



# **ACCOUNTING AND FINANCE**

## **ATAR course examination 2022**

### **Marking key**

Marking keys are an explicit statement about what the examining panel expect of candidates when they respond to particular examination items. They help ensure a consistent interpretation of the criteria that guide the awarding of marks.

## Section One: Multiple-choice

15% (15 Marks)

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

**Workings:****Question 5**

Payback period:  $\$39,000 - \$10,000 - \$12,000 - \$15,000 = \$2,000$

Year 4:  $\$2,000/\$8,000 \times 12 \text{ months} = 3 \text{ months}$

Total 3 years and 3 months

**Question 7**

Contribution margin per unit

= selling price per unit – variable cost per unit

=  $(\$180,000/60,000) - ((\$20,000 + 15,000 + 12,000)/60,000) = \$3 - \$0.78$

= \$2.22

Contribution margin ratio = Contribution margin per unit/Selling price per unit

=  $\$2.22/\$3$

= 74%

## 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% (151 Marks)

## Question 16

(22 marks)

- (a) Calculate the gain or loss on the special order and state whether Zlaire Pty Ltd should accept or reject the special order. (11 marks)

Workings	Marks
Gain/loss = (SP x QS) – (VC x QS) – new FC - OC	
(SP x QS) = \$800 (1) x 400 (1) = \$320,000	1 + 1
VC = \$544 (1) + \$20 (1) = \$564	1 + 1
(VC x QS) = \$564 x 400 = \$225,600	1
Where OC = Units forgone in usual production x contribution margin Usual CM = \$750 (1) – \$544 (1) = \$206 OC = 400 x \$206 = \$82,400	1 + 1
Gain/loss = \$320,000 – \$225,600 = \$94,400 – \$10,500 (1) – \$82,400 (1) = \$1,500 Gain (1)	1 + 1 + 1
Accept order	1
<b>Total</b>	<b>11</b>

Gain/loss on special order: \$1,500 Gain

Accept/reject the special order: Accept

**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)

- (b) Determine the effect on profit for both the make and buy options to recommend which option Zlaire Ptd Ltd should take. (9 marks)

<b>Workings</b>			<b>Marks</b>
	<b>Make</b>	<b>Buy</b>	
Variable costs	VC x QS = \$128 (1) x 4,000 (1) = \$512,000		1 + 1
Fixed overhead	TFC = \$60,000 (1)		1
Purchase of electronic components		VC x QS = \$130 (1) x 4,000 (1) = \$520,000	1 + 1
Plus fixed costs		TFC – \$24,000 = \$60,000 (1) – 24,000 (1) = \$36,000	1 + 1
	= \$572,000	= \$556,000	
	There is \$16,000 more in profit by buying the electronic components (1) Therefore recommend to buy (1)		1 + 1

Alternative workings:

Make = (750 x 4000) (1) – (544 x 4000) (1) – 310,000 (1) = \$514,000 profit

Buy = (750 x 4000) (1) – (546 x 4000) (1) – (310,000 (1) – 24,000 (1)) = \$530,000 profit

Recommendation: Buy the electronic components because this results in a \$16,000 saving (or \$16,000 more profit).

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

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

- (c) Describe what the 'margin of safety' measures. (2 marks)

<b>Description</b>	<b>Marks</b>
Describes the margin of safety as the measurement of the level of sales in excess of the break-even point.	2
States a fact about the margin of safety.	1
<b>Total</b>	<b>2</b>
Answers could include:	
<ul style="list-style-type: none"> <li>The margin of safety measures the gap between the level of sales and break-even point level of sales. At the break-even point, total sales = total costs.</li> <li>The greater the margin of safety, the less risk for the business.</li> </ul>	
Accept other relevant answers.	

## Question 17

(28 marks)

- (a) Calculate the cost of the coats per batch **and** per unit, using job order costing processes. (10 marks)

**Workings**

Predetermined overhead recovery rate:

Estimated overheads \$236,500 (1)/11,000 (1) labour hours = \$21.50 (2)\*

Cost of product = Direct materials + Direct labour + Overheads

<b>Workings</b>			<b>Marks</b>
Cost per batch			
Direct materials	1,500 metres (1) x \$8 (1)	\$12,000	1 + 1
	500 coats (1) x \$5 per coat (1)	2,500	1 + 1
Direct labour	40 hours (1) x \$35 per hour (1)	1,400	1 + 1
Overhead applied	40 hours (1) x \$21.50 (2)*	860	1 + 2
	Total cost per batch	\$16,760	
		<b>Subtotal</b>	<b>9</b>
Cost per unit			
	\$16,760/500 coats per batch (1)	\$33.52	1
		<b>Subtotal</b>	<b>1</b>
		<b>Total</b>	<b>10</b>

