Business Educators Western Australia (Inc.)

2018 Semester Two Examination

ACCOUNTING AND FINANCE
ATAR Units 3 and 4

Marking Key

This is a provisional marking key developed by BEWA that can be reviewed and modified by the teacher as necessary.

This marking key does not show the only alternatives possible. Candidates should not be penalized for consequential errors, alternative responses or presentations.

Analysis of questions by practical and theory

Question No	Practical	Theory	Unit 3	Unit 4	Question No	Practical	Theory	Unit 3	Unit 4
Sec 1					**19**				
1		1		1	a	16			16
2		1		1	b	14			14
3		1		1	**c**	8			8
4		1	1		d	6			6
5		1		1	**e**		6		6
6	1			1					
7		1		1	**20**				
8	1			1	a	27			27
9	1			1	b		3		3
10		1		1	c		4	4	
11		1	1		**Total**	**125**	**25**	**70**	**80**
12		1	1		**70%**	**58%**	**12%**	33%	37%
13		1	1		**Sec 3**				
14		1	1		**21a**		4	4	
15		1	1		b		6	6	
Total	**3%**	**12%**	**6**	**9**	c		4	4	
					d		6	6	
Sec 2					e		6	6	
16					f		4	4	
a	18		18		**Total**		**30**	**30**	
b		4	4						
c		4	4		**OR**				
					22 a		4		4
17					b		8		8
a	10		10		c		6		6
b	6		6		d		4		4
c	2		2		e		8		8
d	6		6						
					Total		**30**		**30**
18							**15%**		
a	8		8						
b	4		4		**Sec 1**	**3**	**12**		
c		4	4		**Sec 2**	**58**	**12**		
					Sec 3		**15**		
					Total	**61%**	**39%**	**54%**	**61%**
					Range	**60-65**	**35-40**		

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

This section has **15** questions. Each question is worth **one** mark. Attempt **all** questions.

1.	C	
2.	D	
3.	C	
4.	B	
5.	A	
6.	C	
7.	D	
8.	A	*3,000,000 ÷ 10 = 300,000 x.60 = $180,000*
9.	C	*4,500,00 – 15,000 + 180,000 = $4,665,000*
10.	D	
11.	B	
12.	B	
13.	B	
14.	D	
15.	A	

Section Two: Short answer **70% (150 Marks)**

This section has **six** questions. Answer **all** questions. Write your answers in the space provided.

Instructions for teachers:

- **Allow for follow through errors; that is consequential errors should not be penalised**
- **Marks should not be subtracted for incorrect solutions**
- **Accept any other reasonable answers when marking theory questions**

Question 16 **(26 marks)**

a) Prepare a budgeted income statement for Beyond Good Place Ltd for the six (6) months ending 30 September 2019. (18 Marks)

Workings

Credit Sales

Cash Received from Accounts Receivable	$1,500,000 *(1)*
less Opening Accounts Receivable	(240,000) *(1)*
add Closing Accounts Receivable	300,000 *(1)*
	1,560,000*

or

Accounts Receivable

Bal (opening) *(1)*	240,000	Cash at Bank *(1)*	1,500,000
*Credit Sales**	*1,560,000*	Bal (closing) *(1)*	300,000
	1,800,000		1,800,000

Total Sales

Credit sales	$1,560,000 (3)*
Cash sales	$816,000 (1)
	$2,376,000**

Loss on Sale of Asset
Proceeds from sale $24,000 (1) - Book value (carrying amount) $36,000 (1) = $12,000

