



Western Australian Certificate of Education Examination, 2010

Question/Answer Booklet

ACCOUNTING AND FINANCE Stage 2

Please place your student identification label in this box

Student Number: In figures

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In words

Time allowed for this paper

Reading time before commencing work: ten minutes
Working time for paper: three hours

Materials required/recommended for this paper

To be provided by the supervisor

This Question/Answer Booklet
Multiple-choice Answer Sheet
Specifications Booklet
Information Booklet

To be provided by the candidate

Standard items: pens, pencils, eraser, correction fluid/tape, ruler, highlighters

Special items: non-programmable calculators satisfying the conditions set by the Curriculum Council for this course

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	Number of questions available	Number of questions to be answered	Suggested working time (minutes)	Marks available	Percentage of exam
Section One: Multiple-choice	20	20	30	20	20
Section Two: Short response	6	6	60	41	30
Section Three: Extended response	3	3	90	94	50
Total					100

Instructions to candidates

- The rules for the conduct of Western Australian external examinations are detailed in the *Year 12 Information Handbook 2010*. Sitting this examination implies that you agree to abide by these rules.
- Answer the questions according to the following instructions.

Section One: Answer all questions on the separate Multiple-choice Answer Sheet provided. For each question shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square, do not erase or use correction fluid, and shade your new answer. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

Sections Two and Three: Write answers in this Question/Answer Booklet. Show all calculations clearly in the space marked Workings for questions where calculations are applicable. Marks will be awarded principally for the relevant accounting and finance content.

- You must be careful to confine your responses to the specific questions asked and to follow any instructions that are specific to a particular question.
- Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer.
 - Planning: If you use the spare pages for planning, indicate this clearly at the top of the page.
 - Continuing an answer: If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question(s) that you are continuing to answer at the top of the page.
- Information for questions has been repeated on the removable Information Booklet which has been inserted inside the front cover of this booklet so that you can refer more easily to it while answering the questions. Do not write your answers in the Information Booklet. The Information Booklet is **not** handed in with your answers.

See next page

Section One: Multiple-choice

20% (20 Marks)

This section has **20** questions. Answer **all** questions on the separate Multiple-choice Answer Sheet provided. For each question shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square, do not erase or use correction fluid, and shade your new answer. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

Suggested working time: 30 minutes.

1. Which one of the following is a major advantage of a proprietary company?
 - (a) Large sums of money can be raised through share issues.
 - (b) Ownership of shares can easily be transferred.
 - (c) The size of the proprietary company can be very large.
 - (d) Personal liability of debts created can be limited.

2. Which one of the following would be regarded as a selling expense?
 - (a) hire of shop fixtures and fittings
 - (b) depreciation of a wall safe
 - (c) loss from sale of office furniture
 - (d) advertising leaflets on hand

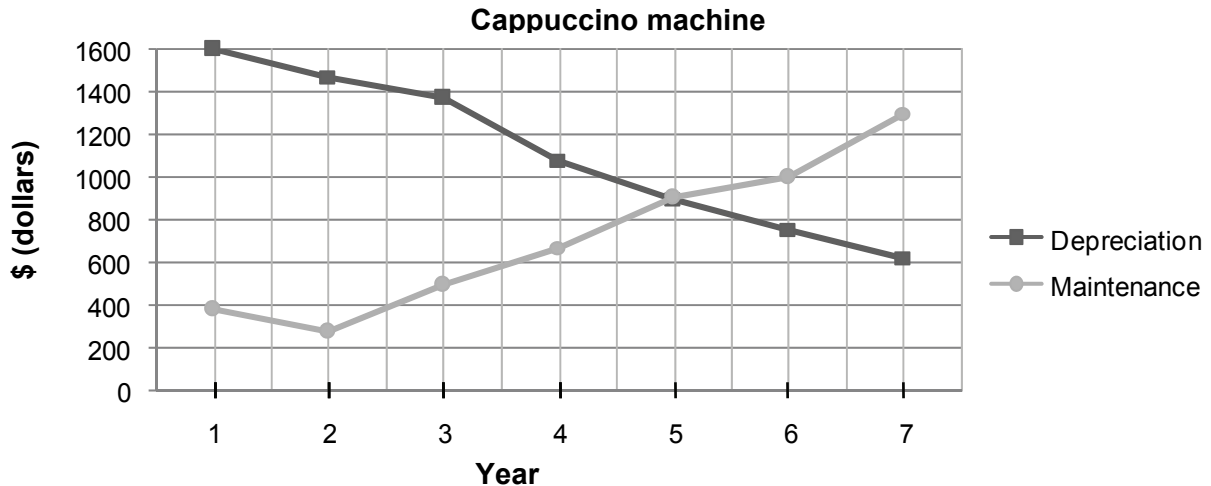
3. Which one of the following are all classified as assets?
 - (a) cash, shares, wages
 - (b) depreciation, plant and machinery, rent receivable
 - (c) interest receivable, allowance for doubtful debts, cash
 - (d) cash, accumulated depreciation, electricity

