Government of **Western Australia**
School Curriculum and Standards Authority

SYLLABUS SUPPORT MATERIALS

ACCOUNTING AND FINANCE
ATAR YEAR 11 AND YEAR 12

Copyright

© School Curriculum and Standards Authority, 2016

This document – apart from any third party copyright material contained in it – may be freely copied, or communicated on an intranet, for non-commercial purposes in educational institutions, provided that the School Curriculum and Standards Authority is acknowledged as the copyright owner, and that the Authority's moral rights are not infringed.

Copying or communication for any other purpose can be done only within the terms of the *Copyright Act 1968* or with prior written permission of the School Curriculum and Standards Authority. Copying or communication of any third party copyright material can be done only within the terms of the *Copyright Act 1968* or with permission of the copyright owners.

Any content in this document that has been derived from the Australian Curriculum may be used under the terms of the Creative Commons Attribution 4.0 International (CC BY) licence.

Disclaimer

Any resources such as texts, websites and so on that may be referred to in this document are provided as examples of resources that teachers can use to support their learning programs. Their inclusion does not imply that they are mandatory or that they are the only resources relevant to the course.

Background

Changes in Australian Accounting Standards and the Framework for the Preparation and Presentation of Financial Statements (the Framework) require changes to existing teaching practices for the Accounting and Finance ATAR Year 11 and Year 12 courses.

Key changes are:

- The qualitative characteristics of financial information
- The treatment of discount allowed and discount received
- The classification of financial expenses and finance costs

Details of these changes are outlined below.

Implementation timeline

To enable teachers to adjust to these changes, they will be phased in as follows:

Change	Year 11	Year 12
Qualitative characteristics	2017	2017
Discount allowed and received	2017	2017 (optional) 2018 (compulsory)
Financial expenses/finance costs	2017	2017 (optional) 2018 (compulsory)

Qualitative characteristics of financial information

The Framework outlines and defines the fundamental and enhancing characteristics of useful financial information. These characteristics apply to all financial information produced in financial reports.

Current qualitative characteristics	Former qualitative characteristics
Fundamental qualitative characteristics • Relevance ▪ Materiality • Faithful representation Enhancing qualitative characteristics • Comparability • Verifiability • Timeliness • Understandability	Principal qualitative characteristics • Relevance • Reliability • Comparability • Understandability

Treatment of discounts allowed and received

The following extracts from Australian Accounting Standards specify how discounts should be treated.

AASB118 Revenue, paragraph 10
'The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.'

AASB102 Inventories, paragraph 11
'The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.'

The Australian Accounting Standards require discounts to form part of the calculation of net sales and cost of sales and hence the calculation of gross profit, as follows:

- Net sales = sales – sales returns – discount allowed
- Total cost of sales = cost of sales + import duties + cartage/freight inwards – discount received

This impacts on the preparation of an income statement/comprehensive income statement and the calculation of the debtor's collection period, inventory turnover, profit, gross profit and expense ratios. There is no change required for the recording of discounts in the general ledger or the general journal.

Financial expenses/Finance costs

For the purposes of Accounting and Finance ATAR Year 11 and Year 12, Financial Expenses and Finance Costs will include only borrowing costs. The Australian Accounting Standards defines borrowing costs as:

AASB123 Borrowing Costs, paragraph 5
'Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.'

The impacts on the classification of expenses in the income statement or comprehensive income statement. Doubtful debts and bad debts should now be treated as a selling expense.

Example 1 on pages 3–7 shows for a sole trader:

- An income statement (using both the new report layout and the former report layout)
- A balance sheet (showing that there is no change to the report as a result of these changes)
- Calculation of the profitability ratios (showing the impact on the profit, gross profit and expense ratios)

Example 2 on pages 8–13 shows for a company:

- A comprehensive income statement (using both the new report layout and former report layout)
- Calculation of ratios (showing the impact on debtor's collection, inventory turnover and profit ratio)

Example 1

This example demonstrates the:

- Preparation of an income statement for the year ended June 30, 2017
- Preparation of a balance sheet as at June 30, 2017
- Calculation of the profitability ratios as at June 30, 2017