Cost per batch: \$16,760

Cost per unit: \$33.52

**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) Assuming the business applies a mark-up of 30% on cost, calculate the selling price of each coat in dollars and cents? (2 marks)

<b>Workings</b>		<b>Marks</b>
Cost per coat \$33.52 (1) + mark-up (\$33.52 x 30%) (1)	\$43.58	1 + 1
	<b>Total</b>	<b>2</b>

Selling price of each coat: \$43.58

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

## Question 17 (continued)

(c) Calculate the following variances per batch:

(i) Direct materials price variance (4 marks)

Workings		Marks
Direct materials price variance		
$(AP - SP) \times AQP$		
$(\$8.40 \text{ (1)} - \$8.00 \text{ (1)}) \times 1,420 \text{ metres (1)}$	\$568 U (1)	1-4

Direct materials price variance: \$568 Unfavourable

**Deduct 1 mark for each calculation error, to a maximum of 1 mark**  
**Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark**

(ii) Direct materials usage variance (4 marks)

Workings		Marks
Direct materials usage variance		
$(AQI - SQA) \times SP$		
$(1,420 \text{ m (1)} - 1,500 \text{ m (1)}) \times \$8.00 \text{ (1)}$	\$640 F (1)	1-4

Direct materials usage variance: \$640 Favourable

**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**

(iii) Direct labour rate variance (4 marks)

Workings		Marks
Direct labour rate variance		
$(AR - SR) \times ADLH$		
$(\$34.50 \text{ (1)} - \$35.00 \text{ (1)}) \times 39 \text{ hours (1)} =$	\$19.50 F (1)	1-4

Direct labour rate variance: \$19.50 Favourable

**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**

(iv) Direct labour efficiency variance (4 marks)

Workings		Marks
Direct labour efficiency variance		
$(ADLH - SDLHA) \times SR$		
$(39 \text{ hrs (1)} - 40 \text{ hrs (1)}) \times \$35.00 \text{ (1)} =$	\$35 F (1)	1-4

Direct labour efficiency variance: \$35 Favourable

**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 18

(33 marks)

- (a) Prepare a schedule of collections from debtors for each of the months of May and June 2023.

(8 marks)

**Lawdsher Ltd**  
**Schedule of collections from debtors**  
**for the months of May and June**

Description	Sales		Marks
	May	June	
February (50,000 x 08%) (1)	\$4,000		1
March (44,000 x 20%) (1), (44,000 x 08%) (1)	\$8,800	\$3,520	1 + 1
April (56,000 x 50%) (1), (56,000 x 20%) (1)	\$28,000	\$11,200	1 + 1
May (60,000 x 20%) (1), (60,000 x 50%) (1)	\$12,000	\$30,000	1 + 1
June (72,000 x 20%) (1)		\$14,400	1
Totals	\$52,800	\$59,120	
		<b>Total</b>	<b>8</b>

**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 18 (continued)

- (b) Prepare a cash budget for the months of May and June 2023, showing the cash balance at the end of each month. (19 marks)

## Workings

Workings			Marks
Schedule of payments to creditors	May	June	
March (\$11,000 x 20%) (1)	\$2,200		1
April (\$12,000 x 80%) (1), (\$12,000 x 20%) (1)	\$9,600	\$2,400	1 + 1
May (\$8,000 x 80%) (1)		\$6,400	1
Total	\$11,800	\$8,800	

i.e. 4 marks for payment to creditors for purchases for May and June transferred to the cash budget

