



Western Australian Certificate of Education Examination, 2012

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

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
- Information Booklet
- Specifications Booklet

Number of additional answer booklets used (if applicable):

To be provided by the candidate

Standard items: pens (blue/black preferred), pencils (including coloured), sharpener, correction tape/fluid, eraser, ruler, highlighters

Special items: non-programmable calculators approved for use in the WACE examinations

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	125	70
Section Three: Essay	2	1	35	30	15
Total					100

Instructions to candidates

- The rules for the conduct of Western Australian external examinations are detailed in the *Year 12 Information Handbook 2012*. 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 then shade your new answer. Do not erase or use correction fluid/tape. 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 and Specifications Booklets are **not** handed in with your Question/Answer Booklet.

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.

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 then shade your new answer. Do not erase or use correction fluid/tape. 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.

1. An advantage of being a debenture holder is that
 - (a) you receive a higher interest rate than you would with an unsecured note.
 - (b) it provides a safe short-term investment option for surplus cash.
 - (c) you have a claim over assets should the company default.
 - (d) the money can be redeemed at any time.

2. A company constitution is a legal document that
 - (a) governs the internal operations of all companies.
 - (b) may displace or modify the replaceable rules.
 - (c) must be signed and agreed to by all shareholders.
 - (d) must be lodged with the Australian Taxation Office (ATO).

3. When issuing shares, which of the following documents must a listed company lodge with the Australian Securities and Investment Commission (ASIC)?
 - (a) unaudited financial statements
 - (b) a prospectus
 - (c) the company constitution
 - (d) a management report

4. The role of the Australian Securities Exchange (ASX) includes which of the following?
 - i outlines rules for companies listed on the ASX
 - ii provides an efficient market for the exchange of securities in Australia
 - iii promotes confidence in investing in companies listed on the ASX
 - (a) i and ii
 - (b) i and iii
 - (c) ii and iii
 - (d) i, ii and iii

5. The process whereby a creditor appoints a person to sell the secured asset of a company to gain their payment is known as
- (a) bankruptcy.
 - (b) administration.
 - (c) liquidation.
 - (d) receivership.
6. Financial statements influence users' decisions by helping them to make predictions or confirm or correct past predictions. This is consistent with the qualitative characteristic of
- (a) understandability.
 - (b) relevance.
 - (c) reliability.
 - (d) comparability.
7. A company is obliged to make an announcement to the ASX regarding new technology. However, before the ASX press release, a non-executive director of the company informs his nephew of the discovery. The nephew immediately makes a substantial purchase of shares. This situation would be **best** described as
- (a) a conflict of interest.
 - (b) insider trading.
 - (c) creative accounting.
 - (d) tax avoidance.
8. On 2 March 2012, LMNN Ltd received applications for 100,000 ordinary shares at \$5 each, fully paid. The Application ordinary shares general ledger account is treated as
- (a) an asset.
 - (b) an expense.
 - (c) equity.
 - (d) a liability.
9. KPZOZ Ltd paid a dividend of \$15,500 that had been declared and provided for at the end of the previous financial year. Which of the following general journal entries correctly records the transaction?
- (a) debit final dividends payable, credit retained earnings
 - (b) debit retained earnings, credit cash at bank
 - (c) debit final dividends payable, credit cash at bank
 - (d) debit dividends declared, credit cash at bank
10. Which statement about cost concepts is correct?
- (a) A past cost is avoidable because it has already been incurred.
 - (b) Period costs are those costs related to the manufacture of a product.
 - (c) Product costs consist of direct materials, direct labour and overheads.
 - (d) Factory overheads can be classified as direct costs.

11. The purpose of accounting standards is **best** described as
- (a) protecting the external users of general purpose financial reports.
 - (b) assisting management to prepare reports for internal decision making.
 - (c) ensuring that companies discharge fully their corporate social responsibilities.
 - (d) reducing the need for the independent audit of a company's financial statements.
12. Which of the following **best** explains why a public company provides corporate social disclosure?
- (a) to improve relationships with the people in the local community
 - (b) to improve relationships with its employees
 - (c) to improve relationships with its customers and employees
 - (d) to improve relationships with its employees, customers and the community
13. An unfavourable labour efficiency variance indicates that
- (a) the actual labour rate was higher than the standard labour rate per direct labour hour.
 - (b) the actual direct labour hours exceeded standard direct labour hours for the production level actually achieved.
 - (c) overtime labour was utilised during the period.
 - (d) the total labour variance must be unfavourable.
14. When considering a project's forecast cash flows, the time value of money is recognised in calculating the
- (a) net present value of the project.
 - (b) payback period for the project.
 - (c) rate of return on the project's assets.
 - (d) historical cost of the project's assets.
15. Budjitt Limited is preparing its budget for the month ending 31 January 2013. The following information has been extracted from the accountant's working papers:

Forecast accounts receivable balances as at	\$
• 1 January 2013	50,000
• 31 January 2013	60,000
Forecast sales for the month ending 31 January 2013	
• Cash	25,000
• Credit: due within 30 days of date of sale	75,000

The budgeted cash to be collected from accounts receivable during the month ending 31 January 2013 is

- (a) \$65,000.
- (b) \$85,000.
- (c) \$90,000.
- (d) \$100,000.

