# ACCOUNTING AND FINANCE

# ATAR YEAR 12

# 2018

# MARKING GUIDE

## SECTION ONE: MULTIPLE-CHOICE

| | | | | | |
|---|---|---|---|---|---|
| 1 | b) | 8 | d) | 15 | c) |
| 2 | a) | 9 | d) | | |
| 3 | c) | 10 | a) | | |
| 4 | b) | 11 | b) | | |
| 5 | a) | 12 | b) | | |
| 6 | b) | 13 | d) | | |
| 7 | c) | 14 | c) | | |

*(Total marks = 15)*

## SECTION TWO : SHORT ANSWERS Marks

### QUESTION 16

### a) GENERAL JOURNAL

| Date | Accounts | Dr $ | Cr $ | |
|---|---|---|---|---|
| 28/2/18 | Cash at bank | 1 400 000 | | *1* |
| | Applications, Ordinary | | 1 400 000 | *1* |
| | (application for 1 million shares at $1.40) | | | |
| 15/3/18 | Applications, ordinary | 1 400 000 | | *1* |
| | Ordinary share capital | | 1 400 000 | *1* |
| | (allotment of 1 million ordinary shares) | | | |
| 15/3/18 | Share issue costs | 100 000 | | *1* |
| | Cash at bank | | 100 000 | *1* |
| | (costs of ordinary share issue) | | | |
| 30/6/18 | General Reserve | 500 000 | | *1* |
| | Ordinary share capital | | 500 000 | *1* |
| | (issue of 500 000 bonus shares @ $1.00) | | | |

*[Dates/narrations missing deduct up to 2 marks]*

*(Total marks = 8)*

**WORKINGS:**

Rights issue: 1 000 000 shares x $1.40 = $1 400 000

Bonus issue: 500 000 shares x $1 = $500 000

**b)** **COPPERFIELD LIMITED**

**STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 30/6/18**

| | Share Capital $'000 | General Reserve $'000 | Asset Reval Res $'000 | Retained Earnings $'000 | Total $'000 | |
|---|---|---|---|---|---|---|
| Balances at 30/6/17 | 4 000 | 800 | - | 760 | 5 560 | *1* |
| Shares issued: | | | | | | |
| Cash issue | 1 400 | | | | 1 400 | *1* |
| Cost of issue | (100) | | | | (100) | *1* |
| Bonus shares | 500 | (500) | | | - | *2* |
| Transfer to reserve | | 200 | | (200) | - | *2* |
| Comprehensive income | | | 600 | 590 | 1 190 | *3* |
| Dividends paid | | | | (400) | (400) | *1* |
| Balances at 30/6/18 | 5 800 | 500 | 600 | 750 | 7 650 | *1* |

**OR**

| | $'000 | Marks |
|---|---|---|
| Profit for the year | 590 | *1* |
| Gain on revaluation of assets | 600 | *½* |
| | **1 190** | |
| **SHARE CAPITAL** | | |
| Balance at start of year | 4 000 | *¼* |
| Issues of share capital – cash | 1 400 | *1* |
| - bonus issue | 500 | *1* |
| Share issue cost | (100) | *1* |
| Balance at end of year | **5 800** | *¼* |
| **OTHER COMPONENTS OF EQUITY** | | |
| **Asset Revaluation Reserve** | | |
| Balance at start of the year | - | *¼* |
| Gain on revaluation | 600 | *½* |
| Balance at end of year | **600** | *¼* |
| **General reserve** | | |
| Balance at start of year | 800 | *¼* |
| Transfer to share capital | (500) | *1* |
| Transfer from Retained earnings | 200 | *1* |
| Balance at end of year | **500** | *¼* |
| **Total – Other Components of Equity** | **1 100** | |
| **RETAINED EARNINGS** | | |
| Balance at start of year | 760 | *¼* |
| Profit for the period | 590 | *1* |
| Transfer from retained earnings | (200) | *1* |
| Dividends paid | (400) | *1* |
| Balance at end of year | **750** | *¼* |