Variable selling expenses

May: \$56,000 (1) x 5% (1) = \$2,800

June: \$60,000 (1) x 5% (1) = \$3,000

i.e. 4 marks for selling expenses transferred to the cash budget

Administration expenses: \$8,800 (1) – \$3,200 (1) = \$5,600

i.e. 2 marks for administration expenses transferred to the cash budget

Interest expense: (\$6,000 (1) x 7% (1))/12 (1) = \$35 per month

i.e. 3 marks for interest expense transferred to the cash budget

**Lawdsheer Ltd**  
**Cash budget**  
**for the months of May and June 2023**

Description	Marks		
	May \$	June \$	
Cash balance at beginning	(9,000) (1)	3,965	1
Collections from debtors	52,800 (1)	59,120 (1)	1–2
<b>Total estimated cash available</b>	<b>43,800</b>	<b>63,085</b>	
Payment to creditors	11,800 (2)	8,800 (2)	1–4
Fixed selling expenses	4,400	4,400	1
Variable selling expenses	2,800 (2)	3,000 (2)	1–4
Finance expenses	800	800	1
Administration expenses	5,600 (1)	5,600 (1)	1–2
Interest expense	35 (2)	35 (1)	1–3
Equipment purchase	14,400 (1)	0	1
<b>Total estimated payments</b>	<b>39,835</b>	<b>22,635</b>	
Cash balance at end	<b>\$3,965</b>	<b>\$40,450</b>	
<b>Total</b>			<b>19</b>

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



- (c) Describe **three** courses of action a public company could consider to prevent or reduce a shortfall in cash that has been predicted by its cash budget. (6 marks)

Description	Marks
For each of three courses of action (3 x 2 marks)	
Describes the course of action.	2
Identifies the course of action.	1
<b>Total</b>	<b>6</b>
<p>Answers could include:</p> <ul style="list-style-type: none"> <li>• Arrange a bank overdraft facility – this is a short-term source of funding that is often expensive but will help the company overcome short term cash deficiencies.</li> <li>• Take out a short-term loan – this might require security over the company's assets and/or a personal guarantee from directors.</li> <li>• Delay the purchase of non-current assets – this will free up cash to meet short term needs.</li> <li>• Delay/negotiate with creditors terms of payment – e.g. extending requirement of payment from 30 days to 60 days.</li> </ul>	
Accept other relevant answers.	
Note: Focus of candidate's answer should be on short-term sources of finance. Debentures and share capital are not suitable solutions.	

## Question 19

(33 marks)

- (a) Prepare the financing activities section of the statement of cash flows for the company for the year ended 30 June 2022. (12 marks)

**Workings:**

Proceeds from share issue = \$2,800,000 (1) – \$2,500,000 (1) = \$300,000  
i.e. 2 marks transferred to the statement of cash flows

Proceeds from borrowings = \$200,000 (1) – \$100,000 (1) = \$100,000  
i.e. 2 marks transferred to the statement of cash flows

Profit after tax: \$197,000 (1) x 70% (1) = \$137,900  
i.e. 2 marks transferred to the retained earnings ledger account below

## Retained earnings ledger account

<b>Dividends paid</b>	<b>\$179,500</b>	Balance b/d (1)	\$238,000
Transfer to General res. (1)	\$50,000	Profit after tax (2)	\$137,900
Balance c/d (1)	\$146,400		
	\$375,900		\$375,900

i.e. 5 marks transferred to the statement of cash flows as dividends paid

## Accrued interest ledger account

Balance c/d (1)	\$6,000	Balance b/d (1)	\$8,000
<b>Bank</b>	<b>\$37,000</b>	Interest expense (1)	\$35,000
	\$43,000		\$43,000

i.e. 3 marks transferred to the statement of cash flows as interest paid

**Xunobus Ltd**  
**Statement of cash flows (extract)**  
**for the year ended 30 June 2022**

Description		Marks
<b>Cash flows from financing activities</b>		
Proceeds from the issue of shares	\$300,000	2
Proceeds from borrowings	\$100,000	2
Dividends paid	(\$179,500)	5
Interest paid	(\$37,000)	3
Net cash flows from financing activities	\$183,500	
	<b>Total</b>	<b>12</b>

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

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

**Deduct 1 mark for not presenting information in a manner that provides relevant, reliable, comparable and understandable information (as per AASB 101 clause 17 part (b)) e.g. abbreviations, to a maximum of 1 mark**

- (b) Based on the information provided, calculate the following ratios for the 2022 financial year. (13 marks)

