



## **ACCOUNTING AND FINANCE SAMPLE EXAMINATION**

Section 7 of the *New WACE Manual: General Information 2006-2009* outlines the policy on WACE examinations.

Further information about the WACE Examinations policy can be accessed from the Curriculum Council website at [http://newwace.curriculum.wa.edu.au/pages/about\\_wace\\_manual.asp](http://newwace.curriculum.wa.edu.au/pages/about_wace_manual.asp).

The purpose for providing a sample examination is to provide teachers with an example of how the course will be examined. Further fine tuning will be made to this sample in 2007 by the examination panel following consultation with teachers, measurement specialists and advice from the Reference Group.

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Western Australian Certificate of Education, Sample External Examination  
Question/Answer Booklet

**ACCOUNTING AND  
FINANCE**  
WRITTEN PAPER  
STAGE 2

Please place your student identification label in this box

Student Number: In figures

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In words

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***Time allowed for this paper***

Reading/planning time before commencing work:  
Working time for paper:

Ten minutes  
Three hours

***Material required/recommended for this paper***

**To be provided by the supervisor**

This Question/Answer Booklet  
Information Sheet  
Multiple Choice Answer Sheet  
Specifications Booklet

**To be provided by the candidate**

Standard items: Pens, pencils, eraser or correction fluid, highlighter and ruler  
Special items: Calculators satisfying the conditions set by the Curriculum Council for this course and the booklet of notes provided on the Curriculum Council website.

***Important note to candidates***

No other items may be taken into the examination room. It is **your** responsibility to ensure that you do not have any unauthorised notes or other items of a non-personal nature in the examination room. If you have any unauthorised material with you, hand it to the supervisor **before** reading any further.

**Structure of this paper**

Section	Suggested working time	Number of questions available	Number of questions to be attempted	Marks
Section One: Multiple Choice	25 minutes	20	20	20
Section Two: Application and Response	155 minutes	12	12	180
[Total marks]				200

**Instructions to candidates**

1. The rules for the conduct of Curriculum Council examinations are detailed in the *Student Information Handbook*. Sitting this examination implies that you agree to abide by these rules.
2. Write your answers in the Question/Answer Booklet using a **blue or black ball-point or ink pen**. It is recommended that you **do not use pencil**.
3. Spare answer pages may be found at the end of this booklet. If you need to use them, indicate in the original answer space where the answer is continued (i.e. give the page number).
4. Information for Questions 4-8 in section two has been repeated on a removable information sheet which is inserted into the front of this booklet so that you can refer to it more easily while answering the questions. Do not write your answers on the information sheet. The information sheet is **not** to be handed in with your answers.
5. The specifications booklet may be used in conjunction with the exam.

**SECTION ONE: MULTIPLE CHOICE**

This section has **TWENTY (20)** questions. Attempt **ALL** questions.

Each of the twenty multiple choice questions in Section One involves choosing from four alternative answers. Read each question carefully then indicate the ONE alternative that you consider best answers the question, or completes the statement. Give an answer to every question in this part of the paper, as no marks are deducted for incorrect answers. Each question is worth 1 mark. Use a 2B pencil to record your answer on the Multiple Choice Answer Sheet provided. Carefully read the instructions on the answer sheet.

Allow approximately 25 minutes to complete this section [20 marks].

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1. Bill borrowed \$100 000 from a family member and invested the full amount into his business. Bill then recorded the \$100 000 on the balance sheet of the business as a liability. This action is a violation of which assumption? [1 mark]
- (A) Accrual basis assumption
  - (B) Going concern assumption
  - (C) Accounting entity assumption
  - (D) None of the above
2. Which of the following is revenue for the month of June? [1 mark]
- (A) A \$20 000 loan borrowed from the bank on 6 June
  - (B) \$1 200 received from customers for goods sold in May
  - (C) \$500 worth of goods sold on credit on 18 June
  - (D) None of the above
3. If a business has a profit margin of 10%, which of the following statements is true? [1 mark]
- (A) The business is earning 10 cents for every dollar invested
  - (B) The business is making strong profits
  - (C) The business is effectively controlling costs
  - (D) There is insufficient information to reach a conclusion
4. Which of the following is not an asset? [1 mark]
- (A) Vehicle used for delivery
  - (B) Funds deposited in the business bank account
  - (C) Vehicle used for owner's private business
  - (D) All of the above are assets

