



Western Australian Certificate of Education ATAR course examination, 2016

Question/Answer booklet

ACCOUNTING AND FINANCE

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: 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 this examination

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 material. 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 examination
Section One Multiple-choice	15	15	25	15	15
Section Two Short answer	4	4	120	140	70
Section Three Extended answer	2	1	35	30	15
Total					100

Instructions to candidates

- The rules for the conduct of the Western Australian Certificate of Education ATAR course examinations are detailed in the *Year 12 Information Handbook 2016*. Sitting this examination implies that you agree to abide by these rules.
- Write your answers in this Question/Answer booklet.
- 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.

Section Two: Answer all questions. 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.

Section Three: Answer one question from a choice of two.

- You must be careful to confine your answers to the specific questions asked and to follow any instructions that are specific to a particular question.
- Additional working space pages at the end of this Question/Answer booklet are for planning or continuing an answer. If you use these pages, indicate at the original answer, the page number it is planned/continued on and write the question number being planned/continued on the additional working space page.
- Information for questions has been repeated in 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 to be handed in with your Question/Answer booklet.

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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. Select the **most** correct statement below regarding internal and external reporting.
 - (a) The users of internal reporting and external reporting are the same.
 - (b) Internal reports and external reports use profit to measure performance.
 - (c) Internal reports and external reports are based on legal obligations.
 - (d) Internal report formats are flexible compared with external reports.

2. Management accounting is concerned with preparing
 - (a) and reporting financial information to shareholders.
 - (b) financial reports for lodgement with the AASB.
 - (c) and reporting financial information to employees.
 - (d) financial reports for lodgement with ASIC.

3. A factor affecting capital investment decisions is
 - (a) equity providers' preferences.
 - (b) consumer preferences.
 - (c) management preferences.
 - (d) debt providers' preferences.

4. Business planning assists with
 - (a) minimising costs and risks.
 - (b) eliminating costs and risks.
 - (c) maximising costs and risks.
 - (d) inflating costs and risks.

5. Managers of business finance should
 - (a) only consider short-term financing.
 - (b) only consider long-term financing.
 - (c) be flexible in their perspective.
 - (d) avoid financial institutions.

See next page

6. Which of the following **best** represents the correct order of repayment of creditors as prescribed by the *Corporations Act 2001*?
- (a) shareholders before employee entitlements
 - (b) secured creditors before the liquidator
 - (c) unsecured creditors before secured creditors
 - (d) employee entitlements before shareholders
7. Managers engage in asset management techniques to
- (a) minimise revenue earned and received.
 - (b) maximise expenses incurred and paid.
 - (c) maintain adequate inventory on hand.
 - (d) secure excessive debt to fund operations.
8. The purpose of a cash budget is to
- (a) identify cash inflows and cash outflows of a business.
 - (b) determine the actual cash on hand for a previous period.
 - (c) identify revenue earned for the current period.
 - (d) determine expenses incurred for the current period.
9. Job order costing would be **most** appropriate for which of the following industries?
- (a) custom bridal wear production
 - (b) pharmaceutical manufacturing
 - (c) microchip production
 - (d) sports shoe manufacturing
10. On the instructions of their managing director, the managers of ABDC Ltd are told to enter into a partnership deal that would result in a substantial amount of funds being transferred from ABDC Ltd to QTRS Ltd. The managing director of ABDC Ltd holds 25% of the ordinary shares in QTRS Ltd. This situation would be **best** described as
- (a) usual business practice.
 - (b) a conflict of interest.
 - (c) insider trading.
 - (d) creative accounting.
11. A benefit of cash flow information as presented in the Statement of Cash Flows is that it
- (a) enables users to determine company profitability over the period.
 - (b) enhances comparability of accrual accounting by different entities.
 - (c) enables users to determine company operating capacity for the period.
 - (d) enhances comparability of operating performance by different entities.

12. Select the statement below that states correctly characteristics of companies.
- (a) Liability of ownership is unlimited and ownership is easily transferable.
 - (b) Ownership is not transferable and continuity of existence is limited.
 - (c) Liability of ownership is limited and a company is a legal entity.
 - (d) Continuity of existence is infinite and number of members is limited.
13. If a company earns a consistent level of profit from one year to the next and only has ordinary shareholders, select the event below that identifies correctly a decrease in the earnings per share ratio from one year to the next.
- (a) The company issues preference shares.
 - (b) The company issues ordinary shares.
 - (c) The company issues debentures.
 - (d) The company issues unsecured notes.
14. The debtor's collection and inventory/stock turnover ratio are indicators of
- (a) operating efficiency.
 - (b) long-term profitability.
 - (c) effective profitability.
 - (d) long-term liquidity.
15. A company is insolvent when it is unable to pay
- (a) most of its debts as and when they become due and payable.
 - (b) some of its debts as and when they become due and payable.
 - (c) all of its debts as and when they become due and payable.
 - (d) a few of its debts as and when they become due and payable.