**Workings:**

Profit after tax: \$197,000 (1) x 70% (1) = \$137,900

i.e. 2 marks transferred to ratio calculation for earnings per share

Number of shares: 2021 = 2,500,000/2 = 1,250,000

Weighted Average = (1,250,000 x 6/12) (1) + ((1,250,000 + 150,000) (1) x 6/12) (1)  
 = 625,000 + 700,000  
 = 1,325,000

i.e. 3 marks transferred to ratio calculation for earnings per share

Ratio	Description		Marks
	Calculation	2022	
Times interest earned	$\frac{197,000 (1) + 35,000 (1)}{35,000 (1)}$	6.63 times	3
Earnings per share	$\frac{137,900 (2)}{1,325,000 (3)}$	\$0.10 per share	5
Debt to equity	$\frac{376,000 (1)}{3,046,400 (1)}$	12.34%	2
Rate of return on assets	$\frac{(197,000 + 35,000) (1)}{(3,058,200 + 3,422,400) (1)/2 (1)}$	7.16%	3
<b>Total</b>			<b>13</b>

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

**Deduct 1 mark for calculations not given to two decimal places, to a maximum of 1 mark**

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

**Question 19** (continued)

- (c) To assess management efficiency, identify the ratio/s that can be used by a business that sells inventory on credit. Discuss what each ratio measures and how it might be used to evaluate the performance of a business. (8 marks)

Description	Marks
For each of debtor's collection period and inventory/stock turnover (2 x 4 marks)	
Discusses what the ratio measures and how it might be used to evaluate the performance of a business	4
Describes what the ratio measures and how it might be used by a business	3
States what the ratio measures <b>or</b> how it might be used by a business	2
Identifies the ratio	1
<b>Total</b>	<b>8</b>
<p>Answers could include:</p> <p><b>Debtors' collection period</b>  This measures the efficiency of management to collect amounts owing by debtors from credit sales within a reasonable period of time. It is an average over the year. The ratio is used by management to check efficiencies in the credit sales processing and the credit department. The shortest possible collection period, within normal trading terms, is considered best. Collection times may be influenced by the business' normal trading terms and conditions, general economic conditions, and comparison with competitors. Financially, holding too much in debtors is an undesirable use of capital.</p> <p><b>Inventory/stock turnover</b>  This measures the efficiency of management to effectively manage inventory levels. It is an average over the year and across all stock for sale. The ratio is used by management to check efficiencies in inventory and the supply chain. It is desirable to have an adequate stock level to ensure prompt supply to customers, without carrying too much stock that may deteriorate if unsold. Financially, holding too much stock is an undesirable use of capital.</p> <p>Accept other relevant answers.</p>	

## Question 20

(35 marks)

- (a) Prepare the statement of comprehensive income for the year ended 30 June 2022.  
(11 marks)

**Workings:**

Net sales

Sales \$1,050,000 (1) less sales returns \$10,500 (1) = \$1,039,500

Dep'n plant and equip =

Cost \$360,000 (1) less Acc dep'n \$20,000 (1) x 12% (1) = \$40,800

Other expenses \$171,800 (1) + \$40,800 = \$212,600

Income tax

Profit before tax x 30% = \$375,900 (1) x 30% (1) = \$112,700

**Fyndulos Ltd**  
**Statement of comprehensive income**  
**for the year ended 30 June 2022**

Description		Marks
Net sales	\$1,039,500	2
less cost of sales	\$416,000	1
Gross profit	\$623,500	
Financial costs	(\$35,000)	1
Other expenses	(\$212,600)	4
Profit before tax	\$375,900	
Less income tax	\$112,700	2
Profit after tax	\$263,130	
add Gain on revaluation	\$30,000	1
<b>Total comprehensive income</b>	<b>\$293,130</b>	
	<b>Total</b>	<b>11</b>

**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 for not presenting information in a manner that provides relevant, reliable, comparable and understandable information (as per AASB 101 clause 17 part (b)) e.g. abbreviations, to a maximum of 1 mark**

**Question 20** (continued)

- (b) Prepare the assets section of the statement of financial position as at 30 June 2022. (15 marks)

**Workings:**

Receivables

Debtors – allowance for doubtful debts + Accrued income

= \$69,000 (1) – \$3,000 (1) + \$1,000 (1)

= \$67,000

i.e. 3 marks transferred to the statement of financial position

Other current assets

Prepayments + Stock of stationery supplies

= \$4,670 (1) + \$500 (1)

= \$5,170

i.e. 2 marks transferred to the statement of financial position

Accumulated depreciation of plant and equipment \$20,000 (1) + \$40,800 (1) = \$60,800

i.e. 2 marks transferred to the property, plant and equipment workings below

Property, plant and equipment

Land \$2,730,000 (1)

add Revaluation \$30,000 (1)

\$2,760,000

Plant and equipment \$360,000 (1)

less Accumulated dep'n \$60,800 (2)