5. On 1 October 2007, Vangelic Furniture purchased a new delivery van for \$20 000 (GST exclusive). The estimated residual value of the van is \$3 000 and it is expected to have a useful life of eight years. The van will be depreciated using the reducing balance method at a rate of 20%.

What is the depreciation expense for the period ending 30 June 2009?

[1 mark]

- (A) \$3 400
- (B) \$1 875
- (C) \$3 200
- (D) None of the above

6. Assuming all else remains the same, which of the following would cause the gross profit ratio of a retail business to decline?

[1 mark]

- (A) A rise in debt levels leading to higher interest payments
- (B) Higher depreciation charges following a significant capital investment program in the previous financial year
- (C) Suppliers increasing the price of their goods
- (D) All of the above

7. Yokindy Car Supplies had the following transactions in the June quarter (Note: all GST related items are shown GST inclusive).

- i. Paid \$5 500 for a new laptop computer.
- ii. Purchased \$55 000 worth of inventory from ABC Ltd on credit.
- iii. Sold goods on credit to XYZ Ltd for \$87 450. The value of these goods recorded in the inventory account is \$12 000.
- iv. Paid \$770 to rent office space in July.
- v. Paid a telephone bill totaling \$220. This amount relates to the telephone expense incurred in February.
- vi. Paid \$26 785 wages to employees.
- vii. Purchased a further \$11 000 worth of inventory from ABC Ltd. Half of this purchase was paid for immediately.
- viii. Received \$57 860 from a customer. The car parts will not be delivered to the customer until July.

What is the input tax credit Yokindy Car Supplies would receive for the June quarter?

[1 mark]

- (A) \$8 070
- (B) \$6 590
- (C) \$5 140
- (D) None of the above

8. A machine was purchased for \$52 800 (GST inclusive) on 1 January 2007. The machine has an estimated useful life of ten years and residual value of \$5 000. If it is depreciated using the straight line method, what is the carrying amount of the asset as at 30 June 2009?

[1 mark]

- (A) \$41 550
- (B) \$43 240
- (C) \$37 250
- (D) None of the above

9. PowerDrive Sports sell sporting equipment and clothing. During the month of October 2009 the following transactions were recorded:

Date	Transaction
October 11	Sold \$550 (GST inclusive) worth of equipment on credit. The equipment had originally cost \$374 (GST exclusive).
15	Paid wages of \$800. Twenty percent of this amount relates to work performed in October, while the remainder relates to work done in September.
19	Received \$900 owed by a customer for goods delivered August 2009.
22	Purchased a new cash register. The cost of the register was \$2 400 (GST inclusive).
28	Sold \$440 (GST inclusive) worth of clothing. The clothing had originally cost \$220 (GST exclusive). Payment was made in cash.

Using the accrual method, what is the profit for the month of October 2009?

[1 mark]

- (A) \$146
- (B) \$200
- (C) \$406
- (D) None of the above

10. Tom and George run a small grocery store. Which of the following transactions is an expense for the month of November?

[1 mark]

- (A) Paid the electricity bill for October on 10 November
- (B) Paid \$2 000 on the 14 November to rent office space in January and February
- (C) Purchased \$11 000 worth of inventory on the 20 November and paid \$1 000 in GST
- (D) None of the above

11. An organisation reported an operating profit of \$46 000. The operating expenses incurred were equal to \$42 000 and the Cost of Sales was equal to \$92 000. What is the gross profit earned for the organisation?