4. The consequence of trading with a business entity that is not registered for the GST is the inability to
 - (a) conduct trade effectively.
 - (b) calculate the GST correctly.
 - (c) claim back the GST as a credit.
 - (d) calculate the GST Payable accurately.

5. According to the Framework for the Preparation and Presentation of General Purpose Financial Reports, a liability is defined as a present obligation
 - (a) where future economic benefit is expected to flow into the entity.
 - (b) that contains resources that are sacrificed and will flow out of the entity.
 - (c) the settlement of which is expected to result in an outflow of resources embodying economic benefits.
 - (d) where an inflow of resources that embodies economic benefits will be recovered.

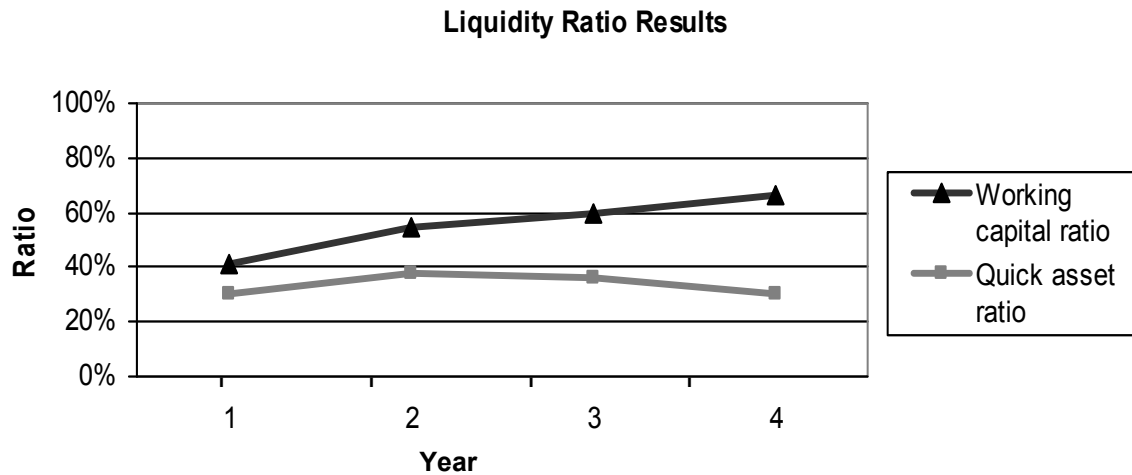
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Questions 6 and 7 relate to the following graph.



6. The maintenance line over the seven years indicates the
- cappuccino machine was becoming less costly to operate by Year 5.
 - depreciation method used was inappropriate.
 - income earned would have declined gradually from Year 5.
 - cappuccino machine was at its most productive by Year 2.
7. In which year would you recommend selling the asset?
- Year 4
 - Year 5
 - Year 6
 - Year 7
8. What is the main advantage of operating a business as a sole trader?
- the freedom to make decisions and accumulate personal wealth
 - the ability to raise large amounts of capital to commence business
 - the enjoyment of having a separate legal entity to the business
 - the ease with which holidays can be taken on one's own terms
9. The high risk of personal bankruptcy as a result of unlimited liability is most likely reflected in which type of business?
- partnership
 - retailer
 - proprietary company
 - sole trader

10. The straight-line method of depreciation differs from the reducing balance method in that the
- carrying amount decreases at a slower rate.
 - accumulated depreciation increases at a slower rate.
 - effect on profit remains constant over time.
 - depreciation increases at a slower rate.
11. The graph below represents the liquidity of a business over four years.



- From the graph, the most appropriate observation is that the
- working capital ratio is over inflated due to non-liquid items.
 - trend of the business over the years is positive overall.
 - ratio results present a serious liquidity problem.
 - business is able to meet its external commitments.
12. Aussie Alterations is a clothing alteration store that also custom-makes outfits for clients. Aussie Alterations would be classified as a
- service/manufacturing business.
 - service/trading business.
 - sole trader/wholesale business.
 - sole trader/manufacturing business.
13. A customer's 'credit history' refers to the
- customer's repayment pattern with creditors.
 - level of debt still outstanding with creditors.
 - number of loans a customer has had with creditors.
 - customer's level of loyalty to creditors over time.

