

Marking Key

ACCOUNTING AND FINANCE

ATAR

Unit 3

BEWA Semester One Examination 2018

This is a provisional marking key developed by BEWA that can be reviewed and modified by the teacher as necessary.

This marking key does not show the only alternatives possible. Candidates should not be penalized for alternative responses or presentations.

This Marking Key may not be released to students until the end of Term 2, 2018 for the security of the examination being done by other schools up until this time.

Analysis of questions

Question	Practical	Theory	Question	Practical	Theory
1		1	19 a	17	
2		1	b	2	
3		1	c	4	
4		1	d		4
5		1			
6		1			
7		1			
8		1			
9		1			
10		1			
11		1			
12		1			
13		1			
14		1	Total SA	87 (57%)	20 (13%)
15		1			
Total MC	(0%)	15 (15%)	20		30
16 a	6		OR 21		
b		2	Total EX		30 (15%)
c	3				
d	3		Paper total	62%	38%
e	3				
f		2	Weighting		
g	6		MC 15%	0%	15%
h	4		SA 70%	57%	13%
17a	19		EX 15%		15%
b	1		TOTAL	57%	43%
c		3			
d		3			
e		3			
18 a	15				
b	4				
c		3			

Section One: Multiple-choice

15% (15 Marks)

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

Question	Answer
1	D
2	B
3	C
4	D
5	A
6	D
7	B
8	C
9	B
10	C
11	D
12	C
13	A
14	A
15	B

Section Two: Short answer

70% (109 Marks)

This section has **four** questions. Answer **all** questions. Write your answers in the space provided.

Instructions for teachers:

- **Allow for follow through errors; that is consequential errors should not be penalised**
- **Marks should not be subtracted for incorrect solutions**
- **Accept any other reasonable answers when marking theory questions**

Question 16 (28 marks)

a) Calculate the sales mix.

(4 marks)

Total sales: 6,820 **(1)** + 12,700 **(1)** + 35,640 **(1)** = 55,160*

Small	6,820 (1) ÷ 55,160*	= 12%
Medium	12,700 ÷ 55,160	= 23%
Large	35,640 ÷ 55.160	= 65%
		(4)

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 to retailers and focus on its online store and sales to manufacturers. What has prompted this recommendation and state the impact this could have on the overall business performance?

(2 marks)

- **Significant decline in retail sales in 12 months (79% to 12% of total sales) **(1)****
and
- **Closing retail stores, which have a positive contribution margin, would mean fixed costs are transferred to the other segments, reducing overall profits **(1)****
or
- **Potential impact to lose online customers – a customer may purchase their first wetsuit from a retail store to assess quality and reliability, and then subsequent purchases are online. The loss of online customers may result in overall decreased sales and lower profits. **(1)****

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

(4 marks)

	Small	Medium	Large
SP	236 (1)	236	148 (1)
VC	121 (1)	126 (1)	121
CM	115	110	27

d) Calculate the weighted average contribution margin.

(3 marks)

Small	Medium	large
115 x 12% = 17.04 (1)	110 x 23% = 25.3 (1)	27 x 65% = 17.55 (1)
17.04 + 25.3 + 17.55		
= \$59.89		

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)

$$\begin{aligned} \text{BEP} &= \text{TFC/WACM} \\ &= 858,000/59.89 \text{ (1)} \\ &= \mathbf{14,326 \text{ Units}} \end{aligned}$$

$$\begin{aligned} \text{MOS} &= \text{Actual Units} - \text{BE Units} \\ &= \mathbf{(1)} \quad \mathbf{(1)} \\ &= 79,200 - 14,326 \\ &= \mathbf{64,874 \text{ Units}} \end{aligned}$$

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

(2 marks)

- **Large size wetsuit (1)**
- **It has the highest *weighted average contribution margin* (1)**

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)

Special Order

$$\begin{aligned} & \text{SP} \times \text{QS} - \text{VC} \times \text{QS} - \text{new FE} - \text{OC} \\ & \text{or} \\ & \text{CM} \times \text{QS} - \text{OC} \end{aligned}$$

$$\begin{aligned} \text{CM} &= 138 - 121 = 17 \text{ (1)} \\ \text{QS} &= 27,500 \end{aligned}$$

