



## Western Australian Certificate of Education Examination, 2010

### Question/Answer Booklet

# ACCOUNTING AND FINANCE

## Stage 3

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 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	15	15	25	15	15
Section Two: Extended response	5	5	120	130	70
Section Three: Essay	2	1	35	30	15
<b>Total</b>					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 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

15% (15 Marks)

This section has **15** 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: 25 minutes.

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1. Which one of the following best describes the role of the external auditor?
  - (a) identifies and reports internal fraud and potential embezzlement within an organisation
  - (b) ensures all business policies and procedures are being followed by employees
  - (c) tests whether the financial statements provide a true and fair view of the organisation
  - (d) expresses a view on the viability of business plans developed by management
  
2. Which one of the following would explain an increase in retained earnings?
  - (a) upward revaluation of a non-current asset
  - (b) operating profit after tax
  - (c) operating loss after tax
  - (d) issue of share capital
  
3. When preparing financial statements 'users are assumed to have a reasonable knowledge of the business and economic activities and accounting and a willingness to study the information with reasonable diligence'. This statement is consistent with the qualitative characteristic of
  - (a) materiality.
  - (b) reliability.
  - (c) comparability.
  - (d) understandability.
  
4. The objectives of general purpose financial statements require that general purpose financial reports disclose information that is relevant to the assessment of
  - (a) profit, funding and investing, and compliance.
  - (b) performance, financial position and cash flows.
  - (c) financial and social performance, financial position and funding and investing, including information about compliance.
  - (d) performance, financial position and funding and investing, including information about compliance.

5. In accordance with the Framework for the Preparation and Presentation of General Purpose Financial Reports which one of the following transactions is consistent with the definition of income?
- (a) collection of accounts receivable
  - (b) debt forgiven by the lender
  - (c) issue of share capital
  - (d) upward revaluation of a non-current asset
6. In the event of insolvency, which of the following creditors would receive payment first?
- (a) employees
  - (b) secured creditors
  - (c) liquidator
  - (d) shareholders
7. If you were determining the efficiency of an organisation, which of the following ratios would you select?
- (a) earnings per share and quick asset
  - (b) profit margin and times interest earned
  - (c) debt to equity and dividend yield
  - (d) inventory turnover and debtors collection
8. Which one of the following is a distinctive characteristic of a public company?
- (a) Shareholders can enter into contracts on behalf of the company.
  - (b) Shareholders can sue and be sued.
  - (c) Companies do not cease to trade if a shareholder dies.
  - (d) Companies are restricted to transferring shares after the annual general meeting.
9. Which one of the following statements in relation to business planning is true?
- (a) Business objectives should be developed for the short and medium term.
  - (b) Objectives refer to the plans used to achieve specified strategies.
  - (c) A differentiation strategy focuses on being the lowest cost provider of a product.
  - (d) Strategic planning usually involves all employees within an organisation.
10. Bozoe Ltd has obtained \$1,000,000 in funding from the general public. The lenders have no direct claim over any specific company assets. Which one of the following best describes this method of financing?
- (a) unsecured note
  - (b) debenture
  - (c) ordinary shares
  - (d) trust

The following information relates to questions 11 to 14.

	<b>2010</b>	<b>2009</b>
Profit before tax	295,000	225,000
Tax rate %	30	30
Sales	995,300	960,450
Sales returns	80,100	93,000
Current assets	480,200	472,500
Current liabilities	339,400	330,000
Non-current assets	1,250,000	1,000,000
Non-current liabilities	780,600	602,500
Net assets	610,000	540,000

11. What is the current ratio for 2010?
- (a) 143%
  - (b) 71%
  - (c) 180%
  - (d) 141%
12. The price/earnings ratio has decreased from 16 times to 11 times. What does this indicate?
- (a) The market price of ordinary shares is decreasing.
  - (b) The share price of ordinary shares is increasing.
  - (c) The dividend yield has fallen to eleven cents per share.
  - (d) The organisation is earning one dollar for every eleven dollars invested in assets.
13. What was the debt to equity ratio for 2009?
- (a) 154%
  - (b) 61%
  - (c) 184%
  - (d) 173%
14. What is the profit margin ratio for 2010?
- (a) 21%
  - (b) 30%
  - (c) 23%
  - (d) 32%

15. You are the new management accountant at Whittington Manufacturing and the manager has provided you with the following information about one of its products:

**Standard costs**

Direct materials	2 metres @ \$5 per metre	\$10
Direct labour	0.5 hours @ \$10	5
Fixed overhead	0.5 hours @ \$2 *	1
Variable overhead	0.5 hours @ \$4	2
Standard unit cost		18

\*Rate based on expected activity of 2,500 hours.

During the most recent year, the following results were recorded:

**Actual results**

Production		6,000 units
Direct materials	11,750 metres purchased and used	\$61,100
Direct labour	2,900 hours	29,580
Fixed overheads		6,000
Variable overheads		10,500

What is the materials price variance?