14. Which one of the following best illustrates the concept of materiality?
- (a) A pastry shop owner decides not to include her personal shares in the balance sheet.
 - (b) A publicly listed company reports in Australian dollars and cents rather than in Euros.
 - (c) A prospective shareholder invests in a company on the basis of published reports rather than other sources.
 - (d) A billion dollar business consolidates its accounts by reporting in millions rather than in thousands.
15. Which one of the following describes the historical cost accounting principle? Historical cost records an asset
- (a) based on the purchase price paid by the business.
 - (b) based on the value of the asset that the market is willing to pay.
 - (c) by the amount that it will cost the business to replace the asset.
 - (d) based on the cost minus the salvage value.
16. One of the benefits of a small business engaging in socially, environmentally and ethically responsible behaviour is that it
- (a) reduces both business and personal taxes.
 - (b) demonstrates that the business is committed to more than profit making.
 - (c) reduces the net GST for the business at the end of the accounting period.
 - (d) shows that the business is able to produce goods and services in a timely way.
17. Which one of the following is a benefit of internal control?
- (a) It eliminates fraudulent activities.
 - (b) It eliminates risk.
 - (c) It is easy to implement within a business.
 - (d) It helps to safeguard assets.
18. Which one of the following is true about the cash system?
- (a) Revenue is recorded when it is received and expenses paid.
 - (b) Revenue is recorded when it is earned and expenses paid.
 - (c) Revenue is recorded when it is received and expenses incurred.
 - (d) Revenue is recorded when it is earned and expenses incurred.

19. On 12 April 2010, Lisa Pty Ltd purchased inventory valued at \$4,500 on credit terms. On 1 June 2010, the company paid the supplier. On 5 June 2010, Lisa Pty Ltd sold all of the inventory for \$6,600 cash GST inclusive. If Lisa Pty Ltd uses the perpetual method, which of the following accounts will be affected by the sale?
- (a) cost of sales, sales, cash at bank, inventory, GST credits
 - (b) sales, accounts receivable, inventory, GST credits
 - (c) cost of sales, inventory, cash at bank, sales, GST payable
 - (d) sales, cash at bank, GST payable
20. Joseph Pty Ltd had a total net asset value for machinery of \$100,000 at the end of 30 June 2009. In January 2010, new machinery was purchased to the value of \$20,000. At 30 June 2010, machinery had accumulated depreciation of \$7,000 and the company had made a profit of \$15,000.
- The rate of return on assets for machinery at the end of 30 June 2010 would have been
- (a) 13.64%
 - (b) 14.08%
 - (c) 6.82%
 - (d) 15%

End of Section One

See next page

Section Two: Short response

30% (41 Marks)

This section has **six (6)** questions. Answer **all** questions. Write your answers in the spaces provided.

Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer.

- Planning: If you use the spare pages for planning, indicate this clearly at the top of the page.
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Suggested working time: 60 minutes.

Question 21

(7 marks)

Lewis operates a bike shop. The following table is an age analysis of accounts receivable. It shows how many days customers are overdue on their accounts according to the credit terms of the business.

0–30 days	31–60 days	61–90 days	91–120 days	>120 days
\$1,000	\$15,000	\$20,000	\$5,000	\$9,000

Lewis operates on 30 day terms with his customers but operates on 14 day terms with his creditors and is charged interest on late payments.

- (a) What is the value of overdue accounts after 90 days? (1 mark)

- (b) Identify a risk Lewis’s business might face in allowing his customers to pay beyond the agreed terms. Explain how this risk might impact upon his cash flow. (3 marks)

(c) What should Lewis do before offering credit to new customers? (1 mark)

(d) Provide Lewis with **two** means of improving his accounts receivable collections. (2 marks)

One: _____

Two: _____

Question 22

(10 marks)

Bob Anderson owns Pharaoh's Fair and has provided you with the following account balances as at 30 June 2010.

**Pharaoh's Fair
Account balances
as at 30 June 2010**

Particulars	Debit \$	Credit \$
Bank	5,000	
Accounts receivable	15,000	
Buildings	300,000	
Accounts payable		18,000
Big Lender – Loan		25,000
Mortgage		200,000

Bob is looking to expand the business by purchasing a warehouse for \$150,000. He is looking at his finance options.

