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|  | **Accounting and Finance – ATAR Year 11**  **Task 9 – 2023** |

**Assessment type:**

Project

**Content:**

Government and the Community: the role and influence of governments and other bodies Government and the Community: the influence of social, environmental and ethical factors

### Recording, using and evaluating financial information: Recording, processing and communicating financial information and evaluating financial information for planning, coordinating, controlling and investing

**Conditions:**

Part A: Research component: class lessons and time at home. (5 marks)

Part B: In-class validation: 50 minutes in class under invigilated conditions (43 marks)

**In-class Validation:**

**Task weighting:**

5%

**Student Name**: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Teacher**: Burgoyne/Bridger **Mark** \_\_\_\_\_\_ /48

**Comments**:

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**Part A – Research component (5 marks)**

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| **Description** | **Marks** |
| 4+ relevant resources, well referenced, well-structured bibliography, comprehensive research & notes | 5 |
| 4 relevant resources, well-structured bibliography, comprehensive research & notes | 4 |
| Bibliography with 2-3 references, comprehensive notes | 3 |
| No bibliography, poorly structured notes | 2 |
| No bibliography, poorly structured, limited notes | 1 |
| **Total** | **/5** |

**Part B – In-class validation (43 marks)**

**Section A: Government and the Community (11 marks)**

1. Laija Kaur has purchased a newsagency, she is confident that the business will do well as she has much experience working in her parent’s newsagency. However, Laija has minimal accounting knowledge and needs advice.

Laija Kaur is considering utilising the services of a professional accountant but first has the following two questions:

* 1. What is the purpose of the professional codes of conduct which apply to members of professional accounting associations? Provide five examples of what may be contained in these codes of conduct. (7 marks)

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| **Description** | **Marks** |
| **What is the purpose of the professional codes of conduct which apply to members of professional accounting associations? Provide five examples of what may be contained in these codes of conduct.** | **7** |
| **Answer: - a complete description** |  |
| Gives advice to members as to how to conduct their tasks in an ethical, impartial and competent manner. | (1) |
| To build public confidence in the services offered by members | (1) |
| ***Students to give the following worth one mark each:*** | ***(5)*** |
| Integrity – being honest and truthful in professional and business dealings |  |
| Objectivity – being unbiased, and free of any conflict of interest or the undue influence of others |  |
| Professional competence and due care – keep up to date professional knowledge and skills so as to provide competent service to clients |  |
| Confidentiality – respect the privacy of information acquired through professional dealings and do not disclose this to third parties without the consent of the client |  |
| Professional behaviour – comply with all relevant laws and regulations |  |
| Total | /7 |

* 1. What is the role of professional accounting associations such as CPA Australia and the Chartered Accountants Australia and New Zealand? (4 marks)

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| **What is the role of professional accounting associations such as CPA Australia and the Chartered Accountants Australia and New Zealand?** | **4** |
| **Answer:** |  |
| ***Students to give any four of the following or other reasonable points, each worth one mark:*** | ***(4)*** |
| To provide professional recognition in society and internationally |  |
| To provide further training and professional development |  |
| To provide technical support in the field of accounting |  |
| To lobby governments, regulators and standard-setters on policy matters |  |
| To be involved in accounting regulation processes |  |
| To promote the accounting profession |  |
| To provide social, recreational and networking opportunities for members |  |
| Establish a code of conduct and implement its enforcement |  |
| To provide mentoring and support to members, particularly those new to the profession |  |
| To establish membership requirements and conduct education courses for this purpose |  |
| Total | /4 |

**Section B: Recording, using and evaluating financial information (32 marks)**

1. R Gupta is considering purchasing a ‘Spice Road’ which specialises in selling spices. The following data is from ‘Spice Road’.
2. Calculate the ratios in the space provided below. (9 marks)

Spice Road

Income Statements for the years ending:

|  |  |  |
| --- | --- | --- |
|  | ***30 June***  ***2021*** | ***30 June***  ***2022*** |
| Sales  Less Cost of Sales  Gross Profit  ***Less Operating Expenses***  Selling and Distribution  General and Administration  Financial | 125 000  50 000  75 000  24 250  31 150  1 500  56 900 | 140 000  62 500  77 500  25 600  32 450  2 300  60 350 |
| ***Profit:*** | 18 100 | 17 150 |

