



## Marking Key

# ACCOUNTING AND FINANCE

## Year 12 ATAR

## Units 3 & 4

### 2019 BEWA Semester Two Examination

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.

**This Marking Key may not be released to students until towards Term 4 Week 2 for the security of the examination being done by other schools up until this time.**

**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					<b>19</b>				
1		1		1	a	20			20
2		1	1		b	8			8
3		1		1	c	14			14
4		1	1		d		4		4
5		1	1		<b>20</b>				
6		1	1		a	12			12
7		1		1	b		6		6
8		1		1	<b>Total</b>	<b>133</b>	<b>27</b>	<b>63</b>	<b>97</b>
9	1		1		<b>70%</b>	<b>58%</b>	<b>12%</b>	<b>28%</b>	<b>42%</b>
10		1	1		<b>Sec 3</b>				
11		1		1	<b>21a</b>		6	6	
12		1	1		b		4	4	
13	1			1	c		6	6	
14	1			1	d		9	9	
15		1		1	e		5	5	
<b>Total</b>	<b>3%</b>	<b>12%</b>	<b>7%</b>	<b>8%</b>	<b>Total</b>		<b>30</b>	<b>30</b>	
<b>Sec 2</b>					<b>OR</b>				
<b>16</b>					<b>22 a</b>		7		7
a	19		19		b		9		9
b		5	5		c		6		6
<b>17</b>					d		4		4
a	27			27	e		4	4	
b		4		4					
c		2		2	<b>Total</b>		<b>30</b>	<b>4</b>	<b>26</b>
<b>18</b>							<b>15%</b>	<b>9%</b>	<b>6%</b>
a	4		4						
b	3		3		<b>Sec 1</b>	<b>3</b>	<b>12</b>	<b>7</b>	<b>8</b>
c	6		6		<b>Sec 2</b>	<b>58</b>	<b>12</b>	<b>28</b>	<b>42</b>
d	8		8		<b>Sec 3</b>		<b>15</b>	<b>9</b>	<b>6</b>
e	12		12		<b>Total</b>	<b>61%</b>	<b>39%</b>	<b>44%</b>	<b>56%</b>
f		4	4		<b>Range</b>	<b>60-65</b>	<b>35-40</b>		
g		2	2						

## Section One: Multiple-choice

15% (15 Marks)

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

1.	B	
2.	C	
3.	D	
4.	C	
5.	A	
6.	C	
7.	D	
8.	B	
9.	D	$BE = FC/CM \therefore FC = 36\,000 \times (7-4)$
10.	B	
11.	A	
12.	C	
13.	D	$(1\,100+280) / 19\,400$
14.	B	$(1\,100+280) / 280$
15.	A	

## Section Two: Short answer

70% (160 Marks)

## 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 (24 Marks)

- (a) Prepare a cash budget for Lion and Cougar Trading for the quarter ending 31 December 2019. (19 marks)

Cash received from Debtors/sales  $\$890,000 + 63,000 - \$73,000 - \$1,580 = \$878,420$  (4)  
OR

## Accounts Receivable

Balance	63 000 (1)	Discount allowed	1 580 (1)
Sales	890 000 (1)	<b>Bank</b>	<b>878 420</b>
		Balance c/d	73 000 (1)
	953 000		953 000

Cash paid to Creditors  $\$154,000 + 127,000 + \$139,000 - \$1,350 = \$418,650$  (4)  
 Sale of asset Gain  $\$6,000 + \text{WDV } \$4,000 = \$10,000$  (2)  
 Rent  $\$15,000 (3\text{mths}) \times 2 = \$30,000$  (2)  
 Wages  $\$293,700 - \$10,200 = \$283,500$  (2)  
 Drawings  $\$4,500 \times 3 = \$13,500$  (2)

**Lion and Cougar Trading**  
**Cash Budget**  
 for the quarter ending 31 December 2019

Receipts	\$	
Collection from debtors/cash sales	878,420	4
Proceeds from sale of asset	10,000	2
<b>Total receipts</b>	<b>888,420</b>	
<b>Less Payments</b>		
Payment to creditors	418,650	4
Rent	30,000	2
Wages	283,500	2
Other expenses	28,000	1
Purchase of replacement assets	42,000	1
Drawings	13,500	2
<b>Total payments</b>	<b>815,650</b>	
Cash surplus	72,770	
Cash balance at start of period	15,500	1
Cash balance at end of period	88,270	