*(Total marks = 12)*

**WORKINGS:**

| | | |
|---|---|---|
| Calculation of profit: | Opening balance | 760 |
| | Less divi & transfer | (600) |
| | | 160 |
| | Less closing balance | (750) |
| | Profit for the year | 590 |

**c) Comment on changes in equity:**

*Shareholders' equity has considerably increased over the year by over $2 million* 1
*(nearly 40%). The two main factors in this were a share issue that raised $1.3 million* 1
*and an asset revaluation which increased net assets by $600 000. There was also a* 1
*contribution from the profit the business earned, although most of this was paid out in* 1
*dividends to the shareholders.*

*(Total marks = 4)*

**d) Purpose & contents of Prospectus:** **Marks**

*A prospectus is essentially an invitation to potential investors to purchase securities* 1
*in a company. It will contain information prescribed by the Corporations Act that will*
*enable such investors to make a reasoned judgement, including details of the* 1

*company's past performance, its current operations, and its directorate. It will also indicate the purpose of the fund-raising – what the money raised will be used for – and whether it has been underwritten and, if so, by whom. It will contain full information about how applications must be made – timing, whether payable in full on application, the basis of allotment in the event of oversubscription etc, and will have an application form for subscribers to complete.* *1* *1*

*(Total marks = 4)*

**e) Type of company:**

*Copperfield is a public company. We know this from the name – if it were a private or proprietary company it would have word 'Proprietary' or 'Pty' in its name. As a public company, Copperfield can seek funds in the form of shares or other securities from the general public, without any limitation on the number of shareholders it has. A proprietary company can only seek funds from its existing shareholders or from anybody else who approaches it offering to invest, and cannot have more than 50 non-employee shareholders. This obviously gives a public company access to a far greater pool of funding.* *1* *1* *1* *1*

*(Total marks = 4)*

**QUESTION 17**

**a)** **BLEAKHOUSE LIMITED**

**STATEMENT OF FINANCIAL POSITION (EXTRACT) AS AT 30/6/18**

| | **$** | |
|---|---|---|
| **Current assets** | | |
| Accounts receivable (net) | 88 700 | *2* |
| Inventories | 125 600 | *1* |
| Prepayments | 12 000 | *1* |
| | 226 300 | |
| **Non-current assets** | | |
| Property plant & equipment | 1 188 800 | *6* |
| Goodwill | 250 000 | *1* |
| | 1 438 800 | |
| Total assets | 1 665 100 | |
| **Current liabilities** | | |
| Borrowings | 28 000 | *2* |
| Trade & other payables | 37 500 | *1* |
| Other | 13 400 | *1* |
| | 78 900 | |
| **Non-current liabilities** | | |
| Borrowings | 80 000 | *1* |
| Total liabilities | 158 900 | |

*(Total marks = 16)*

**WORKINGS:**

Accounts receivable (net) 89 600 – 900 = 88 700 (2)

Loan repayments: 100000/5 = 20000 per annum

Current liability: 1 x 20000 = 20000 (1)

Non-current liability: 4 x 20000 = 80000 (1)

Property, plant & equipment:

| | | |
|---|---|---|
| Land & buildings | 996 000 | (1) |
| Furniture & equipment | 96 000 | (1) |
| Accum deprec | (18 200) | (1) |
| Motor vehicles | 163 000 | (1) |
| Accum deprec | (48 000) | (1) |
| | 115 000 | |
| Total PPE | 1 188 800 | (1) |

**b) RATIOS**

| RATIO | CALCULATIONS/ANSWER | Marks |
|---|---|---|
| Price/Earnings ratio<br>*Market price*<br>*Earnings per share* | 130 = 34.2 times<br>3.8 | *1 + 1* |
| Dividend yield<br>*Annual dividend/share x 100*<br>*Market share price* | 3 x 100 = 2.3%<br>130 | *1 + 1* |
| Working capital<br>*Current assets*<br>*Current liabilities* | 226 300 = 2.87: 1<br>78 900 | *1* |
| Quick assets<br>*C/assets – stock & prepayments*<br>*C/liabilities - overdraft* | (226300-125600-12000) = 88700<br>78900 – 8000 70900<br>= 1.25:1 | *1* |