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| --- | --- | --- | --- |
| **Ratio** | **Industry Average** | **2021**  **(Show figures)** | **2022**  **(Show figures)** |
| Gross Profit Ratio | 50% | *Gross Profit*  *Net Sales*  **=** *75 000*  ***(1/2)***  *125 000* ***(1/2)***  **= 60% *(1/2)*** | *Gross Profit*  *Net Sales*  **=** *77 500* ***(1/2)***  *140 000* ***(1/2)***  **= 55.4% *(1/2)*** |
| Profit Ratio | 10% | *Profit*  *Net Sales*  *= 18 100* ***(1/2)***  *125 000* ***(1/2)***  *=14.5%* ***(1/2)*** | *Profit*  *Net Sales*  *= 17 150* ***(1/2)***  *140 000* ***(1/2)***  *=12.2 or 12.3%* ***(1/2)*** |
| Expense Ratio | 35% | *Operating Expenses*  *Net Sales*  = *56 900* ***(1/2)***  *125 000* ***(1/2)***  = 45.5% ***(1/2)*** | *Operating Expenses*  *Net Sales*  = *60 350* ***(1/2)***  *140 000* ***(1/2)***  = 43.1% ***(1/2)*** |

ii)

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| Interpret the results over the two year period and compare them to the industry average (3) Comment and give reasons on how the business is performing (7) **NB: Quote figures** | **7** |
| *Gross Profit*   * *In 2021 the GP ratio is 60%, this is 10% more than the industry average which is favourable.* * *In 2022 the GP ratio is 55.4%, this is 5.4% more than the industry average which is favourable* | **1** |
| *Profit*   * *In 2021 the Profit ratio is 14.5%, this is 4.5% more than the industry average which is favourable.* * *In 2022 the Profit ratio is 12.3%, this is 2.5% more than the industry average which is favourable* | **1** |
| *Expenses*   * *In 2021 the Expense ratio is 45.5%, this is 10.5% more than the industry average which is unfavourable.* * *In 2022 the Expense ratio is 43.1%, this is 8.1% more than the industry average which is unfavourable* | **1** |
| *Comment*  *The Gross profit ratio is above the industry average which is favourable however from 2021 to 2022 the ratio decreased which is not favourable to the business. This is because cost of sales have risen more in proportion to the increase in net sales.*  *The profit ratio is above the industry average which is favourable however from 2021 to 2022 the ratio decreased which is not favourable to the business.*  *The expense ratio is above the industry average which is unfavourable however from 2021 to 2022 the ratio decreased which is favourable to the business. This is because expenses have not risen as quickly in proportion to net sales.*  *Overall the business is profitable and performing well, but it should keep a watch on the cost of sales to make sure the trend in the decreasing profit and gross profit ratio doesn’t continue.*  *NB: The comments can also appear in the other boxes and receive full marks*  *Accept all reasonable answers* | **4** |

1. R Gupta has found another spice shop that he is also considering.
2. Measure leverage, liquidity, and rate of return on assets for both businesses in the space provided on the next page. **Show workings.** (9 marks)

Balance Sheets, as at 30 June 2022

|  |  |  |
| --- | --- | --- |
|  | **Spice Road** | **Spicy Cuisine** |
| **Current Assets** |  |  |
| Cash at Bank | 5 000 |  |
| Accounts Receivable | 16 000 | 15 000 |
| Inventory | 12 500 | 21 500 |
| Total Current Assets | **33 500** | **36 500** |
| **Non-Current Assets** |  |  |
| Property, Plant and Equipment | 52 000 | 146 000 |
| Investments | 4 000 | 5 000 |
| Total Non-Current Assets | **56 000** | **151 000** |
| ***Total Assets*** | ***89 500*** | ***187 500*** |
| **Current Liabilities** |  |  |
| Bank Overdraft |  | 7 500 |
| Accounts Payable | 9 500 | 11 500 |
| Loan | 2 500 | 12 500 |
| Total Current Liabilities | **12 000** | **31 500** |
| **Non-Current Liabilities** |  |  |
| Loan | 10 000 | 97 500 |
| Total Non-Current Liabilities | 10 000 | 97 500 |
| ***Total Liabilities*** | ***22 000*** | ***129 000*** |
| **Net Assets** | **67 500** | **58 500** |
| **Equity** | **67 500** | **58 500** |

