Government of **Western Australia**
School Curriculum and Standards Authority

ACCOUNTING AND FINANCE

ATAR course examination 2016

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.

2016/64091

Section One: Multiple-choice **15% (15 Marks)**

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

GENERAL NOTES

Consequential errors should not be penalised.
Marks should not be subtracted for incorrect solutions.

Section Two: Short answer **70% (140 Marks)**

Question 16 **(19 marks)**

Tourquekan Limited sells restored motorcycles. The average motorcycle sells for $40,000 and has a total variable cost of $30,000. Fixed costs are approximately $300,000 per annum.

(a) Calculate the Contribution margin per motorcycle and the Contribution margin ratio. (4 marks)

CM = SP per unit – VC per unit
= 40,000 **(1)** – 30,000 **(1)**
= 10,000

$$\text{CM ratio} = \frac{\text{CM}}{\text{SP}} \quad \frac{10{,}000\ \mathbf{(1)}}{40{,}000\ \mathbf{(1)}} = 0.25$$

Contribution margin per motorcycle: $10,000 **(2) See above**

Contribution margin ratio: 0.25 **(2) See above**

Note: Accept 0.25 or 25% for the Contribution margin ratio.

(b) Calculate the Break-even point in motorcycles and Sales dollars. (4 marks)

$$\text{BE} = \frac{\text{TFC}}{\text{CM per unit}} = \frac{300{,}000\ \mathbf{(1)}}{10{,}000\ \mathbf{(1)}} = 30 \text{ bikes}$$

30 bikes x $40,000 **(1)** = 1,200,000 **(1)** or TFC ÷ CM ratio = 300,000 **(1)** ÷ 0.25 **(1)**

Break-even point in motorcycles: 30 **(2) See above**

Break-even point in Sales dollars: $1,200,000 **(2) See above**

(c) Torquekan Limited requires a profit of $1,500,000 per annum. Calculate the required target Sales in units and Sales dollars to achieve the target profit. (5 marks)

Target profit 1,500,000 **(1)** ÷ CM 10,000 **(1)** = 150 bikes + BE sales 30 **(1)** = 180 bikes

$$\text{Alt: Sales units} = \frac{\text{TFC + Profit}}{\text{CM/unit}} = \frac{300{,}000\ \mathbf{(1)} + 1{,}500{,}000\ \mathbf{(1)}}{10{,}000/\text{bike}\ \mathbf{(1)}}$$

Target Sales = 180 bikes x 40,000 per bike **(1)** = 7,200,000 **(1)**

Alt: TVC + TFC + Profit = (180 x 30,000) + 300,000 + 1,500,000 **(1)** = 7,200,000 **(1)**

Required target Sales in units: 180 **(3)**

Required target in Sales dollars: $7,200,000 **(2)**

Question 16 (continued)

(d) Management consider the revenue to achieve a profit of $1,500,000 is achievable. Calculate the Margin of safety percentage. (3 marks)

Margin of Safety = Budget Sales – BE Sales

MOS = 7,200,000 – 1,200,000 **(1)** = 6,000,000

Margin of Safety ratio = MOS ÷ Budget Sales

Margin of Safety ratio = 6,000,000 **(1)** ÷ 7,200,000 **(1)** = 0.83

Margin of safety percentage: 0.83 or 83%

(e) Give **three** functions of a Master budget. (3 marks)

Description	**Marks**
Gives one to three functions of a Master budget	1–3
Total	**3**
Answers could include: • The function of a Master budget is to plan, co-ordinate and control all activities of an enterprise. It includes a budget/planned income statement, cash flow, CAPEX and statement of financial position. These statements are inter-related. Examples of co-ordination include cash planning to ensure adequate finance for operations, capital expenditure and dividends. Control is achieved by the preparation of performance reports by time, responsibility and activity, and management action based on those reports. • The Master budget provides a plan to achieve revenue goals, expense controls, profit goals and adequate cash availability and reserves. • This budget sets financial Key performance indicators (KPIs) and provides a plan to achieve them through profit and cash generating activities. • A Master budget provides operational plans consistent with the strategic plan. This aides the organisation to meet its profitability, liquidity and management efficiency goals. • Provides a business with a set of objectives to be achieved. • Assists to identify potential problem areas within the business. • Facilitates coordination of business activities. • Can be used to motivate employees to achieve set business targets. • Can be used by a business to evaluate its performance. Accept any other reasonable answers.	

Question 17 **(26 Marks)**

(a) Calculate the Net Present Value (NPV) for Project Alpha. (5 marks)

Cash Inflows $2,500,000 **(1)** per annum X Present Value of Annuity Factor 6 years 12% p.a. 4.1114 **(1)** = PV Inflows $10,278,500 **(1)** – PV Outflow $10,500,000 **(1)** = NPV Project Alpha $(221,500) **(1)**

Alternate format for calculating NPV:

Year	**Cash inflow (1)**	**12% Present value/ Discount factor (1)**	**Present value Cash flow (1)**	**Marks**
1	$2,500,000	0.8929	$2,232,250	
2	$2,500,000	0.7972	$1,993,000	
3	$2,500,000	0.7118	$1,779,500	
4	$2,500,000	0.6355	$1,588,750	
5	$2,500,000	0.5674	$1,418,500	
6	$2,500,000	0.5066	$1,266,500	
Total PV Cash inflows			$10,278,500	3 (See above)
Less PV Cash outflow			$10,500,000	1
Net present value (NPV)			$(221,250)	1
			Total	**5**
Note: This method does not recognise the annuity concept. Any error in calculating the PV of Cash inflows is penalised at minus 1 mark to a maximum of minus 3; that is zero out of 3. Using the wrong discount rate or factor(s) is **not** treated as a consequential error. Rounding is not required.				

Alternate format for calculating NPV:

NPV Project Alpha
NPV = Discounted future cash inflows – initial cash outflow
= (2,500,000/1.12) + [(2,500,000/$(1.12)^2$] + [(2,500,000/$(1.12)^3$] + [(2,500,000/$(1.12)^4$] + [(2,500,000/$(1.12)^5$] + [(2,500,000/$(1.12)^6$] **(3)** – 10,500,000 **(1)**
= 2,232,142.86+ 1,992,984.69 + 1,779,450.62 + 1,588,795.20 + 1,418,567.14 + 1,266,577.80
= 10,278,519 – 10,500,000

= range $(221,481) to $(221,250) **(1)** due to rounding

Note: Marks for PV calculation are for all six years.