Carousel Traders Trial Balance As at June 30, 2017		
	Debit ($)	**Credit ($)**
Cash at bank	35,000	
Accounts Receivable	21,000	
Allowance for Doubtful Debts		1,900
Accounts Payable		13,000
Interest Received		900
Cost of Sales	481,000	
Sales		793,000
Discount Allowed	1,750	
Discount Received		2,100
Sales Returns	3,850	
Equipment	96,700	
Accumulated Depreciation – Equipment		52,300
Doubtful Debts	980	
Land and Premises	900,000	
Freight Inwards	15,600	
Depreciation – Equipment	3,750	
Customs Duty	1,260	
Delivery Vehicles	125,000	
Accumulated Depreciation – Delivery Vehicles		63,000
Advertising	17,900	
Insurance	15,000	
Depreciation – Delivery Vehicles	12,200	
Stationery	1,780	
Interest Paid	650	
Mortgage (due 2027)		560,000
Bank Fees and Charges on Loan	85	
Capital		430,785
Drawings	10,080	
Bank Loan (due 2017)		14,000
Inventory	32,500	
Wages – Sales Staff	103,000	
Wages – Office Staff	51,900	
	1,930,985	1,930,985

Additional information as at June 30, 2016

- Current Assets totalled $84,000
- Non-Current Assets totalled $1,090,000

Example 1 suggested solution – Income Statement
New report layout (reflecting changes to discounts and financial expenses)

Carousel Traders Income Statement For the year ended June 30, 2017			
	$	$	$
Sales		793,000	
Less Sales Returns		3,850	
Discount Allowed		1,750	
Net Sales			787,400
Less Cost of Sales	481,000		
Freight Inwards	15,600		
Customs Duty	1,260	497,860	
Less Discount Received		2,100	
Total Cost of Sales			495,760
Gross Profit			291,640
Add Other Income			
Interest Received		900	900
			292,540
Less Other Expenses			
Selling and Distribution			
Doubtful Debts	980		
Advertising	17,900		
Depreciation – Delivery Vehicle	12,200		
Wages – Sales Staff	103,000	134,080	
General and Administrative			
Depreciation – Equipment	3,750		
Insurance	15,000		
Stationery	1,780		
Wages – Office Staff	51,900	72,430	
Financial			
Interest Paid	650		
Bank Fees and Charges on Loan	85	735	207,245
Profit for the period			85,295

Example 1 suggested solution – Income Statement
Former report layout (prior to changes to discounts and financial expenses)

Carousel Traders Income Statement For the year ended June 30, 2017			
	$	$	$
Sales		793,000	
Less Sales Returns		3,850	
Net Sales			789,150
Less Cost of Sales		481,000	
Freight Inwards		15,600	
Customs Duty		1,260	
Total Cost of Sales			497,860
Gross Profit			291,290
Add Other Income			
Discount Received		2,100	
Interest Received		900	3,000
			294,290
Less Other Expenses			
Selling and Distribution			
Advertising	17,900		
Depreciation – Delivery Vehicle	12,200		
Wages – Sales Staff	103,000	133,100	
General and Administrative			
Depreciation – Equipment	3,750		
Insurance	15,000		
Stationery	1,780		
Wages – Office Staff	51,900	72,430	
Financial			
Interest Paid	650		
Discount Allowed	1,750		
Doubtful Debts	980		
Bank Fees and Charges on Loan	85	3,465	208,995
Profit for the period			85,295

Example 1 suggested solution – Balance Sheet

Carousel Traders Balance Sheet As at June 30, 2017			
	$	$	$
Current Assets			
Cash at Bank		35,000	
Accounts Receivable	21,000		
Less Allowance for Doubtful Debts	1,900	19,100	
Inventory		32,500	
Total Current Assets			86,600
Non-Current Assets			
Equipment	96,700		
Less Accumulated Depreciation – Equipment	52,300	44,400	
Land and Premises		900,000	
Delivery Vehicles	125,000		
Less Accumulated Depreciation – Delivery Vehicles	63,000	62,000	
Total Non-Current Assets			1,006,400
Total Assets			1,093,000
Current Liabilities			
Accounts Payable		13,000	
Bank Loan		14,000	
Total Current Liabilities			27,000
Non-Current Liabilities			
Mortgage		560,000	
Total Non-Current Liabilities			560,000
Total Liabilities			587,000
Net Assets			506,000
Equity			
Capital		430,785	
Add Profit for the period		85,295	
		516,080	
Less Drawings		10,080	
Total Equity			506,000

Note: These changes to the Australian Accounting Standards have no impact on the balance sheet.