End of Section One

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Section Two: Short answer

70% (140 Marks)

This section has **four (4)** 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.

Additional working space pages at the end of this Question/Answer booklet are for planning or continuing an answer. If you use these pages, indicate at the original answer, the page number it is planned/continued on and write the question number being planned/continued on the additional working space page.

Suggested working time: 120 minutes.

Question 16**(19 marks)**

Tourquekan Limited sells restored motorcycles. The average motorcycle sells for \$40,000 and has a total variable cost of \$30,000. Fixed costs are approximately \$300,000 per annum.

- (a) Calculate the Contribution margin per motorcycle and the Contribution margin ratio.

(4 marks)

Workings:

Contribution margin per motorcycle: _____

Contribution margin ratio: _____

- (b) Calculate the Break-even point in motorcycles and Sales dollars. (4 marks)

Workings:

Break-even point in motorcycles: _____

Break-even point in Sales dollars: _____

- (c) Torquekan Limited requires a profit of \$1,500,000 per annum. Calculate the required target Sales in units and Sales dollars to achieve the target profit. (5 marks)

Workings:

Required target Sales in units: _____

Required target in Sales dollars: _____

- (d) Management consider the revenue to achieve a profit of \$1,500,000 is achievable. Calculate the Margin of safety percentage. (3 marks)

Workings:

Margin of safety percentage: _____

See next page

Question 16 (continued)

(e) Give **three** functions of a Master budget. (3 marks)

Question 17 (26 marks)

PCAR Pty Ltd is considering investing in Project Alpha and Project Beta. The initial capital expenditure budget is limited to \$12,000,000. The company has a 12% target rate of return for capital investments.

Cash flows for each project are predicted as follows:

		Project Alpha	Project Beta
		\$	\$
Initial investment	Year 1	10,500,000	12,000,000

Estimated Net after tax operating cash inflows:

		Project Alpha	Project Beta
		\$	\$
Year 1		2,500,000	Nil
Year 2		2,500,000	6,000,000
Year 3		2,500,000	6,500,000
Year 4		2,500,000	5,000,000
Year 5		2,500,000	1,500,000
Year 6		2,500,000	Nil

The final year cash flows include any net proceeds of salvage/scrap value.

- (a) Calculate the Net Present Value (NPV) for Project Alpha. (5 marks)

Workings:

NPV for Project Alpha: _____

- (b) Calculate the Net Present Value (NPV) for Project Beta. (6 marks)

Workings:

NPV for Project Beta: _____

- (c) Calculate the payback period in years and months for Project Alpha. (3 marks)

Workings:

Payback period for Project Alpha: _____

See next page

Question 17 (continued)

- (d) The Payback period for Project Beta is two years and 11 months. Provide an investment recommendation for the company and justify the recommendation with specific reference to the **two** quantitative methods. (3 marks)

- (e) Plaie Pty Ltd is considering a capital investment in Project Delta with non-current assets of \$500,000.

The following information is provided for Project Delta:

- all non-current assets purchased for the investment are depreciable
- the projected Net profit after company tax is \$1,400,000 per year
- depreciation is the only non-cash item included in projected Net profit and is calculated at 20% per annum straight-line
- the company tax rate is 30%.

Calculate the projected Annual net cash flow before tax for Project Delta. (5 marks)

Workings:

Projected Annual net cash flow before tax for Project Delta is:

- (f) Give **one** advantage and **one** disadvantage of using the Payback period to evaluate capital investment decisions. (2 marks)

- (g) Give **one** advantage and **one** disadvantage of using NPV to evaluate capital investment decisions. (2 marks)

Question 18

(45 marks)

Stally Limited has provided the following account information.

Account	2015 \$	2016 \$
Cash at bank	55,200	(49,000)
Trade receivables	120,000	160,000
Ordinary share capital net of issue costs	1,000,000	1,500,000
General reserve	-	-
Debentures	-	400,000
Revaluation reserve	10,000	75,000
Land	150,000	275,000
Plant and equipment	200,000	250,000
Accumulated depreciation plant and equipment	50,000	70,000
Long-term investments	20,000	5,000
Dividends payable	55,000	65,000
Long-term borrowings – mortgage	200,000	-

Additional information:

- During 2016, dividends of \$65,000 were declared and some dividends were paid in cash.
- The purchase and sale of all non-current assets was for cash.
- An item of Plant originally purchased for \$50,000 was sold during the year. It had a carrying amount of \$20,000 and the loss on disposal was \$10,000.
- During 2016, some Land was revalued upward by \$65,000.
- Loss on sale of Long-term investments was \$12,000.

