



# ACCOUNTING AND FINANCE

## ATAR

### Unit 3

Student Name: \_\_\_\_\_

School: \_\_\_\_\_

#### 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

##### *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 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 exam
Section One: Multiple-choice	15	15	25	15	15
Section Two: Short answer	4	4	120	155	70
Section Three: Extended answer	2	1	35	30	15
					100

**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 on any question. Each question is worth one mark. Attempt **all** questions.

Suggested working time for this section is 25 minutes.

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1. The operating budget would include the
  - (a) budgeted income statement.
  - (b) cash budget.
  - (c) capital expenditure budget.
  - (d) cash budget and capital expenditure budget.
  
2. Which of the following costs would be regarded as a fixed cost?
  - (a) electricity
  - (b) commission
  - (c) insurance
  - (d) product packaging
  
3. To maintain control over the outflow of cash from a business it is good policy to
  - (a) require two junior employee's signatures on all cheques.
  - (b) prepare annual bank reconciliations.
  - (c) ensure one employee handles and records all cash transactions.
  - (d) maintain a petty cash system for small amounts.
  
4. Which of the following statements about the margin of safety is **false**?
  - (a) The higher the margin of safety, the higher the risk of not making a profit.
  - (b) The higher the margin of safety, the lower the risk of not breaking even.
  - (c) The margin of safety indicates how much the sales can decline before the business begins to lose money.
  - (d) The margin of safety indicates how much the sales can decline before the business falls below the break-even point.
  
5. Performance reports are prepared primarily to
  - (a) motivate employees.
  - (b) compare budgeted to actual figures.
  - (c) communicate performance to external users.
  - (d) identify cash shortages and deficits.

6. Money markets do **not**

- (a) offer overnight investments.
- (b) provide debt for the long term.
- (c) trade in short-term debt investments.
- (d) involve large-volume trades in the wholesale and retail market.

7. A bakery has recorded the following costs for the month of June:

Cost	\$
Ingredients	13 300
Factory utilities	2 100
Advertising	1 000
Bakers wages	22 000
Factory repairs and maintenance	400
Accounting costs	4 000
Other baking supplies	1 700
Distribution costs	900

What are the total period costs?

- (a) \$7 100
  - (b) \$4 000
  - (c) \$5 900
  - (d) \$5 000
8. A business dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange is known as
- (a) the money market.
  - (b) the Australian Securities Exchange (ASX).
  - (c) a debenture.
  - (d) a financial institution.
9. A business aims to maximise production efficiency and minimise waste to reduce costs to charge lower prices to its customers. This is an example of
- (a) differentiation.
  - (b) cost leadership.
  - (c) cost behaviour.
  - (d) social responsibility.
10. Receivership, as governed by the *Corporations Act 2001*, is
- (a) when a secured creditor applies to the court when it is thought that a company may not be able to repay its debt on a secured asset.
  - (b) a process whereby the assets of a company are collected and sold, and the resulting proceeds are applied in discharging all relevant debts and liabilities.
  - (c) when the company is insolvent or likely to become insolvent and procedures are put in place to maximise the chances of the company continuing as a going concern.
  - (d) when amounts owing are collected from outstanding accounts receivable.

11. ACF Ltd is considering a capital investment that will require an initial outlay of \$50,000 cash. The owners have a required rate of return of 7%. The net cash flows for the project are:

Year	Net Cash Flows
1	\$20,000
2	\$30,000
3	\$40,000

The present value of future cash flows is

- (a) \$77 546  
 (b) \$27 546  
 (c) (\$27 546)  
 (d) None of the above
12. Which options are available for the long-term management of business finance?
- (a) term deposits, cash management accounts, unsecured notes  
 (b) debentures, unsecured notes, money market  
 (c) shares, term deposits, debentures  
 (d) trusts, shares, cash management accounts
13. The Mandurah Performers Club has provided the following information:

Seat Type	Unit Ticket Price	Unit Variable Costs	Number of Seats in Auditorium
A	\$25	\$7	270
B	\$17	\$7	90
			360

What is the weighted average contribution margin?

- (a) \$14  
 (b) \$18  
 (c) \$16  
 (d) \$10
14. A budgeted income statement will **not** include
- (a) depreciation.  
 (b) interest received.  
 (c) purchases of inventory.  
 (d) wages owing.
15. The cost of metal used in the production of a golf club can be classified as a
- (a) direct, fixed, product cost.  
 (b) indirect, variable, product cost.  
 (c) direct, mixed, period cost.  
 (d) direct, variable, product cost.

**End of Section One**

**Section Two: Short answer****70% (155 Marks)**

This section has **four** questions. Answer **all** questions. Write your answers in the space 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 spare pages 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 for this section is 120 minutes.