Wages and Salaries
914,400 (1) + 11,000 (1) = 925,400

Insurance
$100,800/12 (1) x 6 (1) = $50,400

Sales Commission
Sales $2,376,000** (1) x 2% (1) = $47,520

Depreciation
$13,200 x 3 = $39,600 (1)
$19,200 x 3 = $57,600 (1)
$97,200

Income Tax
Profit $475,480 (1) x 30% (1) = $142,644

Beyond Good Place
Budgeted Income Statement
For Period Ending 30 September 2018

Sales		2,376,000	(4)
less Cost of Sales		570,000	(1)
Gross Profit		**1,806,000**	
less other expenses			
Loss on Sale of Asset	12,000		(2)
Insurance	50,400		(2)
Sales Commission	47,520		(2)
Depreciation	97,200		(2)
Wages & Salaries	925,400		(2)
Other Expenses	198,000	1,330,520	(1)
Profit before Tax		**475,480**	
Income Tax Expense		142,644	(2)
Profit after Tax		**332,836**	

b) The cash budget indicates a dramatic deterioration in the company's cash position over the next six months. List four measures that Beyond Good Place Ltd could take to ensure the cash balance is not further depleted. (4 Marks)

- Defer the asset purchases to a time when sufficient cash levels or use finance
- Delay the payment to suppliers which will defer the pressure on existing cash balances and perhaps give the firm time to identify a more permanent solution.
- Speed up the rate at which cash is collected from outstanding accounts receivable by offering a discount for cash or prompt payment.
- Pursue more aggressively those customers who refuse to settle their accounts
- Identify alternative suppliers who can provide inventory at lower prices and thereby reduce cash outlays
- Beyond Good Place Ltd could seek to establish a bank overdraft in case any or all of the above measures are unsuccessful
- Reduce selling prices to boost the level of sales revenue generated.
- Accept other reasonable answers

(1 mark x 4 points = 4 marks)

c) Explain how the preparation of Performance reports could further assist management at Beyond Good Place Ltd. (4 Marks)

To allow management to:

- compare actual with budgeted performance in a Performance Report, so favourable and unfavourable areas are identified and quantified
- to identify negative variances in cash payments or expense that could be better managed and controlled in future so costs can be reduced
- to identify negative variances in cash receipts or income for further investigation and control
- compare actual with budgeted performance in a Budget Income Statement Performance Report, to identify negative variances in expenses that could be better managed and controlled in future operations
- reward those employees/departments involved in areas where a positive variance exists
- Accept other reasonable answers

(2 mark for explanation x 2 points = 4 marks)

Question 17 **(24 marks)**

a) Calculate the standard cost per unit of each model. (10 Marks)

Direct Materials

Roof Racks	Roof Cages
240,000/2400 (2)	180 420/1 860 (2)
= $100	= $97

Direct Labour

Roof Racks	Roof Cages
40 x 3 (1)	40 x 5 (1)
=$120	= $200

Fixed Overheads
Predetermined Overhead Rate

$$\frac{\text{Total estimated manufacturing overheads}}{\text{Total estimated allocation base}}$$

$$\frac{\$858{,}000\ (1)}{16{,}500 \text{ hours } (1)}$$

= $52 per hour*

Roof Racks	Roof Cages
52* x 3 hrs (1)	52* x 5 hrs (1)
= $156	= $260

TOTAL STANDARD COST

Roof Racks	**Roof Cages**
100 + 120 + 156	97 + 200 + 260
= $376	**= $557**

b) Calculate the total weighted average contribution margin. (6 Marks)

VC = direct materials + labour per unit

	Roof Racks	Roof Cages
SP	558(1)	712 (1)
VC	100 + 120 = 220 (1)	97 + 200 = 297 (1)
CM	338	415
x sales mix	56% (1)	44% (1)
	$189.28	$182.60

TOTAL WACM = $189.28 + $182,60 = **$371.88**

c) What is the break-even point in units? (2 Marks)

$$\frac{\text{TFC}}{\text{Contribution margin per unit}}$$

$$\frac{858{,}000\ (1)}{371.88\ (1)}$$

= 2307.2

Therefore **2308 Units**

d) Calculate the gain or loss on the special order. (6 Marks)

Total production required 2,400 + 1,860 + 200 = 4,460 units

Sales	200 (1) x $350 (1)	=	70 000
Less VC	200 x $220 (1)	=	44 000
CM			26 000
Less Opportunity cost 4,400 (1) – 4,460 (1)			
	= 60 units x $415 (1)	=	24 900
GAIN ON SPECIAL ORDER			**$1 100**