Example 1 suggested solution – Profitability ratios

Profitability ratio	**Calculations** (reflecting changes to discounts and financial expenses)	**Calculations** (prior to changes to discounts and financial expenses)
Profit $\frac{\text{profit}}{\text{net sales}}$	$= \frac{85,295}{787,400} \times 100$ = 10.83%	$= \frac{85,295}{789,150} \times 100$ = 10.81%
Gross profit $\frac{\text{gross profit}}{\text{net sales}}$	$= \frac{291,640}{787,400} \times 100$ = 37.04%	$= \frac{291,290}{789,150} \times 100$ = 36.91%%
Expenses $\frac{\text{operating expenses}}{\text{net sales}}$	$= \frac{207,245}{787,400} \times 100$ = 26.32%	$= \frac{208,995}{789,150} \times 100$ = 26.48%
Rate of return on assets $\frac{\text{profit}}{\text{average total assets}}$	No change	Average Assets $= \frac{(84,000 + 1,090,000) + 1,093,000}{2}$ = 1,133,500 Rate of return on assets $= \frac{85,295}{1,133,500} \times 100$ = 7.52%

Example 2

This example demonstrates the:

- Preparation of a comprehensive income statement for the year ended June 30, 2017
- Calculation of:
  - debtor's collection
  - inventory turnover
  - profit ratio

Seven Oaks Ltd Trial Balance Extract As at June 30, 2017		
	Debit ($)	**Credit ($)**
Sales		2,340,000
Cash and Cash Equivalents	291,000	
Account Payable		65,000
Sales Returns	15,900	
Advertising	136,000	
Cost of Sales	1,481,300	
Accounts Receivable	125,000	
Discount Received		7,350
Discount Allowed	5,220	
Inventory	215,000	
Dividends Received		6,900
Sales Commission Paid	190,000	
Doubtful Debts	2,340	
Land	5,200,000	
Retained Earnings		163,000
Interim Dividends Paid	62,000	
Share Capital		7,000,000
Share Issue Costs	150,000	
Interest Income		1,400
Interest Expense	6,850	
Cartage Inwards	12,850	
Wages – Sales Staff	215,000	
Administrative Staff Salaries	193,000	
Insurance	12,000	

Additional information:

- The following balances were recorded in the company's financial records as at 30/6/16:
  - Land $4,500,000
  - Inventory $228,000
  - Accounts Receivable $109,000
- No land has been purchased or sold during the year
- During the year, delivery vehicle that was originally purchased for $65,700 was sold for $12,900. The delivery vehicle had been depreciated by $51,000 over its life
- The company calculates tax at the company tax rate of 30%
- All sales are made on credit

Example 2 suggested solution
Workings (reflecting changes to discounts and finance costs)

Revenue (net credit sales)
= Sales – sales returns – discount allowed
= 2,340,000 – 15,900 – 5,220
= 2,318,880

Cost of Sales
= cost of sales + cartage inwards – discount received
= 1,481,300 + 12,850 – 7,350
= 1,486,800

Gain/loss on sale of del veh
= Proceeds – carrying amount
= Proceeds – (cost – accumulated depreciation)
= 12,900 – (65,700 – 51,000)
Loss = 1,800

Other Income
= Dividends received + interest income
= 6,900 + 1,400
= 8,300

Finance costs
= Interest paid
= 6,850

Other expenses
= Loss on sale of delivery vehicle + advertising + sales commission paid + doubtful debts + wages sales staff + administrative staff salaries + insurance
= 1,800 + 136,000 + 190,000 + 2,340 + 215,000 + 193,000 + 12,000
= 750,140

Revaluation of land
= 5,200,000 – 4,500,000
= 700,000

Note: Other expenses may also be grouped by nature or function, for example

Selling expenses
= Loss on sale of delivery vehicle + advertising + sales commission paid + doubtful debts + wages sales staff
= 1,800 + 136,000 + 190,000 + 2,340 + 215,000
= 545,140

Administrative and other expenses
= administrative staff salaries + insurance
= 193,000 + 12,000
= 205,000

Income tax
= Profit before tax x 30%
= 83,390 x 30%
= 25,017

Example 2 suggested solution – Comprehensive Income Statement
New report layout (reflecting changes to discounts and finance costs)

Option 1

Seven Oaks Ltd **Statement of Comprehensive Income** **For the year ended June 30, 2017**	
	$
Revenue	2,318,880
Less Cost of Sales	(1,486,800)
Gross Profit	832,080
Other Income	8,300
Expenses (excluding Finance Costs)	(750,140)
Finance Costs	(6,850)
Profit before income tax	83,390
Income Tax	(25,017)
Profit after tax for the period	58,373
Other Comprehensive Income	
Gain on asset revaluation	700,000
Total Other Comprehensive Income	700,000
Total Comprehensive Income for the period	758,373

