



**Business Educators of Western Australia (Inc.)  
2021 Semester One Examination**

**Question/Answer Booklet**

**ACCOUNTING  
AND FINANCE  
ATAR**

**Disclaimer:** This exam was written in 2021 to comply with the SCSA ATAR Accounting and Finance syllabus at that time. It is strongly advised that teachers check this exam against the current year's syllabus to ensure that all items comply. It is provided in Word format so that you can edit as appropriate.

**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	140	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.

---

**The following information relates to questions 1 and 2.**

The manufacturers of wooden crafted items provides you with the following information regarding the costs for the next month of production. The manufacturers' labour rate is \$60 per hour and it usually takes 6 hours to make one item. The overhead costs are allocated on the direct labour hours.

Cost per month	\$
Direct labour	3,240
Total labour	39,000
Overheads	15,930
Raw materials	1,800

- What are the total direct labour hours per month?
  - 54
  - 650
  - 704
  - 540
  
- What is the allocated overhead cost per item?
  - \$5,737
  - \$2,655
  - \$1,770
  - \$6,103
  
- An example of internal control over inventory includes
  - transporting materials in trucks rather than post.
  - authorising job costing sheets.
  - ensuring cash is securely locked away.
  - establishing minimum reordering points.
  
- The electricity bill for a manufacturing business that utilises power in their factory, office and employee car park is a type of
  - direct, variable cost.
  - product, mixed cost.
  - indirect, variable cost.
  - past, mixed cost.

5. Which of the following are the characteristics of an indirect cost?
- I. always vary with the level of output
  - II. can be accurately assigned to a specific cost object
  - III. are also known as manufacturing overheads
  - IV. can be allocated to cost objects based on direct or machine hours
- (a) I and II only
  - (b) III and IV only
  - (c) I and III only
  - (d) I, III and IV only
6. Ziggy Thomas Productions aims to provide affordable, local and dramatic productions to the everyday citizen. It's focus is on a new business strategy that maximises the number of dramatic performances possible across the Perth metropolitan area by offering the most competitive cost per performance. This generic business strategy is known as
- (a) performance analysis.
  - (b) differentiation.
  - (c) cost leadership.
  - (d) business analysis.
7. Which statement most accurately defines internal controls?
- (a) Internal controls aim to prevent errors from being made, to prevent theft and fraud from occurring and to increase profitability.
  - (b) Internal controls are procedures that safeguard the assets of a business and to enhance efficiency and reliability of accounting records.
  - (c) Internal controls are all processes used by owners to ensure compliance with laws, regulations, internal policies and procedures.
  - (d) Internal controls assign the responsibility to management of monitoring compliance with the firm's policies and procedures.
8. Which statement is NOT valid for the payback method?
- (a) Projects with the highest payback period would be selected.
  - (b) Calculations are simple compared with the NPV method.
  - (c) The longer the payback period the higher the risk of the project.
  - (d) Cash flows after the payback period are not considered.
9. Which sources of finance would be appropriate for a large proprietary company?
- (a) public share issue, bank loan and trade credit
  - (b) bank overdraft, retained earnings and trade credit
  - (c) trade credit, accounts receivable and bank overdraft
  - (d) debentures, accounts payable and bank overdraft

10. Jolly Chairs Ltd manufactures quality dining chairs. The total fixed costs amount to \$72,000. The variable cost per chair is \$11. The business currently produces 8,000 chairs and the selling price per chair is \$22.50. The maximum capacity of the factory is 9,750 chairs.

A furniture retailer has offered to purchase 2,500 chairs for \$15 each. Calculate the gain or loss if the order is accepted.

- (a) Gain of \$1,375
  - (b) Gain of \$7,000
  - (c) Gain of \$10,000
  - (d) Loss of \$18,750
11. Which would cause an unfavourable labour efficiency variance?
- (a) employees working with better quality materials
  - (b) training of employees in improved production processes
  - (c) employees working in an unsupervised environment
  - (d) payment of a higher labour rate to employees
12. Which of the following statements is correct regarding breakeven point?
- (a) The breakeven point will increase when contribution margin per unit increases.
  - (b) Breakeven occurs when total units produced equals total units expected to sell.
  - (c) Breakeven indicates the number of sales that can decrease before a loss occurs.
  - (d) Breakeven occurs when the total fixed and variable costs equal total revenue.
13. What is the effect on the margin of safety if production increases?
- (a) It will increase if contribution margin and fixed costs are constant.
  - (b) It will remain constant if contribution margin and fixed costs increase.
  - (c) It will remain constant if selling price and variable costs remain constant.
  - (d) It will increase if selling price and variable costs increase by a constant amount.
14. When choosing an appropriate investment or approving an offer, opportunity cost is a major consideration. This is known as the
- (a) benefit gained by choosing one option over another.
  - (b) cost you incur by choosing an alternative offer or investment.
  - (c) benefit given up by choosing one alternative over another.
  - (d) additional equipment costs of accepting an investment opportunity.
15. Which of the following best represents corporate social responsibility?
- (a) improvement to the duty of care policy for a business' employees
  - (b) remote community training in health and hygiene by business volunteers
  - (c) establishing a new water treatment plant as part of business operations
  - (d) new policy on whistle-blowers of internal fraud and corruption