Question 17 (continued)

(b) Calculate the Net Present Value (NPV) for Project Beta. (6 marks)

Year	Cash inflow	12% Present value/ Discount factor	Present value Cash flow	Marks
2	$6,000,000	0.7972	$4,783,200	1
3	$6,500,000	0.7118	$4,626,700	1
4	$5,000,000	0.6355	$3,177,500	1
5	$1,500,000	0.5674	$ 851,100	1
Total PV Cash inflows			$13,438,500	
Less PV Cash outflow			$12,000,000	1
Net present value (NPV)			$1,438,500	1
			Total	**6**
Note: Using the wrong discount rate or factor(s) is not treated as a consequential error. Rounding is not required. Markers: deduct one mark if cash flows are calculated from year one.				

Alternate format for calculating NPV:

NPV Project Beta

NPV = Discounted future cash inflows – initial cash outflow

$= [(6{,}000{,}000/(1.12)^2] + [(6{,}500{,}000/(1.12)^3] + [(5{,}000{,}000/(1.12)^4] + [(1{,}500{,}000/(1.12)^5]$ **(4)** – 12,000,000 **(1)**

= 4,783,163.26 + 4,626,571.61 + 3,177,590.39 +851,140.28

= 13,438,465.54 – 12,000,000

= range $1,438,466 to $1,438,500 **(1)** due to rounding

(c) Calculate the payback period in years and months for Project Alpha. (3 marks)

Payback = Cost ÷ Annual Net Cash Flow

= $10,500,000 **(1)** ÷ $2,500,000 **(1)**

= 4.20 years, 0.2 x 12 months per annum = 2.4 months

Payback period for Project Alpha is **4 years and 2.4 months or 3 months**

(1 mark)

Description	Marks
1 mark for each item of workings (see above)	1–2
Payback period = 4 years and 2.4 months or 3 months	1
Total	**3**

(d) The Payback period for Project Beta is two years and 11 months. Provide an investment recommendation for the company and justify the recommendation with specific reference to **two** quantitative methods. (3 marks)

Description	Marks
Must recommend Project Beta for one mark	1
Maximum 2 marks for justification (2 x 1 mark each)	
Any two of the following: • identifies that only Project Beta has a positive NPV • identifies that Project Alpha should not be invested in as it has a negative NPV (so does not meet the 12% target) • comments on the Payback period of both projects • states that Project Beta's NPV is positive by over $1M and so clearly exceeds the target return of 12%.	1–2
Total	**3**

(e) Plaie Pty Ltd is considering a capital investment in Project Delta with non-current assets of $500,000.

The following information is provided for Project Delta:
- all non-current assets purchased for the investment are depreciable
- the projected Net profit after company tax is $1,400,000 per year
- depreciation is the only non-cash item included in projected Net profit and is calculated at 20% per annum straight-line
- the company tax rate is 30%.

Calculate the projected Annual net cash flow before tax for Project Delta. (5 marks)

Workings:

Profit before Tax = Net Profit after Tax + Tax paid on profit at 30%
Profit before Tax = 1,400,000 **(1)**/(1-0.3) = 1,400,000/0.7 **(1)** = $2,000,000

Depreciation = Non-current assets (cost base) x depreciation rate
= $500,000 **(1)** x 0.2 **(1)** = $100,000

Annual net cash flow = Profit before tax + Non-cash accrual (depreciation)
= $2,000,000 + 100,000 = $2,100,000

Projected Annual net cash flow before tax for Project Delta is: $2,100,000 **(1)**

Question 17 (continued)

(f) Give **one** advantage and **one** disadvantage of using the Payback period to evaluate capital investment decisions. (2 marks)

Description	Marks
Gives one advantage of the Payback method	1
Gives one disadvantage of the Payback method	1
Total	**2**

Answers could include:

Advantages of the Payback method
- simple to calculate
- easily understood
- a target rate of return or discount rate does not need to be determined
- it is a good indicator of risk
- a rough estimate of Return on Investment (ROI) is readily calculated; it is the inverse of Payback e.g. 5 years Payback is approximately 20% per annum ROI and vice versa.

Disadvantages of the Payback method
- it does not take into account the time value of money
- it is less accurate measure than the NPV method
- it does not directly measure if a target return/investment yield is achieved.

Accept any other reasonable answers.

(g) Give **one** advantage and **one** disadvantage of using NPV to evaluate capital investment decisions. (2 marks)

Description	Marks
Gives one advantage of NPV method	1
Gives one disadvantage of the NPV method	1
Total	**2**

Answers could include:
Advantages of the NPV Method
- It takes into account the time value of money.
- It directly measures the target return/investment yield.
- Provides an easy decision rule, if NPV is zero or greater, the target return should be achieved and vice versa.
- It is a more accurate measure than the Payback method.

Disadvantages of the NPV method
- Complex to calculate
- Less easily understood than the Payback method.
- A target rate of return or discount rate needs to be determined. This can be problematic.

Accept any other reasonable answers.

Question 18 **(45 marks)**

(a) Prepare the Financing activities section of the Statement of cash flows for the year ended 30 June 2016. Show all workings clearly. (7 marks)

Workings:

Share issue 1,500,000 **(1)** – 1,000,000 **(1)** = 500,000
Dividends 55,000 **(1)** + (65,000 – 65,000) **(1)** = 55,000

Stally Limited
Statement of cash flows (extract) – Financing activities
for the year ended 30 June 2016

	\$	**\$**	**Marks**
Share issue	500,000		2
Dividends	(55,000)		2
Long-term borrowings	(200,000)		1
Debentures	400,000		1
Net cash flow from financing activities		\$645,000	1
		Total	**7**

(b) Prepare the Investing activities section of the Statement of cash flows for the year ended 30 June 2016. Show all workings clearly. (15 marks)

Stally Limited
Statement of cash flows (extract) – Investing activities
for the year ended 30 June 2016

	\$	**\$**	**Marks**
Proceeds from sale of plant	10,000		3
Purchase of plant and equipment	(100,000)		4
Purchase of land	(60,000)		4
Proceeds from sale of investments	3,000		3
Net cash flow from investing activities		(\$147,000)	1
		Total	**15**

Workings:

Proceeds from sale:
20,000 **(1)** Carrying amount/written down value/book value – 10,000 **(1)** loss = 10,000 **(1)** bank

Sale of long-term investments:
15,000 **(1)** cost – 12,000 **(1)** loss = 3,000 **(1)** bank

Plant and Equipment

Date	**Particulars**	**Debit \$**	**Date**	**Particulars**	**Credit \$**
1/7/15	Bal b/d **(1)**	200,000	30/6/16	Sale of plant **(1)**	50,000
30/6/16	Bank **(1)**	100,000	30/6/16	Bal c/d **(1)**	250,000
		\$300,000			\$300,000

1 mark for each number. Dates and cross references not required – workings only.