**(b) Explain the difference between cash and accrual accounting. Use the budgeted income statement and budgeted cash statement of Lion and Cougar Trading to illustrate your answer. (5 marks)**

- Cash accounting recognizes an income transaction when cash is actually received and an expense is recognized when cash is actually paid. (1)
- Example: In the budgeted income statement, sales are recognized at the time the sale is made whereas in the cash budget only cash sales and cash paid by debtors is recognised. (1)
- Accrual accounting recognizes a transaction at the time the income is actually earned (1) or expense actually incurred. (1)
- Example: Rent expense for 3 months only is recognized in the budgeted income statement as this is the actual rent incurred, The cash budget records the cash actually paid for 6 months rent in advance. (1)

Students may have other acceptable examples.

Question 17 (33 marks)

Workings

**Accounts Receivable (3)**

1 July 18	Op bal	\$92,500(1)		<b>Bank</b>	<b>\$934,000</b>
	Sales	\$965,000(1)	30 June 19	CI Bal	\$123,500 (1)
		<b>\$1,057,500</b>			<b>\$1,057,500</b>

**Inventory**

1 July 18	Op bal	\$195,000 (1)		Cost of sales	\$340,000 (1)
	<b>Accounts payable</b>	<b>\$410,000</b>	30 June 19	CI Bal	\$265,000 (1)
		<b>\$605,000</b>			<b>\$605,000</b>

**Accounts Payable (5)**

	<b>Bank</b>	<b>\$377,500</b>	1 July 18	Op bal	\$62,500 (1)
30 June 19	CI Bal	\$95,000 (1)		<i>Inventory</i>	<b>\$410,000 (3)</b>
		<b>\$472,500</b>			<b>\$472,500</b>

**Accumulated Depn – Plant and Equipment**

	<b>Sale of Asset</b>	<b>\$19,000</b>	1 July 18	Op bal	\$120,000 (1)
30 June 19	CI Bal	\$180,000 (1)		Depn-Plant & Equip	\$79,000 (1)
		<b>\$199,000</b>			<b>\$199,000</b>

**Sale of Asset**

	<b>Plant &amp; Equip</b>	<b>\$21,000</b>		<i>Accum Depn-P&amp;E</i>	<b>\$19,000 (3)</b>
	Gain on sale	\$7,500 (1)		Bank	\$9,500 (1)
		<b>\$199,000</b>			<b>\$199,000</b>

**Plant and Equipment (7)**

1 July 18	Op Bal	\$640,000 (1)		<i>Sale of asset</i>	<b>\$21,000 (5)</b>
	<b>Bank</b>	<b>\$176,000</b>	30 June 19	CI Bal	\$795,000 (1)
		<b>\$199,000</b>			<b>\$816,000</b>

**Accrued Interest Expense (3)**

	<b>Bank</b>	<b>\$65,000</b>	1 July 18	Op bal	\$50,000(1)
30 June 19	CI Bal	\$25,000 (1)		Interest Exp	\$40,000 (1)
		<b>\$90,000</b>			<b>\$90,000</b>

**Payment to suppliers and employees (6)**

Cash paid to creditors	\$377,500	(5)
Other cash expenses	<u>\$275,000</u>	(1)
	<b>\$652,500</b>	

**Retained Earnings (4)**

	<b>Dividends</b>	<b>\$128,000</b>	1 July 18	Op bal	\$86,000(1)
	General reserve	\$50,000 (1)		Profit	167,000 (1)
30 June 19	CI Bal	\$75,000 (1)			
		<b>\$253,000</b>			<b>\$253,000</b>

**Required:**

**(a) Prepare the Statement of Cash Flows for Clothilde Limited for the year ended 30 June 2019. (27 marks)**

<b>Clothilde Limited Statement of Cash Flows For the year ended 30 June 2019</b>		
<b>Cash flows from Operating Activities</b>	\$	
Receipts from customers	934,000	<b>3</b>
Payments to suppliers and employees	(652,500)	<b>6</b>
Interest paid	(65,000)	<b>3</b>
Income tax paid	(74,000)	<b>1</b>
<b>Net cash flow from Operating Activities</b>	<b>142,500</b>	
<b>Cash flows from Investing Activities</b>		
Proceeds from sale of Plant and Equipment	9,500	<b>1</b>
Purchase of Plant and Equipment	(176,000)	<b>7</b>
<b>Net cash flows from Investing Activities</b>	<b>(166,500)</b>	
<b>Cash flows from Financing Activities</b>		
Dividends paid	(128,000)	<b>4</b>
Debentures issued	100,000	<b>1</b>
<b>Net cash flows from Financing Activities</b>	<b>(28,000)</b>	
<b>Net decrease in cash flows</b>	<b>(52,000)</b>	
<b>Cash and cash equivalents at beginning of period</b>	<b>15,000</b>	<b>1</b>
<b>Cash and cash equivalents at end of period</b>	<b>(37,000)</b>	