Question 18 **(16 marks)**

a) Calculate the net present value of purchasing the mixer. (8 Marks)

Year	Net Cash Flow	Cost of Capital 12%	NPV	Marks
1	60,000	.8929	53,574.00	(1)
2	64,000	.7972	51,020.80	(1)
3	65,600	.7118	46,694.08	(1)
4	70,800	.6355	44,993.40	(1)
5	71,200 + Residual Value 120,000	.5674	108,486.88	(2)
Total			304,769.16*	

NPV = Present value of future cash flows – present value of project
NPV = 304,769.16* – (264,000 (1) + 1,800 (1))
= 304,769.16 – 265,800
= $38,969.16

Alternative workings:

Year	1	2	3	4	5
PV of NCF	$\frac{60,000}{1.12^1}$	$\frac{64,000}{1.12^2}$	$\frac{65,600}{1.12^3}$	$\frac{70,800}{1.12^4}$	$\frac{191,200}{1.12^5}$
	53,571.43 (1)	51,020.41(1)	46,692.78(1)	44,994.68(1)	108,492.01(2)

NPV = Present value of future cash flows – present value of project
NPV = 304,771.31 – (264,000 (1) + 1,800 (1))
= 304,771.31 – 265,800
= **$38,971.31**

b) Calculate the payback period of purchasing the oven. (4 Marks)

Year	Net Cash Flow	Cumulative	Marks
1	60,000	60,000	
2	64,000	124,000	
3	65,600	189,600	
4	70,800	260,400	(1)*

4 Years + Months
Months= 265,800 (1) – 260,400*
= 5,400/191,200 (1)
= .03 x 12 = .36
Therefore, the payback period is **4 years and 1 month** (1)

Alternative workings:

Original Investment: $265,800 (1)

265,800 – 60,000	Yr 1	
=205,800 – 64,000	Yr 2	
=141,800 – 65,600	Yr 3	
=76,200 – 70,800	Yr 4	
=5,400		(1)*

= 5,400*/191,200 (1)
= .03 x 12 = .36
Therefore, the payback period is **4 years and 1 month** (1)

c) Use your answers in (a) and (b) to recommend whether the mixer should be purchased. (4 Marks)

The NPV is positive and therefore the project is generating a return in excess of the required rate of return. If undertaken, the project will increase the wealth of the organisation by $38,969.6 in present value terms. **(1)**
It will take the business *four years and one month* to recover initial investment, which is only one month longer then the four years specified by the organisation. **(1)**
The NPV method suggests the project is acceptable as it will increase the net value of the organisation. **(1)** The net present value is a more comprehensive measure as it incorporates the time value of money so, in the absence of liquidity issues, the project is acceptable. **(1)**

Question 19 **(50 marks)**
Required:
a) Prepare the Statement of comprehensive income for the year ended 30 June 2018. (16 marks)

Workings:

Revenue	Sales	3,480,000 (1)
	-Sales return	60,000 (1)
	- Discount allowed	12,000 (1)
		$3,408,000
Total COS	Cost of sales	1,560,000 (1)
	-Discount received	40,000 (1)
		1,520,000
Other Expenses	wages	1,119,000 (1)
	Doubtful debts	5,000 (1)
	Depreciation plant	70,000 (1)
	Office expenses	125,000 (1)
	Insurance	74,000 (1)
	Factory Repairs	78,000 (1)
		$1,471,000

Smart Constructions Ltd
Statement of comprehensive income
for the year ended 30 June 2018

Income	**$**	**Marks**
Revenue	3,408,000	3
Less Cost of sales	(1,520,000)	2
Gross profit	1,888,000	
Other income	25,000	1
	1,913,000	
Other expenses	(1,471,000)	6
Finance expenses	(18,000)	1
Profit before tax	424,000	
Less income tax	127,200	2
Profit after tax	296,800	
Add other comprehensive income		
Gain on asset revaluation	400,000	1
Total comprehensive income for the period	**696,800**	

b) Prepare the Notes to the financial reports for the year ended 30 June 2018. (14 marks)