**Question 16 (48 marks)**

Greta Williams is preparing a cash budget for October and November 2020 for her business Premier Trading Pty Ltd.

- The cash balance at 1 October 2020 was \$35 000.
- Sales and purchases figures are as follows:

<i>Month</i>	<i>Sales</i> \$	<i>Purchases</i> \$
September	80 000	40 000
October	90 000	42 000
November	100 000	56 000

- All sales are on credit. Greta expects 80% of sales to be collected in the month the sales are made and 19% to be collected in the following month. The remaining amount will be uncollectable.
- Greta usually pays for 60% of her purchases in the month in which they are purchased to take advantage of a 5% discount. The remaining purchases are finalised in the month following purchase.
- Selling expenses of \$5 000 are expected to be paid per month. Sales commissions, amounting to 5% of monthly sales, are also paid at the end of the month.
- Advertising of \$1 200 will be paid in advance in October for the following quarter.
- Rent of \$1 400 is paid every fortnight.
- Administration expenses of \$14 000 per month include depreciation of \$4 000.
- Greta intends to purchase new machinery in October at a cost of \$22 000 cash to replace old machinery sold in the same month. The old machinery had cost \$14 000 and on sale date, is estimated to have a carrying amount of \$4 000 and attract a gain on sale of \$3 000.

The new machinery would be financed in part by a \$12 000 loan in October. Repayments of principle and interest amounting to \$1 000 per month will begin in November.

- Wages expense is expected to be \$12 000 per month. Wages owing at the end of each month is expected to be \$6 000.

**Required:**

- (a) Prepare a cash budget for **each** of the months of October and November 2020 for Premier Trading Pty Ltd.

(37 marks)

**Workings**







**Question 17 (30 marks)**

Ace Auto Mower Pty Ltd manufacture ride on lawn mowers for commercial use. Part of the manufacturing process involves assembly of the axles and chassis. Five employees usually perform this task manually at a cost of \$200 000 per annum. The business is currently considering two investment options.

**Option 1**

The first option is the acquisition of robotic equipment from Japan that would complete the same task with one employee supervisor costing \$40 000 per annum, a cost saving of \$160 000.

The robotic equipment will add \$3 000 to electricity costs, \$12 000 to the repairs and maintenance bill and will cost \$11 000 for insurance each year.

The initial investment in the robotic equipment will cost \$750 000. The robotic equipment is estimated to have a useful life of 8 years and is not expected to have a residual value.

**Option 2**

The second investment option will also cost \$750 000, have a useful life of 8 years and a residual value of \$50 000.

Ace Auto Mower Pty Ltd has negotiated with a local supplier to modify the equipment resulting in annual net cash flows of:

Years 1 – 6	\$140 000
Years 7 – 8	\$130 000

An unfortunate side effect of the modifications for Option 2 is higher carbon emissions and environmental impact.

**Additional information:**

- The business requires a cost of capital of 9% and a benchmark payback period of 5 years.
- Ignore all tax implications.

**Required:**

(a) Calculate the annual net cash flow for Option 1. (4 marks)

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**Net Cash Flow Option 1:** \_\_\_\_\_

(b) Calculate the payback period for Option 1.

(3 marks)

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**Payback Period Option 1:** \_\_\_\_\_

(c) Calculate the Net Present Value for Option 1 to the nearest whole dollar.

(3 marks)

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**Net Present Value Option 1:** \_\_\_\_\_

(d) Calculate the payback period for Option 2.

(3 marks)

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**Payback Period Option 2:** \_\_\_\_\_

(e) Calculate the Net Present Value for Option 2.

(8 marks)

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**Net Present Value Option 2:** \_\_\_\_\_

(f) Based on your quantitative calculations, would you recommend the owners of Ace Auto Mower Pty Ltd invest in Option 1 or Option 2? Justify your answer. (5 marks)

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(g) Identify and discuss two non-financial factors that may affect Ace Auto Mower Pty Ltd's decision to proceed with the capital investment justified in part (f). (4 marks)

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The following table contains separate cost information for the football division.

Units	Fixed costs	Total Costs	Revenue
26 000	\$324 000	\$2 583 140	\$3 874 000

(c) Calculate the variable costs per football.

(3 marks)

**Workings:**

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**Variable costs per football:** \_\_\_\_\_

(d) Calculate the selling price per football.

(2 marks)

**Workings:**

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**Selling price per unit:** \_\_\_\_\_

(e) Calculate the breakeven point in units and sales dollars for the football division.

(4 marks)

**Workings:**

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**Break even in units:** \_\_\_\_\_

**Break even in sales:** \_\_\_\_\_

(f) Calculate the margin of safety in units.

