



DUNCRAIG SENIOR HIGH SCHOOL

ACCOUNTING AND FINANCE

ATAR

SEMESTER 1 – UNIT 3

Student Name: _____

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

Multi Choice Answer sheet

This Question/Answer booklet

A 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.

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	109	70
Section Three: Extended answer	2	1	35	30	15
					100

Section One: Multiple-choice

15% (15 Marks)

This section has **15** questions. Each question is worth one mark. Attempt **all** questions.

Choose the alternative which **most correctly** answers the question or completes the statement. Circle A, B, C or D to indicate your selection.

Suggested working time for this section is 25 minutes.

1. The type of budget that shows details of expected future purchases of non-current assets is:

- (a) budgeted balance sheet
- (b) budgeted income statement
- (c) cash budget
- (d) capital expenditure budget

2. Which of the following statements are true about budgets?

- i. Budgets are a financial record of management's goals for specific future period.
- ii. Capital expenditure budgets are based on projected cash flow statements.
- iii. Cash budgets convert all planned actions into cash in and outflows so management can see future cash impacts.
- iv. Cash budgets are sales estimates modified by business constraints.

- (a) i & ii only
- (b) i & iii only
- (c) i & iv only
- (d) ii & iv only

3. Variable costs:

- (a) change from one period to another.
- (b) do not change from one period to another.
- (c) are responsive to changes in production volume.
- (d) are not responsive to changes in production volume.

4. From an internal control standpoint, the most susceptible asset for improper diversion is:

- (a) prepaid insurance
- (b) premises
- (c) land
- (d) cash

5. A characteristic of capital investment decisions:
- (a) involves large sums of money relative to the size of the business.
 - (b) Is low risk.
 - (c) can be easily reversed.
 - (d) always provides a positive cash flow.
6. Fixed costs:
- (a) change from one period to another.
 - (b) do not change from one period to another.
 - (c) are responsive to changes in production volume.
 - (d) are not responsive to changes in production volume.
7. The main purpose of financial accounting is to:
- (a) assist management in company internal operations.
 - (b) assist stakeholders in making economic decision about the company.
 - (c) compare cash budgets and performance reports.
 - (d) calculate tax liability.
8. For a company, corporate social responsibility would include:
- (a) expecting employee loyalty.
 - (b) making as much profit as possible.
 - (c) taking into consideration all stakeholder interests.
 - (d) being responsible for employees social lives.
9. The master budget for a company:
- (a) is a strategic document prepared by the Directors of the Board.
 - (b) includes all interrelated financial and operating budgets.
 - (c) is distinct from the company's operational budgets.
 - (d) must be presented to shareholders at the Annual General Meeting.
10. 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.

11. A cost-volume-profit activity where total sales revenue equals total costs is:
- (a) product mix.
 - (b) contribution margin.
 - (c) margin of safety.
 - (d) break-even point.
12. Which of the following would be the most appropriate to manage short-term debt?
- (a) Creating annual income statements.
 - (b) Calculation of business gearing.
 - (c) Analysis of monthly cash budgets.
 - (d) Estimation of future income.
13. 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
14. In the event of insolvency, which of the following creditors would receive payment first?
- (a) Employees.
 - (b) Secured creditors.
 - (c) Liquidator.
 - (d) Shareholders.
15. When actual direct labour hours exceeds standard direct labour hours for a production level actually achieved, is an example of:
- (a) favourable labour rate variance.
 - (b) unfavourable labour rate variance.
 - (c) favourable materials price and usage variance.
 - (d) unfavourable materials price and usage variance.

Section Two: Short answer

70% (109 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 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 120 minutes.

Question 16 (28 marks)

No Attack Shark Australia Limited (NASAL) manufacture one product, a shark deterring wetsuit. The wetsuit is designed to hide the wearer by breaking up the silhouette of the person in the water.

NASAL sells this product to retailers, through its online store and directly to the manufacturers of wetsuits. Sales by unit for wetsuit sizes for 2017:

Sales Centres	Small	Medium	Large
Sales in units	6,820	12,700	35,640
Selling Price	\$236	\$236	\$148
Variable Costs	\$121	\$126	\$121

a) Calculate the sales mix.

(4 marks)

b) The directors of NASAL are reviewing the market segments in which it sells its shark deterring wetsuits. One recommendation before the directors is to stop selling the small wetsuits and focus on medium and large sizes. What has prompted this recommendation and state the impact this could have on the overall business performance?