**End of Section One**

**Section Two: Short answer****70% (140 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 (38 marks)**

Stick Pipling Ltd presents you with the below trial balance extract as at 1 July 2020:

	\$
Accounts receivable	66,000
Allowance for doubtful debts	18,000
Inventory	36,000
Accrued wages	14,000
Shares in other companies	10,300
Machinery	180,000
Accumulated depreciation machinery	70,000

The cash budget forecast has been prepared for the year ended 30 June 2021:

**Sticks Pipling Ltd  
Cash Budget  
for the year ended 30 June 2021**

	\$
Opening bank balance	30,000
<b>Estimated receipts</b>	
Sales	500,000
Accounts receivable	220,000
Share capital	100,000
Proceeds from sale of shares	2,000
<b>Estimated cash available</b>	<b>852,000</b>
<b>Less Estimated payments</b>	
Accounts payable	407,400
Wages	152,000
Rent	22,000
Administration costs	20,000
Prepaid advertising	12,000
Dividends	50,000
Machinery	62,000
Loan	24,000
<b>Estimated total payments</b>	<b>749,400</b>
Estimated Closing bank balance	<b>102,600</b>

**Additional information:**

- Cash sales represents 25% of total sales.
- All purchases are credit, with payment being made within the month to take advantage of a 3% discount.
- Cost of sales for the period are expected to be \$655,600
- Bad debts of \$36,000 are anticipated for the year.
- The allowance for doubtful debts is to be adjusted to \$27,600.
- Prepaid advertising at the end of the year is to be \$7,500
- Wages of \$7,000 are paid for a five day week every Friday. This year, June 30 falls on a Tuesday.
- New machinery was purchased on 1 January 2021. This was partially funded through a loan of \$24,000 taken out on the same day. Interest on the loan is charged at 7% pa and is payable bi-annually in arrears.
- Machinery is depreciated on reducing balance at 20% pa.
- The shares held in other companies were all sold during the year.
- All other expenses are expected to be paid in cash as incurred.
- Tax is paid at 30% pa.

**Required:**

(a) Prepare the budgeted income statement for the year ended 30 June, 2021.

(26 marks)

**Workings**









**Question 17 (35 marks)**

Jack owns and runs a wheat farm, Jack’s Plains Pty Ltd, that is located in Karlgarin - the heart of Western Australia’s wheatbelt area. Jack needs to replace two essential pieces of farming equipment but cannot afford both at this present time. He either replaces the harvester or the seeder. You have been provided with information below to help Jack decide which to invest in first.

	<b>Harvester</b>	<b>Seeder</b>
Cost of investment	\$500,000	\$450,000
Residual value	\$75,000	\$80,000
Useful life	8 years	7 years
Desired payback period	4.5 years	4 years
Cost of capital	10%	10%
Cash inflows	Years 1-2 \$100,000 Years 3-6 \$175,000 Year 7 \$95,000 Year 8 \$80,000	\$165,000 per year
Cash outflows (includes tax)	Years 1-6 \$35,000 Years 7-8 \$47,000	\$27,000 per year

**Required:**

(a) Calculate the payback period for the Seeder. (5 marks)

---

---

---

---

---

---

---

---

Payback Period for the Seeder \_\_\_\_\_

(b) Calculate the Net Present Value for the Seeder, rounding all figures to the nearest dollar. (3 marks)

---

---

---

---

---

---

---

---

Net Present Value for the Seeder \_\_\_\_\_







(b) Calculate the profit for each season.

(9 marks)

---

---

---

---

---

---

---

---

---

---

---

(c) Given Winter has the lowest projected demand for meals, Hamza is thinking it might be better to open for only two seasons - Spring and Summer. Using calculations, explain to Hamza the effect on total profits if the restaurant was closed in Winter.

(6 marks)

---

---

---

---

---

---

---

---

---

---

---

(d) Calculate the contribution margin of an average meal per season.

(6 marks)

---

---

---

---

---

---

---

---

(e) Calculate the weighted average contribution margin.

(7 marks)

---

---

---

---

---

---

---

---

---

---

Weighted average contribution margin \_\_\_\_\_

(f) How many meals would the restaurant need to sell in each season to breakeven?