- (a) Prepare the Financing activities section of the Statement of cash flows for the year ended 30 June 2016. Show all workings clearly. (7 marks)

Workings:

Sally Limited
Statement of cash flows (extract) – Financing activities
for the year ended 30 June 2016

(b) Prepare the Investing activities section of the Statement of cash flows for the year ended 30 June 2016. Show all workings clearly. (15 marks)

Workings:

Question 18 (continued)

Sally Limited
Statement of cash flows (extract) – Investing activities
for the year ended 30 June 2016

(c) Define cash and cash equivalents and explain whether gold bars stored in the company safe are cash equivalents. Note: gold bars may be sold on any business day at market value to the Perth Mint for cash. (3 marks)

- (d) The following data has been provided for Tootit Ltd for the year ended 30 June 2016.

Dividend paid – ordinary shares	\$140,000
Earnings per share	\$0.12
Number of ordinary shares issued	2,000,000
Share price – ordinary	\$1.50

- (i) Calculate to **two** decimal places the price/earnings ratio. (3 marks)

Workings:

Price/earnings ratio: _____

- (ii) Calculate to **two** decimal places the dividend yield as a percentage. (4 marks)

Workings:

Dividend yield: _____

- (iii) An industry competitor has a dividend yield higher than Tootit Ltd. If the earnings per share are the same for both companies, explain how the competitor has a higher dividend yield. (2 marks)

Question 18 (continued)

- (e) Managers of profitable businesses often have to deal with cash flow problems. State **three** reasons why cash flow problems may occur in profitable businesses, and give **one** recommendation to control the problem. (4 marks)

- (f) Getoop Ltd has spent a number of years developing computer software that can be used in motor vehicles to allow a computer to drive the motor vehicle. The Directors of Getoop Ltd have employed specialist health and safety, information technology and engineering staff, and developed and equipped an extensive research laboratory that includes computer equipment and testing facilities. Getoop Ltd has secured legal protection for their product. Besides the ongoing cost of employing their highly talented staff, Getoop Ltd has spent a substantial amount of money on staff training to generate the innovative product. As the expenditure made by Getoop Ltd to develop the computer software is substantial, the Directors are seeking advice as to which expenditures can be treated as assets.

Outline the elements of the definition and recognition criteria of an asset using *The Framework* and discuss which of the expenditures by Getoop Ltd are considered to be assets. (7 marks)

Question 19

(50 marks)

XYZ! Ltd was formed on 1 July 2015. On the same day, the company issued a prospectus offering 200,000 ordinary shares at an issue price of \$5 per share. The formation and share issue incurred the following costs:

	\$
Company formation:	
ASIC fee	760
Legal fees	2,500
Share issue:	
Prospectus printing	5,000
Underwriter fee	20,000
Accounting fees	8,000

The offering was fully subscribed on 17 August 2015 and it was resolved at a directors' meeting that all shares be allotted on 31 August 2015.

The trial balance (extract) for XYZ! Ltd as at 30 June 2016 is below.

XYZ! Ltd
Trial Balance (extract)
As at 30 June 2016

Account	Debit \$	Credit \$
Accounts payable		64,880
Accounts receivable	102,700	
Accumulated depreciation – buildings		100,000
Accumulated depreciation – plant and equipment		72,000
Allowance for doubtful debts		800
Bank	75,890	
Term deposit	300,000	
Debentures		60,000
Buildings (at cost)	450,000	
Cost of sales	400,000	
Discount allowed	24,260	
Dividends received		8,450
Doubtful debts	1,300	
Goodwill	200,000	
Interest expense	9,900	
Interest received		3,400
Inventory	120,000	
Long-term investments	96,400	
Land (at cost)	900,000	
Other expenses (includes depreciation)	288,000	
Long-term borrowings		1,100,000
Plant and equipment (at cost)	501,820	
Preliminary expenses	3,260	
Sales		1,356,000
Share issue costs	33,000	
Wages	260,000	

Additional information

- An interim dividend of \$0.05 per share was declared and authorised on 19 September 2015 and paid on 22 September 2015.
- At the 2016 annual general meeting, the directors resolved to recommend a final dividend of \$0.07 be paid.
- On 30 June 2016, the directors decided to revalue the land upward by \$50,000.
- Term deposit will mature on 31 January 2017.
- Income tax is payable at 30%.

