



Western Australian Certificate of Education Examination, 2013

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 fluid/tape, 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: Short answer	6	6	120	155	70
Section Three: Extended answer	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 2013*. 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 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. 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. Management accounting differs from financial accounting in that management accounting is concerned mainly with
 - (a) measuring and reporting financial information to external parties.
 - (b) preparing accounts in line with generally accepted Australian accounting principles.
 - (c) measuring, analysing and reporting financial and non-financial information.
 - (d) preparing financial statements for auditing by external auditors.

2. Corporate social disclosure is
 - (a) engaging in ethical behaviours.
 - (b) compulsory for the mining industry.
 - (c) reporting financial information.
 - (d) compulsory for reporting entities.

3. Internal control is **most** concerned with
 - (a) maximising profit and cash flow.
 - (b) ensuring all expenses and taxes are paid.
 - (c) production efficiency and product quality.
 - (d) safeguarding assets and records.

4. Which of the following is a characteristic of companies over sole traders or partnerships for engaging in business activities?
 - (a) limited life of the entity
 - (b) limited access to capital
 - (c) limited government regulations
 - (d) limited liability for stakeholders

5. Which of the following would meet the definition and recognition criteria of an asset?
- (a) accounts receivable due at the end of the month for a fixed amount
 - (b) accounts receivable that has no due date for payment and the amount is uncertain
 - (c) accounts receivable due at the end of the month but the amount is uncertain
 - (d) accounts receivable for a fixed amount but the due date for payment is uncertain
6. A master budget expresses the
- (a) strategic goals of an organisation, including a set of strategic objectives.
 - (b) management's operating and financial plans for a specified period, including budgeted financial statements.
 - (c) cash position of an organisation, including a set of cash flow statements.
 - (d) long-term liabilities of an organisation, including a set of balances outstanding on long-term borrowings.
7. The Earnings per ordinary share ratio is used primarily by investors to compare earnings on
- (a) liabilities held across companies.
 - (b) preference shares held across companies.
 - (c) ordinary shares held across companies.
 - (d) equity reserves held across companies.
8. A company accounts for share issue costs by recording
- (a) an increase in assets for share issue costs.
 - (b) an increase in liabilities for capital issued.
 - (c) a decrease in equity upon share allotment.
 - (d) a decrease in expenses for share issue costs.
9. The role of the accountant in managing business operations includes
- (a) maintaining internal controls and preparation of budget reports.
 - (b) sourcing and securing assets for capital investment decisions.
 - (c) managing the sales division to generate revenue.
 - (d) managing recruitment and human resources.
10. The Conceptual Framework recognises that there are constraints to providing relevant and reliable information in the presentation of financial statements. Constraints on relevant and reliable information include
- i. timeliness.
 - ii. balance between cost and benefits.
 - iii. comparability.
- (a) i and ii
 - (b) i and iii
 - (c) ii and iii
 - (d) i, ii and iii

See next page

11. What will be the effect of recording accrued expenses on financial ratios?
- (a) the Quick asset and Times interest earned ratios will increase
 - (b) the Debt to equity ratio will improve
 - (c) the Quick asset and Times interest earned ratios will decrease
 - (d) the Price earnings and Earnings per ordinary share ratios will increase
12. A corporation that issues a debenture is a
- (a) public company that receives cash in exchange for a non-current security.
 - (b) company that issues shares in exchange for a non-current liability.
 - (c) large company that receives cash in exchange for a current security.
 - (d) large company acting as an investment banker.
13. Accumulated depreciation measures the
- (a) expense amount for the current accounting period.
 - (b) depletion of economic benefits in the asset.
 - (c) liability associated with the use of an asset.
 - (d) total cash set aside to replace the asset.
14. Which of the following would explain an increase in the asset revaluation reserve?
- (a) increase in the market value of accounts receivable
 - (b) increase in the book value of cash at bank
 - (c) increase in the market value of land
 - (d) increase in the book value of inventory
15. What is the role of the Australian Accounting Standards Board?
- (a) to develop listing rules for all Australian companies
 - (b) to prepare the financial statements of Australian companies
 - (c) to protect the users of financial statements issued by Australian companies
 - (d) to develop and amend accounting standards in Australia

End of Section One

See next page

Section Two: Short answer

70% (155 Marks)

This section has **six (6)** 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.

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- 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 that you are continuing to answer at the top of the page.

Suggested working time: 120 minutes.

Question 16**(34 marks)**

A hotel offers a \$90 package that includes one night's accommodation and breakfast for two. Variable costs are \$20 per package for food, utilities and cleaning. Fixed costs are \$14,000 per month.

Management is considering reducing the price to \$70 per package. The variable costs per package would be reduced by \$6 but fixed costs would not change.