- (a) Identify **two** factors that a financial institution would consider when deciding whether to approve his finance application. (2 marks)

One: _____

Two: _____

- (b) Provide **one** advantage and **one** disadvantage for each of the following finance options.

Term Loan (2 marks)

Advantage: _____

Disadvantage: _____

Lease (2 marks)

Advantage: _____

Disadvantage: _____

Overdraft (2 marks)

Advantage: _____

Disadvantage: _____

(c) Based on the above three financing options, which one would you recommend? Justify your answer using the account balance information. (2 marks)

Question 23**(10 marks)**

Mindarie Photography is not registered for GST. Figures are to be used as presented.

Mindarie Photography decided to provide a mobile service and, as a consequence, it needed to buy a van. The van was purchased on 1 February 2010 with the following costs and additional features: Van \$35,000, burglar alarm \$2,000, signage on the van \$1,500, 12 months' insurance \$1,000, petrol \$90, registration \$790.

On 31 May 2011, Mindarie Photography sold the van for \$12,000. It had depreciated the van at 20% p.a. using the reducing balance method.

Mindarie Photography balances its books on 30 June each year. All calculations are rounded to the nearest whole dollar.

- (a) Calculate the historical cost of the new van. (2 marks)

Workings:

The historical cost of the new van is \$ _____

- (b) Calculate the accumulated depreciation to the point of sale. (4 marks)

Workings:

The accumulated depreciation to the point of sale is \$ _____

See next page

- (c) Calculate the gain or the loss on disposal of the van. (2 marks)

Workings:

The gain/loss (cross out which does not apply) on disposal of the van is \$ _____

- (d) Provide an explanation for either the gain or the loss on disposal of the van in (c). (2 marks)

Question 24

(6 marks)

Kuhlrite Pty Ltd provides you with the following balance sheet and additional information as at 30 June 2010.

**Kuhlrite Pty Ltd
Balance Sheet
as at 30 June 2010**

Assets	\$
Accounts receivable	20,000
Inventory	10,000
Prepaid advertising	8,600
Fixtures and fittings	12,000
Land and buildings	360,000
Liabilities	
Bank overdraft	45,000
Accounts payable	30,000
ABC Loan due 2013	15,000
Mortgage	240,000
Equity	
Capital	80,600

Additional information:

Accounts receivable are on 30 day terms.

Accounts payable are on 14 day terms.

(a) Calculate the debt to equity and quick asset ratios. Round to two decimal places.

(2 marks)

Ratio	2010	Industry average
Debt to equity		2.25:1
Quick asset		1.50:1

See next page

(b) Comment on the debt to equity ratio in relation to the industry average. (1 mark)

(c) (i) Comment on the quick asset ratio in relation to the industry average. (1 mark)

(ii) What can the firm do to improve its quick asset ratio result? (2 marks)

Question 25

(2 marks)

Whalles Pty Ltd operates a fleet of ships and has processes that include a risk management strategy to be followed if any of its ships is involved in an incident.

On 3 March 2010, there was a shipping accident that resulted in an oil spill; as a consequence, numerous marine animals and birds died. The media portrayed Whalles Pty Ltd negatively. In order to combat the bad publicity, Whalles Pty Ltd embarked on a clean-up of the area, which it advertised heavily. In addition, the company started a charity called 'Save our Ocean-life Fund'. Whalles Pty Ltd pledged that for every \$500 in sales, the company would donate \$10 to this charity.

At year's end, Whalles Pty Ltd produced its annual report. There were numerous positive disclosures about 'Save our Ocean-life Fund', but there was no mention of the actual oil spill and the associated costs of the clean-up.

- (a) Give **one** possible reason why Whalles Pty Ltd would benefit from establishing the 'Save our Ocean-life Fund'. (1 mark)

- (b) Is Whalles Pty Ltd a socially responsible business? Give **one** reason for your answer. (1 mark)

Question 26

(6 marks)

Corrs Excavations Pty Ltd purchased a crane from Only Cranes for an upfront cost of \$22,000. The crane was necessary for its daily operations. The company sold off one of its older cranes for cash and made a gain on the disposal of the crane of \$5,000.

- (a) Which element of financial statements, as given in the Framework, would apply to the gain on disposal of the crane? (1 mark)

- (b) Give the Framework definition as identified in (a) and explain how it applies to the gain on disposal of the crane. (3 marks)

Definition: _____

Explanation: _____

- (c) How does the going concern assumption differ between a sole trader and a proprietary company? (2 marks)

End of Section Two

See next page

Section Three: Extended response**50% (94 Marks)**

This section contains **three (3)** questions. You must answer **all** questions. Write your answers in the spaces provided.