**(b) Comment on the ability of Clothilde Ltd to generate cash flows from operating activities and explain how the purchase of plant and equipment was financed. (4 marks)**

- The company has generated a positive cash flow from operating activities (1) which indicates the company has been able to generate more than enough cash to pay operating costs. (1)
- The Plant and Equipment has been financed from surplus cash generated from operating activities (1) and from the issue of debentures (1).

(c) Identify two ways the Statement of cash flows can assist in providing an insight into the financial position of a company (2 marks)

- Assist in assessing the ability of a company to generate net cash inflows from the sale of products or the providing of services.
- Assist in assessing a company's solvency and ability to pay its debts.
- Enables comparison between the cash generating ability of different companies.
- Assist in checking the accuracy of past assessments of cash flows.
- Assists in assessing a company's ability to generate future positive cash flows.
- Enables the comparison between profitability and net cash flows.
- **Any two acceptable response – 1 mark for each response.**

**Question 18**

**(39 marks)**

(a) Based on the 2018 data, calculate the standard direct material cost for one seat.

**(4 marks)**

**Direct Material**

<b>Sewing:</b>	6 (1) x \$12 (1)	=	\$72
<b>Assembly:</b>	2 (1) x \$3 (1)	=	<u>\$6</u>
			<b>\$78</b>

(b) Based on the 2018 data, calculate the standard direct labour cost for one seat.

**(3 marks)**

**Direct Labour**

$$(\$112,500 (1) + \$147,000 (1)) / 3,000 (1) = \mathbf{\$86.50}$$

**OR (Alternative workings)**

<b>Sewing:</b>	\$112,500 (1) / 3,000 (1) =	\$37.50 per seat
<b>Assembly:</b>	\$147,000 (1) / 3,000 =	<u>\$49</u> per seat
		<b>\$86.50</b>

(c) The overhead is applied to costs based on total labour hours. Calculate the predetermined overhead rate. (6 marks)

Factory supervisors Wages	\$75,000 (1)
Factory rent	\$21,000 (1)
Factory electricity & water	\$19,400 (1)
Assembly dept overheads	\$27,925 (1)
<b>Total overheads</b>	<b>\$143,325*</b>
Sewing hours	4,500 (1)
Assembly hours	5,250 (1)
<b>Total labour hours</b>	<b>9 750**</b>

**Predetermined overhead rate**

$$\$143,325*(4) / 9,750**(2) = \mathbf{\$14.70}$$
 per DLH



- (d) The directors of Happy Travels Ltd stated that all selling prices are to be 50% above cost. If the Sales Manager set the selling price at \$300 per seat to match a major competitor's price, will this achieve a 50% mark-up? (8 marks)

Direct material		78.00	(1)
Direct labour		86.50	(1)
Overhead allocation	$\$14.70 \times [(4,500\text{hr} + 5,250\text{hr}) / 3,000]$	47.775	(4)
<b>Total cost per seat</b>		<b>\$212.275</b>	
50% mark-up	$212.275 \times 150\%$	\$318.41	(1)
Is \$300 a 50% mark-up		<b>No</b>	(1)

**OR Alternative workings**

Direct material		\$78.00	(1)
Direct labour		\$86.50	(1)
Overhead allocation			
Selling	$\$14.70 \times 1.5\text{hr}(4,500\text{hr}/3,000)$	\$22.05	(2)
Assembly	$\$14.70 \times 1.75\text{hr}(5,250\text{hr}/3,000)$	25.725	(2)
<b>Total cost per seat</b>		<b>\$212.275</b>	
50% mark-up	$212.275 \times 150\%$	\$318.41	(1)
Is \$300 a 50% mark-up		<b>No</b>	(1)

- (e) Calculate the direct labour efficiency variance by department for 2019. (12 marks)