Question 18 (continued)

Land

Date	Particulars	Debit $	Date	Particulars	Credit $
1/7/15	Bal b/d **(1)**	150,000	30/6/16	Bal c/d **(1)**	275,000
30/6/16	Revaluation reserve **(1)**	65,000			
30/6/16	Bank **(1)**	60,000			
		$275,000			$275,000

1 mark for each number. Dates and cross references not required – workings only.

Alternative general ledger account reconstructions:

Plant and equipment

Date	Particulars	Debit $	Credit $	Balance $
1/7/15	Balance c/d	200,000**(1)**		200,000 Dr
30/6/16	Sale of plant		50,000**(1)**	150,000 Dr
30/6/16	Bank	100,000**(1)**		250,000 **(1)** Dr

Land

Date	Particulars	Debit $	Credit $	Balance $
1/7/15	Balance c/d	150,000**(1)**		150,000 Dr
30/6/16	Revaluation reserve	65,000**(1)**		215,000 Dr
30/6/16	Bank	60,000**(1)**		275,000 **(1)** Dr

(c) Define cash and cash equivalents and explain whether gold bars stored in the company safe are cash equivalents. Note: gold bars may be sold on any business day at market value to the Perth Mint for cash. (3 marks)

Description	Marks
Defines in detail cash and cash equivalents	2
Briefly defines cash and cash equivalents	1
States and gives a reason why gold bars are not cash equivalents	1
Total	**3**

Answers could include:
- Definition – cash is cash on hand and demand deposits.
- Definition – cash equivalents are short-term highly liquid assets that are readily convertible into known amounts of cash and that are subject to an insignificant risk of changes in value. It is usually convertible into cash within three months.
- There is a significant, almost inevitable risk that gold bars will change in value.
- Gold bars are not cash equivalents due the risk of change in value.

Accept any other reasonable answers.

(d) The following data has been provided for Tooit Ltd for the year ended 30 June 2016.

(i) Calculate to **two** decimal places the price/earnings ratio. (3 marks)

Ratio	Workings	Value	Marks
Price/earnings	1.50 **(1)** / 0.12 **(1)** = 12.5	12.50 times **(1)**	1–3
		Total	**3**

Markers note: candidates should not have any issues with rounding calculations for the price/earnings ratio.

(ii) Calculate to **two** decimal places the dividend yield as a percentage. (4 marks)

Ratio	Workings	Value	Marks
Dividend yield	[($140,000 **(1)** / 2,000,000) **(1)** / $1.50 **(1)**] = 0.0467	4.67% **(1)**	1–4
		Total	**4**

Markers note: candidates may have issues with rounding calculations for the Dividend yield. Accept 4.66% or 4.67%.

(iii) An industry competitor has a dividend yield higher than Tooit Ltd. If the earnings per share are the same for both companies, explain how the competitor has a higher dividend yield. (2 marks)

Description	Marks
States that the annual dividend and market price per ordinary share affects the dividend yield	2
States that the annual dividend or market price per ordinary share affects the dividend yield	1
Total	**2**

Answers could include:

- Earnings per share is the same for both companies, if the companies are the same size then profits and the number of available shares are the same.
- The annual dividend paid per share to ordinary shareholders for the competitor is higher than Tooit Ltd if share price is the same. The competitor pays out its profits to shareholders as dividends rather than retains profits to fund future operations. This could be due to prior expectations for higher dividend payouts in the past.
- The market price for the competitor is lower than Tooit Ltd if the annual dividend paid per share is the same. Market price for the competitor may be lower due to the higher dividend so shareholders are expecting a higher return on dividends and less capital appreciation. Also, the competitor has less funds to reinvest in the company and therefore less opportunity for growth, which results in a lower share price.

Markers note: accept candidate answers that use a numerical example to answer this question if calculated correctly.

Accept any other reasonable answers.

Question 18 (continued)

(e) Managers of profitable businesses often have to deal with cash flow problems. State **three** reasons why cash flow problems may occur in profitable businesses, and give **one** recommendation to control the problem. (4 marks)

Description	Marks
States one to three reasons why a profitable businesses can have cash flow problems	1–3
Gives a workable recommendation to control cash flow	1
Total	**4**

Answers could include:

Reasons
- Profit does not equal cash e.g. payment for non-current assets.
- Credit sales increase revenue and profit but are not cash receipts. Debtors' collection must be actively managed and collected. When debtors' collection is not managed in a timely manner, cash flow problems will occur.
- Stock turnover may be slow thus reducing cash flow but creditors must still be paid in a timely manner. This is unrelated to profit.
- Excessive payments for dividends, drawings, asset acquisition or debt repayment can create cash shortages. These items do not directly affect profit.
- Financing miss-matches can create cash shortages. Non-current assets should be financed with non-current liabilities. Profit measurement is irrelevant.

Recommendations
- A formal credit policy with documentation and follow up collection activity – effective debtors' management practices.
- Budgets and performance reports should be prepared together with effective management responses. In particular cash budgets, stock and debtors.

Accept any other reasonable answers.

(f) Outlines the definition and recognition criteria of an asset using *The Framework* and discuss which of the expenditures by Getoop Ltd are considered to be assets. (7 marks)

Description	Marks
Definition – outlines the three elements of an asset. 1 mark each.	1–3
Outlines the two criteria for asset recognition. 1 mark each.	1–2
Discusses with reference to the question which items can be reported on the balance sheet as an asset.	2
Discusses briefly items that can be reported on the balance sheet as an asset	1
Total	**7**

Answers could include:

Asset definition

- An asset is defined as a resource controlled by the entity as a result of past events from which future economic benefits are expected to flow to the entity.
- Control requires the entity to be able to use the asset and restrict the use of the asset by any other party. Control can be a right of exclusive use or ownership of the asset.
- A past event refers to the occurrence of an event that creates the asset.
- Future economic benefits refers to the inflow of cash or cash equivalents, or other economic benefits such as the ability to be exchanged for another asset, used to settle a liability or used to produce goods or services to be sold by the entity.

Asset recognition criteria

- An asset should be recognised in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset can be measured reliably.
- Probability refers to the degree of certainty that the economic benefits will flow to the entity. Probable does not mean it has to be absolutely certain, only more likely than less likely.
- Reliable measurement refers to the ability to assign a cost or value to the asset that is without bias and error.