*(Total marks = 6)*

**WORKINGS:**

Earnings per share: Profit after tax / Number of shares = 152 000 / 4 000 000 = 3.8 cents (1)

Dividend per share: Dividend paid / Number of shares = 120 000 / 4 000 000 = 3 cents (1)

**QUESTION 18**

**WORKINGS:**

Fees revenue (estimate): 332 000 – 21 800 + 25 600 = 335 800 (3)
Wages: 136 000 – 6500 + 9000 = 138 500 (3)
Insurance: 72 000/12 = 6000/month x 3 = 18 000 (2)
Depreciation: 18000/month x 3 = 54 000 (2)
Vehicle licenses: 21000/12 = 1750/month x 3 = 5250 (3)
Fees revenue (actual): 335 800 – 21 800 + 28 400 = 342 400 (3)

**a)** **TWIST & OLIVER** **Marks**

**BUDGETED INCOME STATEMENT FOR THE 3-MONTH PERIOD OCTOBER-DECEMBER 2018**

| | $ | | | |
|---|---|---|---|---|
| Fees | 335 800 | | | *3* |
| Less: **Operating Expenses** | | | | |

| | | | | |
|---|---|---|---|---|
| Insurance | 18 000 | | | *3* |
| Interest | 1 800 | | | *1* |
| Rent | 15 000 | | | *1* |
| Depreciation | 54 000 | | | *2* |
| Sundry office expenses | 6 000 | | | *1* |
| Vehicle expenses | 42 000 | | | *1* |
| Vehicle licensing | 5 250 | | | *3* |
| Wages | 138 500 | | | *3* |
| Total expenses | 280 550 | | | *1* |
| | | | | |
| **Net profit** | **55 250** | | | *1* |

*(Total marks = 20)*

**b) TWIST & OLIVER**
**INCOME PERFORMANCE REPORT FOR THE 3-MONTH PERIOD**
**OCTOBER-DECEMBER 2018**

| | **Budget $** | **Actual $** | **Variance U/F** | |
|---|---|---|---|---|
| Fees | 335 800 | 342 400 | 6 600 F | *3 + 1* |
| Less: **Operating Expenses** | | | | |
| Insurance | 18 000 | 18 000 | - | *1* |
| Interest | 1 800 | 1 800 | - | *1* |
| Rent | 15 000 | 15 000 | - | *1* |
| Depreciation | 54 000 | 54 000 | - | *1* |
| Sundry office expenses | 6 000 | 7 200 | 1 200 U | *2* |
| Vehicle expenses | 42 000 | 43 500 | 1 500 U | *2* |
| Vehicle licensing | 5 250 | 5 050 | 200 F | *2* |
| Wages | 138 500 | 139 600 | 1 100 U | *2* |
| Total expenses | 280 550 | 284 150 | 3 600 U | *2* |
| **Net profit** | **55 250** | **58 250** | 3 000 F | *2* |

*(Total marks 20 / 2 = 10 marks)*

**c) Comment on performance:**

*The company has done slightly better than forecast from a profit point of view, with 1*
*the net profit being $3000 over budget. The main reason for this was that fees were*
*higher than expected, either because the firm did more work, or because it was able* 1
*to charge higher prices. This improvement was offset by higher expenses in several* 1
*areas including wages and vehicle costs which suggests that the fees improvement* 1
*was a result of more work being done rather than higher prices.*

*(Total marks = 4)*

**QUESTION 19** **Marks**

**a) Overhead rate: $ 26.35 per consultant hour.**

**WORKINGS:**

Overheads : 41600 + 164000 + 18000 + 42000 = 265 600 *2*

Consultant hours: 10080

Rate : $\dfrac{\text{Total overheads}}{\text{Hours}} = \dfrac{265\ 600}{10080}$ = $26.35/hour *1*