(2 marks)

**Workings:**

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**Margin of Safety in units:** \_\_\_\_\_







**Question 19 (34 marks)**

Marbix Pty Ltd uses a job-costing system at its Bunbury factory. The factory has an assembly department and a finishing department. The business uses a normal costing system with two direct cost categories - direct materials and direct labour.

The assembly department allocates overhead using machine hours as the allocation base and the finishing department uses direct labour hours as its allocation base. Amounts budgeted for the 2020 financial year for the factory are as follows:

	<b>Assembly Department</b>	<b>Finishing Department</b>
Manufacturing overhead	\$5 000 000	\$4 000 000
Direct labour costs	\$450 000	\$2 000 000
Direct labour hours	15 000	80 000
Machine hours	100 000	16 500

During the month of July 2020, Job P301 recorded the following information:

	<b>Assembly Department</b>	<b>Finishing Department</b>	<b>Total</b>
Number of units			100
Direct materials used	\$7 000	\$1 500	\$8 500
Direct labour costs	\$300	\$625	\$925
Direct labour hours	15	25	40
Machine hours	65	5	70

**Required**

(a) Calculate the predetermined overhead rates for each department. (4 marks)

i. Assembly department

**Workings:**


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**Predetermined overhead rate for Assembly department:** \_\_\_\_\_

ii. Finishing department

**Workings:**

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**Predetermined overhead rate for Finishing department:** \_\_\_\_\_

(b) Calculate the total cost of Job P301. (6 marks)

**Workings:**

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**Total cost of Job P301:** \_\_\_\_\_

(c) Calculate the cost per unit for Job P301. (2 marks)

**Workings:**

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**Cost per unit of Job P301:** \_\_\_\_\_

(d) Mabix Pty Ltd has a 140% mark-up on all products sold. Calculate the selling price per unit for Job P301. (3 marks)

**Workings:**

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**Selling price per unit of Job P301:** \_\_\_\_\_

Actual amounts recorded at the end of the budgeted year are as follows:

	<b>Assembly Department</b>	<b>Finishing Department</b>	<b>Total</b>
Manufacturing overhead incurred	\$5 600 000	\$ 3 950 000	\$9 550 000
Direct labour costs	\$474 875	\$2 050 000	\$2 525 000
Direct labour hours	14 500	82 000	96 500
Machine hours	100 000	16 000	116 000

(e) Calculate the direct labour rate variance for the assembly department. (6 marks)

**Workings:**

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**Direct labour rate variance:** \_\_\_\_\_

(f) Calculate the direct labour efficiency variance for the assembly department. (4 marks)

**Workings:**

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**Direct labour efficiency variance:** \_\_\_\_\_



**Section Three: Extended answer****15% (30 Marks)**

This section contains **two** questions. You must answer **one** question. Write your answer in the space 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 for this section is 35 minutes.

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**Question 20 (30 marks)**

Cookies 4 You Ltd has operated a manufacturing business in West Perth for twenty years. The business specialises in supplying biscuits to several hotel chains and restaurants throughout Western Australia.

Sales have been steadily declining for the last two years. The business has surveyed customers and they say they would like to see a healthier and more varied product range. However, customers appreciate their high-quality products, and after sales service, and they would be willing to pay a premium for a more innovative product.

At a recent meeting, a company director indicated that Cookies 4 You Ltd could not afford to waste time and money investing in new product lines. The senior management accountant disagrees. He believes the company should take a new strategic direction, invest in research and development of new product lines and production facilities to increase profitability.

Advise the business on the following matters:

- Outline the importance of business planning. (6 marks)
- Describe the purpose and function of a budgeted income statement performance report. (4 marks)
- Explain the nature of capital investment decisions. (4 marks)
- The business will need to set up business finance to cover the investment in the long term. Describe three external sources available to the business. (6 marks)
- Discuss why it is important to manage appropriate levels of investment in non-current assets. (5 marks)
- Explain the role of management accounting. (5 marks)

**OR**

**Question 21 (30 marks)**

AA1 Architectural Services has been operating profitably for over ten years. There have recently been changes at the senior management level, including a new Chief Financial Officer (CFO). The CFO has reviewed the internal and external reports and has called a meeting to discuss his findings.

Points to be raised at the meeting include the formation of an internal audit committee to review business procedures and policies, a review of debt financing and the master budget, and a discussion on engaging in socially and environmentally responsible practices.

You have been asked to consider the following matters in more detail:

- (a) Explain the difference between internal and external reporting. (8 marks)
- (b) Discuss the purpose of an internal audit. (4 marks)
- (c) What is considered appropriate management of short and long term debt? (4 marks)
- (d) Briefly discuss the components of the master budget. (6 marks)
- (e) Describe the purpose and function of cash budgets. (4 marks)
- (f) Identify two costs and two benefits of engaging in socially and environmentally responsible practices. (4 marks)

**End of questions**