***Additional Information***

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|  | **Spice Road** | **Spicy Cuisine** |
| **Equity at 30 June 2021** | 66 500 | 60 000 |
| **Total Assets at 30 June 2021** | 87 500 | 188 500 |
| **Profit at 30 June 2022** | 15 500 | 17 500 |

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| **Ratios** | **Spice Road** | **Spicy Cuisine** |
| Debt to Equity ratio | *Total Liabilities*  *Total Equity (End)*  *= 22 000* ***(1/2)***  *67 500* ***(1/2)***  *= 32.6%* ***(1/2)*** | *Total Liabilities*  *Total Equity (End)*  *= 129 000* ***(1/2)***  *58 500* ***(1/2)***  *= 220.5%* ***(1/2)*** |
| Current ratio | *Current Assets*  *Current Liabilities*  = *33 500* ***(1/2)***  *12 000* ***(1/2)***  *= 279.2%* ***(1/2)*** | *Current Assets*  *Current Liabilities*  = *36 500* ***(1/2)***  *31 500* ***(1/2)***  *= 115.9%* ***(1/2)*** |
| Rate of Return on Assets | *Profit*  *Average Total Assets*  *15 500* ***(1/2)***  *(87 500 +89 500)/2 = 88 500* ***(1/2)***  *= 17.5%* ***(1/2)*** | *Profit*  *Average Total Assets*  *17 500* ***(1/2)***  *(188 500 +187 500)/2 = 188 000* ***(1/2)***  *= 9.3%* ***(1/2)*** |

1. Explain what the rate of return ratio tells us about the profitability of the two businesses. Comment on how this compares to the industry average of 12%. (3 marks)

* Spice Road has a rate of return that is 5.5% higher than the industry average which is favourable. (1/2 mark)
* Spice Road’s assets are more efficiently generating profits than the industry average. (1/2)
* Spice Road’s assets are more efficiently generating profits than Spicy Cuisine. (1/2)
* Spice Road is generating 17.5 cents profit for every dollar invested in assets, better than the industry average of 12 cents. (1/2)
* Spicy Cuisines has a rate of return that is 2.7% lower that the industry average which is unfavourable. (1/2 mark)
* Spicy Cuisine’s assets are less efficiently generating profits than the industry average. (1/2)
* Spicy Cuisine is generating 9.3 cents profit for every dollar invested in assets, not as good as the industry average of 12 cents. (1/2)

1. Comment and give reasons for the gearing and liquidity of each business. Based on your calculations, which business would you choose to invest in? Explain. NB: **Quote figures**. (4 marks)

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| Gearing   * Spice Road is has a lower debt to equity ratio of 32.6% as compared to Spicy Cuisine with a debt to equity ration of 220.5%. (1/2) * This indicates Spicy Cuisine is heavily geared and has much more external than internal finance (funds provided by the owner). (1/2) * Spicy Cuisine has a large long term loan that would make their gearing/borrowing higher than Spice Road. (1/2) (and a larger short term loan). * Spice Road has a more favourable debt to equity ratio than Spicy Cuisine. (1/2)   **Max 1.5 marks – accept other reasonable answers** |
| Liquidity   * Spice Road has a current ratio of 279.2% as compared to Spicy Cuisine with a current ratio of 115.9%. (1/2) * This indicates both businesses have high liquidity with Spice Road having more liquidity.(1/2) * As Spice Road has such high liquidity it could possibly look at investing into income generating assets and/or investments. (1/2) * Spicy Cuisine has a larger asset holding in property, plant and equipment that has reduced liquidity as compared to Spice Road. (1/2)   **Max 1.5 marks – accept other reasonable answers** |
| Best Choice  Spice Road (1 mark) |