Section Two: Extended response**70% (125 Marks)**

This section has **five (5)** questions. Answer **all** questions. Write your answers in the spaces provided.

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.

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**(26 marks)**

Fruity Delightful Limited produces three fruit-based product lines:

- juices
- fruit bars
- jams.

Fruity Delightful Limited is considering not producing jam because sales in this competitive market may not be profitable for them. The following budgeted information for the jam product line for the year commencing 1 January 2013 has been provided by the management accountant:

Annual sales (units measured as 500 gram jars of jam)		160,000
Selling price per unit		\$5.00
Cost items (for the manufacture of 160,000 units of jam)	\$	\$
Direct materials		240,000
Direct labour		192,000
Overheads:		
Variable	160,000	
Fixed	128,000	288,000
Selling and distribution costs	96,000	
General and administration expenses	80,000	176,000

See next page

The management of Fruity Delightful Limited is contemplating shutting down the jam product line. The following additional information for the year commencing 1 January 2013 has been gathered in preparation for making this decision:

- Budgeted fixed overheads will not change if the jam product line is closed.
 - The production capacity previously used by the jam product line can now be used to produce more of the juices and fruit bars. This will generate an additional net contribution margin of \$20,000 during the year ending 31 December 2013.
 - Budgeted selling and distribution costs are variable.
 - Budgeted general and administrative expenses are predominantly fixed but will decrease by \$10,000 if the jam product line is closed.
 - All other budgeted expenses will be as expected.
- (b) (i) Calculate the relevant revenue and costs of the jam product line on 31 December 2012. Clearly show **all** workings. (8 marks)

Workings:

- (ii) On the basis of your calculations, do you recommend that the jam product line be shut down on 31 December 2012 or not? Provide your reasoning. (2 marks)

See next page

Fruity Delightful Limited uses standard costs for planning and controlling costs. Froots is a highly nutritious bar manufactured by the company. The standard cost for each batch of 200 units of this product line is as follows:

- Direct materials: 30 kilograms at \$20.00 per kilogram.
- Direct labour: 4 hours at \$25.00 per hour.

The following information for the Froots product line in the month ending 30 November 2012 has been extracted from the company's accounting records:

- 24,000 Froots bars manufactured
- 4,000 kilograms of direct materials purchased and used at an average actual cost of \$19.00 per kilogram
- 550 direct labour hours worked at an average actual direct labour cost of \$22.00 per direct labour hour.

(c) Calculate the standard cost variance for the month ending November 2012, indicating whether each variance is favourable or unfavourable. Clearly show **all** workings.

- (i) Direct materials price variance (4 marks)

Workings:

Direct materials price variance: _____

Circle the variance: favourable **or** unfavourable.

See next page

(ii) Direct materials usage variance

(8 marks)

Workings:

Direct materials usage variance: _____

Circle the variance: favourable **or** unfavourable.

See next page

Question 17

(22 marks)

Nezlozyk Limited produces two products, A and B. The market for both products is growing at more than 20% per annum. A budget has been prepared for the year ending 31 December 2013. The following information relates to the planned production and sale of Products A and B.

Details	Product A	Product B
Number of units to be manufactured and sold	10,000	20,000
Machine hours (MH) per unit	2.00	1.50
	\$	\$
Selling price per unit	70.00	50.00
Variable cost items per unit		
Direct materials	18.00	10.00
Direct labour	8.00	5.00
Variable overheads	11.00	8.00
Total variable costs	37.00	23.00

Total fixed costs are \$377,000.