Getoop Ltd

- The assets generated by Getoop Ltd that meet the definition and recognition criteria, would more than likely be limited to the computer software that could be sold (inventory), research laboratory and equipment (property plant and equipment) the legal protection of the computer software (intangible asset).
- Intellectual capital (staff recruitment, training and ongoing development costs) and intellectual property (development of the computer software) are potential assets, but generally these items fail the definition of an asset, particularly control and/or the inflow of future economic benefits. If the definition criteria can be met for these items, then the difficulty would be in recognising the assets for probable inflow of economic benefits and reliable measurement.

Accept any other reasonable answers.

Question 19 **(50 marks)**

(a) Prepare the general ledger Share Capital – Ordinary Account as at 30 June 2016, including closing entries. (5 marks)

Workings:

Ordinary shares: 200,000 x $5 = $1,000,000 **(1)**

Issue costs: 5,000 **(1)** + 20,000 **(1)** + 8,000 **(1)** = $33,000

Share Capital – Ordinary Account

Date	Particulars	Debit $	Date	Particulars	Credit $
30/6/16	**Issue costs (3)**	33,000	31/8/15	Applications Ordinary **(1)**	1,000,000
30/6/16	Balance c/d	967,000 **(1)**			
		$1,000,000			$1,000,000

or

Share Capital – Ordinary Account

Date	Particulars	Dr	Cr	Balance	
31/8/2015	Applications, ordinary		1,000,000 **(1)**	1,000,000	**CR**
30/6/2016	Issue costs	33,000 **(3)**		967,000 **(1)**	**CR**

(b) Prepare the journal entries with narrations to account for the interim dividend. (7 marks)

Workings:

Interim dividend: 200,000 **(1)** x .05 **(1)** = $10,000

General Journal (Extract)

Date	Particulars	Dr	Cr
19/9/2015	Retained earnings	10,000 **(1)**	
	Interim dividend payable, ordinary		10,000 **(1)**
	Interim dividend of 5 cents per share		
22/9/2015	Interim dividend payable, ordinary	10,000 **(1)**	
	Cash at bank		10,000 **(1)**
	Payment of interim dividend 5 cents per share		

(1) One mark for all dates and all narrations being correct.

Markers note: Marks for the general journal entry is awarded for having both the account and the corresponding debit or credit shown correctly.

Alternative general journal entries:

General Journal (Extract)

Date	Particulars	Dr	Cr
19/9/2015	Interim dividend declared	10,000	
	Interim dividend payable, ordinary		10,000
	Interim dividend declared		
22/9/2015	Interim dividend payable, ordinary	10,000 **(1)**	
	Cash at bank		10,000 **(1)**
	Payment of interim dividend 5 cents per share		
30/6/2015	Retained earnings	10,000 **(1)**	
	Interim dividend declared		10,000 **(1)**
	Interim dividend declared closing entry		

(1) One mark for all dates and all narrations being correct.

Markers' note: Marks for the general journal entry is awarded for having both the account and the corresponding debit or credit shown correctly.

(c) Prepare the Statement of Comprehensive Income. (16 marks)

Workings:

Revenue:		**Operating expenses:**	
Sales	1,356,000 **(1)**	Other expenses	288,000 **(1)**
Discounts allowed	24,260 **(1)**	Preliminary expenses	3,260 **(1)**
	1,331,740	Doubtful debts	1,300 **(1)**
Other income:		Wages	260,000 **(1)**
Interest received	3,400 **(1)**		552,560
Dividends received	8,450 **(1)**		
	11,850	**Finance expenses:**	
		Interest expense	9,900 **(1)**

Tax expense:
381,130 **(1)** x 30% = 114,339 **(1)**

XYZ! Ltd
Statement of Comprehensive Income
for the year ended 30 June 2016

	$	**Marks**
Revenue	1,331,740	**(2)**
Less Cost of sales	400,000	**(1)**
Gross profit	931,740	
Other income	11,850	**(2)**
Operating expenses	(552,560)	**(4)**
Finance expenses	(9,900)	**(1)**
Profit before income tax	**381,130**	**(1)**
Income tax expense	(114,339)	**(2)**
Profit for period	**266,791**	**(1)**
Other comprehensive income		
Gain on revaluation of land	50,000	**(1)**
Total comprehensive income for the period	**316,791**	**(1)**

Alternative workings shown on page 17 and 18.

Workings:

Other income:

Interest received	3,400 **(1)**
Dividends received	8,450 **(1)**
	11,850

Operating expenses:

Other expenses	288,000 **(1)**
Preliminary expenses	3,260 **(1)**
Doubtful debts	1,300 **(1)**
Wages	260,000 **(1)**
	552,560

Finance expenses:

Interest expense	9,900 **(1)**
Discounts allowed	24,260 **(1)**
	34,160

Tax expense:

381,130 **(1)** x 30% = 114,339 **(1)**

XYZ! Ltd
Statement of Comprehensive Income
for the year ended 30 June 2016

	$	Marks
Revenue	1,356,000	**(1)**
Less Cost of sales	400,000	**(1)**
Gross profit	956,000	
Other income	11,850	**(2)**
Operating expenses	(552,560)	**(4)**
Finance expenses	(34,160)	**(2)**
Profit before income tax	**381,130**	**(1)**
Income tax expense	(114,339)	**(2)**
Profit for period	**266,791**	**(1)**
Other comprehensive income		
Gain on revaluation of land	50,000	**(1)**
Total comprehensive income for the period	**316,791**	**(1)**

Markers' note: Doubtful Debts is an Operating expense, however, do not penalise classification as a Finance expense.

Question 19 (continued)

Workings:

Other income:

Interest received	3,400 **(1)**
Dividends received	8,450 **(1)**
	11,850

Tax expense:

389,130 **(1)** x 30% = 114,339 **(1)**

Operating expenses:

Other expenses	288,000 **(1)**
Preliminary expenses	3,260 **(1)**
Wages	260,000 **(1)**
	551,260

Finance expenses:

Interest expense	9,900 **(1)**
Doubtful debts	1,300 **(1)**
Discounts allowed	24,260 **(1)**
	35,460

XYZ! Ltd
Statement of Comprehensive Income
for the year ended 30 June 2016

	$	**Marks**
Revenue	1,356,000	**(1)**
Less Cost of sales	400,000	**(1)**
Gross profit	956,000	
Other income	11,850	**(2)**
Operating expenses	(551,260)	**(3)**
Finance expenses	(35,460)	**(3)**
Profit before income tax	**381,130**	**(1)**
Income tax expense	(114,339)	**(2)**
Profit for period	**266,791**	**(1)**
Other comprehensive income		
Gain on revaluation of land	50,000	**(1)**
Total comprehensive income for the period	**316,791**	**(1)**