**Sewing**  $[4,600 (1) - ((4,500 (1)/3,000 (1)) \times 3,150 (1))] \times (\$112,500 (1) / 4,500 (1))$   
 $= (4,600 - 4,725) \times \$25$   
**(1) (3) (2)**  
 $= (\$3,125) \text{ Favourable}$

**Assembly**  $[5,350 (1) - ((5,250 (1) / 3,000 (1)) \times 3,150 (1))] \times (\$147,000 (1) / 5,250 (1))$   
 $= (5,350 - 5,512.50) \times \$28$   
**(1) (3) (2)**  
 $= (\$4,550) \text{ Favourable}$

- (f) What do these variances tell you about the labour efficiency of Happy Travels Ltd? List two possible causes of the change. (4 marks)

- The labour force has become more efficient (1) Happy Travels Ltd employees are taking less time than last year to complete the work. While labour hours increased compared to the standard, the level of production increased at a greater rate. (1)
- Causes: (2)
  - o new machinery or new work practices or economies of scale.
  - o an increase in the hourly labour rate or more experienced staff
  - o better supervision, motivation and training of staff by management.

1 mark per acceptable response – max 2

- (g) After analysing the labour efficiency variances, suggest two ways that Happy Travels Ltd can take full advantage of the information in the highly competitive market in which they operate? (2 marks)

- Happy Travels Ltd can reduce the price of their seating to become more competitive.
- Set reduced standard direct labour hours in the future (rather than using previous year)
- The labour force is becoming more efficient which could lead to even greater efficiencies in the long run.

1 mark for each for acceptable answers

## Question 19 (46 Marks)

(a) Prepare a Statement of comprehensive income for Tristan Ltd for the year ended 30 June 2019.

(20 marks)

Workings:

Revenue		
Sales	\$3,590,000	1
Less: discount allowed	\$13,000	1
<b>Total revenue</b>	<b>\$3,577,000</b>	

Other expenses			Workings
Wages	\$1,250,000	2	\$1,200,000 (1) + 50,000 (1)
Doubtful debts exp	\$500	2	\$2,000 (1) - \$2,500 (1)
Depn-Plant	\$264,560	3	(\$1,330,000 (1) - \$7,200 (1)) x 20% (1)
Depn-Buildings	\$38,725	2	\$774,500 (1) x 5% (1)
Electricity	\$13,415	1	
Insurance	\$76,000	1	
Repairs and maintenance	\$81,000	1	
<b>Total</b>	<b>\$1,724,200</b>	<b>12</b>	

Income tax 200 800 (1) x 0.275 (1) = 55 220

**Tristan Ltd**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2019**

Revenue	3,577,000	2
Less Cost of Sales	1,660,000	1
<b>Gross Profit</b>	<b>1,917,000</b>	
Other income	28,000	1
Other expenses	(1,724,200)	12
Finance expenses	(20,000)	1
Profit before tax	200,800	
Less income tax	(55,220)	2
<b>Profit after tax</b>	<b>145,580</b>	
<b>Add other comprehensive income</b>		
Gain on asset revaluation	50,000	1
<b>Total comprehensive income</b>	<b>195,580</b>	

(b) Complete the Property, plant and equipment note to the accounts for Tristan Ltd as at 30 June 2019. (8 marks)

**Workings:**

Accumulated Depreciation – Buildings 315,000 (1) + deprn 38,725 (1) = 353,752 (2)

Accumulated Depreciation – Plant 7,200 (1) + deprn 264,560 (1) = 271,760 (2)

**Tristan Ltd**  
**Notes to the accounts (extract)**  
**As at 30 June 2019**

<b>Property, Plant and Equipment</b>		
Land	150,000	1
Revaluation of land	50,000	1
	200,000	
Buildings - at cost	774,500	1
Accumulated depreciation	(353,725)	2
	420,775	
Plant -at cost	1,330,000	1
Accumulated depreciation	(271,760)	2
	1,058,240	
<b>Total Property, Plant and Equipment</b>	<b>\$1,679,015</b>	

(c) Prepare the liabilities and equity sections only of the Statement of financial position for Tristan Ltd as at the 30 June 2019. (14 marks)

**Workings:**

Trade and other payables a/c payable \$150,000 (1)+ accrued wages \$50,000 (1) = \$200,000 (2)

Share capital \$1,900,000 (1) – share issue costs \$6,000 (1) = \$1,894,000 (2)