Workings:
General reserve 300,000 (1) + 40,000 (1) = 340,000
Final dividend 2,500,000 (1) x 0.08 (1) = 200,000

Smart Constructions Ltd
Notes to the financial reports
for the year ended 30 June 2018

Property, plant & equipment	$	**marks**
Land (at cost)	500,000	1
Add revaluation	400,000	1
	900,000	
Buildings	200,000	1
Plant	1,310,000	1
Accumulated depreciation plant	(552,000)	1
	758,000	
Total Property, plant & equipment	**1,858,000**	
Share capital		
2 million ordinary shares at 50 cents each, fully paid	1,000,000	1
500,000 ordinary shares at $1 each fully paid	500,000	1
Less share issue costs	(45,000)	1
	1,455,000	
Other components of equity		
General reserve	340,000	2
Revaluation reserve	400,000	1
	740,000	
Dividends		
The following dividends were paid during the year:		
Interim dividends at 6 cents	150,000	1
The directors have recommended final dividends for the year ended June 30, 2018:		
2.5 million ordinary shares at 8 cents	200,000	2

c) Prepare the current assets and current liabilities of Statement of financial position for the year ended 30 June 2018. (8 marks)

Workings:
Cash & cash equivalents

Bank 168,000 **(1)** + fixed term deposit 500,000 **(1)** = 668,000

Trade receivables
Receivables 324,000 **(1) -** allowance doubtful debts 15,000 **(1)** = 309,000

2017 profit before tax 148,500 **(1)** x 30% **(1)** = 44,500 tax payable

Smart Constructions Ltd
Statement of financial position (extract)
for the year ended 30 June 2018

Current assets	$	marks
Cash and cash equivalents	668,000	2
Trade Receivables	309,000	2
Inventories	515,000	1
Total current assets	1,492,000	
Current liabilities		
Trade Payables	549,000	1
Borrowings	185,000	1
Tax payable	127,200	1c
Total current liabilities	859,200	

d) Calculate the following ratios to two decimal places. (6 marks)

Ratio	2018	result	marks
Profit	$\frac{296,800}{3,408,000}$	**= 8.71%**	**(2)**
Dividend yield	$\frac{0.06}{1.25}$	**= 4.80%**	**(2)**
Earnings per share	$\frac{296,800}{2,250,000}$	**= $0.13 cents**	**(2)**

e) Comment on the changes in Smart Construction's performance.
(6 marks)

- **Profitability** has declined over the past twelve months from 12.42% in 2017 down to 8.71%. **(1)** The company performance could be worse because of higher expenses or lower sales or gross profit. **(1)**
- **Dividend yield** has declined from 6.4% to 4.8% **(1)** and is reflective of the company's lower profitability or recent improvement in market share price. **(1)**
- **Earnings per share** has dropped significantly from 24 cents to 13 cents **(1)** as the profit has been diluted across a greater number of shares, given the recent share issue. **(1)**

Question 20 (34 marks)

Below is the comparative Balance Sheets of Enterprise Ltd as at 30 June for the years ended:

Workings:

Inventory account

Account	**$**	**Account**	**$**
Opening Balance**(1)**	99,200	Cost of Sales **(1)**	226,400
*Payables**	*218,000*	Closing Balance **(1)**	90,800
	317,200		317,200

Accounts Payable account

Account	**$**	**Account**	**$**
*Cash**	*208,600*	Opening Balance **(1)**	37,000
Closing Balance **(1)**	46,400	Inventory **(3)***	218,000
	255,000		255,000
			5 marks