(2 marks)

c) Calculate the contribution margin per unit per sales for each wetsuit size.

(4 marks)

d) Calculate the weighted average contribution margin.

(3 marks)

e) If fixed costs are \$858,000 per annum, what is the margin of safety in units if NASAL sells its full production capability of 79,200 units per annum?

(3 marks)

- f) In dollar terms which wetsuit size returns the greatest profit to NASAL? Explain your answer. (2 marks)

- g) In 2017, the State Government has approached NASAL with a special once-off order for 27,500 shark deterrent wetsuits at \$138 per unit and variable costs of \$121. Should NASAL accept this order from a quantitative point of view. (6 marks)

- h) NASAL decides to accept the State Government's special order by increasing production capacity to 88,000 units with a once-off capital cost of \$264,000. Calculate the gain or loss on this special order. (4 marks)

Question 17 (30 marks)

The financial information below has been provided by CJL Traders Pty Ltd.

CJL Pty Ltd		
Statement of Comprehensive Income		
For the period ending 31 July 2018		
Income	\$	\$
Sales	484,500	
Less Discount allowed	3,550	
Net sales		480,950
Cost of sales		213,000
Gross profit		172,000
Less Expenses		
Doubtful debts	4,330	
Depreciation	5,600	
Electricity	6,300	
Other expenses	29,800	
Salaries	46,000	
Total expenses		92,030
Profit before tax		79,970
Income tax payable		23,991
Profit after tax		55,979

Additional information:

- The opening cash balance as at 30 June \$31,000.
- Sales are 40% cash and the remainder on credit. Accounts receivables records indicate that 30% of credit sales are collected in the first month after sale, 65% in the second month after sales and the remaining amount is never collected.
- Sales for May and June were \$368,400 and \$355,000 respectively.
- All Accounts payables are promptly paid for in the month following purchases to take advantage of 2% discount. Purchases for July were \$197,000, and August purchases is estimated to be \$148,000.
- The company intends to purchase new office furniture and equipment, in August at a cost of \$82,000.

Forecast figures for August are based on July's figures as set out below:

- Other expenses to increase by \$12,500
- Cash sales to increase by 5%
- Salaries to rise by \$41,000
- All other amounts are to remain the same.

Workings:

- b) Identify the financial report that depreciation on non-current assets, would be presented in, for the year ended 30 June 2019. (1 mark)

- c) If the cash budget estimate for CJL Pty Ltd indicates, there is insufficient cash on hand to meet its obligation in three months time (November), outline **three** actions that may be taken to improve the company's cash position. (3 marks)

- d) State **three** reasons why forecasted figures may differ from actual figures when preparing a cash budget for a given period. (3 marks)

- e) Explain the purpose of performance reports and usefulness as a management tool. (4 marks)

Question 18 (22 marks)

A mobile juice and smoothie van business is considering the purchase of new processing machinery which will allow the business to extend its product line from 3 to 7 types of juices. The new equipment will cost \$38,000, with a scrap value of \$4,000 and useful life of 5 years. The cost of capital is to be 14%.

The business will pay \$15,000 initially for the machine and the remaining amount payable in two years' time.

The business owner has calculated that the new equipment will generate the following cash flows for the subsequent 5 years.

Year	Cash Inflow	Cash Outflow
	\$	\$
1	35,000	27,000
2	34,000	27,500
3	36,000	28,500
4	40,000	29,500
5	41,000	30,000

Required:

- a) Calculate the net present value of purchasing the equipment

(15 Marks)

Net present Value: _____

The owner of the business would like to invest in the equipment if they can make their investment back within 4 years.

b) What is the payback period of the equipment (in months)?

(4 Marks)

Payback period: _____

c) Recommend to the business owner if they should proceed with the investment decision and justify why.

(3 Marks)

Question 19 (29 marks)

Clever Campers manufactures camper trailers through two processes: chassis and body. In the chassis department, the base is welded together with integrated cross members and then it is galvanised. When making the body there is a combination of aluminium and canvas used. The actual costs of production are used as a basis to calculate the standard costs for the next year.

