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School Curriculum and Standards Authority

WACE
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Western Australian Certificate of Education
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ACCOUNTING AND FINANCE
Stage 3

INFORMATION BOOKLET

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

Question 19 **(45 marks)**

Kompletelee Ltd is an internet service provider. The equity account balances of Kompletelee Ltd as at 1 July 2011 are provided below.

Kompletelee Ltd
General ledger (extract): Equity account balances as at 1 July 2011

General reserve	$55,000
Ordinary share capital ($1 per share fully paid)	$125,000
Retained earnings	$459,000

On 30 March 2012 the directors issued bonus shares to ordinary shareholders of 1 bonus share for every 5 shares held, using the retained earnings of the company.

An extract of Kompletelee Ltd account balances at the end of the financial year is provided below.

Kompletelee Ltd
Account balances (extract) as at 30 June 2012

Accounts	Debit $	Credit $
Accounts payable		32,500
Accounts receivable	45,600	
Accumulated depreciation – Buildings		38,740
Accumulated depreciation – Plant and equipment		29,950
Allowance for doubtful debts		2,225
Buildings	360,000	
Cash at bank	102,000	
Debentures (due on 1 January 2013)		275,000
Doubtful debts	1,360	
Goodwill	85,000	
Interest received from investments		4,125
Investments – long term	55,000	
Land (at cost)	220,000	
Other expenses	345,000	
Plant and equipment	785,000	
Prepaid insurance	10,580	
Unearned fees		1,756,000
Wages	768,000	

Additional information on 30 June 2012:

- On 30 June 2012, the directors increased the balance of the general reserve to $145,000.
- Insurance used during the year was $10,250.
- Depreciation of Buildings is at 4% per annum using the straight-line method.
- Depreciation of Plant and equipment is at 8% per annum using the reducing balance method.
- Fees received in advance, $12,231 at balance day.
- Income tax is payable at the rate of 30%.

Question 20 **(14 marks)**

The comparative balances for selected accounts of Kafsh Pty Ltd at financial year-end 30 June for the past two years is shown below.

Accounts	2011 $	2012 $
Cash at bank	1,200	0
Accounts payable	3,200	6,500
Accounts receivable	28,000	40,000
Goodwill	15,000	15,000
Inventory	16,000	26,000
Land	240,000	385,000
Plant and equipment	80,000	92,000
Accumulated depreciation – Plant and equipment	(32,000)	(40,400)
Long-term investments	6,000	32,000
Mortgage payable	78,000	159,000
Ordinary share capital	50,000	186,000
Wages payable	1,250	990

Additional information:

- Kafsh Pty Ltd sold Plant and equipment during the year. The Plant and equipment initially cost $8,000 and had been written down to a carrying amount at the date of sale of $4,000. A loss was made on disposal of $1,600.
- Land held at 30 June 2011 was revalued by an increase of $65,000 during the year.
- All purchases of land, property and equipment were made by cash.

Question 21 **(30 marks)**

Fast Shakes Ltd is a listed Australian company with over 200 company-owned milkshake and ice cream stores. It has a standard pricing menu across all locations. On 1 August 2012, Fast Shakes Ltd opened a new outlet in a food hall located in an area that is very popular with students. As with other similar types of food service locations, competition is fierce among the various Fast Shakes Ltd outlets and the new outlet has several rivals who sell hot and cold beverages and ice cream speciality lines. The mission statement of Fast Shakes Ltd is '… to provide friendly service with a high quality product that satisfies even the most discerning of customers'.

To ensure business success, Fast Shakes Ltd's management prepares and reviews financial and operating budgets and performance reports. The performance of the new outlet is benchmarked by Fast Shakes Ltd's management against nine other Fast Shakes Ltd outlets operating in equivalent markets. The other nine outlets have been operating for a minimum of three years.

The cash budget and budgeted income statement for the month ending 31 December 2012 for the new outlet and the other nine Fast Shakes Ltd benchmark outlets are presented below.

Cash budget for the month ending 31 December 2012
Fast Shakes Ltd

	New outlet $	Benchmark outlets $
Opening balance 1 December 2012	12,100	14,600
Plus cash receipts		
Sales	25,300	31,300
	37,400	45,900
Less cash payments		
Accounts payable	13,150	16,100
Wages and salaries	4,900	5,800
Rent and related utility expenses	2,250	5,950
Advertising and marketing	1,300	750
Other expenses	1,700	1,100
Total payments	23,300	29,700
Closing balance 31 December 2012	14,100	16,200

Budgeted income statement for the month ending 31 December 2012

Fast Shakes Ltd

	New outlet $	Benchmark outlets $
Sales income	27,950	33,250
Less loyalty discounts and special offers	2,300	1,850
Net sales revenue	25,650	31,400
Less cost of sales	14,600	15,300
Gross margin	11,050	16,100
Less operating expenses		
Wages and salaries	5,200	6,150
Rent and related utility expenses	2,450	2,200
Advertising and marketing	1,400	1,050
Depreciation – Equipment, fixtures and fittings	850	600
Insurance	300	250
Other expenses	1,550	1,350
Total expenses	11,750	11,600
Net operating profit (loss)	(700)	4,500

You are to advise the management of Fast Shakes Ltd on the importance of business planning and budgeting. Where appropriate, your advice is to be based on the budget data given above.

Calculations are **not** required in your essay. However, you can choose to use any financial information you believe to be relevant.

Question 22 **(30 marks)**

Construkten Pty Ltd is a large proprietary company operating in the Australian light engineering industry. It has accumulated substantial cash reserves, and as their chief financial officer, you have been asked to identify a suitable public company in which the company can invest surplus funds. You have initially identified XXTZ Ltd, an Australian Securities Exchange (ASX) listed company with activities in the heavy engineering industry, as being a potentially suitable investment for Construkten Pty Ltd.

The following data has been provided to help you evaluate whether XXTZ Ltd might be a suitable investment for Construkten Pty Ltd.

Australian Securities Exchange (ASX) Share data (extract) – 30 June 2012

Name	Last price	Up/down	52 week high	52 week low	Yield %	Price/ Earnings
XXTZ Ltd	1.03	-5	1.40	0.72	4.60	11

XXTZ Ltd
Statement of comprehensive income for the years ended 30 June

	2011 $	2012 $
Sales	1,487,000	1,690,000
Less cost of sales	698,000	710,000
Gross profit	789,000	980,000
Less finance expenses	38,000	61,000
Less other expenses	430,000	509,000
Profit before income tax	321,000	410,000
Income tax	96,300	123,000
Profit after income tax	224,700	287,000
Other comprehensive income		
Gain on asset revaluation	0	25,000
Total comprehensive income for the year	224,700	312,000

Key financial ratios for XXTZ Ltd and the industry averages

Ratio	XXTZ Ltd		Industry averages	
	2011	2012	2011	2012
Profit	15.1%	17.0%	13.8%	12.4%
Times interest earned	9.4 times	6.9 times	4.8 times	4 times
Working capital	200%	140%	130%	130%
Debt to equity	67%	84%	110%	112%

You are to advise the senior management of Construkten Pty Ltd on the planned acquisition of XXTZ Ltd. This advice should be based on the information you are able to extract from the ASX Share data, the Statements of comprehensive income for the years ended 30 June 2011 and 30 June 2012 and the key financial ratios for XXTZ Ltd and industry averages.

Calculations are **not** required in your essay. However, you can choose to use any financial information you believe to be relevant.

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