Retained earnings \$190,000 (1) + profit \$145,580 (1) - general reserve \$25,000 (1) – interim dividend \$160,000 (1) = \$150,580 (4)

**Other reserves**

General reserve \$206,800 (1) + transfer RE \$25,000 (1) = 231,800 (2)

Asset revalue reserve \$410,000 (1) + revaluation \$50,000 (1) = \$460,000 (2)

Total other reserves \$691,800

<b>Tristan Ltd</b>		
<b>Statement of Financial Position (extract)</b>		
<b>as at 30 June 2019</b>		
<b>Current Liabilities</b>		
Current tax liability	55,220	1
Trade and other payables	200,000	2
Short term borrowings	210,000	1
<b>Total Current Liabilities</b>	<b>465,220</b>	
<b>Total Liabilities</b>	<b>465,220</b>	
<b>Equity</b>		
Share capital	1,894,000	2
Retained earnings	150,580	4
Other reserves	691,800	4
<b>Total Equity</b>	<b>2,736,380</b>	

**(d) Explain the purpose of the replaceable rules and identify three matters covered in the replaceable rules. (4 marks)**

The replaceable rules are a summary of the set of basic rules outlining how a company should be managed and are included in the Corporations Act. (1)
The replaceable rules cover matters such as (3) <ul style="list-style-type: none"> <li>• Rules relating to officers</li> <li>• Appointment of directors</li> <li>• Power of directors</li> <li>• the inspection of accounts</li> <li>• directors' and members meetings</li> <li>• voting procedures</li> <li>• shares and the transfer of shares.</li> <li>• <b>Max 3 marks for any acceptable responses.</b></li> </ul>

**Question 20 (18 marks)**

**(a) Calculate (to two decimal places) for both years, three ratios that might be helpful to a potential investor in this company. (12 marks)**

RATIO	2019	2018	
<b>Earnings per share:</b> <u>After tax profit</u> Weighted average no. of ordinary share issued	821,000 (1) 7,900,000 (1) = <b>\$0.10 or 10.39 cents</b>	619,000 (1) 7,900,000 (1) = <b>\$0.08 or 7.83 cents</b>	2+2
<b>Price/Earnings ratio:</b> <u>Market price of shares</u> Earnings per share	250 cents (1) 10.39 (1) = <b>24.06 times</b> <b>Or</b> \$2.50 \$0.10 = <b>25.00 times</b>	190 cents (1) 7.83 (1) = <b>24.27 times</b> <b>Or</b> \$1.90 \$0.08 = <b>23.75 times</b>	2+2
<b>Dividend yield:</b> <u>Dividend paid</u> x 100 Market price of shares	553,000/7,900,000 = 0.07(1) x 100 2.50 (1) = <b>2.80%</b>	474,000/7,900,000 = 0.06(1) x 100 1.90 (1) = <b>3.16%</b>	2+2

**(c) Briefly comment on changes to the company's attractiveness as an investment over the past year. (6 marks)**

The three measures give mixed messages about the value of the company's shares as an investment. Earnings per share have improved over the two years. (1) This increase in earnings per share indicates an improvement in profits which would please potential investors. (1)

The Price/Earnings has a very slight change from 2018 to 2019. (1) An increase in the price/earnings ratio gives an indication of future growth potential in this case investors remain relatively neutral about potential future growth. (1)

The dividend yield has declined slightly over the two years which is not positive. (1) This indicates that dividends have fallen slightly compared to its share price. Investors would be concerned with such a low dividend yield but may indicate profit retention for future expansion. (1)

**Section Three: Extended response**

**15% (30 Marks)**

**Question 21 (30 marks)**

**(a) Discuss the importance of planning.****(6 marks)**

- States the importance of business planning (2)
  - setting goals, objectives and generic business strategies
  - reducing costs and risks
  - enable performance management
  - (1 mark each for any acceptable use up to a max of 2 marks)
  
- Discuss in detail the importance to business planning of and could include: (4)
  - Limited resources and capacity, planning is one means of allocating scarce resources amongst competing uses.
  - Business planning includes the setting of goals for short term and long term development of the business
  - Setting goals and objectives provide focus for future management decisions
  - Goals help focus and motivate employees to meet targets
  - Generic business strategies include meeting industry targets, maintaining sales and production volumes from year to year, maintaining sales.
  - Objective of business strategies include changing goals and performance measurement.
  - Cost leadership versus cost differentiation. A business needs to select the strategy that suits their product and market place.
  - Identify market opportunities for a product or service to meet consumer demand.
  - Reviewing performance reports and determining areas/strategies for future improvement.
  - Predicting future costs will enable management to avoid cash shortages/excess
  - Constantly reviewing performance to identify ways to reduce costs and risks
  - (1 mark each for any acceptable use up to a max of 4 marks)