[1 mark]

- (A) \$134 000
- (B) \$88 000
- (C) \$50 000
- (D) None of the above

12. The recorded profit/loss in the Income Statement is an estimate because of the calculations for:

[1 mark]

- (A) Electricity
- (B) Sales
- (C) Rent
- (D) Doubtful debts

13. Tuscany Wine is a small business operating in the Margaret River region. The business recently spent \$40 000 to upgrade its webpage. The business webpage is now more user-friendly and contains a secure online purchase system allowing customers to buy and pay for wine online. In relation to the upgrade, which of the following statements is correct?

[1 mark]

- (A) The \$40 000 upgrade should be classified as an asset as it satisfies the definition and recognition criteria.
- (B) The \$40 000 should be classified as an expense immediately as it does not satisfy the definition of an asset.
- (C) The \$40 000 should be classified as an expense immediately as it fails the recognition criteria.
- (D) The \$40 000 should initially be classified as an expense but classified as an asset in future periods if it can be demonstrated the upgrade created material economic benefit.

**Questions 14–18 relate to the following information**

Wilson Sports is a sports equipment retailer owned and run by Sarah Wilson. The following information was provided on 30 June 2009.

**Information from Balance Sheet**

Cash	\$110 000	Accounts Payable	\$145 000
Accounts Receivable	50 000	Accrued Expense	15 000
Inventory	180 000	Loan (due 6/12/2009)	100 000
Buildings (net)	500 000	Loan (due 6/12/2012)	300 000
Equipment (net)	150 000	Capital	430 000
	990 000		990 000

**Information from Income Statement**

Cost of Sales	\$480 000	Cash Sales	\$100 000
Wages Expense	70 000	Credit Sales	600 000
Rent Expense	12 000		
Interest Expense	28 000		

**Note**

The capital figure includes the current year's profit. Sarah Wilson made no drawings for the year. On 30 June 2008 Wilson Sports had total assets equal to \$875 000.

14. The current ratio is equal to:

[1 mark]

- (A) 2.34: 1
- (B) 1.31: 1
- (C) 2.125: 1
- (D) None of the above



15. The gross profit ratio is equal to:

[1 mark]

- (A) 45.8%
- (B) 68.6%
- (C) 31.4%
- (D) None of the above

16. The net profit ratio is equal to:

[1 mark]

- (A) 15.7%
- (B) 50.0%
- (C) 31.4%
- (D) None of the above

17. The debt to equity ratio is equal to:

[1 mark]

- (A) 100%
- (B) 130%
- (C) 71.4%
- (D) None of the above

18. The rate of return on assets is equal to:

[1 mark]

- (A) 14.8%
- (B) 11.8%
- (C) 13.9%
- (D) None of the above

19. Ezy Movers purchased a new truck on 1 December 2008 for \$90 000. It was decided to depreciate the truck at 5% per annum using the reducing balance method of depreciation. What is the depreciation expense on the truck for the year ended 30 June 2009?

[1 mark]

- (A) \$2 250
- (B) \$2 625
- (C) \$4 500
- (D) None of the above

20. On 28 January a customer paid \$1 500 to a cleaning company (not registered for GST) to have their premises cleaned in March. The \$1 500 was mistakenly recorded by the cleaning company as Fees Income in the month of January. What journal entry is required to correct this error?

[1 mark]

- (A) Debit Fees Income; Credit Income Received in Advance
- (B) Debit Accrued Income; Credit Fees Income
- (C) Debit Income Received in Advance; Credit Accrued Income
- (D) None of the above

END OF SECTION ONE

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**Question 4**

[Adapted from: Tasmanian Qualifications Authority, 2006]

Apple Cider Juice owned by Redford Grand, is a juice and fruit store with a balance date for the financial year of 30 June 2007. At this business the perpetual inventory system is used.