\$299,200\$3,059,200

i.e. 5 marks transferred to the statement of financial position

**Fyndulos Ltd**  
**Statement of financial position (extract)**  
**as at 30 June 2022**

Description		Marks
<b>Current assets</b>		
Cash and cash equivalents	\$200	1
Receivables	\$67,000	3
Inventories	\$104,500	1
Other currents assets	\$5,170	2
Total Current Assets	\$176,870	
<b>Non-current assets</b>		
Property, plant and equipment	\$3,059,200	5
Investments	\$10,000	1
Goodwill	\$60,000	1
Other intangibles	\$15,000	1
Total non-current assets	\$3,144,200	
<b>Total assets</b>	<b>\$3,321,070</b>	
	<b>Total</b>	<b>15</b>

**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 for not presenting information in a manner that provides relevant, reliable, comparable and understandable information (as per AASB 101 clause 17 part (b)) e.g. abbreviations, to a maximum of 1 mark**

(c) State **three** differences between internal and external reporting for a company. (3 marks)

Description	Marks
States three differences between internal and external reporting.	3
States two differences between internal and external reporting.	2
States one difference between internal and external reporting.	1
<b>Total</b>	<b>3</b>
<p>Answers could include:</p> <p>Report format</p> <ul style="list-style-type: none"> <li>• Internal reporting - May be in any format, depending on end-users needs</li> <li>• External reporting - Approved format, particularly if company is a reporting entity.</li> </ul> <p>Accounting standards</p> <ul style="list-style-type: none"> <li>• Internal reporting - Desirable but not mandatory</li> <li>• External reporting - Desirable but mandatory for a reporting entity.</li> </ul> <p>Timeliness</p> <ul style="list-style-type: none"> <li>• Internal reporting - As required by management, reporting dates and accounting periods may differ, e.g. weekly, monthly, yearly, seasonally</li> <li>• External reporting - Statutory reporting dates as required by the Corporations Act, ATO &amp; ASX.</li> </ul> <p>External Audit</p> <ul style="list-style-type: none"> <li>• Internal reporting - Not mandatory</li> <li>• External reporting - Required for large proprietary and public companies.</li> </ul> <p>Scope</p> <ul style="list-style-type: none"> <li>• Internal reporting - Reports prepared as required by internal end-users</li> <li>• External reporting - General purpose financial statements require, Statements of performance, position, change in equity, notes.</li> </ul> <p>Accept other relevant answers.</p>	

- (d) Describe **three** difficulties faced by accountants in producing social and environmental information. (6 marks)

Description	Marks
For each of three difficulties faced by accountants in producing social and environmental information (3 x 2 marks)	
Describes the difficulty.	2
States a fact regarding the difficulty.	1
<b>Total</b>	<b>6</b>
<p>Answers could include:</p> <ul style="list-style-type: none"> <li>• Lack of resources: for measuring, collecting, recording and reporting social and environmental information. Management may see social and environmental information as having little immediate positive effect on the profit or net worth of a business, so may not allocate adequate resources to enable accountants to properly account for it</li> <li>• Source of information: no standards set for measuring, collecting or recording social and environmental information. Different businesses will measure the information in different ways</li> <li>• Reporting: No standards for reporting social and environmental information, so accountants will present the information differently. Statutory authorities may have specific report formats, which may not line up with general financial reporting</li> <li>• Report locations: Businesses may use different report styles e.g. tables, graphs, written reports, video. Management may expect accountants to disclose information on a website, in GPFR's, in media releases. All this makes comparisons between entities difficult</li> <li>• Timeliness: Statutory authorities may have specific reporting timetables, which may not line up with financial reporting dates. Accountants may have to adjust the information on different reports</li> <li>• Completeness of information: Businesses tend to highlight 'good news' and not report or bury 'not so good news'. Reports may lack balance. It is hard to provide all information that different end-users may desire.</li> </ul>	
Accept other relevant answers.	