- (a) Calculate the budgeted contribution margin per unit for Product A and Product B for the year ending 31 December 2013. Clearly show **all** workings. (4 marks)

Workings:

Contribution margin per unit for Product A: \$ _____

Contribution margin per unit for Product B: \$ _____

See next page

- (b) Calculate the budgeted contribution margin per machine hour to be generated by Product A and Product B for the year ending 31 December 2013. Clearly show **all** workings.
(4 marks)

Workings:

Contribution margin generated per machine hour by Product A: \$ _____

Contribution margin generated per machine hour by Product B: \$ _____

- (c) Calculate the budgeted weighted average contribution margin per unit for Products A and B for the year ending 31 December 2013. Clearly show **all** workings. (8 marks)

Workings:

Budgeted weighted average contribution margin per unit: \$ _____

- (d) Calculate the budgeted break-even point in total units for the year ending 31 December 2013. Clearly show **all** workings. (2 marks)

Workings:

Budgeted break-even point: _____ units

- (e) Calculate the budgeted margin of safety in units for the year ending 31 December 2013. (2 marks)

Workings:

Budgeted margin of safety: _____ units

- (f) Explain how the margin of safety can be used by Nezlozyk Limited's management to make decisions about Products A and B. (2 marks)

Question 18

(18 marks)

Wayste Aweigh Limited provides a government-licensed waste disposal service for small to medium-sized medical treatment facilities. The company is examining a proposal to install a new high temperature incinerator to destroy highly toxic and hazardous medical waste.

The following information has been provided:

- The new machine will be installed and ready for use on 1 January 2013 at a cost of \$950,000.
- Given the rapid rate of technological innovation in the waste treatment industry, the high temperature incinerator will have an economic life of only three years. The after tax net operating cash inflows to be received by Wayste Aweigh Limited are forecast as follows.

Year ending 31 December	\$
2013	500,000
2014	400,000
2015	300,000

- The net proceeds realised from scrapping the incinerator in early 2016 will be sufficient to cover the costs of removal. Thus, the incinerator is assumed to have zero residual value as at 31 December 2015.
- Apart from the initial acquisition cost that will be paid on 1 January 2013, it has been assumed that all other operating cash flows will be received and paid on 31 December of each year.
- Wayste Aweigh Limited has a cost of capital for evaluating investment proposals of 12%.

- (a) Wayste Aweigh Limited evaluates all proposed capital investment proposals using the discounted cash flow method.
 - (i) Calculate the net present value as at 1 January 2013 for the proposed investment by Wayste Aweigh. Clearly show **all** workings. (8 marks)

Workings:

Net present value as at 1 January 2013: \$ _____

- (ii) On the basis of the net present value calculated for the high temperature incinerator as at 1 January 2013, would you recommend that Wayste Aweigh Limited make this investment? Provide your reasoning. (2 marks)

- (b) An alternative method for evaluating proposed capital investments is the payback period.
 - (i) Calculate the payback period in years and months for the proposed investment by Wayste Aweigh. (6 marks)

Workings:

Payback period as at 1 January 2013: _____ years and _____ months.

- (ii) If a minimum payback period of two years was required by Wayste Aweigh, would you recommend the proposed investment? Provide your reasoning. (2 marks)

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.

- (a) Prepare the Ordinary share capital general ledger account showing all entries for the year ended 30 June 2012. (5 marks)

Kompletelee Ltd
General ledger (extract)
Ordinary share capital

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%.

See next page

- (b) Calculate the profit or loss after income tax for Kompletelee Ltd for the year ended 30 June 2012. Clearly show **all** workings. (14 marks)

Workings:

Profit or loss after tax: \$ _____

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.

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See next page

Section Three: Essay

15% (30 Marks)

This section has **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.

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

See next page

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.

Your essay **must** address the following:

- the difference between cost leadership and product differentiation strategies and the identification of which competitive strategy would be most suitable for the Fast Shakes Ltd business (6 marks)
- **three** reasons why a cash budget and/or a budgeted income statement should be prepared (6 marks)
- why, using **two** examples, it is possible for the Fast Shakes Ltd outlet to forecast a budgeted net operating cash surplus but **not** a satisfactory budgeted profit (6 marks)
- **two** issues revealed by the cash budget and the budgeted income statement that the management of Fast Shakes Ltd should address (4 marks)
- the purpose of a performance report and how it would be used by Fast Shakes Ltd management to assess the performance of the new outlet for the month of December 2012 (5 marks)
- use of essay format. (3 marks)

See next page

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	<u>224,700</u>	<u>312,000</u>

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%

See next page

You are to advise the senior management of Konstrukten 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.

Your essay **must** address the following:

- **three** differences between a public and large proprietary company (6 marks)
- an explanation of **three** items of financial information reported in the extract from the ASX Share data (6 marks)
- profitability, liquidity and gearing trends, giving possible reasons for any changes that may have occurred (9 marks)
- **three** limitations in making your analysis of the ratios and data provided (6 marks)
- use of essay format. (3 marks)

End of questions

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