*(Total marks = 3)*

**b) Charge-out Rate: $ 157.77 per consultant hour**

**Total contract price: $ 7 573**

**WORKINGS:**

| | | | $ | |
|---|---|---|---|---|
| Consultants: 2 x 4 days x 6 hours = 48 hours x 80 | | = | 3 840 | *3* |
| Technician: 48/3 = 16 hours x 45 | | = | 720 | *2* |
| Overheads: 48 hours x 26.35 | | = | 1 265 | *1* |
| | Total cost | | 5 825 | *½* |
| Profit margin @ 30% | | | 1 748 | *1* |
| | | | 7 573 | *½* |

Rate per hour: $\frac{7573}{48}$ = 157.77 *2*

*(Total marks = 10)*

**c) Labour rate variance: $ 120 F**

**Labour efficiency variance: $ 1140 U**

**WORKINGS**

| | **A - Actual costs** | **B - Actual hours at estimated rate** | **C- Estimated costs** | |
|---|---|---|---|---|
| Consult: | 60x78 = 4680 | 60 x 80 = 4800 | 3840 | *2 ½* |
| Tech: | 20x45 = 900 | 20 x 45 = 900 | 720 | *2 ½* |
| | 5580 | 5700 | 4560 | 1 |

| | | | |
|---|---|---|---|
| Efficiency variance: | B – C = | 5700 – 4560 = 1140 U | *2* |
| Rate variance: | A – B = | 5580 – 5700 = 120 F | *2* |

**Alternative workings**

Labour rate variance = Actual rate – Standard rate x Actual direct labour hours

Consultants; $78 - $80 x 60 hours = $120

Techs; $45 - $45 x 20 hours = $0

$120 F

Labour efficiency variance = Actual hours – standard hours x Standard rate

Consultants; 60 – 48 x $80 = $960

Techs; 20 – 16 x $45 = $180

$ 1140 U

*(Total marks = 10)*

**d) Breakeven point: Number of hours charged: 4232 hours** **Marks**

**Total fees revenue: $ 667 683**

**WORKINGS:**

| | | | | |
|---|---|---|---|---|
| Labour cost (variable): | Consultant | 3 x 80 | 240 | |
| | Technician | 1 x 45 | 45 | |
| | | | 285 | *2* |

Cost per consultant hour: 285/3 = $95 *1*

| | | | |
|---|---|---|---|
| Contribution per consultant hours: | Charge-out rate | 157.77 | |
| | Cost | 95.00 | |
| Contribution/consultant hour | | 62.77 | *1* |

Breakeven point: 265 600 / 62.77 = 4232 hours *1*

Revenue at breakeven: 4232 x 157.77 = $667 683 *1*

*(Total marks = 6)*

**e) Requirements for annual profit of $120 000:**

**Number of hours charged: 6144**

**Total fees revenue: $ 969 339**

**WORKINGS:**

Contribution needed 120 000 + 265600 = 385600 *1*

Hours required for this contribution = 385600/62.77 = 6144 hours *1*

Revenue at this level: 6144 x 157.77 = $969 339 *1*

*(Total marks = 3)*

**f) Margin of safety at level producing $120 000 profit: 31.1%**

**$ 324 995**

**WORKINGS:**

| | | |
|---|---|---|
| Projected sales: | 969 339 | |
| Breakeven sales: | 667 683 | |
| Safety margin | 301 656 | *2* |

% safety margin: 301656 / 969 339 x 100 = 31.1% *2*

*(Total marks = 4)*

**QUESTION 20**

**a)** **LITTLEDORRITT LIMITED**

**STATEMENT OF CASH FLOWS FOR THE YEAR 2017 (EXTRACT)**

| | $'000 | $'000 | |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | 5 471 | | *4* |
| Payments to suppliers & employees | (4 888) | | *8* |
| Cash from operations | 583 | | |
| Finance costs | (120) | | *1* |
| Income tax expense | (81) | | *1* |
| Cash provided by operating activities | | 382 | |