- (a) \$1,100 favourable
- (b) \$2,350 unfavourable
- (c) \$1,100 unfavourable
- (d) \$2,350 favourable

**End of Section One**

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**Section Two: Extended response****70% (130 Marks)**

This section contains **five (5)** 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.
- 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.

Suggested working time: 120 minutes.

**Question 16****(19 marks)**

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

<b>John Smith</b>	
<b>Income statement</b>	
<b>for the period ended 30 September 2010</b>	
	\$
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.

**See next page**



(a) Prepare a Cash budget for the month of October 2010.

(13 marks)

**Workings:**



- (b) Discuss the purpose of performance reports and their use as a management tool. (4 marks)

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- (c) If a cash budget forecast for John Smith’s business indicates there is insufficient cash on hand to meet its obligations in three months, describe **two** actions that could be taken to improve the business’s cash position. (2 marks)

One: \_\_\_\_\_

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Two: \_\_\_\_\_

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## Question 17

(19 marks)

OMG Wifmod Ltd manufactures USB drives and wireless modems. The total contribution margin on estimated sales of 40,000 USB drives is \$510,000 and fixed costs are estimated to be \$320,000. The variable cost of producing 25,000 wireless modems is \$472,500 and total fixed costs are \$200,000. The selling price for wireless modems is \$45.

- (a) What is the contribution margin per unit for the wireless modems? (2 marks)

**Workings:**

Contribution margin = \_\_\_\_\_

- (b) If the selling price for USB drives is \$25.50, what is the variable cost to make each USB drive? (2 marks)

**Workings:**

Variable cost = \_\_\_\_\_

- (c) If sales of wireless modems are estimated to be 25,000 units, calculate the break-even point in units. (2 marks)

**Workings:**

Break-even point = \_\_\_\_\_

- (d) The margin of safety on the sale of wireless modems is 69.3%. Explain briefly what this means. (2 marks)

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- (e) Calculate the break-even selling price if 25,000 wireless modems are sold. (2 marks)

**Workings:**

Break-even selling price = \_\_\_\_\_

- (f) The USB drive requires 2 labour hours to manufacture, while the wireless modem requires 5 labour hours. Demand for the USB drives is estimated to be 45,000 units while demand for wireless modems is estimated to be 27,000 units. To meet demand for both products would require 225,000, labour hours, but the maximum capacity for OMG Wifmod Ltd is 150,000 labour hours per year.

Determine the contribution margin per labour hour for each product and then calculate how many USB drives and modems must be sold to maximise profit, i.e. the optimum product mix. (4 marks)

**Workings:**

Product	USB drives	Wireless modems
Contribution margin per labour hour		

Product	USB drives	Wireless modems
Optimum number of products		

See next page

- (g) A telecommunications company has made an offer to buy 4,000 wireless modems for \$35 each with the additional requirement that its logo be placed on each modem. OMG Wifmod Ltd now has some idle production capacity but will have to reduce the production of USB drives by 2,500 units if it accepts the order from the telecommunications company. It will also need to spend \$7,500 to purchase the equipment required to place the telecommunications company logo on the modems. This specialised equipment is only expected to have this one time use and has zero disposal value.

Calculate the effect on profit that would be made if the offer was accepted. Show all workings. (5 marks)

**Workings:**

The effect on profit is \$ \_\_\_\_\_

**See next page**

## Question 18

(17 marks)

Great Ability Enterprises is considering the acquisition of new machinery to the value of \$360,000. It is estimated it will cost \$500 to transport the equipment to its store and a further \$1,500 to have it installed correctly. If purchased it is estimated the machinery will increase net cash flows by \$68,000 per year. The machinery has an estimated useful life of 10 years and an estimated residual value of \$45,000. Great Ability Enterprises has a required rate of return for all projects of 12% and the predetermined acceptable payback period for investments is 3 years. Assume all cash flows are received evenly throughout the year. Ignore any tax implications.

- (a) (i) Calculate the payback period for the machinery, in years and months. (2 marks)

**Workings:**

Payback period: \_\_\_\_\_

- (ii) Based on the payback method explain briefly whether the machinery is an acceptable investment. (1 mark)

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- (b) (i) Calculate the net present value of the machinery. Round all figures to two decimal places. (7 marks)

**Workings:**

Net present value: \_\_\_\_\_

- (ii) Based on the net present value method explain briefly whether the machinery is an acceptable investment. (1 mark)

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(c) The payback and net present value methods provide the quantitative analysis required to appraise the viability of capital investments. However, management must also consider the following qualitative factors before making capital investment decisions:

- customer preferences
- competition
- government regulation

Provide an explanation and example for each of these factors. (6 marks)

Customer preferences

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Competition

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Government regulation

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## 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	
	<b>799,783</b>	<b>799,783</b>

**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%.

See next page

- (a) Calculate the profit or loss after tax for the year ended 30 June 2010. (12 marks)

