

**Question/Answer Booklet****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	5	5	120	132	70
Section Three: Extended answer	2	1	35	30	15
					100

Instructions to candidates

1. 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 (do not erase or use correction fluid) and shade your new answer. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

Sections two and three:

Write all answers in this Question/Answer booklet.

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.

2. You must be careful to confine your responses to the specific questions asked and to follow any instructions that are specific to a question.
3. Spare answer space is provided at the end of this booklet which you may use for planning responses or 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. Write the number of the question you are continuing at the top of the spare page.
4. Information for Question 19 has been repeated on a removable information sheet which is inserted into the front of this booklet so that you can refer to it more easily while answering that question. Do not write your answers on the information sheet.

The information sheet **is not** to be handed in with your answers.

SECTION ONE: Multiple-choice**15% (15 marks)**

This section has **fifteen** 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 (do not erase or use correction fluid) and shade your new answer. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is selected for any question.

Suggested working time: 25 minutes

- 1 The main purpose of management accounting is to:
 - a) Inform shareholders of a company's profitability;
 - b) Calculate a company's taxation liability;
 - c) Provide information to assist internal decision making;
 - d) Prepare financial reports for management.

- 2 Fixed costs are those costs which:
 - a) Do not change from one period to another;
 - b) Are laid down by the Government;
 - c) Do not vary according to the level of production;
 - d) Cannot be affected by management decisions.

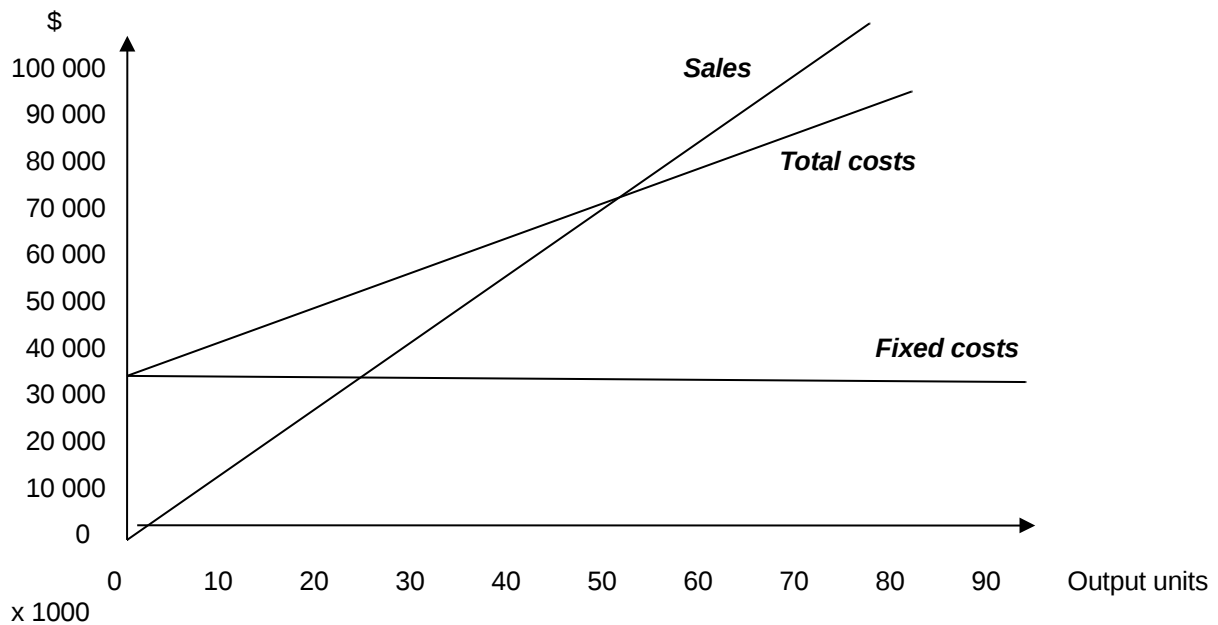
- 3 In cost accounting, the margin of safety:
 - a) Is the amount by which expected sales are greater than breakeven point;
 - b) Should ideally be kept as low as possible;
 - c) Is a measure of the dangers associated with producing a good or service;
 - d) Both a) and b) are correct.