*(Total marks = 14)*

**WORKINGS:** **Marks**

**Accounts Receivable**

| | | | | |
|---|---|---|---|---|
| Balance | 230 | *Cash* | *4216* | (1) |
| Sales | 4350 | Balance | 364 | (2) |
| | 4580 | | 4580 | |

Total receipts: 4216 + 1255 = 5471 (1)

**Inventories**

| | | | | |
|---|---|---|---|---|
| Balance | 841 | COS | 3120 | (2) |
| *A/c payable* | *3242* | Balance | 963 | (1) |
| | 4083 | | 4083 | |

**Accounts payable**

| | | | | |
|---|---|---|---|---|
| *Cash* | *3172* | Balance | 310 | (1) |
| Balance | 380 | Inventories | 3242 | (2) |
| | 3552 | | 3552 | |

**Schedule of payments:**

| | | |
|---|---|---|
| Accounts payable | 3172 | (6) |
| Wages | 1230 | (1) |
| Other expenses | 486 | (1) |
| | 4888 | |

**b) Reasons for difference between Cash Generated and Profit:**

*Where reports are prepared on an accrual basis, as this company clearly does, changes in accruals, accounts payable and receivable, and inventories will invariably mean that cash payments/receipts will not necessarily equal expenses/revenue, so that the profit and cash surplus will not be the same.* 1 *Moreover, the profit calculation includes expenses, in this case depreciation, which do not represent cash outflows during the period.* 1

*(Total marks = 2)*

**END OF SECTION 2**

## SECTION THREE - EXTENDED ANSWERS

### Question 21

*a) There are four financial statements in the reports that a listed company is required to publish and send to its shareholders. These include:*

***Statement of Comprehensive Income***

*This gives details of the company's income and expenditure over the relevant period, usually one year. It shows how much profit the company made and how much tax it paid. This report will enable an investor to see how profitable the company is, compared with alternative investments, and, to some extent, may help to identify profit-making trends, given that the report is required to include comparable figures from the previous year.*

***Statement of Changes in equity***

*This statement details the ways in which the shareholders' equity (i.e. the total value of their holding in the company) has changed over the past year, either through additional contributions (or, more rarely, withdrawals) of capital, by the revaluation (usually upwards) of company assets, and through the company's trading operations and the consequent profit or loss. The investor can see whether there have been recent infusions of share capital, and how relatively significant the company's profit has been in generating additional equity. You can also see what dividends have been paid in the past two years, a factor which can also be compared with other companies being considered.*

***Statement of Financial Position***

*This lists, and gives some details of, the company's assets and liabilities at the end of the period, classified as 'current' and 'non-current' to distinguish the urgency of their liability and the extent to which they are likely to be readily available to* *meet the company's obligations. The various categories of shareholders' equity – different types of shares, reserves, retained earning – are also itemised. This statement will give an investor a good idea of the company's security – how likely it is to be able to meet its financial obligations – and how this has changed over the past year. The nature of the company's assets will also give clues about its capacity to react to future changes and its reliance on borrowed funds will indicate its vulnerability to changes, for example future increases in interest rates.* **Marks**

***Statement of Cash Flows***

*This statement details the main cash flows into and out of the company during the past year, classified as 'operating' (to do with the company's trading operations), 'investing' (to do with the acquisition and disposal of non-current assets), and 'financing' (to do with the provision of, or repayment of money to, lenders and equity investors). In essence it shows how the company's cash holdings have changed and why. Cash is a vital component of every successful business, and a study of how a business has managed its cash over the past couple of years will help an investor make judgements about its likely future capacity to do so. This will obviously be a crucial factor for an investor presumably looking for a company that will grow and prosper in the foreseeable future.*