See next page

Question 19 (continued)

- (a) Prepare the general ledger Share Capital – Ordinary Account as at 30 June 2016, including closing entries. (5 marks)

Workings:

**XYZ! Ltd
General Ledger (extract)
Share Capital – Ordinary Account**

- (b) Prepare the journal entries with narrations to account for the interim dividend. (7 marks)

Workings:

XYZ! Ltd
General Journal (extract)

Date	Particulars	Debit \$	Credit \$

See next page

- (d) Prepare the notes to the accounts for Property, plant and equipment and Dividends. (10 marks)

Workings:

**XYZ! Ltd
Notes to the accounts
30 June 2016**

Property, plant and equipment

Dividends

See next page

Question 19 (continued)

- (e) Prepare an extract of the assets section only of the Statement of Financial Position. (9 marks)

Workings:

XYZ! Ltd
Statement of Financial Position (extract) – Assets
as at 30 June 2016

See next page

- (f) Explain the function of a prospectus as per the *Corporations Act 2001* and in what circumstance a company is required to register one with the Australian Securities and Investments Commission. (3 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 21.

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

Suggested working time: 35 minutes.

Question 20**(30 marks)**

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Over the past few decades, corporate sustainability communications have become more commonplace. Companies link their operations to generating long-term value, both for its business and for society as a whole. Many companies currently define their success in terms of internal financial returns and external social and economic results.

Prepare a written response to the parts of this question provided below. You may refer to examples you have studied to support your answer.

- (a) Explain the function of an external audit and the role of the external auditor. (6 marks)
- (b) Explain the nature of corporate social disclosure (CSD). (4 marks)
- (c) Describe **two** difficulties faced by accountants in producing social and environmental information. (4 marks)
- (d) Discuss how the duties of directors apply to CSD. (4 marks)
- (e) Using an example, critically evaluate CSD as made by Australian companies. (6 marks)
- (f) Identify **two** different users of CSD information. For each, discuss their use of CSD information produced by companies and how CSD could contribute to the generation of long-term value. (6 marks)

or

See next page

Question 21

(30 marks)

Your friend Vanessa is starting a business manufacturing fragrant and flavoured tea for retail sale and has come to you for advice. Vanessa has two options for manufacturing the product. She can either make the tea in-house or she can buy the tea from a supplier. The manufacturing of the tea in-house includes all necessary treatments, quality controls, packaging and branding. The purchasing of the tea in bulk from a supplier only requires packaging and branding. Vanessa has prepared some preliminary information that she is using to make her business decisions.

Vanessa has the following costings for her business proposal:

Account	In-house \$	Supplier \$
Selling price to an internet retailer	\$20/kg	\$12/kg
Direct materials (DM):		
Raw product	\$1/kg	-
Inputs for production	\$2/kg	\$4/kg
Packaging	\$1/kg	\$1/kg
Total DM	\$4/kg	\$5/kg
Direct labour (\$20/hr)	2 hours	1 hour
Variable Overhead (per direct labour hour)	\$3	\$1
Fixed costs (per annum)	\$45,200	\$45,200

Vanessa intends to manage the business and will be actively involved in day-to-day operations but she intends to employ administrative staff and a production manager for support. Vanessa confirms that there are no restrictions on tea supplies for both proposals. She has secured a property to manufacture and package the tea on a walk-in walk-out basis, including all necessary plant and equipment. The lease for the property, plant and equipment can be further negotiated, but Vanessa confirms the price she has estimated is at the higher end for rental. The fixed costs comprises entirely of the property, plant and equipment rental for the business. Vanessa estimates that the property will be sufficient for the supply of her product over the next five to ten years.

Vanessa wants to improve her understanding of internal management for businesses and has asked you to prepare written advice.

Prepare a written response to the parts of this question provided below.

- Explain the role and function of an accountant in managing business operations. (5 marks)
- Outline the purpose of internal audit, and discuss the internal audit and control process. (6 marks)
- Using the information provided in the example, outline how costs are classified by behaviour, relationship, treatment and time. (8 marks)
- Explain the concept of mark-up and the factors that need to be considered when calculating the unit price of a product. (4 marks)
- Discuss the **two** business proposals and advise which should be accepted. (5 marks)
- Outline a recommendation that could improve the success of either business proposal. (2 marks)

End of questions

ACKNOWLEDGEMENTS

Question 20

Quote from: Eccles. R. (2011, February). The age of integration: A new dawn for corporate reporting? Perspective: the academic. *Accountancy Futures*, 3, p.9. Retrieved April, 2016, from https://issuu.com/accaglobal_publications/docs/af03_150

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