(d) Prepare the notes to the accounts for Property, plant and equipment and Dividends.
(10 marks)

Property, plant and equipment

	$	Marks
Plant and equipment	501,820	**(1)**
Less: Accumulated depreciation	72,000	**(1)**
	429,820	
Buildings	450,000	**(1)**
Less: Accumulated depreciation	100,000	**(1)**
	350,000	
Land at cost	900,000	**(1)**
Add: revaluation	50,000	**(1)**
	950,000	
Total Property, plant and equipment	**1,729,820**	

Alternative presentation:

Property, plant and equipment

	$	Marks
Building, plant and equipment	951,820	**(2)**
Less: Accumulated depreciation	172,000	**(2)**
	779,820	
Land at cost	900,000	**(1)**
Add: revaluation	50,000	**(1)**
	950,000	
Total Property, plant and equipment	**1,729,820**	

Dividends

The following dividends were paid during the year ended 30 June 2016:

200,000 Ordinary shares, $0.05 per share	$10,000	**(2)**

The directors have recommended final dividends for the year ended 30 June 2016:

200,000 Ordinary shares, $0.07 per share	$14,000	**(2)**

Markers' note:

- 1 mark for dollar amount and 1 mark for dividend description.
- Accept any other reasonable explanations of the dividends paid and payable as long as the response is correct with dollar amounts and description.

Question 19 (continued)

(e) Prepare an extract of the assets section only of the Statement of Financial Position. (9 marks)

Workings:

Trade receivables:	
Account receivables	102,700 **(1)**
Less Allowance for Doubtful debts	800 **(1)**
	101,900

XYZ! Ltd
Statement of Financial Position (extract) – Assets
as at 30 June 2016

Current Assets	**$**	**Marks**
Cash and cash equivalents	75,890	**(1)**
Trade and receivables	101,900	**(2)**
Inventories	120,000	**(1)**
Other current assets	300,000	**(1)**
Total Current Assets	**597,790**	
Non-current Assets		
Property plant and equipment	1,729,820	**(1)**
Goodwill	200,000	**(1)**
Investments	96,400	**(1)**
Total Non-current Assets	**2,026,220**	
Total Assets	**2,624,010**	**(1)**

Question 19 (continued)

(f) Explain the function of a prospectus as per the *Corporations Act 2001* and in what circumstance a company is required to register one with the Australian Securities and Investments Commission. (3 marks)

Description	Marks
Explains the function with reference to the Corporations Act and correctly states when a company must register their prospectus	3
Describes the function with reference to the Corporations Act and correctly states when a company must register their prospectus	2
States a fact about prospectus' or correctly states when a company must register their prospectus	1
Total	**3**

Answers could include:

- A public company must issue a prospectus inviting the public to subscribe for shares (or other securities) which contains all the information that a potential investor needs to make an informed decision about the potential investment.
- The function of the prospectus is to disclose to potential investors and advisors sufficient information regarding the financial position of the company and the nature of the security on offer, so that they are able to make an informed investment decision.
- A prospectus must be registered and lodged with ASIC when offering shares in a public company to the public.

A prospectus includes information on:
- past financial information including financial statements and auditors reports
- future financial information including budgets or statements of capital investments for the use of the funding
- personal details of directors and senior management
- relevant expert reports
- the amount that is being raised and a minimum subscription amount for the share issue to proceed
- any underwriting arrangements that have been agreed to
- an application form with all of the share issue details
- details on how oversubscriptions will be managed including the allocations of the shares to various applicants and any details of order of priority for share issues.

Accept any other reasonable answers.

Section Three: Extended answer **15% (30 Marks)**

Question 20 **(30 marks)**

Prepare a written response to the parts of this question provided below. Refer to examples you have studied to support your answer.

(a) Explain the function of an external audit and the role of the external auditor. (6 marks)

Description	Marks
Function of an external audit	
Explains the function of an external audit and may offer examples to clarify answer	3
Describes the function of an external audit	2
States a fact about the function of an external audit	1
Role of the external auditor	
Explains the role of an external auditor with examples to clarify answer	3
Describes the role of an external auditor	2
States a fact about the role of the external auditor	1
Total	**6**

Answers could include:

Function of an external audit

- To protect external users of financial statements as there is a separation between ownership and control of reporting entities. External users cannot request customised financial information and so must rely on the published accounts to inform their financial decisions.
- To give confidence to stakeholders in Australian capital markets that reporting entities accounts can be relied upon to make financial decisions.
- An external audit is an independent verification of the reporting entity’s information systems and records to ensure they are properly maintained and that reports at the end of the financial period accurately represent the reporting entity’s performance and position for the period.

Role of the external auditor

- The role of external auditors is to protect external users of financial statements. An external auditor protects users of financial statements by checking the reporting entity’s accounting procedures and records. This can include the testing of individual transactions that are of high risk of misstatement due to their nature or size and/or by checking regular transactions such as the payment of wages to ensure regular transactions have been correctly recorded on a regular basis.
- The role of external auditors is to perform an independent audit of the financial statements.
- Form an opinion as to whether the financial statements are a true and fair view of the company’s performance and position.
- Provide an audit report which is included in the annual report for the external users of the financial statements.

Accept any other reasonable answers.

(b) Explain the nature of corporate social disclosure (CSD). (4 marks)

Description	**Marks**
Explains in detail the nature of CSD and may offer examples to clarify answer	4
Explains the nature of CSD	3
Describes the nature of CSD	2
States a fact regarding the nature of CSD	1
Total	**4**

Answers could include:

- To disclose in accounting terms means to include in the external financial reports of the business OR to report publicly on the wider impacts of the entities activities on external stakeholders beyond shareholders.
- CSD therefore is the reporting of the entities impacts and activities relating to their corporate citizenship and is often **non-financial data**.
- There are two main areas of reporting; **environmental reporting and social reporting.**
- Disclosure is **voluntary**.
- While there are frameworks and voluntary standards available such as the Global Reporting Initiative, Integrated Reporting and the Australian CSD Guide, disclosure is **not legally required**.
- Due to lack of mandatory reporting standards it is difficult to compare the activities of different entities and it can be used as a public relations exercise and claims made by entities are **difficult and costly to verify**.
- Enables external users to make a value judgement if they wish to make 'ethical' investment decisions.
- It is costly to prepare additional reports and so it is generally larger organisations that produce these report.
- Entities disclose CSR to enhance their relationship with stakeholders and gain loyalty to their brand.

Accept any other reasonable answers.

