



ACCOUNTING AND FINANCE

Stage 3

WACE Examination 2010

Information Booklet

This contains information from the Question/Answer Booklet. No answers are to be written on this booklet. Do not hand this booklet in with your answers.

Question 16

(19 marks)

The following information has been provided to you by John Smith.

| John Smith | |
|---|----------------|
| Income statement | |
| for the period ended 30 September 2010 | |
| | \$ |
| Sales | 242,000 |
| Cost of sales | <u>156,000</u> |
| Gross profit | 86,000 |
| Less expenses | |
| Wages | 32,000 |
| Discount allowed | 1,625 |
| Doubtful debts | 1,670 |
| Electricity | 1,800 |
| Depreciation | 3,250 |
| Other expenses | 14,450 |
| Total expenses | <u>54,795</u> |
| Profit | <u>31,205</u> |

Additional information:

- The closing bank balance as at 30 September 2010 was \$6,500.
- John Smith intends to buy a new computing system for cash in October at a cost of \$14,000.
- Sales are 30% cash and the remainder on credit. On average, 60% of credit sales are collected in the first month after sale, 38% in the second month after sale and the remaining 2% are never collected. Sales for July and August were \$175,000 and \$193,400 respectively.
- John pays for all purchases in the month following purchase and receives a 3% discount for prompt payment. Purchases in September were \$89,500, while October purchases are expected to be \$92,000.
- Estimates for October based on September's figures are:
 - sales to increase by 3.5%
 - wages to rise by \$7,000
 - other expenses to increase by \$7,600
 - no change for discount allowed, doubtful debts, electricity or depreciation.

Question 19

(44 marks)

The trial balance for Australia Ltd as at 30 June 2010 is below.

**Australia Ltd
Trial balance
as at 30 June 2010**

| Account | Debit \$ | Credit \$ |
|--|----------------|----------------|
| Accounts payable | | 48,840 |
| Accounts receivable | 97,500 | |
| Accumulated depreciation – Delivery vehicles | | 6,100 |
| Accumulated depreciation – Buildings | | 5,000 |
| Allowance for doubtful debts | | 1,170 |
| Bank overdraft | | 35,056 |
| Bonds – short-term | 7,410 | |
| Buildings (at cost) | 120,000 | |
| Cost of sales | 149,843 | |
| Delivery vehicles (at cost) | 37,050 | |
| Discount allowed | 3,900 | |
| Dividends received from investments | | 6,000 |
| Doubtful debts | 624 | |
| Goodwill | 46,800 | |
| Final dividend paid | 22,750 | |
| Inventory | 89,076 | |
| Investments | 124,800 | |
| Land (at cost) | 34,476 | |
| Ordinary share capital | | 390,000 |
| Other expenses | 34,044 | |
| Retained earnings (1 July 2009) | | 35,617 |
| Sales | | 272,000 |
| Wages | 31,510 | |
| | 799,783 | 799,783 |

Additional information as at 30 June 2010:

- Depreciation of delivery vehicles is to be at the rate of 20% using the reducing balance method. Buildings are to be depreciated at 5% using the straight-line basis.
- On 30 June 2010, the directors decided to revalue Buildings upward by \$30,000.
- During the year the directors decided to transfer \$6,500 from retained profits to the general reserve.
- In June 2010 the company issued 50,000 shares at an issue price of \$2 each, payable in full on application.
- The final dividend of \$0.05 cents per share declared at the 2009 annual general meeting was paid on 1 November 2009.
- Employees are owed wages of \$393.
- Income tax is payable at the rate of 30%.

Question 20

(31 marks)

Yippy Beens Ltd has asked you to prepare the Statement of cash flows for the operating and investing sections **only**. The following has been extracted from the 30 June 2010 and 30 June 2009 balance sheets.

| | 2010 | 2009 |
|-------------------------------|-------------|-------------|
| | \$ | \$ |
| Cash holdings | 107,500 | 85,000 |
| Accounts payable | 121,500 | 93,300 |
| Inventories | 180,000 | 181,000 |
| Investments | 555,000 | 700,000 |
| Property, plant and equipment | 1,816,000 | 1,305,000 |
| Receivables | 127,500 | 129,000 |
| General reserve | 123,000 | 80,000 |
| Retained earnings | 149,850 | 109,400 |
| Share capital | 1,810,000 | 1,810,000 |
| Short-term investments | 35,000 | 45,000 |
| Borrowings | 450,000 | 234,700 |
| Income tax payable | 178,650 | 132,000 |
| Prepaid insurance | 12,000 | 14,400 |

| Note: | 2010 | 2009 |
|---|------------------|------------------|
| Property, plant and equipment | | |
| Land, at cost | <u>950,000</u> | <u>950,000</u> |
| Plant and equipment at cost | 1,068,000 | 510,000 |
| Accumulated depreciation of plant and equipment | <u>202,000</u> | <u>155,000</u> |
| | <u>866,000</u> | <u>355,000</u> |
| Property, plant and equipment, book value | <u>1,816,000</u> | <u>1,305,000</u> |

An item of plant originally purchased for \$80,000 and with a book value of \$30,000 was sold during the year for cash.

Yippy Beens Ltd
Income statement
for the year ended 30 June 2010

| | |
|--|------------------|
| Sales | \$2,349,000 |
| Less: Cost of sales | <u>1,260,000</u> |
| Gross profit | 1,089 000 |
| Add: Gain on sale of plant and equipment | 9,000 |
| Dividends received | 30,000 |
| Interest revenue | <u>3,000</u> |
| | 1,131,000 |
| Less: Interest expense | 22,000 |
| Insurance | 9,000 |
| Discount allowed | 4,800 |
| Other operating expenses | <u>499,700</u> |
| Profit before tax | 595,500 |
| Less income tax expense | <u>178,650</u> |
| Profit for the year | <u>416,850</u> |

Additional information:

- The change in borrowings during the year was due to an issue of debentures.
- Income tax provided for on 30 June 2009 was paid during the year.
- Company policy requires that all purchases and sales of non-current assets be for cash.

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