**(b) Analyse the relative profitability of the two types of chair manufactured by Fabulous Furniture Ltd.****(4 marks)****Contribution margin per unit**

- The wooden table has the higher contribution margin of \$300 compared to the glass top table with a lower contribution margin of \$294. (1)
- This means the wooden tables make slightly more profit per table sold. (1)

**Contribution margin per machine hour**

- However, the glass top table has the higher contribution margin per machine hour \$98 compared to the wooden table \$60 as it takes less machine hours to make. (1)
- The glass top table should be the table the business should manufacture with additional machine capacity to maximise profits. (1)

(c) Distinguish between the three types of product costs. Provide two examples, relevant to Fabulous Furniture Ltd, of each to help illustrate your answer.(6 marks)

- o **Direct materials** are the raw materials that are used to create the finished product and can be easily linked to the finished product (1) Two examples of materials - wood, glass (1)
- o **Direct labour** is the wages of employees directly linked to the manufacture of the product or provision of service. (1) Two examples of labour – employees directly involved in the process of making the glass tables and those involved in the manufacturing of wooden tables (1)
- o **Factory overhead** refers to other factory costs that cannot be easily linked to a particular product with accuracy. (1) Two examples - factory rent, glue, wages of factory supervisor, etc. (1)
- o (1 mark for definition and 1 mark for any two acceptable examples)

(d) Define the terms contribution margin, break-even point and margin of safety and explain how each is used to make important business decisions. (9 marks)

**Contribution margin** – the revenue available after subtracting variable costs from sales to cover fixed costs and add to profit. (1)

- o used to determine and compare profitability of product lines – those to be added or removed
- o used to determine changes to product mixes
- o used to determine how to price a product or service.
- o (1 mark each for any acceptable use up to a max of 2)

**Break-even point** – the point where revenue equals variable and fixed expenses or where no profit or loss is made. (1)

- o Helps managers determine the number of units to be sold in order to cover all costs. Helps with setting sales targets.
- o Helps with motivating employees in meeting set targets.
- o Once the break-even point is known it can be used to calculate the level of sales in order to make a profit.
- o (1 mark each for any acceptable use up to a max of 2)

**Margin of safety** – the dollar amount of actual or expected sales above the break-even point. (1)

- o provides managers with information about how far sales can fall before a business starts to make a loss.
- o provides managers a guide in offering discounts.
- o A reduction in the margin of safety can send warning signals to management that there may be a problem. Give managers time to investigate changes and make adjustments to production or costs.
- o (1 mark each for any acceptable use up to a max of 2)

- (e) What is variance analysis? Provide an explanation on how it can be used by Fabulous Furniture Ltd to assess the efficiency of their production process both in terms of labour and material inputs. (5 marks)

Variance analysis studies the difference or variances between actual performance and standard performance. (1)

Use of variance analysis within a business:

- o **A standard price** is set for cost of labour and cost of materials used in the production process. Actual cost of labour per hour and materials used is then measured against the standard. The methods used are the Direct material price variance and direct labour variance. The variances can be positive or negative. The results enable management to investigate and take any action needed to rectify any – particularly negative – variances. (2)
- o A **standard quantity** of labour hours and materials used is also set for the production process. The variances are the direct material usage variance and the direct labour rate variance. These variances measure the amount of material actually used in the production process compared to the standard and the actual labour hours used compared to the standard. The variances can be positive or negative and management can investigate the variances to try and improve performance. (2)

OR

- o **Direct materials price variance** can be used to determine if the actual purchase price of direct materials was more or less than the standard cost established, while **direct materials usage variances** measures the difference between the actual and standard quantities of direct materials to determine efficiency or wastage in production. The variances can be positive or negative and management can investigate the variances to try and reduce direct material costs or usage. (2)
- o **Direct labour rate variance** can be used to determine if the actual rate paid for direct labour was more or less than the standard cost established. **Direct labour efficiency variance** measures whether employees were more or less efficient in their time used in actual production compared to the standard labour hours. The variances can be positive or negative and management can investigate the variances to try and improve staff efficiency. (2)