Option 2

Seven Oaks Ltd **Statement of Comprehensive Income** **For the year ended June 30, 2017**	
	$
Revenue	2,318,880
Less Cost of Sales	(1,486,800)
Gross Profit	832,080
Other Income	8,300
Selling expenses	(545,140)
Administrative and Other expenses	(205,000)
Finance Costs	(6,850)
Profit before income tax	83,390
Income Tax	(25,017)
Profit after tax for the period	58,373
Other Comprehensive Income	
Gain on asset revaluation	700,000
Total Other Comprehensive Income	700,000
Total Comprehensive Income for the period	758,373

Example 2 suggested solution
Workings (prior to changes to discounts and finance costs)

Revenue (net credit sales)
= Sales – sales returns
= 2,340,000 – 15,900
= 2,324,100

Cost of Sales
= cost of sales + cartage inwards
= 1,481,300 + 12,850
= 1,494,150

Gain/loss on sale of del veh
= Proceeds – carrying amount
= Proceeds – (cost – accumulated depreciation)
= 12,900 – (65,700 – 51,000)
Loss = 1,800

Other Income
= Dividends received + interest income + discount received
= 6,900 + 1,400 + 7,350
= 15,650

Finance costs
= Interest paid + discount allowed + doubtful debts
= 6,850 + 5,220 + 2.340
= 14,410

Other expenses
= Loss on sale of delivery vehicle + advertising + sales commission paid + wages sales staff + administrative staff salaries + insurance
= 1,800 + 136,000 + 190,000 + 215,000 + 193,000 + 12,000
= 747,800

Revaluation of land
= 5,200,000 – 4,500,000
= 700,000

Note: Other expenses may also be grouped by nature or function, for example

Selling expenses
= Loss on sale of delivery vehicle + advertising + sales commission paid + wages sales staff
= 1,800 + 136,000 + 190,000 + 215,000
= 542,800

Administrative and other expenses
= administrative staff salaries + insurance
= 193,000 + 12,000
= 205,000

Income tax
= Profit before tax x 30%
= 83,390 x 30%
= 25,017

Example 2 suggested solution – Comprehensive Income Statement
Former report layout (prior to changes to discounts and finance costs)

Option 1

Seven Oaks Ltd **Statement of Comprehensive Income** **For the year ended June 30, 2017**	
	$
Revenue	2,324,100
Less Cost of Sales	(1,494,150)
Gross Profit	829,950
Other Income	15,650
Expenses (excluding Finance Costs)	(747,800)
Finance Costs	(14,410)
Profit before income tax	83,390
Income Tax	(25,017)
Profit after tax for the period	58,373
Other Comprehensive Income	
Gain on asset revaluation	700,000
Total Other Comprehensive Income	700,000
Total Comprehensive Income for the period	758,373

Option 2

Seven Oaks Ltd **Statement of Comprehensive Income** **For the year ended June 30, 2017**	
	$
Revenue	2,324,100
Less Cost of Sales	(1,494,150)
Gross Profit	829,950
Other Income	15,650
Selling expenses	(542,800)
Administrative and Other expenses	(205,000)
Finance Costs	(14,410)
Profit before income tax	83,390
Income Tax	(25,017)
Profit after tax for the period	58,373
Other Comprehensive Income	
Gain on asset revaluation	700,000
Total Other Comprehensive Income	700,000
Total Comprehensive Income for the period	758,373

Example 2 suggested solutions – Ratios

Ratio	**Calculations** (reflecting changes to discounts and finance costs)	**Calculations** (prior to changes to discounts and finance costs)
Debtor's collection $\frac{\text{Average debtors}}{\text{Net credit sales}} \times 365$	Average debtors = (109,000 + 125,000) / 2 = 117,000 Debtor's collection = 117,000 x 365 2,318,880 = 18.42 days	Average debtors = (109,000 + 125,000) / 2 = 117,000 Debtor's collection = 117,000 x 365 2,324,100 = 18.37 days
Inventory turnover $\frac{\text{Cost of sales}}{\text{Cost of average inventory}}$	Average inventory = (228,000 + 215,000) / 2 = 221,500 Inventory turnover = 1,486,800 221,500 = 6.71 times	Average inventory = (228,000 + 215,000) / 2 = 221,500 Inventory turnover = 1,494,150 221,500 = 6.75 times
Profit $\frac{\text{Profit (after income tax)}}{\text{Total revenue}}$	= 58,373 x 100 2,318,880 = 2.52%	= 58,373 x 100 2,324,100 = 2.51%

The impact of these changes in relation to a budgeted income statement is demonstrated in Task 2, in the 'Sample Assessment Tasks, Accounting and Finance, ATAR, Year 12' available on Accounting and Finance course page of the Authority website at http://wace1516.scsa.wa.edu.au/syllabus-and-support-materials/humanities-and-social-sciences/accounting-and-finance.