- 4 The purpose of depreciation is:
 - a) To accumulate a fund for the purchase of a replacement when the asset wears out;
 - b) To spread the cost of an asset as an expense over its working life;
 - c) To adjust the value of an asset to its market value;
 - d) To reduce the amount of income tax payable.

- 5 An advantage of the payback method of assessing capital investments compared with net present value is that:
- it involves more complex calculations;
 - it provides a better assessment of risk;
 - it takes account of the return for the whole of the asset's useful life;
 - it is the method preferred by the Australian Tax Office (ATO).
- 6 A characteristic of merchandising businesses is:
- They employ a relatively large number of people;
 - They tend to be partnerships or small corporations;
 - Their major cost is the purchase of inventories;
 - All of a), b), and c).
- 7 The master budget for a business:
- Is prepared by the firm's senior management;
 - Is distinct from the firm's operational budgets;
 - Includes all estimates except capital expenditure;
 - Consists of all the interrelated financial and operating budgets.
- 8 An appropriate way of utilising short-term cash surpluses would **not** include:
- Purchase of shares in other companies;
 - Repayment of short-term debt;
 - Investment in the money market;
 - Purchase of Government bonds.
- 9 The main purpose of internal reporting is to:
- Inform owners of the business's progress;
 - Assist management decision-making;
 - Determine the firm's tax liability;
 - Evaluate the internal efficiency of the business.
- 10 Examples of internal control for a business would **not** include:
- The appointment of an independent auditor;
 - A proper system for the authorisation of cash payments;
 - Electronic surveillance of stock;
 - Following up debtors who are slow in paying their accounts.

- 11 Insolvency means that:
- a) The owners are not liable for the business debts;
 - b) The business has not been operating profitably;
 - c) The business has borrowed more than it should have done;
 - d) The business is unable to pay its debts when they need to be paid.
- 12 The **main** purpose of financial accounting is:
- a) To work out the financial expenses for a business;
 - b) To enable managers to make decisions about costs;
 - c) To provide information to assist stakeholders making economic decisions about the company;
 - d) To show whether the company has complied with accounting standards.
- 13 Asset management by a business:
- a) Includes decisions on the level of investment in non-current assets;
 - b) Includes management of Accounts Receivable and Accounts Payable;
 - c) Leads to business failure;
 - d) Both (a) and (b).

Use the following diagram of the costs and revenue of a firm to answer questions 14 & 15.



14 The breakeven point for this firm is:

- a) Production of about 50 000 units;
- b) Production of about 25 000 units;
- c) Revenue of about \$35 000;
- d) Both b) and c) are correct.

15 If the firm were to produce 40 000 units:

- a) It would make a profit of about \$60 000;
- b) Total costs would be about \$50 000;
- c) Variable costs would be greater than fixed costs;
- d) It would make a loss of about \$10 000.

END OF SECTION ONE

SECTION TWO: Short response 70% (132 marks)

This section has **five (5)** questions. Attempt **all** questions. Write your answers in the space provided.

Spare answer pages are provided at the end of this booklet which you may use for planning responses or continuing 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: 120 minutes

Question 16**(15 marks)**

Sewing World Industries Pty Ltd produces standard overlocker sewing machines at a selling price of \$930 each. The overlocker sewing machines are made at its factory which has a maximum capacity of 5,900 items per year. Currently the business produces 5,000 items per year. The costs to produce the items are as follows:

Direct material per unit	\$270
Direct labour per unit	\$200
Variable expenses per unit	\$200
Fixed costs per unit	\$120

The business has received a one-off special order for 1,400 overlocker sewing machines with special accessory items and the firm making the offer is prepared to pay \$810 per unit. The business costs would be similar to those of the usual overlocker sewing machines but the direct material cost would be reduced by \$20 per unit but the firm would need to buy in special equipment costing \$35,000.

Required:

- (a) Calculate the gain or loss on the special order and determine if the business should accept the special order. (13 marks)

Workings:

Gain or loss on special order: _____

Should the special order be accepted? YES / NO (circle)

(b) Explain how fixed costs impact the decision to accept or reject the special order. (2 marks)

Question 17**(29 marks)**

You are the management accountant at Agatha and Christie Manufacturing. Management estimates factory overheads for the year to be \$24,000 and expects activity of 3,000 direct labour hours. The business uses a standard costing system and the standard cost involved in making one product is as follows:

Direct materials	3 metres @ \$7 per metre
Direct labour	0.5 hours @ \$12 per hour

During the first year of operation, the following results were recorded:

Actual results		
Production		6,000 units
Direct materials	17,750 metres purchased and used	\$88,125
Direct labour	2,900 hours	\$35,380
Fixed overheads		\$11,000
Variable overheads		\$12,500

Required

(a) Calculate the standard cost of making the product.