## Section Three: Extended answer

15% (30 Marks)

## Question 21

(30 marks)

- (a) Identify any **two** components of a master budget and describe **two** budgets that might assist Juntrae Pty Ltd to identify and manage problems before they occur. (6 marks)

Description	Marks
Identifies two components of a master budget.	1–2
<b>Subtotal</b>	<b>2</b>
For each of two budgets that might assist Juntrae Pty Ltd to identify and manage problems before they occur (2 x 2 marks)	
Describes the budget.	2
Identifies the budget.	1
<b>Subtotal</b>	<b>4</b>
<b>Total</b>	<b>6</b>
<p>Answers could include:</p> <p>Components of a master budget:</p> <ul style="list-style-type: none"> <li>• operating budget</li> <li>• financial budget</li> <li>• capital expenditure budget.</li> </ul> <p>Budgets that might assist Juntrae Pty Ltd to identify and manage problems before they occur:</p> <ul style="list-style-type: none"> <li>• A cash budget will assist in identifying cash flow problems, such as level of debtor receipts. Juntrae Pty Ltd can take action, such as better management of debtors, to improve cash flows to enable payment of creditors on time and to avoid the need to constantly use the overdraft facility.</li> <li>• A budgeted income statement will help to identify sources and level of income and level of costs. Juntrae Pty Ltd can compare income and costs over time and take action to try to increase income and reduce costs.</li> <li>• A budgeted balance sheet will enable Juntrae Pty Ltd to identify inventory levels over time. If inventory levels are increasing significantly, then action can be taken to put in place better inventory control and ordering systems.</li> <li>• A purchases budget can assist Juntrae Pty Ltd to evaluate its inventory costs. If the costs are excessive, then management will need to try to source a cheaper supply of inventory, or it may need to increase the sale price of its goods.</li> </ul> <p>Accept other relevant answers.</p>	

**Question 21** (continued)

- (b) Describe **three** duties of directors as per the *Corporations Act 2001* to help both Kelly and Lee understand their responsibilities as directors of Juntrae Pty Ltd. (6 marks)

Description	Marks
For any of three duties of directors as per the <i>Corporations Act 2001</i> (3 x 2 marks)	
Describes the duty.	2
Identifies the duty.	1
<b>Total</b>	<b>6</b>
<p>Answers could include:</p> <ul style="list-style-type: none"> <li>• directors are responsible for the affairs of a company and must comply with the legal obligations as a director under the <i>Corporations Act 2001</i></li> <li>• directors must be fully up to date on what the company is doing, including its financial position, by keeping accurate records. They must act with due care and diligence</li> <li>• directors must not use their position or information to cause detriment to the company, or gain an unfair advantage (inside information)</li> <li>• directors ensure that the company does not trade while insolvent. They must seek the appointment of a liquidator if the company becomes insolvent</li> <li>• directors must act in good faith and for a proper purpose for all decisions made that are in the company's best interest.</li> </ul>	
Accept other relevant answers.	

- (c) Explain the purpose of an internal audit and describe **three** internal control procedures the company could implement to detect and correct possible errors and deficiencies. (9 marks)

Description	Marks
Explains the purpose of an internal audit	
Explains the purpose of an internal audit.	3
Describes the purpose of an internal audit.	2
States a fact about an internal audit.	1
<b>Subtotal</b>	<b>3</b>
For each of three internal control procedures the company could implement (3 x 2 marks)	
Describes the procedure.	2
Identifies the procedure.	1
<b>Subtotal</b>	<b>6</b>
<b>Total</b>	<b>9</b>
<p>Answer(s) could include:</p> <p>Purpose of an internal audit:</p> <p>An internal audit is the process of checking internal procedures, control processes and policies. Internal control should identify shortcomings in internal control procedures and systems and identify errors so that improvements can be made.</p> <p>Internal control procedures include:</p> <ul style="list-style-type: none"> <li>• cash – control processes should be in place to safeguard the company's cash against theft or fraudulent activity. This includes separation of duties in handling cash, encouraging customers to pay electronically, regular bank reconciliation to accounting records and banking cash regularly</li> <li>• debtors (accounts receivable) – good control processes should be in place to ensure debtors pay what they owe within the agreed time. This includes conducting thorough credit investigations prior to granting credit, issuing invoices at the time of sale, following up outstanding debtors in a timely manner, and developing good relationship with credit customers</li> <li>• inventory – control processes should be in place to safeguard the company's inventory against theft or fraudulent activity. This includes establishing a computer-based perpetual inventory system to manage inventory, establishing an ordering process to protect against over- or under-ordering, keeping inventory on hand in locked storage with access available to authorised personnel only and putting processes in place to manage inventory levels and avoiding obsolescence.</li> </ul> <p>Accept other relevant answers.</p>	

## Question 21 (continued)

- (d) State the objective of general purpose financial reporting and outline **two** of its fundamental qualitative characteristics as per the *Conceptual Framework for Financial Reporting*. (5 marks)