Costs during the year ended 30 June 2018

	\$
Direct Materials - Chassis	625,240
Direct Materials – Body	235,708
Wages - Chassis	773,024
Wages - Body	106,743
Factory Supervisor’s Wages	103,040
Factory Rent	30,240
Factory Electricity and Water	25,760
Assembly Departments Overheads	38,360

In 2018 17,255 hours were worked in the chassis department and 3,315 hours were worked in the body department. It takes 8.5 hours to make the chassis of one camper trailer and 4 hours to build the body of one camper trailer.

Clever Campers sets a factory wide overhead rate, based on total labour hours.

In 2018 1,015 chassis on camper trailers were made and 1,105 bodies of the camper trailers were made.

a) Calculate the standard cost for one camper trailer for 2019

(17 Marks)

Standard cost of one camper trailer: _____

The directors of Clever Campers have stated that all selling prices are to be 40% above cost.

b) What would be the recommended selling price?

(2 Marks)

Recommended selling price: _____

In 2018 Clever Campers built 3,650 chassis and made up 3,480 bodies for the camper trailers. The actual costs and hours involved in building these were as follows:

Direct Materials - Chassis	\$923,930
Direct Labour Hours - Chassis	38,185
Hourly Rate - Chassis	\$46.90
Direct Materials – Body	\$380,016
Direct Labour Hours – Body	4,872
Hourly Rate - Body	\$36.54

c) Calculate the labour efficiency variance by department for 2018

(6 Marks)

Labour efficiency variance for chassis department for 2018: _____

Labour efficiency variance for body department for 2018: _____

d) Comment on these variances and suggest the reasons for these results

(4 marks)

Blank lined area for student response.

Section Three: Extended answer

15% (30 Marks)

This section contains **two** questions. You must answer **one** question. Write your answer in the space provided.

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Suggested working time for this section is 35 minutes.

Question 20 (30 marks)

Counsel Electronics Ltd has been placed into liquidation. The shareholders and unsecured creditors are unlikely to get their money back. GroverHunt, administrators of the failed electronic retailer, say the banks will get something, but there's little prospect of anything for unsecured creditors including shareholders and those with Counsel Electronics Ltd gift cards.

The collapse of Counsel Electronics Ltd is likely to mean a shortfall to creditors of more than \$26 million, according to the Administrators. Creditors resolved at a meeting to appoint Brian Khoo and Valarie Lim (GroverHunt partners) as liquidators.

GroverHunt says Counsel Electronics Ltd failed due to the company carrying too much inventory that it could not sell (even at knockout sale prices) and did not have enough cash to fund rapid expansion. Counsel Financial institutions ANZ and NAB, are believed to be owed \$14 million and will be repaid a proportion of what they are owed, but are likely to suffer a "significant shortfall".

Administrators were appointed on February 14 and the last day of trading was 14 June.

- a) Outline the cause of the collapse of Counsel Electronics Ltd. (2 marks)
- b) State the name of the liquidators and explain their role including the order of repayment to stakeholders as per Corporations Act 2001. (10 marks)
- c) Explain the importance of business planning. (5 marks)
- d) Explain the difference between cost leadership and differentiation and identify which strategy Counsel Electronics Ltd. used. (4 marks)
- e) Counsel Electronics Ltd had a problem with its levels of inventory. Explain why this was a problem for the retailer (9 marks)

OR

Question 21 (30 marks)

Khong Ltd is a large proprietary company which manufactures high quality outdoor lighting with an annual sales turnover of \$30 million dollars. Khong has twenty shareholders who have contributed \$10 million in equity to the business. The business has also obtained financing from the Commonwealth Bank and has credit arrangements with various suppliers for the purchase of supplies used in the production of the lights. Khong Ltd has a total of one hundred employees.

As the business has increased its sales over the previous twelve months the directors of the business have approved the employment of one more accountant and three assistant accountants.

As the Senior Accountant you want to make sure all the staff in your department are fully aware of the policies and procedures which have been established at Khong Ltd and the role of the accountants.

- a) Describe five roles you would expect an accountant to undertake in managing a business such as Khong Ltd. (10 marks)
- b) The Management Accounting section at Khong Ltd is responsible for producing management reports. Explain what is meant by 'management accounting', the types of reports, the users of the reports and if there are any regulations covering the preparation of the reports. (12 marks)
- c) Management want to make sure the staff in the accounting department fully understand the importance of internal auditing and control. Explain the purpose of internal auditing and the role of an internal auditor and two areas you would expect an internal auditor of Khong Ltd to review and check during an internal audit. Identify the group of users who would receive the internal audit report? (8 marks)

End of questions