(7 marks)**Workings:**

Standard cost per unit: _____

(b) Calculate the direct materials price variance

(5 marks)

Workings:

Direct materials price variance: _____

(c) Calculate the direct material usage variance.

(5 marks)

Workings:

Direct materials usage variance: _____

(d) Calculate the direct labour rate variance.

(5 marks)

Workings:

Direct labour rate variance: _____

(e) Calculate the direct labour efficiency variance

(5 marks)

Workings:

Direct labour efficiency variance: _____

(f) Give two reasons to help explain the labour efficiency variance of Agatha and Christie Manufacturing.

(2 marks)

Question 18**(35 marks)**

Marple Manufacturers produce 2-seater sofa lounges and 3-seater sofa lounges and Rocker Recliner chairs. The following information relates to these items:

	2-seater sofa lounge	3-seater sofa lounge	Rocker Recliner chair
Selling price	\$1150	\$1890	\$650
Variable costs per unit	\$650	\$1260	\$350
Anticipated sales volume per year	5,100 units	5,500 units	6,000
Machine hours to produce	4 hours	5 hours	4 hours

The total fixed manufacturing overhead cost is \$1,050,000 per year and the fixed selling and administration costs are \$800,000 per year.

Marple Manufacturers has a maximum 71,000 hours per year available to make these products.

Required:

- (a) Calculate the sales mix for the three products (rounded to nearest whole number).
(6 marks)

Workings:

Sales mix 2-seater lounge: _____

Sales mix 3-seater lounge: _____

Sales mix rocker recliner: _____

(b) Calculate the weighted average contribution margin.

(9 marks)

Workings:

Weighted average contribution margin: _____

(c) Calculate how many 2-seater lounges would need to be sold to break-even.

(4 marks)

Workings:

2-Seater lounges break-even point: _____

Modified Edwest and BEWA

- (d) Calculate the margin of safety as a percentage (to two decimal places) for 2 seater lounges (3 marks)

Workings:

2-Seater lounges margin of safety: _____

- (e) Marple Manufacturers are limited to 71,000 machine hours to make their products. What combination of products should Marple Manufacturers produce in order to maximise profit? (13 marks)

Workings:

2-seater lounges: _____

3-seater lounges: _____

Rocker recliners: _____

Question 19

(33 marks)

Green Leaf Garden Supplies operate a retail outlet in Joondalup selling unique garden supplies and specialising in indoor pots and plants, homewares and gifts.

The owners of Green Leaf Garden Supplies are considering expanding their business and setting up a new retail outlet in Ellenbrook. The owners see potential for increasing sales as the new freeway and train line should bring many new families into the Ellenbrook area.

It is estimated that setting up the venture will cost \$300,000. In year 3, Green Leaf Garden Supplies intend to upgrade the check-out computer system at a cost of \$15,000. The upgraded computer system is expected to see a reduction in annual wages costs of \$10,000. The computer system will have a zero-scrap value. The cost of the computer system and expected savings are **not** included in the cash flow figures shown below.

In addition to the above other expected cash inflows are:

Year 1	\$125,000
Year 2	\$150,000
Years 3 – 4	\$248,000 each year
Years 5	\$260,000

Other expected Cash Outflows

Years 1 – 2	\$130,000 each year
Years 3 – 5	\$135,000 each year

The owners of the business have set a target rate of return at 6% per annum and a payback period of 5 years or less.

Required:

(a) Calculate the net cash flows in the table below; (11 marks)

Year	Workings	Net cash flow
0		
1		
2		
3		
4		
5		

(b) Calculate the payback period for the project.

(7 marks)

Workings:

Payback period: _____

(c) Calculate the Net Present Value of the project to the nearest whole dollar.

(6 marks)

Workings:

Net Present Value: \$ _____

(d) Based on your calculations, would you recommend the owners of Green Leaf Garden Supplies proceed with this project? Justify your answer. (3 marks)

(e) Identify and discuss three other factors which should be considered by Green Leaf Garden supplies when considering whether to proceed with their project. (6 marks)

QUESTION 20**(20 marks)**

Ghibli Traders is planning to expand its business and has provided you with the following estimates for the next 3 months, and some additional information.