Idle Capacity

$$\begin{aligned} & 79,200 - 55,160 \\ & = 24,040 \text{ (1)} \end{aligned}$$

Opportunity Cost

$$\begin{aligned} & 27,500 - 24,040 \\ & = 3,460 \text{ (1)} \end{aligned}$$

$$\begin{aligned} & \text{CM} \times \text{QS} - \text{OC} \\ & 17 \times 27,500 - (115 \times 3,460) \text{ (2)} \\ & = 69,600 \end{aligned}$$

Yes, No Attack Shark Australia, would accept the special order as there is a positive cash flow after the special order (1)

- 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)

Idle Capacity	88,000 – 55,160 (1) = 32,840 (order for 27,500 no Opportunity Cost)
Special Order	SP x QS – VC x QS – new FC – OC or CM x QS – new FC (17 x 27,500) (2) – 264,000 (1)
Profit	203,500

Question 17 (30 marks)

Workings:

Month of sale	– 0
First month after sale	– 30%
Second month after sale	– 65%

Receipts from customers:			
Month	Total sales	Credit sales	Aug
May	368,400	221,040	-
June	355,000 x 60% (1) =	213,000 x 65% (1) =	138,450
July	484,500 x 60% (1) =	290,700 x 65% (1) =	87,210
			<u>225,660</u> (1)
			<u>0</u>

Cash sales: July 484,500 **(1)** x 40% **(1)** = 193,800 x 5% **(1)**
+9,690
203,490 total cash sales

Payment to creditors: 197,000 **(1)** x 98% **(1)** = 193,060

Salary: 46,000 **(1)** + 41,000 **(1)** = 87,000

Other expenses: 29,800 **(1)** + 12,500 **(1)** = 42,300

Required:

- a) Prepare a cash budget for the month of August 2018.

(19 marks)

CJL Pty Ltd		
Cash budget for the month of August 2018		
Receipts	\$	Mark s
Open cash balance	31,000	(1)
Cash sales	203,490	(3)
Receipts from customers	<u>225,660</u>	(6)
<i>Total receipts</i>	<u>460,150</u>	
Payments		
Payment to creditors	193,060	(2)
Salaries	87,000	(2)
Other expenses	42,300	(2)
Electricity	6,300	(1)
Office furniture & equipment	<u>82,000</u>	(1)
<i>Total payments</i>	<u>410,660</u>	
Closing cash balance	<u>49,490</u>	(1)

Total marks **(19)**

Deduct 1 mark for each non relevant item included to a maximum of 2 marks
Deduct 1 mark for incorrect terminology to a maximum of 1 mark

- b) Identify the financial report that depreciation on non-current assets, would be presented in, for the year ended 30 June 2019. (1 mark)
- **Income statement**
- 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)
- **Defer purchase of new office furniture and equipment**
 - **Get a loan**
 - **Sell surplus assets**
 - **Reduce expenses**
 - **Improve debtor collection period.**
- d) State **three** reasons why forecasted figures may differ from actual figures when preparing a cash budget for a given period. (3 marks)
- **Changes in economic conditions (eg: recession)**
 - **Shifts in consumer tastes**
 - **Lower/higher sales than expected**
 - **Cost of sales may be higher /lower**
 - **Unforeseen expenses (eg: damaged inventory, fire etc)**
- e) Explain the purpose of performance reports and usefulness as a management tool. (4 marks)
- **Identify and investigate variances (1) and take remedial action if negative variance. (1)**
 - **Modification of future budgets in light of past performance. (1)**
 - **Determine if significant variances are caused within the business' control – eg: cost inefficiencies or outside influences such as a downturn in the economy. (1)**

Question 18 (22 marks)

a) Calculate the net present value of purchasing the equipment

(15 Marks)

Year	Cash Inflow	Cash Outflow	Net Cash Flow	Cost of Capital 14%	NPV	Marks
1	35,000	27,500	8,000	.8772	7,017.60	(2)
2	34,000	27,500	6,500	.7695	50,01.75	(2)
3	36,000	28,500	7,500	.6750	5,062.50	(2)
4	40,000	29,500	10,500	.5921	6,217.05	(2)
5	41,000 + Residual Value 4,000 (1)	30,000	15,000	.5194	7,791	(2)
					31,089.90	

Present Value of project - $15,000 + (23,000 \times .7695)$ (2)
= 32,698.50

NPV = Present value of future cash flows – present value of project

NPV - $31,089 - 32,698.50$ (2)
= (1608.60)

Alternative workings:

Year	1	2	3	4	5
Pv of NCF	$\frac{8,000}{1.4}$	$\frac{6,500}{1.4^2}$	$\frac{7,500}{1.4^3}$	$\frac{10,500}{1.4^4}$	$\frac{15,000}{1.4^5}$
=	=7,017.60 (2) +	50,01.75 (2) +	5,062.50 (2) +	6,217.05 (2) +	7,791 (2)
=	31,089.90				

Present Value of project - $15,000 + (23,000 \times .7695)$ (2)
= 32,698.50

NPV = Present value of future cash flows – present value of project

NPV - $31,089 - 32,698.50$ (2)
= (1608.60)

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

(4 Marks)

Year	Net Cash Flow	Cumulative	Marks
1	8,000	8,000	
2	6,500	14,500	(1)
3	7,500	22,000	(1)
4	10,500	32,500	
5	15,000	47,500	

4 Years

Months 38,000 – 32,500
 =5,500
 5,500/15,000 (1)
 = .36 x 12 (1)
 = 4.39 months

Therefore, the payback period is 4 years and 5 months

Alternative workings:

Original Investment: \$38,000
 38,000 – 8,000 Yr 1
 =30,000 – 6,500 Yr 2 (1)
 =23,500 – 7,500 Yr 3 (1)
 =16,000 – 10,500 Yr 4
 =5,500

4 Years

Months 5,500/15,000 (1)
 = .36 x 12 (1)
 = 4.40

Therefore, the payback period is 4 years and 5 months

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

(3 Marks)

- The Net Present Value calculation indicates that the business will not make a positive return over the life of the project (1)
- The Payback Period of 4 years and 5 months is over the 4 years the company have recommended as the payback period (1)
- Overall the proposal will not be acceptable as the net wealth will not improve over the period of the investment. (1)

Question 19 (29 marks)

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

(17 Marks)

Direct Materials

Chassis	Body	Marks
625,240/1,015	235,708/110	(1)
= 616	= 213.31	(1)
Total Direct Materials	616 + 213.31 = 829.31	(1)

Direct Labour

Chassis	Body	Marks
773,024/17,255	106,743/3,315	(1)
=44.80 per hr	= 32.20 per hr	(1)
44.80 x 8.5 hrs	32.20 x 4 hrs	(1)
=380.80	=128.80	(1)
	380.80 + 128.80 = 509.60	(1)

Overheads

		Marks
Factory Supervisors Wages	103,040	
Factory Rent	30,240	
Electricity & Water	25,760	
Assembly	38,360	
	197,400	(4)

Estimated Allocated Base

$$17,255 + 3,315 \text{ (1)}$$

$$= 20,570$$

Predetermined Overhead Rate

$$197,400/20,570 \text{ (1)}$$

$$= \$9.60$$

Chassis	Body	Marks
9.60 x 8.50 hrs	9.60 x 4 hrs	(2)
= 81.60	= 38.40	
Total Overheads	81.60 + 38.40 = 120	(1)

Direct Materials	829.31
Direct Labour	509.60
Overheads	120.00
	1,458.91

b) What would be the recommended selling price?

(2 Marks)

$$\$1,458.91 \times 1.4 = 2042.47 \text{ (2)}$$

c) Calculate the labour efficiency variance by department for 2018

(6 Marks)

$$(\text{ADLH} - \text{SDLHA}) \times \text{SR}$$

Chassis		Body		Mark s
ADLH	38,185	ADLH	4,872	
SDLHA	$8.5 \times 3650 = 31,025$	SDLHA	$4 \times 3650 = 14,600$	(2)
SR	\$44.80 (previous question)	SR	\$32.20 (previous question)	
$(38,185 - 31,025) \times 44.80$ =\$320,768 Unfavourable		$(4,872 - 14,600) \times 32.20$ =\$313,241.60 Favourable		(4)

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

(4 marks)

- The direct labour variance is the difference between how many hours should have been worked for the number of units actually produced and how many hours worked valued at the standard rate per hour. **(1)**
- In the case of Clever Campers the chassis department were not as efficient as the body department. **(1)**
- The chassis labour efficiency variance was unfavourable. Some of the reasons could be:
 - o Error in planning time
 - o Lost time in completing job
 - o Lack of training for employees **(1)**
- The body labour efficiency variance was favourable. Some of the reasons could be:
 - o Error in planning time
 - o Higher motivation to complete job
 - o Better quality of materials **(1)**