(6 marks)

---

---

---

---

---

---

---

---

---

---

(g) Due to the COVID-19 pandemic and closure of the WA state border, some businesses in the hospitality industry reported a reduction of 40% in sales in the past financial year. Would the restaurant's existing margin of safety be sufficient to cover the same level of loss? Show workings. (4 marks)

---

---

---

---

---

---

---

---

---

---



(h) How many meals would need to be sold in order to achieve an annual profit of \$170,000?  
(3 marks)

---

---

---

---

---

---

---

---

---

---

Meals to achieve annual profit of \$170,000 \_\_\_\_\_

(i) Discuss how the existing tourist campsite would be impacted by the proposal put forward by Hamza and Lynne.  
(4 marks)

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

**Question 19 (19 marks)**

Lucy’s Tapestries makes and sells exclusive, high-quality wall tapestries, each unique in design and made to order. Lucy Tape is the owner and craftswoman of the business which she operates from home. She is conducting a review of the business’s costs so that new selling prices can be determined for 2021.

Lucy made 15 tapestries in 2020 and a summary of her actual operating costs for 2020 is outlined below:

**Lucy’s Tapestries  
Operating Costs for 2020**

	\$
Direct materials	27,600
Indirect materials	8,100
Depreciation on equipment	3,150
Electricity and water	2,400
Administration costs	1,900
Direct labour	450,000
Direct labour hours	7,500

**Required:**

(a) Calculate the predetermined overhead recovery rate based on labour hours.

(4 marks)

---



---



---



---



---

Predetermined overhead recovery rate \_\_\_\_\_

(b) Calculate the cost of making one tapestry.

(4 marks)

---



---



---



---



---



---

Cost per tapestry \_\_\_\_\_

(c) If Lucy wants to make a profit of 85%, what would be the 2021 selling price be per tapestry?  
(2 marks)

---



---



---



---

Selling price per tapestry \_\_\_\_\_

(d) Lucy provides her standard costs for one tapestry below:

	Standard per tapestry	\$
Direct materials		1,550
Direct labour	\$62.80 x 550 hours	34,375
Overheads		990
Total		\$36,915

(i) Calculate the direct labour rate variance. (5 marks)

---



---



---



---



---

Direct labour rate variance \_\_\_\_\_

(ii) Calculate the direct labour efficiency variance. (4 marks)

---



---



---



---



---

Direct labour efficiency variance \_\_\_\_\_

**End of Section Two**

**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.

---

**Question 20 (30 marks)**

Jamalot Ltd is a premium jam making business that has recently transitioned into more sustainable energy practices by installing solar panels and battery storage facilities that now operate the entire factory.

TJ is a newly elected director of the company and requires some professional development on the reporting processes and appropriate stewardship of the company.

To assist TJ's understanding in his new role and effectiveness as a board member, the following areas need to be addressed:

- (a) Distinguish between the purpose of management accounting and financial accounting. (4 marks)
- (b) Explain the differences between internal and external reporting in terms of the type of reports produced. (6 marks)
- (c) Discuss the purpose of an internal audit and how this relates to the company's sustainable energy initiatives. (5 marks)
- (d) Explain two possible costs and one benefit of the company's transition to sustainable energy practices. (6 marks)
- (e) Define insolvency and describe the process of receivership and liquidation for Jamalot Ltd should the company face insolvency. (9 marks)

**OR**

**Question 21 (30 marks)**

Pendant Ltd is a chemical manufacturing business and has gained some negative press lately regarding its recent safety records with its employees and the community in which it operates. In the last three years, the company has experienced one death at the worksite and five reported workplace injuries. The local community has complained about the air quality resulting from the plumes of smoke that emanate from the company's factory. Breathing issues amongst its young and elderly population have continued to rise over recent years.

The board and management of Pendant Ltd have been under pressure to boost the company's bottom line and consequently, cut corners to meet shareholder expectations. Factory upgrades and refurbishment projects, recommended five years ago to improve safety standards and efficiency of the factory, have been continuously shelved as low priority in relation to competing demands with shareholder expectations and rising employee costs.

Discuss the implications of the company's actions by addressing the following:

- (a) Explain three possible consequences for the company if it continues the trade-off between meeting the bottom line and the health of the general community. (9 marks)
- (b) Discuss the company's ethical standards towards its employees. (4 marks)
- (c) Discuss the role and function of the accountant in managing business operations. (5 marks)
- (d) Describe management accounting in terms of:
  - Users
  - Types of reports and
  - Regulation (6 marks)
- (e) Explain the importance of capital investment decisions, such as the factory upgrades, and outline why using the net present value method is an effective method to evaluate these type of decisions. (6 marks)

**End of questions**