Description	Marks
States the objective of general purpose financial reporting.	1
<b>Subtotal</b>	<b>1</b>
For each of two fundamental qualitative characteristics (2 x 2 marks)	
Outlines the characteristic.	2
Identifies the characteristic.	1
<b>Subtotal</b>	<b>4</b>
<b>Total</b>	<b>5</b>
Answers could include:	
<div style="border: 1px dashed gray; padding: 10px; margin: 10px auto; width: 80%;"> <p>For copyright reasons this text cannot be reproduced in the online version of this document</p> </div>	
<p>The fundamental qualitative characteristics include:</p> <ul style="list-style-type: none"> <li>• relevance: financial information that is capable of making a difference in the decisions made by users</li> <li>• materiality: information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that users make</li> <li>• faithful representation: to be useful, financial information must not only represent relevant transactions, but it must also faithfully represent the substance of the transactions that it purports to represent.</li> </ul>	
Accept other relevant answers.	

- (e) Describe **two** characteristics that distinguish a public and large proprietary company. (4 marks)

Description	Marks
For each of two characteristics that distinguish between a public and large proprietary company (2 x 2 marks)	
Describes the characteristic.	2
States a fact about the characteristic.	1
<b>Total</b>	<b>4</b>
Answer(s) could include:	
<p><b>Directors</b> A public company must have a minimum of three directors, two of whom must live in Australia. A large proprietary company must have a least one director who must live in Australia.</p>	
<p><b>Transferability of shares</b> Shares in a public company can generally be traded without restriction on the Australian Securities Exchange (ASX). Transfer of shares in a large proprietary company cannot be traded publicly and private transfer may be restricted. The transfer of any shares in a large proprietary company may need approval of the director/s as per the constitution of the company.</p>	
Accept other relevant answers.	

## Question 22

(30 marks)

- (a) Based on the net present value and payback period data, which location would you recommend Krebsaw Ltd purchase. State **two** reasons for your recommendation. (3 marks)

Description	Marks
Recommends location 1.	1
<b>Subtotal</b>	<b>1</b>
For each of two reasons (2 x 1 mark)	
States a reason to support the recommendation.	1
<b>Subtotal</b>	<b>2</b>
<b>Total</b>	<b>3</b>
Answers could include:	
Recommends location 1. Reasons include:	
<ul style="list-style-type: none"> <li>The net present value is higher than the Location 1 factory project while the payback period is two months less than the Location 2 factory project.</li> <li>The net present value method of assessing is a better method of assessing the two projects. The net present value considers the net cash flows for the period of the project and takes into account the time value of money.</li> <li>The payback method does not take into account the time value of money and only looks at the time taken for the initial investment to be 'paid back' and does not consider any cash flows beyond the payback period.</li> </ul>	
Accept other relevant answers.	

- (b) From the information provided, describe **two** non-financial factors that should be considered by management when assessing the location of the factory project. (4 marks)

Description	Marks
For each of two non-financial factors that should be considered (2 x 2 marks)	
Describes the non-financial factor.	2
States a fact about the non-financial factor.	1
<b>Total</b>	<b>4</b>
Answers could include:	
Government	
<ul style="list-style-type: none"> <li>The government has already approved the proposed factory development in Location 2. The government believes this location could lead to an increase in employment in the rural area.</li> <li>The government has not indicated support for the factory development in Location 1 at this stage.</li> </ul>	
Consumer preferences	
<ul style="list-style-type: none"> <li>Location 2 could attract more customers to purchase sheds from Krebsaw Ltd due to the business being located within their own area and also due to its provision of employment opportunities to local people.</li> </ul>	
Competition	
<ul style="list-style-type: none"> <li>Krebsaw Ltd predicts that competing shed makers in both proposed locations will reduce their prices to compete once it starts selling the sheds. However, it believes that both its product and after sales service are superior. Therefore, the business believes that it should be able to successfully compete within a few months of starting production in either of the proposed locations.</li> </ul>	
Accept other relevant answers.	