Other operating expenses		99,400	**(1)**
Less	deprec Premises (80,000 – 68,000)	12,000	**(2)**
	deprec. P&E (8,000 – 4,000)	4,000	**(2)**
	loss on sale land (30,000 – 25,000)	5,000	**(2)**
		78,400	**7 marks**

Payments to suppliers and employees:		**$**	**Marks**
Payables		208,600	**5**
Other cash expenses		78,400	**7**
	Total	**287,000**	**12**

Receivables account

Account	**$**	**Account**	**$**
Opening Balance **(1)**	60,800	*Receipts from customers*	*348,000*
Credit sales **(1)**	354,800	Closing Balance **(1)**	67,600
	415,600		415,600
			Total = 3 marks

Profit after tax for 30 June 2018	Profit before tax 25,000 (1) x 70% (1)= 17,500
General Reserve	56 000 (1) – 35 000 (1) = 21 000

Retained Earnings account

Account	**$**	**Account**	**$**
*Dividends Payable**	*41,500*	Opening Balance **(1)**	134,000
General Reserve **(2)**	21,000	Profit and Loss **(2)**	17,500
Closing Balance **(1)**	89,000		
	151,500		151,500
			Total = 6 marks

Accrued interest account

Account	**$**	**Account**	**$**
Interest paid	*5,000*	Opening balance **(1)**	3,600
Closing balance **(1)**	2,600	P/L (interest expense) **(1)**	4,000
	7,600		7,600
			Total = 3 marks

Proceeds from loan 529,000 **(1)** – 349,000 **(1)** = 180,000

(a) Prepare the operating and financing activities of the Statement of Cash Flows for Enterprise Ltd for the year ending 30 June 2017. (27 marks)

Enterprise Ltd
Statement of cash flows (extract)
for year ended 30 June 2018

Cash flows from operating activities	**$**	**Marks**
Receipts from customers	348,000	**3**
Payments to suppliers & employees	(287,000)	**12**
Cash generated from operations	61,000	
Interest paid	(5,000)	**3**
Income tax paid	(11,400)	**1**
Net cash flows from operating activities	44,600	
Cash flows from financing activities		
Proceeds from loan	180,000	**2**
Payment of dividends	(41,500)	**6**
Net cash flows from financing activities	138,500	
		27

(b) Identify three (3) benefits a Statement of cash flows provides its users. (3 marks)

Provides information that enables users to evaluate

- the cash inflows and outflows which may not be readily revealed by the Statement of comprehensive income or Statement of financial position.
- the ability of the entity to generate cash and cash equivalents
- the change in financial position from one balance sheet to another.
- the changes in net assets of an entity,
- its financial structure (including its liquidity and solvency)
- investment and capital expenditure items and how they could alter the nature of the business.
- how to finance the activities of the business and therefore how this will affect the financial structure of the company.
- And compare different entities as it eliminates the effect of accrual accounting as based solely on cash.

(1 mark per point above to a max of 4 marks)

(c) Outline to Enterprise Ltd the importance of appropriate management of cash considering the large amount of funds in their bank account. (4 marks)

Cash is vital to the liquidity of the company. **(1)** There needs to be sufficient cash to meet financial obligations in the operations of the company such as payment of expenses and to take advantage of discounts.**(1)** Enterprise Ltd has surplus cash, which would be better to invest in marketable securities, and long-term investments that would provide a better rate of return. **(1)** This surplus cash lying idle in the company bank account would attract bank charges and a very low interest rate. **(1)**

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

This section contains **two** questions. You must answer **one** question. Write your answers in the space provided.

Question 21 **(30 marks)**

Jarvis Cycles Ltd has a factory making bicycles for distributors across Australia. It employs 500 people, including three accountants and is listed on the Australian Securities Exchange. They currently manufacturer road bikes, mountain bikes, BMX bikes and triathlon/time trial bikes. The company is considering a substantial expansion of its factory to make electric bikes.

a) Outline the characteristics of a capital investment decision.