The following is an extract of transactions related to the financial year ended 30 June 2007.

<b>Date</b>	<b>Transaction</b>
2 April 2007	Redford started his business with \$41 000. (He put \$25 000 he had saved into the business bank account to start his business. He also contributed a motor vehicle to the value of \$16 000).
2 April 2007	Paid quarterly insurance premium \$1 350, cheque no. 000101.
4 April 2007	Redford bought a computer system on credit from <i>Compsyche Computers</i> \$6 600 (GST inclusive).
12 April 2007	Cash sales were \$1 200. Cost price of the fruit was \$400. (Fruit is GST free.)
29 April 2007	Redford took for personal use \$200 cash and fruit to the value of \$75. (Fruit is GST free.)
8 May 2007	\$10 000 was borrowed from AusBank and placed in the business bank account.
31 May 2007	It was found that the payment of wages of \$240 had been entered into the cleaning expenses account by mistake.
30 June 2007	The end of period stocktake indicated a shortage of \$42.
30 June 2007	The vehicle valued at \$16 000 is to be depreciated at the rate of 20% per annum straight line for the three months the business has been operating.

**Required**

(a) Provide General Journal entries for the transactions shown above.

[27 marks]

**Workings**







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**Question 5**

Delta Dawn has a small service business called Delta's Detailing which specialises in the interior cleaning and restoration of limousines. She has provided the following incomplete trial balance as at 30 June 2009. Delta has asked you to use the information below to prepare financial statements for Delta's Detailing.

	Debit	Credit
Fees income		\$45 260
Advertising expense	\$3 273	
Cash at bank	13 211	
Creditor—G Geranium		1 558
Debtor—S Slick	2 158	
Office salaries expense	5 540	
Interest expense	1 900	
Office furniture and equipment	29 800	
Rent expense	14 060	
Drawings	1 000	
Telephone expense	1 216	
Loan from NE Bank (repayable on 1 July 2017)		10 000
Stationery expense	1 000	
Electricity expense	2 660	
<b>Capital—D Dawn</b>		<b>?</b>

**Additional information**

- i. Included in the rent expense account is an amount of \$4 060 which was received for rent but which was incorrectly credited to the rent expense account instead of the rent income account.
- ii. Included in the interest expense account is an amount of \$87 for bank charges which was incorrectly debited to the interest expense instead of the bank charges account.
- iii. Insurance of \$250 was paid in June but not recorded.

**Required**

- (a) Select an appropriate format and prepare a classified financial statement for the period ending 30 June 2009 that will indicate the profit for the year of Delta's Detailing.

[18 marks]

**Workings:**







**Question 6**

[Adapted from: Kirkwood, Ryan, Falt, & Stanley, 1992]

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Workings:

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Question 6 cont.

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## Question 7

Paull's Plumbing has supplied you with the following information.

**Balance sheet information as at 30 June**

	2007	2006	2005
Cash at bank	\$5 000	\$27 000	\$25 000
Tools and Equipment	153 000	123 000	118 000
Vehicles	92 000	96 000	99 000
Accounts payable	22 000	23 000	24 000
Loan from bank (due 2011)	16 000	-	-
Capital	212 000	223 000	218 000

[Note: Total assets for 2004 were \$250 000]

**Income statement information for the year ending 30 June**

	2007	2006	2005
Fees Income	\$215 000	\$216 000	\$205 000
<b>Less: operating expenses</b>			
Interest	4 200	-	-
Rent	25 000	20 000	20 000
Wages and salaries	65 000	33 000	33 000
Petrol and Motor Vehicle Expenses	69 000	67 200	
Advertising and Promotional Material	6 000	4 800	3 500
Other expenses	10 800	7 000	7 000
<b>Total operating expenses</b>	<u>180 000</u>	<u>132 000</u>	<u>63 500</u>
<b>Profit</b>	<u>\$35 000</u>	<u>\$84 000</u>	<u>\$141 500</u>

