2
Recommends the strategy the company should choose	1
Subtotal	2
Total	6
Answer(s) could include:	
<ul style="list-style-type: none"> • Cost leadership: is a strategy to position a business as being price sensitive. It involves a systematic process to eliminate waste and inefficiencies and lower purchasing costs. This will enable the business to sell products more cheaply than its competitors. • Differentiation: is a strategy about positioning the business so that it is recognised as providing a good or service that is distinct from competing products. The product itself does not need to be unique but some aspect of it should be exclusive or distinct. 	
Surecut Lawn 'n Grass Mowers Pty Ltd should apply the differentiation strategy by highlighting that the new lawn mower is environmentally-friendly. The fact that their lawn mower produces 80% less carbon emissions compared to competing products is a point of distinction.	
Accept any other correct, relevant answer.	

(c) Describe **four** duties of directors of a company.

(8 marks)

Description	Marks
For each of four duties of directors of a company:	
Describes the duty	2
Identifies the duty	1
Total	8
<p>Answer(s) could include:</p> <ul style="list-style-type: none"> • Duty of care and diligence: directors should take their responsibilities seriously and be properly informed about the operations and financial position of the company • Duty of good faith: directors must always act honestly and in the best interests of the company • Duty to not improperly use the position, or information, to gain a personal advantage, or to cause harm to the company • Duty to disclose conflicts of interest: directors must tell the board about any conflict of interest regarding the activities and decisions of the company. • Duty to not trade while insolvent: a company is insolvent if it is unable to pay its debts when they are due. It is illegal for a company to carry on trading while insolvent. It is a duty of directors to be aware of the financial position of the company and to prevent insolvent trading. • Duty to keep books and records: a company must maintain adequate financial records to record and explain transactions, the company's financial position and profit. A director is in breach of the Corporations Act 2001 if adequate financial records are not maintained. 	
Accept any other correct, relevant answer.	

Question 22 (continued)

- (d) Explain **two** functions of an external audit. (6 marks)

Description	Marks
For each two functions of an external audit:	
Explains the function	3
Describes the function	2
Identifies the function	1
Total	6
Answer(s) could include:	
<ul style="list-style-type: none"> Protect external users: external users depend on the financial reports of a company to make decisions about investing capital. An external audit confirms that financial reports show a 'true and fair' view of the financial performance and position of a company. Provide confidence to stakeholders in Australian capital markets: the review and evaluation of accounting processes and financial reports is carried out by an independent external auditor. This promotes market confidence amongst stakeholders as the application of the accounting standards has been verified by a person/s outside the organisation. 	
Accept any other correct, relevant answer.	

- (e) Explain the nature of corporate social disclosure through **two** examples that might be used by the company in its prospectus. (6 marks)

Description	Marks
For each of two examples of corporate social disclosure (CSD) that might be used by the company in its prospectus:	
Explains the nature of CSD through an example relevant to the case study	3
Describes the nature of CSD and provides an example relevant to the case study	2
States a fact about CSD or provides an example relevant to the case study	1
Total	6
Answer(s) could include:	
<ul style="list-style-type: none"> Their social impact: this includes disclosures about social issues, such as the diversity of the entity's employees, treatment of minorities, its health and safety record, employment conditions for employees, community activities and support for developing countries. Examples for Surecut Lawn 'n Grass Mowers Pty Ltd are the sponsorship of the local junior football club and re-training of factory staff involved with assembling the new motor. Their environmental impact: this includes disclosures about many issues associated with the environment and the entity's activities within this area. Companies may report on their impact on the environment and how they are contributing to sustainable development. Examples for Surecut Lawn 'n Grass Mowers Pty Ltd investment in research and development of an environmentally-friendly motor for its lawn mower range and the launch of the new lawn mower range that produces 80% less carbon emissions. 	
Accept any other correct, relevant answer.	

Question 23

(30 Marks)

- (a) Explain the classification of costs according to their relationship to cost objects. Provide an example of each to illustrate your answer. (6 marks)

Description	Marks
For each of direct and indirect costs:	
Explains the cost and provides an example	3
Describes the cost and provides an example	2
Identifies the cost classification	1
Total	6
Answer(s) could include:	
<ul style="list-style-type: none"> • Direct costs are able to be traced to a product or service with a high degree of accuracy. This means that the cost can be physically and easily traced to the finished product. Examples of direct costs include direct materials e.g. fuel for lawn mower and direct labour e.g. employee wages • Indirect costs are not so easily traced to a product or service. These are items that are not incorporated in the product or are too insignificant to make it worth tracing the cost of the finished product. Examples of indirect costs include the research and development costs and the costs of training the factory staff. 	
Accept any other correct, relevant answer.	