**Workings:**

Profit/loss after tax for Australia Ltd is \$ \_\_\_\_\_

**See next page**

- (b) Prepare the **retained earnings section only** of the Statement of changes in equity for Australia Ltd for the year ended 30 June 2010. (4 marks)

**Australia Ltd**  
**Statement of changes in equity (extract)**  
**for the year ended 30 June 2010**

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- (c) Prepare a Statement of financial position (balance sheet) in external reporting format for Australia Ltd as at 30 June 2010. Notes are **not** required. (20 marks)

**Australia Ltd  
Statement of financial position  
as at 30 June 2010**

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(d) The profit after tax for Australia Ltd is lower in 2010 than it was in 2009. The times interest earned ratio, however, is higher in 2010. Explain how this could occur. (2 marks)

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(e) The current ratio for Australia Ltd has fallen from 7.2 in 2009 to just over 4 in 2010. Give **two** reasons why this could be a positive trend. (2 marks)

One: \_\_\_\_\_

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Two: \_\_\_\_\_

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(f) If operating costs for Australia Ltd have remained stable over 2009 and 2010, provide **two** reasons why the profit margin for Australia Ltd has declined from 16% in 2009 to under 12% in 2010. (2 marks)

One: \_\_\_\_\_

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Two: \_\_\_\_\_

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(g) Describe **two** limitations of using ratio analysis.

(2 marks)

One: \_\_\_\_\_

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Two: \_\_\_\_\_

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\_\_\_\_\_

## 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.

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
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:	<b>2010</b>	<b>2009</b>
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.

- (a) Prepare the Operating activities and Investing activities sections of the Statement of cash flows for Yippy Beens Ltd for the year ended 30 June 2010. (25 marks)

**Workings:**

**Workings:**

**See next page**

**Yippy Beens Ltd  
Statement of cash flows (extract) – Operating activities  
for the year ended 30 June 2010**

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**Yippy Beens Ltd  
Statement of cash flows (extract) – Investing activities  
for the year ended 30 June 2010**

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- (b) List **two** reasons why the Statement of cash flows is an essential component in assessing the financial performance of a firm. (2 marks)

One: \_\_\_\_\_

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Two: \_\_\_\_\_

\_\_\_\_\_

- (c) Give **two** examples to explain how a business with an operating loss can report positive cash flows from operations. (4 marks)

One: \_\_\_\_\_

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Two: \_\_\_\_\_

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**End of Section Two**

**See next page**

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**Section Three: Essay****15% (30 Marks)**

This section contains **two (2)** questions. You must answer **one (1)** question. Write your answer in the space provided following Question 22.

If you use a page for planning, indicate this clearly at the top of the page.

Suggested working time: 35 minutes.

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**Question 21****(30 marks)**

The term 'regulatory framework' refers to the body of rules and regulations that applies to the financial statements of listed companies. This framework includes company law, accounting standards and stock exchange regulations.

Discuss this framework with reference to:

- why regulation is necessary for publicly listed companies (4 marks)
- the purpose of accounting standards and the role of the Australian Accounting Standards Board (AASB) (8 marks)
- the nature and importance of the International Accounting Standards Board (IASB) and identify **four** benefits and **four** limitations that stem from the standardisation of accounting practice (14 marks)
- the Australian Securities and Investments Commission (ASIC) and the Australian Securities Exchange (ASX) in their regulatory roles. (4 marks)

**or**



## Question 22

(30 marks)

Referring to the significant environmental damage caused by BHP at its OK Tedi mine site, former CEO Paul Anderson stated:

“We did not pay sufficient attention to the environmental and community aspects of our mining activities and it had a negative effect on our reputation and our financials. We must operate to world class quality and that means open communication with our stakeholders. We must adapt or we will go out of business.”

The statement by Mr Anderson demonstrates the importance to an organisation of managing its relationship with external stakeholders. The most effective way to do this is through the development and dissemination of comprehensive corporate social disclosure. Discuss the nature, importance, limitations and extent of corporate social disclosures.

Your answer should include the following:

- a definition of ‘corporate social disclosure’ (3 marks)
- **four** examples of information that may be contained in corporate social disclosures (8 marks)
- **four** benefits of corporate social disclosures to organisations and **four** benefits to their stakeholders (8 marks)
- **three** limitations of corporate social disclosures (6 marks)
- a discussion of the extent of corporate social disclosures in Australia. (5 marks)

**End of questions**























## ACKNOWLEDGEMENT

### Section Three

#### Question 22

Quote from: O'Donovan, G. (2001). *Environmental disclosures in the annual report: Extending the applicability and predictive power of legitimacy theory*. Retrieved May, 2010, from page 3  
[http://www.commerce.adelaide.edu.au/research/aaaj/apira\\_2001/papers/O'Donovan122.pdf](http://www.commerce.adelaide.edu.au/research/aaaj/apira_2001/papers/O'Donovan122.pdf)

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