Question 20 (continued)

(c) Describe **two** difficulties faced by accountants in producing social and environmental information. (4 marks)

Description	Marks
2 difficulties x 2 marks each	
Describes difficulty faced by accountants in producing social and environmental information	2
Identifies difficulty faced by accountants in producing social and environmental information	1
subtotal	**2**
Total	**4**

Answers could include:
- **Lack of standards** to inform how to disclose information
- **Measuring the impact of activities is difficult** and may not be appropriate to be measured or are unable to be quantified in financial terms or otherwise.
- **Comparability** – voluntary disclosure and differing reporting frameworks make it difficult for accountants to make comparisons between entities.
- **Lack of expertise** – as identified by Bob Eccles in the source. Many measures are non-financial and outside the professional expertise of accountants, e.g. carbon emissions.
- **Audit** – verifying the information and impacts of some activities is difficult and time consuming.
- CSD is not the typical disclosure that accountants are used to, therefore, they will require training and assistance to produce CSD.
- many of the inputs for and outcomes of CSD are not directly measurable, but they are expected to be reported.
- CSD tends to be descriptive in nature, which results in information that can change over time.
- CSD is an evolving area of corporate communication. There are many self-regulating initiatives, but on the whole there is little guidance on what can and cannot be reported, as long as the company stays within the limits of the law.
- CSD by default has become the domain of the accountant, due to the traditional perception of the accountant dealing with all outside communication. However, accountants are not experts on the environment or community relations, but they are expected to be able to communicate adequate information on these areas to stakeholders.

Accept any other reasonable answers.

(d) Discuss how the duties of directors apply to CSD. (4 marks)

Description	Marks
Discuss in detail the duties of Directors and how it could apply to corporate social disclosure and may offer relevant examples	4
Discuss the duties of Directors and makes a link to CSD	3
Describes the duties of Directors	2
States a duty of Directors	1
Total	**4**

Answers could include:

- Under the Corporations Act a duty of the directors is to provide a Directors' report to shareholders to be included in the Annual Report. Some inclusions could be related to CSR activities. For example, the Directors' report must contain:
  - details of performance in regard to environmental regulation
  - likely developments in the future.
- It is the duty of directors to act in the best interest of the shareholders and by extension, if disclosing the companies CSR activities is likely to have an impact on the share price the directors have a duty to disclose. For example, the costs of sourcing free trade inputs, or Rio Tinto's support of the Arts may have an impact both positively (image) and negatively (cost on bottom line).
- The directors could use their CSD to determine whether the company overall has a good corporate image and to identify areas that may need improvement/development and identify areas where the company is successful and is meeting its objectives.
- The directors can use CSD to drive their overall corporate strategy and objectives, including motivation of employees and aligning likeminded business partnerships.

Accept any other reasonable answers.

Question 20 (continued)

(e) Using an example, critically evaluate CSD as made by Australian companies. (6 marks)

Description	Marks
Critically evaluates, including arguments for and against, the CSD made by Australian companies culminating in a conclusion drawn from the facts. Uses an example to support their argument or as a case study	5–6
Discusses arguments for and against the CSD made by Australian companies. Uses an example to support their argument or as a case study	4
Discusses the CSD made by Australian companies. May include an example to support discussion	3
Describes the CSD made by Australian companies	2
Makes a statement about the CSD made by Australian companies	1
Total	**6**

Answers could include:

- Australian companies are looking to respond to changing social norms that place greater responsibilities on companies to be good corporate citizens.
- Companies need to do more than create returns to attract shareholders as shareholders want to have a relationship with the company and feel they themselves are investing responsibly. The road to ‘shared value’ requires broader reporting by companies.

How is information disclosed: Rio Tinto example

- Rio Tinto Annual report 2015
  CSD is referred to in the following places within the AR
  Chairman’s letter – refers to the public and community role and signing the Paris Pledge for Action on climate change is among the activities discussed.
  The Chief executive’s statement acknowledged the death of 4 employees during the year and the response from Rio Tinto to improve safety. This is an excellent test of the transparency of the CSD reporting and the concept of ‘creating shared value’
  Sustainable development section of the AR discloses Social and Environmental data for the past 5 years including carbon emissions, water use, workplace accidents and dedicates 7 pages to reporting on their CSR activities.
  This information was **independently audited** by PWC that the information complied with industry standard for reporting.
  The Directors’ Report refers to the Sustainable Development section but greenhouse gas emissions are reported within the Directors’ report raising it’s importance.

- Rio Tinto website
  Rio Tinto participates in several formalised indexes worldwide to disclose their performance. These include, the Dow Jones sustainability index and the FTSE4Good Index.
  Rio Tinto publishes the results and other awards on their website to promote their ‘corporate citizenship’ to current and potential investors and interested stakeholders.

  They also report that they are recognised has having good practice on human rights according to UN Guiding Principles and they were awarded for having the largest absolute carbon reduction in the ASX200.

- The credibility of the above statements comes from the organisations that provide the awards and the standards they apply.

Marker’s note: the solution continues on the following page …

• Stakeholders must rely not only on the entity in question but also on the external measurement agency or independent audit. (This is no different to the financial report relying on the independent audit). In this situation all the organisations quoted are well respected as having consistent standards and good governance. In addition, stakeholders should be able to verify the information. • Large reporting entities are much easier to compare and evaluate as they can afford the cost of using standardised systems such as GRI and independent verification. A much greater problem arises when small businesses make claims which are difficult to compare or verify. The responses to this question will be diverse as students apply their individual learning experiences. Look for the structure of the response and nuance in the evaluation of the **value** of the information in reports and how it is used. Accept any other reasonable answers.

(f) Identify **two** different users of CSD information. For each, discuss their use of CSD information produced by companies and how CSD could contribute to the generation of long-term value. (6 marks)

Description	Marks
2 users x 3 marks each.	
Identifies a different user and discusses how they might use CSD information and relates to how the information could contribute to long-term value	3
Identifies a different user and describes how they might use CSD information	2
Identifies a user's use of CSD information	1
subtotal	**3**
Total	**6**
Answers could include: • **Potential investors** Could use the company's sustainability reports to compare goals to reduce carbon emissions with similar companies. If the investor is looking for a company that shares their concern for climate change they will invest in the one that shares their value, maybe even foregoing higher ROI for an ethical investment. • **Financial advisors** Potential investors are less likely to just believe a company. Therefore, they might look to external providers such as Australian Ethical (AE) who provide a managed fund that invests in ethical businesses. In this case the fund managers research the CSD information and verify it in conjunction with their own investigations. If a company they invest in makes an un-ethical choice according to the AE charter they engage with the company to modify the behavior. This ensures shareholders and the company have common goals.	