**Additional information**

i. Currently accepted average ratios for this industry with this turnover range are:

Profit ratio	13%
Working capital ratio	2:1
Debt to Equity Ratio	0.8:1
Rate of Return on Assets ratio	1.5 times

ii. Ratios calculated for the years 2005-2007 for Paull's Plumbing are shown below:

		2007	2006	2005
<b>Profit Ratio:</b>	$\frac{\text{Profit}}{\text{Income}}$	16.28%	38.89%	69.02%
<b>Working Capital Ratio:</b>	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.23:1	1.17:1	1.04:1
<b>Debt to Equity Ratio:</b>	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	0.18:1	0.10:1	0.11:1
<b>Rate of Return on Assets Ratio:</b>	$\frac{\text{Profit}}{\text{Average total assets}}$	0.14 times	0.34 times	0.58 times

**Required**

(a) Analyse and interpret the information provided for Paull's Plumbing in relation to the liquidity of the business over time. Use the industry ratios and actual figures from Paull's Plumbing to fully explain your analysis.

[12 marks]

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**Question 8**

Simpson Proprietary Limited is a maker of refrigerators in Australia making a top of the range model called the Opal. The business has made very good profits in past years and liquidity is also very strong. The business currently has \$250 000 in excess cash which its managing director would now like to see gainfully invested. This could involve manufacturing a new product or investing in new assets.

**Read the information below and answer the questions which follow**

The Opal range of refrigerators has a break-even point of 5 200 units, a contribution margin of \$350 per unit and provides \$1 500 000 in annual profit. Its production manager has however suggested that a new low budget range called the Diamond be made and the following are the estimated costs associated with this new product:

Raw materials	\$300 per unit
Direct labour	\$150 per unit
Overheads	\$100 per machine hour
Machine time	30 minutes per refrigerator
Depreciation on machinery	\$200 000 per year
Other fixed overheads	\$400 000 per year
Administration costs	\$500 000 per year
Selling costs	\$200 000 per year

It is considered by the marketing manager that the selling price for the Diamond refrigerator should be \$800 per unit and it is anticipated that sales will be 8 500 during the year given the level of advertising proposed.

**Required**

- (a) In relation to the proposed new Diamond refrigerator calculate the break-even point in units. [3 marks]

**Workings**

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(b) What profit is expected from the new Diamond refrigerator?

[1 mark]

Workings:

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(c) If the target profit for this new Diamond refrigerator is \$900 000 per year what dollar value of sales would need to be achieved per year?

[4 marks]

Workings:

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**Question 8 cont.**

- (d) The marketing manager has suggested that the level of advertising could be increased at a cost of an extra \$100 000 and that this would lead to an increase of 1 000 refrigerators during the year. Calculate the new break-even point in units and the new profit level.

[3 marks]

**Workings:**

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- (e) Considering the proposals from both the production manager and marketing manager do you consider that the manufacture of the new Diamond refrigerator is warranted?

[2 marks]

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**Question 9**  
**Part A**

Fine China Supplies are using a computerised accounting package to keep their records. They record all their stock items using the perpetual inventory method. They are registered for GST using the accrual method and they also report their financials using the accrual method. The GST collected and paid is recorded into a liability account called Tax Payable.

The following transactions for Fine China Supplies occurred during the month of June.