- (a) Calculate the contribution margin for the \$90 and \$70 hotel packages. (4 marks)

Workings:

Contribution margin per \$90 package: _____

Contribution margin per \$70 package: _____

See next page

- (b) Calculate the monthly break-even point in units/packages and dollars for each package. (8 marks)

Workings:

Monthly break-even point in units for the \$90 package: _____

Monthly break-even point in dollars for the \$90 package: _____

Monthly break-even point in units for the \$70 package: _____

Monthly break-even point in dollars for the \$70 package: _____

See next page

Question 16 (continued)

- (c) (i) The hotel's target profit is \$7,000 per month (ignore taxation). Calculate the number of units for each package to be sold to achieve the target profit. Calculate the monthly sales budget in dollars for each package. (10 marks)

Workings:

Number of units per month required for the \$90 package: _____

Budgeted monthly sales in dollars for the \$90 package: _____

Number of units per month required for the \$70 package: _____

Budgeted monthly sales in dollars for the \$70 package: _____

- (ii) For each package, calculate the monthly margin of safety in dollars and as a percentage (to two decimal places). (4 marks)

Workings:

Margin of safety in dollars for the \$90 package: _____

Percentage margin of safety for the \$90 package: _____

Margin of safety in dollars for the \$70 package: _____

Percentage margin of safety for the \$70 package: _____

See next page

- (d) Which package is better for the hotel to offer? Justify your recommendation, using quantitative and qualitative factors. (4 marks)

- (e) State **four** techniques and/or financial information that could be used to analyse a product close-down or business unit close-down decision. (4 marks)

Question 17

(21 marks)

A company is considering investing in a 3D printer, either Printer A or Printer B. The chosen printer must be ready for use on 1 January 2014.

Cost details for each printer and the operating cash inflows for each investment are as follows:

	Printer A	Printer B
	\$	\$
Cost (payable 1 January 2014)	800,000	925,000
Net after tax operating cash inflow as at 31 December for the following years:		
2014	400,000	500,000
2015	300,000	400,000
2016	200,000	300,000

The economic life of the printer is three years and there is no salvage value at the end of its useful life.

The company has a 12% target rate of return for capital investments.

- (a) Calculate the Net Present Value (NPV) for Printer A. (8 marks)

Workings:

NPV for Printer A: _____

See next page

Question 17 (continued)

- (d) Explain **one** advantage and **one** disadvantage of using NPV for evaluating capital investment decisions. (2 marks)

Question 18

(12 marks)

A company manufactures skirts. The materials used are cotton fabric, buttons, labels and threads. The cotton fabric is regarded as direct materials, while the buttons, labels and threads are indirect materials and part of the manufacturing overheads.

The standard cost of direct materials is \$12.50 per metre, while the actual cost of direct materials is \$12.70 per metre. The company purchased 25,000 metres of material.

- (a) Calculate the direct material price variance and comment on the reason for the variance.

(3 marks)

Workings:

Direct material price variance: _____

Comment on the variance: _____

The standard material quantity is 3.1 metres per skirt. The company manufactures 2,000 skirts for the month. The standard material quantity for 2,000 skirts is 6,200 metres, while the actual quantity used is 6,500 metres.

- (b) Calculate the direct materials usage variance and comment on the reason for the variance.

(3 marks)

Workings:

Direct material usage variance: _____

Comment on the variance: _____

Question 18 (continued)

The standard labour rate per hour is \$18.00 including on-costs. The actual labour rate per hour is \$19.00. The actual hours used to manufacture the skirts for the month are 2,700.

- (c) Calculate the direct labour rate variance and comment on the reason for the variance. (3 marks)

Workings:

Direct labour rate variance: _____

Comment on the variance: _____

The standard hours allowed to manufacture the skirts are 2,800 for the month.

- (d) Calculate the direct labour efficiency variance and comment on the reason for the variance. (3 marks)

Workings:

Direct labour efficiency variance: _____

Comment on the variance: _____

Question 19

(20 marks)

Go! Ltd supplies garden products to retailers. The managers are investigating whether the company's cash flow may be sufficient to invest in a new machine that produces biodegradable garden pots. Go! Ltd's budgeted cash flows for 2013 are as follows:

Month	Cash \$	Credit \$
Sales		
January	145,000	234,000
February	100,000	278,000
March	78,000	243,000
Purchases		
January	43,000	156,000
February	66,000	67,000
March	36,000	74,000

Credit sales are collected 75% in the month following the sale and 25% in the second month following the sale. Credit purchases are payable 65% in the month following the purchase and 35% in the second month following the purchase.

The managers of Go! Ltd intend to purchase the new machine by negotiating payment over two months. The cost of the machine is \$390,000 with 70% payable in March and the balance payable upon delivery in April. The closing cash at bank balance as at 28 February 2013 was \$10,000.