*( Any 3 Reports x up to 4 marks each)*

*12*

*b) Part a) of this paper dealt with the information contained within a company's published annual reports. While the latest of these will only cover the past 2 years in detail, earlier annual reports may well be available on the company's web site,*
*together with other relevant non-financial information (e.g. CSR information) and, at* *1*
*least theoretically, from the ASIC to whom they have to be submitted. This will enable an assessment over a longer period which will make it easier to detect*
*trends. Financial papers, magazines and on-line commentators will also analyse* *1*
*company results and their views will be helpful, especially as they will apply ratios* *1*
*and other analytical tools to make sense of the figures. Stockbrokers and other*
*professional financial advisors are also an important source of information on* *1*
*companies and, if they are doing their job, should be in a position to compare different investments and recommend those that suit the needs of particular investors with regard to growth, income, and security.*

*c) ASIC is responsible for ensuring that Australian companies comply with the* *1*
*Corporations Law. This includes a requirement that public companies produce* *1*
*reports in a certain form for their shareholders and other interested parties and*
*that these reports are produced within the requisite time after the period to* *1*
*which they refer. The role of ASIC in relation to investors' information is therefore*
*the crucial one of ensuring that companies meet their obligations with the regard* *1*
*to the nature of the information and its timeliness.*

*d) The ASX has the responsibility of maintaining the market in securities and* *1*
*administering it so that the rights of all participants are safe-guarded. Central to*
*this responsibility is the concept of 'an informed market' in which everybody has,* *1*
*as far as is reasonable, all the information they need to make proper investment*
*decisions. Regular reports must also be provided to the ASX which then releases* *1*
*them to the market in general, and the form and content of these reports is specified in the ASX Listing Rules. In addition to this, however, the ASX requires that any*
*company whose securities are listed must immediately release any information which* *1*
*might conceivably affect an investor's evaluation of those securities e.g. a change in management, a potentially significant mineral find, an important business deal and so on. Consequently the ASX will require much more information to be provided to investors than that in the regular reports specified by its Rules or by Corporations*

*Law.*

**Marks**

*e) A shareholder in a company is in effect a part-owner of the company. Under Corporations Law a shareholder does not have a direct management role. This is delegated to a committee usually termed a 'Board of Directors'. However shareholders have the right to receive notice of, and to attend, the company's annual general meeting at which the shareholders elect the Board. Consequently they can theoretically influence the company's direction by electing to the Board directors who will do what they wish. In practice of course, very few shareholders have a sufficiently large proportion of the total shares to exercise any real influence, unless they combine with a large number of other shareholders, which is not completely unknown. As far as the share of profits is concerned, all shareholders will benefit from profits the company may make since this will increase their equity and hence the value of their investment. However, they cannot directly determine how much of these profits are distributed to the shareholders by means of dividends or free share issues: these matters are decided by the Board. Depending on the company's constitution, the shareholders may have a right to approve the directors' decisions in these matter but, if so, they can only approve, disapprove, or reduce the directors' recommendations: they cannot increase them.* 1 1 1 1 1 1

*(Total marks = 30)*

**Question 22**

*a) Capital investment decisions like this one have a number of distinguishing characteristics:*

- *The amount of money involved is relatively large – several million dollars will be very significant for a business like this.* 1
- *The investment is long-term: not only will the project itself take some time to be completed, but the effect will be long-lasting and its benefits will only be felt in the long term.* 1
- *The decision, once taken, will be difficult or impossible to reverse. Once construction of the expansion has been commenced, the company will be committed to it, regardless of any second thoughts the owners might subsequently have.* 1
- *They are high risk: the large amount of the investment and the irreversibility of the commitment can hold the seeds of disaster if, for example, the market for the company's product should change during the early years.* 1