Question 23 (continued)

- (b) Outline **two** costs and **two** potential sources of income associated with the company engaging in socially and environmentally responsible practices. (4 marks)

Description	Marks
Outlines two costs associated with the company engaging in socially and environmentally responsible practices	2
Outlines one cost associated with the company engaging in socially and environmentally responsible practices	1
Subtotal	2
Outlines two potential sources of income associated with the company engaging in socially and environmentally responsible practices	2
Outlines one potential source of income associated with the company engaging in socially and environmentally responsible practices	1
Subtotal	2
Total	4
<p>Answer(s) could include:</p> <p>Examples of costs associated with the company engaging in socially and environmentally responsible practices include:</p> <ul style="list-style-type: none"> • research and development costs associated with developing the new environmentally-friendly motor • training costs for factory staff involved in assembling the new environmentally-friendly motor • additional direct materials costs • sponsorship of local junior football club. <p>Examples of potential sources of income associated with the company engaging in socially and environmentally responsible practices include:</p> <ul style="list-style-type: none"> • a favourable perception of the company by customers seeking an environmentally-friendly product may lead to greater sales or market share • a favourable perception of the company in the general community through their sponsorship of the local junior football club leads to a positive public image and the ability of the company to have a positive impact in the community; this might increase its customer base • a favourable perception of the company among its employees may lead to greater productivity (and therefore, cost reduction) due to enhanced staff morale and it might be easier to recruit new employees. 	
Accept any other correct, relevant answer.	

- (c) Explain the purpose and nature of a prospectus and identify which type of company is required to issue a prospectus. (5 marks)

Description	Marks
Explains the purpose and nature of a prospectus	4
Describes the purpose and nature of a prospectus	3
Describes the purpose or nature of a prospectus	2
States a fact about a prospectus	1
Subtotal	4
Identifies which type of company is required to issue a prospectus	1
Total	5
<p>Answer(s) could include:</p> <p>A prospectus is a regulated fund raising document prepared and issued by a public company.</p> <p>The purpose of the prospectus is to give potential investors information regarding the assets and liabilities, profits and expected performance of the company and details about the share offer so they can make an informed decision.</p> <p>The prospectus contains descriptions of current and planned activities, how the funds from the share issue will be used, financial reports and an application form. It will also have an auditor's report showing that financial records comply with the <i>Corporations Act 2001</i> and accounting standards.</p> <p>The prospectus must be reviewed and approved by ASIC and the ASX before it can be issued to the public.</p> <p>It is a required document when a company wishes to be listed on the ASX.</p> <p>Accept any other correct, relevant answer.</p>	

Question 23 (continued)

- (d) Describe **three** rights of shareholders under the new public company structure. (6 marks)

Description	Marks
For each of three rights of shareholders under the new public company structure:	
Describes the right	2
Identifies the right	1
Total	6
Answer(s) could include:	
<p>The rights of shareholders under the public company structure:</p> <ul style="list-style-type: none"> • the right to attend shareholder's meetings: shareholders are entitled to participate in discussions at meetings and vote on resolutions in proportion to their shareholding • the right to receive annual financial reports: such reports are required to be audited by an external auditor • the right to receive dividends: this will be in a manner determined by the directors of the company • the right to dispose of their shares: this is unrestricted and can be to whoever they wish and at whatever price they wish • the right to inspect company records: shareholders can apply in court for the company to make the records available if they believe there are undisclosed conflicts of interest • the right to repayment of capital in the case of liquidation: this will only occur after all creditors have been paid and will be in proportion to their shareholdings at the time of liquidation 	
Accept any other correct, relevant answer.	

- (e) Explain **three** purposes of accounting standards. (9 marks)

Description	Marks
For each of three purposes of accounting standards:	
Explains the purpose	3
Describes the purpose	2
Identifies the purpose	1
Total	9
Answer(s) could include:	
<ul style="list-style-type: none"> • Protect external users: accounting standards provide protection to external users by assisting creditors and investors and other parties to analyse and make informed judgements about entities, facilitating the provision of financial information and providing for comparable reports so that users can compare information over time and between entities • Assist directors in discharging their obligations: accounting standards assist directors in discharging their obligations by assisting preparers of financial reports by giving them a framework and benchmarks, facilitating accountability and promoting accurate reporting • Provide confidence to investors in Australian capital markets: accounting standards facilitate the Australian capital markets by promoting market efficiency. This helps reduce the cost of capital and enables Australian entities to compete effectively internationally. 	
Accept any other correct, relevant answer.	

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