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Suggested working time: 90 minutes.

Question 27**(23 marks)**

Poseidon Water Gardens is a retail business that sells a variety of garden products. The owner of Poseidon Water Gardens has provided you with the following trial balance extract after most balance day adjustments have been completed. He has also supplied a partly completed income statement and additional information about the business as at 30 June 2010.

**Poseidon Water Gardens
Trial Balance (extract)
as at 30 June 2010**

Ledger accounts	Debit \$	Credit \$
Accounts receivable	55,000	
Accounts payable		60,000
Discount allowed	10,000	
Bad debts	1,000	
Prepaid advertising	2,500	
Inventory	20,000	
Fountains	25,000	
Statues	9,000	
Cash at bank	40,000	
Dewdrop Bank loan – due 31 December 2010		8,000
Accumulated depreciation – statues		2,400
Fish fertiliser on hand	5,000	
Allowance for doubtful debts – 1 July 2009		2,500
Deposits on call	35,000	
Accumulated depreciation - fountains		7,500
Capital – 1 July 2009		115,000
GST clearing		7,100

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**Poseidon Water Gardens
Income Statement
for the year ended 30 June 2010**

Sales			\$100,000
Less cost of sales			45,000
Gross profit			55,000
Add other income			
Interest income			6,000
Total income			61,000
Less operating expenses			
Selling and distribution			
Advertising	10,000		
Fish fertiliser	12,000		
Depreciation – statues	600		
Depreciation – fountains	500	23,100	
General and administration			
Office wages	36,900		
Rates	1,000	37,900	
Financial			

Additional information:

The following have not been taken into account:

- The allowance for doubtful debts is to be set at 9% p.a. of the year's total sales.
- The owner of Poseidon Water Gardens decided to inject \$50,000 into the business at the end of the year.

- (a) Complete all of the **Financial** section of the Income Statement **above**, including the profit or loss for the year ended 30 June 2010. (5 marks)

Workings:

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See next page

Question 28

(50 marks)

Fine Heritage commenced business on 1 April 2010. The owner has employed you to take over the recording processes for the first week. Fine Heritage provides you with the following:

**Fine Heritage
General Journal (extract)**

Date	Particulars	Debit \$	Credit \$
2010 1 April	Cash at bank	50,000	
	Office equipment	15,000	
	We Lend U – Loan		10,000
	Capital		?
	Assets and liabilities contributed by the owner to commence the business.		
2 April	Prepaid rent	2,000	
	GST credits	200	
	Cash at bank		2,200
	Paid fortnightly rent.		
3 April	Inventory	5,000	
	GST credits	500	
	Cash at bank		5,500
	Purchased stock for cash.		

- (a) Enter the following transactions into the general journal for the remainder of the week. Narrations **are** required. (23 marks)

- 4 April Sold goods on 14 day terms to Rose Jones for \$7,700 including GST. Cost price \$2,000.
- 5 April The office equipment account was debited with \$15,000 instead of the fixtures and fittings account.
- 6 April Bought stationery supplies from Office Fill \$3,000 plus GST.
- 7 April Rose Jones paid off account after a 5% discount (show workings).

Workings:

Prepaid rent

GST credits/receivable/paid

Inventory

Sales

Cost of sales

Accounts receivable – Rose Jones

Fixtures and fittings

GST payable/collected

Stationery supplies asset

Discount allowed/expense

Accounts payable – Office Fill

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Question 29

(21 marks)

Roxham Pty Ltd have provided you with the following extract of their trial balance before balance day adjustments.

**Roxham Pty Ltd
Trial Balance (extract)
as at 30 June 2010**

Ledger accounts	Debit \$	Credit \$
Sales		680,000
Sales commission	35,000	
Interest income		2,300
Wages	35,678	
Prepaid insurance	10,000	
Advertising	23,000	
Inventory	20,000	
Interest expense	12,400	
Equipment	125,000	
Unearned rent revenue		12,300

Additional information:

The following have not been taken into account in the above trial balance figures. Exclude GST from your analysis.

- (i) Prepaid insurance was paid for 10 months on 1 January 2010.
- (ii) Sales commission is calculated on sales at a rate of 6% p.a.
- (iii) Rent of \$3,000 is received quarterly in advance. The last rental payment was received 31 May 2010.
- (iv) Two workers were owed wages of \$650 each.
- (v) The owner withdrew \$1,200 worth of inventory for personal use.

See next page

- (b) Using **one** example from (a), explain the meaning of the term accrual accounting. (2 marks)

End of questions

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