Section Three: Extended answer

15% (30 Marks)

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

Question 20 (30 marks)

- a) Outline the cause of the collapse of Counsel Electronics Ltd. (2 marks)

Counsel Electronics Ltd overcapitalisation of stock which they couldn't sell and not enough cash to fund repaid expansion leading to cash flow issues (2)

- b) State the name of the liquidators and explain their role including repayment to stakeholders as per Corporations Act 2001. (10 marks)

GroverHunt partners as liquidators (Brian Khoo and Valarie Lim) (1)

Liquidation: (4)

Occurs when an external person is appointed to:

- Collect & sell assets of an insolvent company
- Distribute the money of creditors
- Investigate the conduct of the directors & other company office holders
- Close the company.

Order of repayment to creditors (5)

- Fees and costs for the liquidators, administrators or receivers for conducting the liquidation
- Secured creditors ranked based on their debt instrument
- All outstanding employee entitlements including wages, superannuation leave entitlements and redundancy pay.
- Unsecured creditors
- shareholders

- c) Explain the importance of business planning. (5 marks)

Importance of business planning:

To ensure the future success of a business. (1)

- business planning includes the determination and setting of goals for short term and long term development of the business (1)
- generic business strategies include meeting industry targets, maintaining sales and production volumes from year to year, maintaining sales composition (2)
- objectives of business strategies include changing goals and performance measurement (1)

- d) Explain the difference between cost leadership and differentiation and identify which strategy Counsel Electronics Ltd. used. (4 marks)
- cost leadership versus differentiation requires businesses to make a choice as to the type of product that they are offering to the market place and their customer base (1)
 - strategic initiatives include identifying a need/niche in the market place and meeting this need by delivering a product or service to meet consumer demand (1)

Counsel Electronics Ltd used cost leadership as it advertised cheap products as per the photo "Knockout Sale" and trying to generate cash from being overstocked and trying to generate money from being overstocked.(2)

- e) Counsel Electronics Ltd had a problem with its levels of inventory. Explain why this was a problem for the retailer (9 marks)

Counsel Electronics Ltd had a problem with the excess level of stock (inventory) (1)

- Holding inventory for too long can lead to obsolescence of the stock. (1) This is particularly so in the case of technology equipment which Counsel Electronics Ltd supplied. No one wants old electronic equipment or the equipment must be sold at reduced price (1)
- Holding inventory for too long can lead to items being damaged (1) and then being sold at reduced price or not at all. (1)
- An overinvestment in inventory results in cash flow problems. (1) If inventory is not being sold then cash is not coming into the business. (1) This then means that the business cannot pay its creditors on time (1) and cannot purchase new inventory to replace old inventory. (1)

Question 21 (30 marks)

- a) Describe five roles you would expect an accountant to undertake in managing a business such as Khong Ltd. (10 marks)

(1 mark for naming the role and 1 mark for description)

Accountants play an important role within a business:

- Planning – eg. budgeting, strategic planning, taxation advice
- Controlling –eg. performance reporting, auditing
- Organising – eg. financial accounting
- Directing – eg. capital investment techniques
- Motivating – eg. financial planning, costing, receivership
- Decision making – eg. CVP analysis

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)

- Management accounting involves the preparation of reports for internal use by management of Manifest Pty Ltd. (1)
- Types of reports – (1 mark for naming the report and 1 mark for further explanation) - max 6 marks)
 - o Budgets such as cash budgets, sales budgets, purchases budgets, expense budgets.
 - o Performance reports comparing and assessing actual results against budgeted results.
 - o Internal audit reports –providing management with information about compliance with policies and procedures.
 - o Internal employee valuation report
- Users of reports – for Manifest Pty Ltd – Directors, Sales Manager, Purchasing Manager, Human resources manager (3)
- No regulation. Reports are produced as and when required by management (2).

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)

- Internal Audit is the process by which the business operations are appraised, reviewed, checked and monitored by its own employees (2)
- An internal auditor examines, evaluates and monitors the effectiveness and efficiency of the business's internal control system. (2)
- Areas of reviewed and checked e.g. cash handling procedures, inventory purchasing procedures, handling and storage of inventory. (2)
- Internal users and in particular the Managing Director will be the person most interested in the results of an internal audit. The Managing Director will ensure any errors or procedural lapses are quickly corrected by the appropriate line manager. (2)