*b) Two commonly used methods are the Payback Period and the Net Present Value. Payback Period calculates the time taken to recover the funds invested in a particular project. The cash flows related to the project – money spent on its purchase or construction, net inflows earned by the investment – are detailed and the length of time taken to recover the initial investment is worked out. A company may have benchmarks for cash recovery e.g. a requirement that capital outlays be recovered within 3 years, or it may use this method to compare alternatives – obviously the shorter the recovery time the better. This method is essentially evaluating the risk – the longer the time before the investment is recovered, the more vulnerable the firm will be to changes in the market or technology that might make the investment less useful. It is also relatively simple and easily understood. What this method does not do is to take into account changes in the value of money over the life of the project, nor the contribution the investment may make for the whole of its expected life –payback period only looks at the time until the initial investment is expected to be recovered.* 1 1 1 1 1

*To take these factors into account will require the Net Present Value Method, under which the positive and negative cash flows throughout the asset's expected useful* *life, including the disposal value, if any, are estimated and then discounted at an* *1*

**Marks**

*arbitrary rate taking into account inflation and the company's expected rate of return on investment, so that all future flows are expressed in terms of what they would be worth today to give the Net Present Value. The discounted flows will then be added up* 1
*and, if the result is a positive figure, this would indicate that the project is worthwhile, if negative, it should probably not be proceeded with. If two or more alternative* 1
*schemes are being contemplated, the one with the higher NPV would be favoured.*
*The main disadvantages of this method are that there may be difficulty in arriving at a* 1
*realistic discount rate and it also does not really consider the risk. Most businesses would therefore use both methods in arriving at investment decisions.* 1

*c) There are several non-financial factors affecting major investments like this planned expansion. They include:*

*Effect on the firm's existing business: will the expansion have a deleterious effect on the existing production, both in terms of quality and quantity of output. Presumably the expanded factory will result in more products and perhaps different products. How, if at all, will this affect the current market and the firm's image?*

*What will be the environmental effect of the expansion in terms of increased pollution and greater usage of scarce resources? What local and other government regulations will need to be taken into account in this area?*

*Are there other government licenses and controls that may need to be considered – operational health and safety regulations, import or export permits etc?*

*What effect will the process of expansion and the greater size of the future factory have on the workforce? These may be both positive – greater opportunities, pride in belonging to an expanding business and negative – difficulties and frustrations during the construction period, loss of identity in a much larger organisation. The availability of the additional skilled employees presumably needed once the expansion is complete must also be a factor to be considered.*

*( Any 3 valid points x up to 2 marks each)* 6

*d) As a proprietary company, Pickwick can only seek additional capital contributions from existing shareholders or their close associates. While this would have the benefit* 1
*of simplicity and the maintenance of control by the owners, it is probably fairly unlikely* 1
*that several million dollars can be found from this source.*

*An alternative possibility for capital funding would be for Pickwick to become a public company, able to raise funds from the public at large and have the shares floated on* 1
*the ASX. There would be some loss of control, although the existing owners could probably ensure that they retain sufficient shares to effectively remain in charge.* 1
*Clearly the future profit will have to be shared which is a disadvantage. Going 'public' is quite an expensive process, and exposes the company to considerably more* 1
*regulation, both from the Government through the ASIC and from the ASX, particularly from the point of view of reporting, than is the case with a proprietary* 1
*company. Capital funding, from whatever source, does have the advantage that it does not need to be repaid, and dividends to shareholders will only be paid at the Directors' discretion and only if profits are made.*

*The other main source of funding would be borrowed money, either directly by means* 1
*of a loan, or indirectly by some sort of arrangement such as leasing. This has the benefit that the owners' control and share of future profits is not diluted. However,* 1
*interest/lease payments must be made, regardless of profitability, and the loan funds will need to be repaid over a set period. Moreover, the lender will undoubtedly require* 1
*security, usually in the form of some sort of mortgage over the company's assets.* 1
*In the case of a proprietary company such as Pickwick, lenders may also require directors' guarantees which will require the owners (or their representatives) to place their personal assets on the line in support of the company's borrowings.* *(Total marks = 30)*

**END OF PAPER**