(4 Marks)

- They usually involve relatively large sums of money **(1)**
- They are almost invariably long-term **(1)**
- They are usually difficult or impossible to reverse **(1)**
- Because of the previous factors they carry a high risk for a business. **(1)**

b) Describe and compare the two methods of evaluating this sort of investment

(6 Marks)

Payback period
An estimate is made of how long it will take for the extra cash revenue generated by the investment to recover the cost of the project. This time period can be used to compare alternative investments (obviously, the sooner it is paid back, the better) or measured against some benchmark that the firm has laid down for evaluating such projects (e.g. projects must be paid back in 4 years or less). If the project meets this criterion it is acceptable, if not it is not. The information required is the original cost of the project (which is usually not hard to estimate quite accurately) and the net cash flows generated by the project over its first few years of existence – extra revenue generated less extra cash expenses (may be more difficult to estimate). An arithmetic calculation is then made to calculate how long in years and months it will be before the original cost of the project is recovered. **(2)**

Net present value
This method makes an estimate of all cash flows associated with the project in each of the years of its useful life – the original cost, extra cash revenue generated and cash expenses likely to be incurred – and then expresses then in terms of present day dollars using a formula and/or a published table at a discount rate related to the firm's expected return on investment or cost of funds. All these flows are added together and the resultant total is the 'Net Present Value' of the project. If it is a positive value, then the project is acceptable, if it is negative then it is not. When comparing two alternative investments, the one with the higher NPV should be preferred, all other things being equal. **(2)**

NPV has the advantage, compared with the Payback Period method, that it does take account of changes in the value of money. **(1)** It is slightly more complicated to calculate and, because it requires estimates for the whole of the asset's life rather than just the first few years, may be more subject to inaccuracies, especially for projects with a long useful life. **(1)**

c) Explain, using examples, the type of finance that would be appropriate for this sort of investment.

(4 Marks)

This is a long-term investment which will generate its return over a number of years. The sort of funding appropriate would therefore be one that is itself long-term, repayment being spread over a number of years roughly equivalent to the life of the project. **(2)**

Suitable sources would include equity (issue of shares), long-term loan securities such as debentures or unsecured notes, or long-term borrowings from banks or other financial institutions or perhaps leasing arrangements Unsuitable sources will be those that require repayment in the short term. These would include bank overdraft or other short-term loans, an expansion of supplier credit, or the use of credit cards. (**2)**

d) Identify and explain three different types of cost behaviours. Provide examples relevant to Jarvis Cycles Ltd to aid your explanation of each

(6 Marks)

Variable costs are those that change in proportion to the level of production. This would include wages of bicycle makers and the direct materials in bike products such as the wheels, spokes and chains **(2)**

Fixed costs are those that do not change with the level of production. This would include financial, administration and selling expenses such as rent, depreciation, insurance, advertising and office/sales staff wages. **(2)**

Mixed costs include both a fixed cost and variable portion. An example might include telephone as the monthly line rental cost is fixed but usage will vary according to the number of calls made. **(2)**

e) Define ethics. Explain what conflict of interest is, using an example that might arise in this business. (6 Marks)

Ethics are a set of moral standards that are relied upon to reach conclusions and make decisions. **(2)**

Conflict of interest occurs when an employee – usually company director, accountant, director has competing interests in a decision that must be made. (a clash between professional obligations and personal interests) **(2)**

Examples may include

- a company director is also a director of another company or business submitting a tender for work
- an accountant uses inside information to decide to buy or sell shares in the company
- **Two marks for any valid example (2)**

f) What might the annual report from a company contain in the way of corporate social disclosure?