	July \$	August \$	September \$
Sales	140 000	160 000	170 000
Purchases	95 000	105 000	108 000
Wages	21 000	24 000	24 000
Sundry expenses	5 000	6 000	6 000
Insurance expense	1 500	1 500	1 500
Rent expense	4 000	4 000	4 000
Depreciation expense	2 800	2 800	2 800

Additional information:

- Sales are usually 80% for cash and the remaining 20% pay in the month following the sale. Accounts receivable at the end of June were \$23 000.
- Purchases are paid for in the month after purchase to obtain a 1% discount. Accounts payable at 30/6/19 were \$91 000
- The annual insurance premium will be paid in July.
- Rent is payable 2-monthly in advance. The last payment was made on 1st June.
- Other expenses are paid in the month in which they are incurred.
- The business owner, Masur Rati, expects to withdraw \$2 000 per month for his personal expenses.
- The business is purchasing additional plant and equipment at a total cost of \$150 000. This will be paid in 4 equal monthly instalments, beginning on 1st August.
- The cash balance in the firm's account at 30/6/19 is \$18 400 Dr.

Required:

Prepare a cash budget for Ghibli Traders on a monthly basis for the 3 months July – September 2019. (20 marks)

WORKINGS:

**GHIBLI TRADERS
CASH BUDGET FOR JULY – SEPTEMBER 2019**

WORKINGS:

END OF SECTION TWO**SECTION THREE: Extended response 15% (30 marks)**

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

Spare answer pages are provided at the end of this booklet which you may use for planning responses or 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. Write the number of the question you are continuing at the top of the page.

Suggested working time for this section is 35 minutes.

Question 21**(30 marks)**

Gerry Sherlock and Mary Holmes have established a company known as G & M Trading Pty Ltd and wish to set up a supermarket in a new shopping centre in Aveley in the eastern suburbs of Perth. They want to offer fresh, local produce such as fruit, vegetables and meats to customers as well as provide a home delivery service. In addition, they would like to supply local restaurants.

Both Gerry and Mary are determined to make their business a success and seek your advice as their accountant.

Advise Gerry and Mary on the following matters:

- (a) Outline the importance of business planning. How can goals, objectives and strategic business strategies help Gerry and Mary plan for a successful business? (9 marks)
- (b) Explain the difference between management and financial accounting. (6 marks)
- (c) Explain the importance of managing inventory and some procedures that Gerry and Mary could establish to ensure the appropriate management of inventory. (6 marks)
- (d) Gerry and Mary will need to set up credit arrangements for restaurant clients purchasing fresh meat and vegetables. Explain procedures for setting up credit arrangements for their customers and managing accounts receivable. (5 marks)
- (e) Briefly explain the difference to Gerry and Mary between cost leadership and differentiation. (4 marks)

OR

Question 22**(30 marks)**

Midsomer Modular Patios Pty Ltd has in recent times been struggling financially. Although the company has been reporting profits over the years, profits have been declining and the company has been struggling to pay day to day business expenses.

The directors of the company are very involved in the running of the business but don't get a lot of time to set performance targets and check they are being met. They believe the business is not operating as efficiently as it could. They are concerned that the company may have difficulty meeting the increasing costs of purchasing materials for the manufacture of the patios and increasing labour costs.

Midsomer Modular Patios Pty Ltd operate in a highly competitive market and cannot easily increase the selling price of the patio products they produce.

As the accountant for Midsomer Modular Patios Pty Ltd, provide information on the following questions:

- (a) Explain the difference between cash and accrual accounting. Provide an example of both an income item and an expense item to illustrate the difference. (6 marks)
- (b) Discuss the purpose and function of performance reports. Provide two examples of common performance reports used in business. (6 marks)
- (c) What is a cash budget and how can a cash budget assist in management of the cash needs of a business? (5 marks)
- (d) What is cost-volume-profit analysis? List four ways a company can use cost-volume-profit analysis to assist in planning. (5 marks)
- (e) Explain the concept of insolvency (2 marks)
- (f) What is voluntary administration and what are the benefits of voluntary administration? (6 marks)

End of questions

SPARE PAGE FOR WORKINGS