OR

## Question 22

(30 marks)

(a) What type of company will Elizabeth and Darcy need to set up in order to have its securities listed on the ASX? Compare and contrast the characteristics of this type of company with those of their existing company. (7 marks)

- Elizabeth and Darcy will need to establish a public company. (1)
- Both public and private companies share many characteristics (3)
  - Separate legal entity – companies can enter legal contracts, sue and be sued in their own name
  - Limited liability – shareholders are limited to any unpaid shares for company debts
  - Ownership of company separated into shares and profits distributed as dividends
  - Continuity of existence – company life will not be affected by change of shareholders
  - Companies pay a flat tax rate

(1 mark for each correct point - max 3 marks)
- Differences between a public and private company (3)
  - Number of shareholders – public company minimum 1 and no maximum. Private company – minimum 1 shareholder and maximum 50 non-employee shareholder.
  - Number of directors – public company must have at least 3 directors and private companies can have a single director
  - Separation of ownership and management – company is run by board of directors, shareholders do not need to be directors. Elizabeth and Darcy were the only shareholders and directors in their private company.
  - Transferability of shares – public companies have no restriction on transfer of shares. Private companies have restrictions on transfer of shares
  - Regulation – public companies have greater regulation as compared to private companies.

(1 mark for each correct point-max 3 marks)

(b) Describe the role of the following Australian bodies including the way they regulate corporations: (9 marks)

- **Australian Securities and Investment Commission (ASIC)** is the organization that is responsible for administering and enforcing Corporations law. (1) All reports required under Corporations Law must be submitted to ASIC as must details of changes in directors, or a change in the company's registered office. (1) ASIC monitor financial reports/disclosures and can make orders to require compliance or impose penalties on companies who do not comply with Corporations Law. (1)
  - **Australian Securities Exchange (ASX)** is responsible for operating a fair and competitive securities market in Australia. (1) ASX ensure there is an informed market and ensuring all possible information is available to investors to assist in decision making. It provides regulation and monitoring of public companies financial statements. (1) It regulates companies through established listing rules which listed companies must comply. (1)
  - **Australian Accounting Standards Board (AASB)** is the Australian Government agency responsible for developing a conceptual framework for the purpose of evaluating proposed accounting standards. (1) It develops and issues accounting standards that apply under Australian company law and contributes to worldwide standards. (1) AASB does not have an enforcement role but requires public companies, under Corporations Law, to apply the accounting standards when producing financial reports. (1)
- (1 mark for each correct role - max 2 marks and 1 mark for how they regulate)



- (c) Outline the responsibilities of the directors of a company that Elizabeth and Darcy want to set up. To what extent will Elizabeth and Darcy be able to continue to determine the policy of their business? (6 marks)**

Director responsibilities (4)

- the day to day management of a public company.
- make decisions in good faith and for a proper purpose
- act in the interest of the shareholders not just their own interests.
- keep informed about the company's financial position and performance
- ensure the company can pay its debts on time and does not trade while insolvent
- ensure the company complies with the Corporation Act and laws that apply including taxation law
- decide on the distribution of profits, transfers between reserve accounts.
- (1 mark for each correct response - max 4 marks)

Change in management (2)

- If Elizabeth and Darcy are appointed by the shareholders as directors they must make policy decisions for the benefit of all shareholders and not just for themselves.
- Their level of influence over the direction of the company will depend on the number of shares they hold in the company.
- They could lose control of the running of the company as there is a separation of owners and management within a public company.
- (1 mark for each correct response - max 2 marks)

- (d) Identify and discuss the purpose and nature of the document required to make an issue of shares to the public. (4 marks)**

A prospectus (1)

Purpose and nature (3)

- a document inviting the public to subscribe to the company securities (shares or debentures).
- contains all the information that investors and their professional advisors might reasonably require to make an informed investment decision.
- must make information available to the public as required under Corporations Law (such as past performance, names of directors, and future prospects).
- must be available to the public and must be lodged with ASIC and the ASX.
- (1 mark for each correct response - max 3 marks)

- (e) In addition to a share issue, Elizabeth and Darcy are considering issuing debentures or unsecured notes. Explain the difference between debentures and unsecured notes. (4 marks)**

Debentures are secured loans from the public. (1) Unsecured notes are similar to debentures except that is a loan that is not secured by the issuer's assets. (1) An unsecured note is generally for a shorter term (1) and offers a higher rate of return given the higher risk. (1)