(4 Marks)

Corporate Social Disclosure is about reporting in some formal way the extent to which the entity has complied with its social, environmental, and ethical obligations to its employees, associates and the general community. These obligations would be listed in the annual report. A company might include in its annual report information that investors are interested in. For example; industrial safety, pollution control and resource conservation. The community expect business to take action to reduce their environmental impact and view such effort favourably. **(2)**

Such disclosure is mostly voluntary in Australia although there is a growing community feeling that companies ought to engage in it. There are no set forms for CSD so a company can generally choose the format and medium that it prefers, for example the annual report, **(2)**

OR

Question 22 **(30 marks)**

Arabesque's executive has requested that you provide a written response to each of the following questions.

a) State the type of company structure and size of Arabesque mining and justify your answer. (4 marks)

Arabesque Mining is a large proprietary limited **(1)** company as its gross assets are over $12.5 million **(1)** and have more than 50 employees **(1)** despite being below the $25m revenue it exceeds two of the three limits as defined in the Corporations Act for a large private company. **(1)**

b) Describe **four** characteristics of this form of company. (8 marks)

- Separate legal entity – able to enter into contracts, to sue and be sued and hold registrable assets in company's own name
- Maximum of 50 non-employee shareholders
- Limited liability of shareholders is for unpaid capital contributions
- Expensive to form (fees and other costs)
- Continuity of existence – company will continue to exit until deregistered by ASIC
- Transfer of ownership – owner's shares can be transferred to new members if it is in the company constitution/replaceable rules (restrictions on share transfers)
- Internal operations of the company governed by a formal set of regulations – Replaceable Rules or a Constitution or a combination of both.
- Taxation – company tax rate of its profits is currently at a 30% flat rate

(1 mark for stating characteristic + 1 mark for description) = 2 marks x 4 points= 8 marks)

c) Identify the restrictions placed on this form of company as per the Corporation Act 2001. (6 marks)

All companies must:
- Notify ASIC of issue of shares and changes in registered office, directors and secretary
- Minimum of 1 shareholder
- Up to date shareholdings register and charges on the company's assets
- Pay an annual fee to ASIC
- Keep accurate financial reports
- Follow the duties of officeholders as described in the Corp Act
- Register formation and constitution with ASIC using form 201
- Follow process for calling, conducting and voting at meetings.

In addition proprietary companies:
- Maximum of 50 shareholders
- Minimum of 1 director who must be an Australian resident
- Can raise funds by the issue of securities (capital) only from existing shareholders and employees (not public)
- Must produce audited annual financial reports and a director's report which must be submitted to ASIC
- sent annual report to all shareholders within 4 months of financial year end

(any 6 points above up to a maximum of 6 marks)

Explain briefly the role of The Australian Securities and Investment Commission (ASIC) in a registered company such as Arabesque Pty Ltd.

(4 marks)

- Independent federal government body that executes the Corporations Act and ensures all Australian companies comply
- Checking and approving a company's registration
- Inspecting and approving a company's Constitution/Replaceable Rules
- Making sure a company submits and checks the financial reports are compliant with Corporation Act
- Issue interpretations of accounting standards in the form of Practice Notes
- Investigates any alleged breaches of company directors and initiates prosecutions through the Director of Public Prosecutions (DPP) if non-compliance with Corporation Act
- In executing the Corporation Act, ASIC safeguards the interests of shareholders and other potential investors and stakeholders that promotes confidence in the share market.

(1 mark per point up to maximum of 4)

d) Outline The Framework definition and recognition criteria of an asset. Should heavy plant and drilling equipment, costing $2.5 million, be reported as an asset in the previous four years before operations commenced? Explain your answer. (8 marks)

An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. **(3)**

An asset is recognised when it is probable that the future economic benefits will flow to the entity and it must be possible to reliably measure the cost value of the asset. **(1)**

It should not be have been recognised in the Balance Sheet **(1)** for the previous four years as it does not meet the probable (highly likely) the future economic benefit will flow, particularly in the initial exploration years. **(1)** During the exploration phase, the land tenement may not have been viable to go ahead and the benefit not flowed into the business. In the previous four years when Arabesque was in research and investigation and pre-operational and therefore not a going concern and the heavy plant and drilling equipment was leased, so there was not full control over the asset by the company as they would not have been able to sell it at will **(1)**. The lease contract however did provide a past event and an amount of $2.5 m to be measured reliably. **(1)**