- (a) The managers have asked you to prepare a cash budget for March 2013. (10 marks)

Workings:

Question 20

(48 marks)

Banagsh Ltd provides property management and repair services. Its account balances are provided below.

Banagsh Ltd
Account balances as at 30 June 2013

Accounts	Debit \$	Credit \$
Accounts payable		15,200
Accounts receivable	23,400	
Accumulated depreciation – Buildings		105,000
Accumulated depreciation – Plant and equipment		275,000
Allowance for doubtful debts		1,755
Asset revaluation reserve (1 July 2012)		100,000
Buildings (at cost)	350,000	
Cash at bank	35,225	
Debentures (due on 30 June 2016)		580,000
Doubtful debts	265	
Fees		1,750,000
General reserve		125,000
Goodwill	650,000	
Interest received from investments		425,000
Investments – short-term	1,000,000	
Investments – long-term	500,000	
Land (at fair value) (1 July 2012)	825,000	
Ordinary share capital		650,000
Other expenses	225,000	
Plant and equipment (at cost)	325,000	
Prepaid insurance	15,600	
Retained earnings (1 July 2012)		37,535
Wages	115,000	

Additional information on 30 June 2013:

- Ordinary share capital was issued at \$1.00 per share fully paid.
- At the 2012 Annual General Meeting (AGM) the company directors declared that an ordinary dividend was payable at \$0.08 per share.
- Prepaid insurance used during the year was \$12,600.
- Depreciation of Plant and equipment is at 15% per annum using the straight-line basis.
- Depreciation of Buildings is at 5% per annum using the reducing balance method.
- Interest not yet received on all Investments for the financial year is \$12,225.
- Land is held at fair value and at 30 June 2013 the directors determined that the fair value was \$867,000.
- The directors resolved to transfer \$150,000 to the General reserve to fund future investments and growth opportunities.
- Debentures were issued on 1 July 2011, with interest of 7.25% paid annually. Interest on debentures has not been paid for 2013.
- All wages are paid on a monthly basis.
- Income tax is payable at the rate of 30%.

See next page

- (a) As required by AASB101 *Presentation of Financial Statements*, prepare a Statement of comprehensive income in external reporting format for Banagsh Ltd for the year ended 30 June 2013. (17 marks)

Workings:

- (b) Prepare the Retained earnings General ledger account for Banagsh Ltd for the year ended 30 June 2013. (5 marks)

Workings:

**Banagsh Ltd
General ledger (extract)
Retained earnings account**

Question 20 (continued)

- (c) Prepare the following information in relation to the Statement of financial position for Banagsh Ltd as at 30 June 2013.
- (i) The Other reserves note to the accounts for Banagsh Ltd as at 30 June 2013. (5 marks)

Workings:

Banagsh Ltd
Notes to the accounts

Other reserves

- (ii) An Extract of the Equity and liabilities section only for the Statement of financial position in external reporting format as required by AASB101, *Presentation of Financial Statements*. (13 marks)

Workings:

- (d) On 10 August 2013, Banagsh Ltd paid the dividend to its Ordinary shareholders. Prepare the general journal entry to record the payment of the dividend. (4 marks)

Banagsh Ltd
General journal (extract)

- (e) Identify **four** rights of Ordinary shareholders. (4 marks)

Question 21

(20 marks)

The following information has been extracted from the General ledger of PO! Ltd prepared as at 30 June 2012 and 30 June 2013.

Accounts	2013 \$	2012 \$
Inventories	390,000	360,000
Accumulated depreciation – Plant and equipment	160,000	115,000
Prepayments – Insurance	6,000	11,000
Trade creditors	411,000	392,000

Additional information:

An item of plant and equipment that had originally cost \$105,000 was sold for cash on 31 May 2013. At the time of disposal, this item of plant and equipment had a net book value/ carrying amount of \$60,000.

The following is an extract from the Income statement of PO! Ltd for the year ended 30 June 2013.

Accounts	2013 \$
Sales revenue	3,500,000
Less cost of sales	1,925,000
Gross profit	1,575,000
Add other income	
Discount received	6,000
Gain on the sale of plant and equipment	7,000
Less operating expenses	
Interest expense	21,000
Discount allowed	13,000
Doubtful debts	12,000
Insurance expense	27,000
Wages	95,000
Other operating expenses	205,000
Profit before tax	1,215,000
Profit after tax	\$850,500

Additional information:

- All sales and purchases are made on credit.
- Depreciation expense is included in other operating expenses.
- All other operating expenses, including wages, are paid in the year incurred.

See next page

- (a) Calculate total Payments to suppliers and employees for PO! Ltd's Statement of cash flows for the year ended 30 June 2013. (16 marks)

Workings:

Question 21 (continued)

Total Payments to suppliers and employees: \$ _____

- (b) Define cash and cash equivalents and explain whether shares held in an ASX-listed company are cash equivalents. Note, that when such shares are sold, the cash is received in three days. (4 marks)

End of Section Two

See next page

Section Three: Extended answer

15% (30 Marks)

This section has **two (2)** questions. You must answer **one (1)** question. Write your answer in the space provided following Question 23.