- i. 2 June 2007 bought 10 milk jugs for cash for \$5.50 each at a total cost of \$55.00 (inclusive of GST).
- ii. 3 June 2007 sold 5 milk jugs for cash for \$12.65 each. A total cost of \$63.25 (inclusive of GST)
- iii. 5 June 2007 bought 10 milk jugs for cash at a cost of \$8.80 each. A total cost of \$88.00 (inclusive of GST).
- iv. 6 June sold 5 milk jugs for cash for \$13.75 each. A total cost of \$68.75. (inclusive of GST)

The Stock Valuation Detail report from Fine China Supplies is show below:

Type	Date	Name	Num	Qty	Cost	On Hand	Avg Cost	Asset Value
<b>Stock</b>								
<b>Milk Jugs</b>								
Cheque	02/06/2007	WEDGWOOD		10	50.00	10	5	50.00
Sales Receipt(Tax...	03/06/2007	V Wright	38	-5		5	5	25.00
Cheque	05/06/2007	WEDGWOOD		10	80.00	15	7	105.00
Sales Receipt(Tax...	06/06/2007	V Wright	39	-5		10	7	70.00
Total Milk Jugs						10		70.00
Total Stock						10		70.00
<b>TOTAL</b>						<b>10</b>		<b>70.00</b>

**Required**

(a) What is the stock asset value as at 6 June?

[1 mark]

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(b) What is the average cost of the milk jugs on 3 June?

[1 mark]

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(c) What is the average cost of the milk jugs on 6 June?

[1 mark]

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**Question 9 cont.**

**(d)** What is average cost and how is it calculated?

*[2 marks]*

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**(e)** Explain why the average cost (Avg Cost) of the milk jugs has changed on the transaction on 5 June.

*[3 marks]*

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**(f)** Calculate the value which will be debited to the cost of sales account on the cash sale of 6 June.

*[1 mark]*

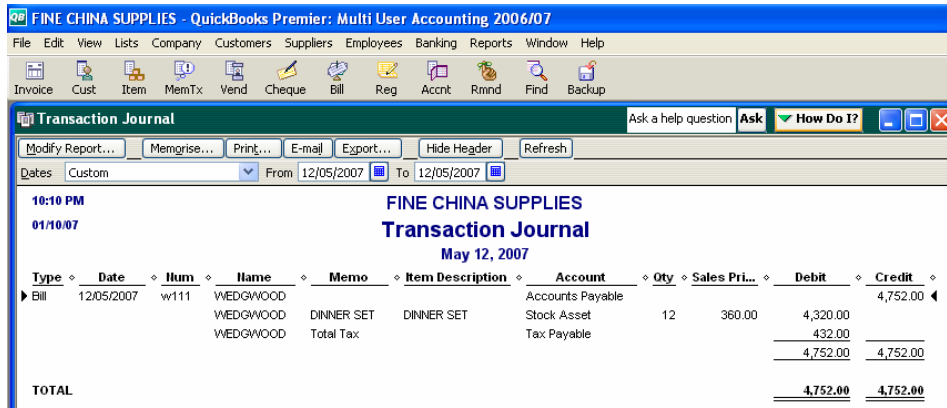
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**Part B**

When 12 Dinner Sets are purchased on credit the accounts affected in a computerised system are as follows:



**Required**

Write down the analysis of the transaction that will be created when one of the dinner sets is sold on 14 May 2007 for \$550.00 cash.

[5 marks]

Date	Details	Debit	Credit

**Part C**

Which is the only journal used in double entry Computerised Accounting software? Explain why the other journals are not used.

[2 marks]

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**ACKNOWLEDGEMENTS****SECTION B**

**Question 4:** Adapted from: Tasmanian Qualifications Authority. (2006). *Tasmanian Certificate of Education: Accounting Senior Secondary 5C: External assessment 2006* (pp. 4–5). Retrieved October, 2007, from [http://www.tqa.tas.gov.au/4DCGI/WWW\\_doc/007807/RND01/ACC5C\\_Paper\\_06.pdf](http://www.tqa.tas.gov.au/4DCGI/WWW_doc/007807/RND01/ACC5C_Paper_06.pdf).

**Question 6:** Adapted from: Kirkwood, K., Ryan, C., Falt, J., & Stanley, T. (1992). *Accounting: An introductory perspective* (3<sup>rd</sup> ed.). Melbourne, Vic: Longman Cheshire, p. 542.

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