**Question 22** (continued)

- (c) Describe **three** types of long term business finance that Krebsaw Ltd could consider for the proposed purchase. (6 marks)

Description	Marks
For each of three types of long-term finance the company could consider (3 x 2 marks)	
Describes the type of long-term finance.	2
Identifies the type of long-term finance.	1
<b>Total</b>	<b>6</b>
<p>Answers could include:</p> <ul style="list-style-type: none"> <li>• Shares: The company could issue additional shares which will provide additional capital. The shareholders then become part owners of the company.</li> <li>• Debentures: A loan made to the company by an investor and secured by a charge over the assets of the company. Interest is paid by the company to the investor at a fixed rate and the loan is repaid at some future date.</li> <li>• Unsecured notes: A loan made to the company by an investor. Usually a higher rate of interest is paid as compared to debentures but the investor funds are not secured by a charge over assets. The unsecured notes are repaid at some date in the future.</li> </ul>	
Accept other relevant answers.	

- (d) Explain **three** limitations in assessing performance from financial statement analysis and/or traditional financial accounting. (9 marks)

Description	Marks
For each of three limitations (3 x 3 marks)	
Explains the limitation.	3
Describes the limitation.	2
States a fact about the limitation.	1
<b>Total</b>	<b>9</b>
<p>Answers could include:</p> <p>Lack of comparability between entities:            The information in the financial reports makes comparison between different companies difficult because the variation in accounting policies will produce different financial data. Some of the policy variations include:</p> <ul style="list-style-type: none"> <li>• use of cash or accrual accounting</li> <li>• different depreciation policies</li> <li>• historic or fair value accounting</li> <li>• different inventory valuation method.</li> <li>• balance day adjustment policies.</li> </ul> <p>Lack of disclosure:            Information contained in financial reports summarises the financial affairs of the company. Various disclosures provide more detailed information but companies can be selective about how they present the information and what information is disclosed. Some detailed information is not required to be disclosed, such as individual expenses of a company which can limit ratio analysis.            (Note: this information can be financial or non-financial.)</p> <p>Historical cost:            The historical cost concept is commonly used in valuing assets presented in financial reports. The historical cost concept, while easy to understand and use, does not provide up to date information on the value of assets. Ratio analysis based on information from financial reports prepared using the historical cost concept therefore produces ratios that are not current.</p> <p>Accept other relevant answers.</p>	

## Question 22 (continued)

- (e) Describe **four** benefits to internal and/or external users of a cash flow statement. (8 marks)

Description	Marks
For each of four benefits to internal and/or external users of the cash flow statement information from Krebsshaw Ltd (4 x 2 marks)	
Describes the benefit.	2
Identifies the benefit.	1
<b>Total</b>	<b>8</b>
<p>Answers could include:</p> <p>Information from the cash flow statement will benefit internal and external users by assisting them to assess how a company</p> <ul style="list-style-type: none"> <li>• has been able to generate net cash flows in the past which then enables end-users to make predictions about future net cash flows.</li> <li>• compares to other companies operating in a similar market. This will help the end-user to determine if the company is generating net cash flows more favourably or less favourably than other comparable companies.</li> <li>• has been able to generate cash to meet its debts. End-users want to assess the ability of the company to pay dividends to shareholders and interest payments to other investors who have lent funds to the company.</li> <li>• maintains an adequate level of solvency of the company as they don't want to transact with a company that could become insolvent. End-users will want to ensure that net cash flows are being generated from a continuing and reliable source such as sales.</li> </ul>	
Accept other relevant answers.	



## ACKNOWLEDGEMENTS

- Question 21(b)** Adapted from: Australian Securities & Investments Commission. (n.d.). *Small Business Company Directors*. Retrieved November, 2022, from <https://asic.gov.au/for-business/small-business/starting-a-small-business-company/small-business-company-directors/>
- Question 21(d)** Paragraph 1 adapted from: CPA Australia. (2011). *IAS 1 Presentation of Financial Statements: Fact Sheet*. Retrieved August, 2022, from <https://www.cpaaustralia.com.au/-/media/project/cpa/corporate/documents/tools-and-resources/taxation/ifrs-factsheets/factsheet-ias1-presentation-of-financial-statements.pdf?rev=8f30ae488e284955a84979c3c8e0639f#:~:text=PURPOSE%20OF%20FINANCIAL%20STATEMENTS%20The,users%20in%20making%20economic%20decisions>
- Adapted from: Australian Accounting Standards Board. (2021). *Conceptual Framework for Financial Reporting*. Retrieved November, 2022, from [https://www.aasb.gov.au/admin/file/content105/c9/Conceptual\\_Framework\\_05-19\\_COMPdec21\\_01-22.pdf](https://www.aasb.gov.au/admin/file/content105/c9/Conceptual_Framework_05-19_COMPdec21_01-22.pdf)

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