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

Suggested working time: 35 minutes.

Question 22**(30 marks)**

The draft Statement of cash flows and ratios for Stom Ltd, including the Statement of financial position extracts are as follows.

Stom Ltd
Draft Statement of cash flows for the year ended 30 June 2013

	\$	\$
Cash flows from operating activities		
Cash receipts from customers	600,800	
Payments to suppliers and employees	(710,000)	
Cash generated from operations	(109,200)	
Interest paid	(75,000)	
Income tax paid	(18,000)	
Net cash flow from operating activities		(202,200)
Cash flows from investing activities		
Proceeds from sale of plant and equipment	26,000	
Purchase of plant and equipment	(400,000)	
Net cash flow from investing activities		(374,000)
Cash flows from financing activities		
Issue of shares	100,000	
Share issue costs	(30,000)	
Dividends paid	(35,000)	
Receipt of borrowings	120,000	
Net cash flow from financing activities		155,000
Net cash flow		(421,200)
Cash and cash equivalents held at the start of the year		292,600
Cash and cash equivalents held at the end of the year		\$(128,600)

See next page

Question 22 (continued)

Stom Ltd
Statement of financial position (extract) as at 30 June

	2012	2013
	\$	\$
Trade creditors	40,000	61,000
Income tax payable	78,000	178,000
Inventories	180,000	425,000
Property, plant and equipment	490,000	830,000
Receivables (debtors)	70,000	149,500
Allowance for doubtful debts	nil	nil

The selected financial ratios provided below are calculated from Stom Ltd's complete set of financial statements.

Selected financial ratios for Stom Ltd

Ratio	2012	2013
Profit	18.55%	21.67%
Debtors collection	41 days	72 days
Inventory turnover	12 times per annum	6.7 times per annum
Quick asset/liquidity	0.80:1	0.10:1
Debt to equity	63.33%	190.78%

Required:

Prepare a written analysis that describes and interprets the Statement of cash flows, incorporating relevant ratios, and provides advice for action by internal management.

Your answer should address the following:

- a description of the movement of cash overall and the major movements in each of the categories: operating, investing and financing (11 marks)
- discuss an area that may require urgent attention (4 marks)
- provide **five** recommendations to improve liquidity, profitability, risk and the efficient use of assets (10 marks)
- identify **five** items of further information that would assist to better assess the company's situation. (5 marks)

See next page

Question 23

(30 marks)

DBO Ltd is a listed Australian company that operates in the engineering and construction services industry. A summary of its 2012 Statement of financial position is provided below.

DBO Ltd
Statement of financial position (summary)
as at 30 June 2012

	2012	2011
	\$'000	\$'000
ASSETS		
Non-current assets	23,860	18,940
Current assets	2,325	4,820
Total assets	26,185	23,760
EQUITY AND LIABILITIES		
Total equity	6,915	6,686
Non-current liabilities	13,865	12,140
Current liabilities	5,405	4,934
Total liabilities	19,270	17,074
Total equity and liabilities	26,185	23,760

The following information for DBO Ltd has been provided for your analysis.

Selected financial ratios for DBO Ltd

Ratio	2012	2011
Profit	10.23%	9.84%
Debt to equity	278.67%	255.36%
Working capital/current	43.01%	97.68%
Quick asset/liquidity	43.01%	97.68%
Earnings per ordinary share	\$0.24	\$0.23
Price/earnings	9.81 times	10.56 times

As at 30 June 2012, the current assets only include accounts and other receivables.

DBO Ltd negotiated the property, plant and equipment as security for the company's long-term borrowings, which represent 77.14% of the company's total assets as at 30 June 2012. However, the net asset position of the company has remained positive for both years, as the total assets exceed the total liabilities.

In July 2012, after a meeting with the company's creditors, the directors determined that the company is unable to meet its debt obligations.

See next page

Question 23 (continued)**Required:**

The Chief Financial Officer of DBO Ltd has asked you to prepare a written analysis for the Board of Directors on Australian corporate regulation.

Your answer should address the following:

- state **five** characteristics of companies (5 marks)
- discuss the powers and duties of DBO Ltd directors (7 marks)
- describe the purpose of a prospectus and identify **four** items that may be included (5 marks)
- comment on the role and function of external auditors in relation to the presentation of financial statements (3 marks)
- discuss the concept of insolvency based on the *Corporations Act 2001* and determine whether DBO Ltd is solvent as at 30 June 2012 (5 marks)
- state the order of repayment of creditors based on the *Corporations Act 2001*. (5 marks)

End of questions

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