Question 20(f) (continued)

- **Employees** – current and potential
  Could use social reporting data on gender balance in the workforce or workplace accidents to seek out employers of choice. Again there are third party organisations that collate this data so the stakeholder does not have to do all the research themselves. Companies advertise when they have received an 'Employer of Choice Award' to assist them to attract the best candidates. The new employee commences already aligned with the values of their employer having 'shared values'. Employees may use CSD report to find an employer who aligns with their own moral and ethical considerations. For example NAB's 2015 Integrated Report claims their graduate recruitment program has a 91% retention rate. This information may be important for graduates seeking a position in the banking industry who are seeking long-term supported employment.
- **Business partners** – suppliers, contractors. Larger companies tend to have CSD in their annual reports and would prefer to do business with local businesses that are aligned with their CSD policies and procedures
- **Community** – local government, local businesses. Local businesses could use the CSD information to evolve their business practices and set CSD goals that align with the company. Local government could use a local company as a model that supports the community which may help them to do business in their area.
- **Government** – will want to be aware of CSD policies to ensure laws and regulations are followed
- **Lenders** – will want to be aware of CSD policies to ensure ethical business practices are followed. Lenders are particularly subject to increasing regulatory pressure and there have been a number of instances where consumers have been misled by unscrupulous lending practices.
- **Customers** – many companies will have CSD reporting and will require their business partners to align with their CSD policies and procedures. This will help maintain business partnerships and successful business practices.

Accept any other reasonable answers.

Question 21 **(30 marks)**

Vanessa wants to improve her understanding of internal management for businesses and has asked you to prepare written advice.

Prepare a written response to the parts of this question provided below.

(a) Explain the role and function of an accountant in managing business operations. (5 marks)

Description	Marks
Explains the role of an accountant in managing business operations	2
States a fact about the role of the accountant in managing business operations	1
Explains the function of an accountant in managing business operations	3
Describes the function of an accountant in managing business operations	2
States a fact about the function of an accountant in managing business operations	1
Total	**5**

Answers could include:
The role of an accountant in managing business operations is to provide managers of the business with the necessary information that they require to maximise the business's financial performance.

The function of an accountant in managing business operations is related to the tasks that an accountant performs.
The functions of an accountant include:

- Selection or design and maintenance of appropriate financial systems. This includes selection of computerised accounting systems and monitoring their ongoing performance and maintenance.
- Recording financial transactions using computerised accounting systems.
- Producing financial reports for the information of managers and external users where necessary, including the Statement of profit or loss and Other comprehensive income, Statement of Financial Position, Statement of changes in equity and Statement of cash flows, budgets (master, cash and income statements) and performance reports (cash and income statements).
- Analysing the reports, interpreting the data they contain and advising management on appropriate courses of action arising from them. Examples of this may include cost-volume-profit analysis to determine cost behaviour, contribution margin, break-even point and margin of safety, and capital budgeting techniques including payback period and discounted cash flows to determine net present value. Cost-volume-profit analysis is used to determine whether a business should continue manufacturing a specific product, particularly the marginal profitability of the product in relation to the rest of the business. Capital budgeting techniques are used to determine whether a business should invest in a project, usually a non-current asset or collection of non-current assets or not.
- Internal auditing including implementing strategies for the control of the firm's assets and for the internal review and control of the firm's financial systems.
- Cost accounting for decision making purposes including the determination and analysis of the cost of a product or service, make or buy products, accept or reject special orders, close down product/business unit.

Accept any other reasonable answers.

Question 21 (continued)

(b) Outline the purpose of internal audit, and discuss the internal audit and control process. (6 marks)

Description	Marks
Outlines the purpose of an internal audit	2
States a fact about the purpose of internal audit	1
Discusses that an internal audit reviews business procedures and policies.	2
States a fact about internal audit review of business procedures and policies.	1
Discusses that internal audit and controls assists in the detection of errors and deficiencies.	2
States a fact that internal audit and controls assists in the detection of errors and deficiencies.	1
Total	**6**

Answers could include:

Purpose of an internal audit

- The purpose of internal audit is the continual review of the business's procedures, systems and policies to detect and correct errors and to identify deficiencies in the business operations so that improvements can be made.
- Internal audit is the continual review of the procedures, systems and policies of the business to ensure that they are being adhered to and working efficiently and effectively. Internal auditors monitor, examine and test the effectiveness of established internal control systems.
- Internal control systems are required to ensure that the assets of a business are protected against loss or damage, and the assets of the business are used as efficiently as possible.
- Internal auditors report directly to the management of a business.

Review of business procedures and policies

- Internal auditing reviews business procedures and policies to ensure that the principles of internal control are maintained.
- The principles of internal control include: segregation of duties, established lines of responsibility, appropriate security of assets and records, installation of mechanical and electronic devices, adequate recording and documentation systems, installation of verification and checking processes, the existence of authorisation processes, and employment of competent and reliable staff.

Detection and correction of errors and deficiencies

- Through regularly reviewing the business's procedures and policies internal auditors will find errors and deficiencies with the businesses internal control systems.
- Internal auditors upon finding errors in the internal control system need to determine how the error occurred and what can be done to fix the error occurring in the future. The Internal auditor may also uncover fraud or mismanagement in the discovery of an error and need to take appropriate action.
- Internal auditors upon finding deficiencies in the internal control system need to revise the business's policies and procedures to determine why the deficiency exists and then they must advise management how to resolve and correct the issue.

Accept any other reasonable answers.

(c) Using the information provided in the example, outline how costs are classified by behaviour, relationship, treatment and time. (8 marks)

Description	Marks
Using the information provided outlines the classification of costs by behaviour	2
States a fact about the classification of costs by behaviour	1
Using the information provided outlines the classification of costs by relationship	2
States a fact about the classification of costs by relationship	1
Using the information provided outlines the classification of costs by treatment	2
States a fact about the classification of costs by treatment	1
Using the information provided outlines the classification of costs by time	2
States a fact about the classification of costs by time	1
Total	**8**

Answers could include:

- **Costs can be classified by behaviours:** fixed, variable and mixed costs. Fixed costs do not alter with the level of production. Variable costs vary with the level of production. Mixed costs have both fixed and variable behaviours, as mixed costs are stable until a predetermined level of production is reached, then the cost behaviour will change. Vanessa has fixed costs, the rental of the property, plant and equipment and variable costs, including the supply of tea, flavourings and additives, packaging and labour.
- **Costs can be classified by relationships to cost objects:** direct and indirect costs. Direct costs are direct inputs into the manufacturing process, such as raw materials and labour that change with the manufacturing process. Indirect costs are necessary to the manufacturing process, but do not vary when the manufacturing process changes. Indirect costs include administrative and management salaries. Vanessa has direct costs including tea, flavouring, electricity, packaging materials and labour, and indirect costs including staff costs to administer and manage the business, and insurance.
- **Costs can be classified by treatment:** product and period. Product costs are for manufacturing an individual product. Product costs are usually inventory upon the completion of the manufacturing cycle. Period costs are not product costs and are usually expensed when incurred. Vanessa has product costs including tea, flavouring, additives, and packaging. The rental of the property, plant and equipment is a period cost as it is a function of time and rents, not the level of production, and expensed when incurred. Other period costs would include selling and administration.
- **Costs can be classified by time:** past and future. Past costs are costs that have already been consumed and cannot be changed or managed. Future costs are costs that will be consumed in the future and can be managed in relation to the production process. Vanessa has no past costs as she has not commenced production, only future costs. The future costs of her business can be made more certain by comprehensive business planning and budgeting.

Accept any other reasonable answers.

Question 21 (continued)

(d) Explain the concept of mark-up and the factors that need to be considered when calculating the unit price of a product. (4 marks)

Description	Marks
Explains the concept of mark-up	2
States a fact about the concept of mark-up	1
Explains the factors that may be used to determine mark-up	2
States a factor used to determine mark-up	1
Total	**4**

Answers could include:

Concept of mark-up

- The selling price of a product must cover costs and make a profit.
- Mark-up is the amount added to the unit cost price of a product or service to determine its selling price and will include a profit margin. Mark-up is usually a percentage of the unit cost of the product. Mark-up can be calculated either in dollars or as a percentage.
- Mark-up formula – Selling price = cost + (mark-up percentage x cost).
- Mark-up applies to the selling price or all goods and services.

Mark-up determination

- The factors that are used to determine mark-up are unique to each business and/or the product or service.
- Factors used to determine mark-up include: desired rate of return on investment, competition in the market place. The mark-up must be able to cover all the business's period costs, such as selling and administration costs.
- An excessive mark-up may result is a loss of customers and reduced demand for the product. An insufficient mark-up may result in the business making a loss.

Markers' note:

- award only one mark for writing the formula
- If candidates use calculations to support their explanation do not penalise.

Accept any other reasonable answers.

(e) Discuss the **two** business proposals and advise which should be accepted. (5 marks)

Description	Marks
Discusses the costs and benefits of the in-house business proposal	2
States a fact about the costs and benefits of the in-house business proposal	1
Discusses the costs and benefits of the supplier business proposal	2
States a fact about the costs and benefits of the supplier business proposal	1
Based on the candidates analysis of the available information, advises which proposal should be accepted	1
Total	**5**

Answers could include:

In-house business proposal

- Production of the tea in-house will allow Vanessa to keep a tight control on the quality of the tea produced.
- Production of the tea in-house may allow for high quality branding as a gourmet Australian tea.
- The tea will be unique and can be branded as such.
- Higher costs of labour and production may affect the viability of producing the tea in-house.
- The property, plant and equipment leased for the business is fully utilised.

Supplier business proposal

- Production of the tea by a supplier will allow Vanessa to keep a tight control on the costs of the tea produced.
- Production of the tea may not allow for high quality branding as a gourmet Australian tea despite the processing that will be performed in Australia.
- The tea supplied may not be of as high quality. Vanessa will have to make sure she spends time to control the consistency and quality of the tea supplied for use in her product.
- Lower costs of labour and perhaps production may improve the viability of producing the tea from a supplier.
- The property, plant and equipment leased for the business will not be fully utilised as only the packaging and branding machinery will be needed.

Markers' note: If candidates use calculations to support their explanation do not penalise.

Accept any other reasonable answers.

Question 21 (continued)

(f) Outline a recommendation that could improve the success of either business proposal. (2 marks)

Description	Marks
Outlines a recommendation that will improve the success of either business proposal.	2
States a recommendation that will improve the success of either business proposal.	1
Total	**2**

Answers could include:

In-house business proposal

- Leverage the quality branding as gourmet by developing network links with tourism ventures, local cafes for exclusive supply of the product.
- Selling directly through the internet rather than relying on an internet retailer, this will increase her margins, with the upfront cost and maintenance of a web presence which Vanessa does not seem to have considered.
- Lease negotiation – needs to be considered to reduce costs as there seems to be room for Vanessa to reduce this cost in her business proposal.
- Labour negotiation – award wages for a full-time workforce including all leave entitlements, offer incentives to keep manufacturing localised, perhaps profit sharing arrangements. Use labour incentives offered by local, state and federal governments, perhaps employment of the disabled in appropriate low level skill jobs. This may assist in marketing, for example the Mildura Chocolate Co. has leveraged a market place for handcrafted chocolate and a work skills provider for those in the community that would be underutilised, particularly the disabled.
- Tea supply negotiation – is an Australian tea available?
- Other manufacturing inputs negotiation – flavourings and additives, then packaging. Is it cheaper to go green – eco friendly packaging.
- Green credentials – invest in solar power for the production plant and reduce the lease costs as the solar panels would stay with the building. This could reduce the costs of production, as power is a variable cost, but could also assist with the branding and leveraging the product as a gourmet and eco-friendly tea.

Supplier business proposal

- Selling directly through the internet rather than relying on an internet retailer, this will increase her margins, with the upfront cost and maintenance of a web presence which Vanessa does not seem to have considered.
- Lease negotiation – ability to sublet or rent out underutilised machinery and space. The lease needs to be considered to reduce costs as there seems to be room for Vanessa to reduce this cost in her business proposal.
- Labour negotiation – award wages, temporary or part-time contract staff with less incentives and no annual leave.
- Sublease the underutilised property, plant and equipment.
- Tea supply negotiation – is an Australian tea available, where can the best possible tea be sourced at the lowest price to ensure product quality?
- Other manufacturing inputs negotiation – packaging. Green credentials – invest in solar power for the production plant and reduce the lease costs as the solar panels would stay with the building. Invest in green packaging and brand as such on the product.
- Green credentials – invest in solar power for the production plant and reduce the lease costs as the solar panels would stay with the building. This could reduce the costs of production, as power is a variable cost, but could also assist with the branding and leveraging the product as an eco-friendly tea.

Markers' note: providing the candidate has made a valid recommendation either business proposal shall be accepted.

Accept any other reasonable answers.

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