

Wesley College 2019 Semester One Examination

Question/Answer Booklet

ACCOUNTING AND FINANCE

ATAR

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

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	5	5	120	150	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.

1. The main purpose of management accounting is to
 - (a) inform shareholders of the company's profitability.
 - (b) calculate the company's taxation liability.
 - (c) provide information to assist internal decision making.
 - (d) Prepare financial reports for management.

2. How should a business best utilise a short term surplus cash?
 - (a) investing in an at-call deposit with a bank
 - (b) purchasing shares in public companies
 - (c) purchasing additional non-current assets
 - (d) investing in debentures

3. The time value of money concept refers to the fact that the value of \$1
 - (a) received today is worth less than the value of \$1 received in the future.
 - (b) invested today will not change in the future because of the effect of inflation.
 - (c) received today is worth more than \$1 received in the future due to its earning capacity.
 - (d) today is worth the same as the value of \$1 received in the future.

4. What is the effect of an increase in the level of production on total fixed costs?
 - (a) total fixed costs increase
 - (b) total fixed costs decrease
 - (c) total fixed costs remain the same but the per unit cost increases
 - (d) total fixed costs remain the same but the per unit cost decreases

5. Which is an example of a variable cost?
 - (a) rent
 - (b) factory insurance
 - (c) salary of the office manager
 - (d) sales commission

6. A sales budget is an example of
- (a) an operating budget.
 - (b) a financial budget.
 - (c) a master budget.
 - (d) a capital expenditure budget.
7. Which is a characteristic of capital investment decisions?
- (a) easy to reverse
 - (b) high risk
 - (c) usually short term
 - (d) low cost
8. A cash budget helps identify
- (a) level of assets held by the business.
 - (b) future cash shortages.
 - (c) past cash flows.
 - (d) future profits.
9. The owner of a business advertises a product it produces as being higher quality and more reliable than any other equivalent product on the market. This is an example of
- (a) cost distinction.
 - (b) cost leadership.
 - (c) product differentiation.
 - (d) product leadership.
10. An internal audit
- (a) is carried out by employees to check if operating policies and procedures are followed.
 - (b) is designed to confirm all financial reports to shareholders are correct.
 - (c) takes place at the end of every financial year prior to shareholder meetings.
 - (d) is carried out by an external accounting firm appointed by management.
11. A cost-volume-profit activity where actual sales is greater than break-even sales is called the
- (a) product mix.
 - (b) contribution margin.
 - (c) margin of safety.
 - (d) break-even point.

12. A favourable materials price variance can occur because the purchasing department
- (a) purchased a greater quantity of raw materials than used by the production department.
 - (b) purchased raw materials at a greater discount than initially envisaged when the cost standard was established.
 - (c) purchased the raw materials at a higher actual cost than set in the cost standard.
 - (d) wasted less raw material than initially envisaged when the cost standard was established.
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).
14. An example of ethical behaviour in business would be
- (a) refunding to customers amounts overcharged by mistake.
 - (b) the owner appointing his unqualified daughter to a senior management position.
 - (c) paying tax it is legally obliged to pay on or before the due date.
 - (d) failing to notify customers of faults in the products it produces.
15. The main purpose of financial accounting is to
- (a) work out the financial expenses for a business.
 - (b) enable managers to make decisions about costs.
 - (c) show the company has complied with accounting standards.
 - (d) assist stakeholders in making economic decisions about the company.

Section Two: Short answer

70% (150 Marks)

This section has **five** 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 (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% pa and a payback period of 5 years or less.

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

(6 marks)

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 17 (38 Marks)

Pesky Peloton is a business producing and selling high quality bikes and bike parts throughout Western Australia. The firm's accountant has produced the following cash budget for the three month period 1 October 2019 to 31 December 2019.

Pesky Peloton		\$
Cash Budget		
For the period October to December 2019		
Receipts		
Cash sales	112,000	
Receipts from debtors	167,450	
Proceeds of loan	50,000	
Proceeds from sale of equipment	<u>3,000</u>	
Total receipts	332,450	
Payments		
Wages and salaries	98,000	
Creditors	144,000	
Rent	9,000	
Other expenses	4,500	
Drawings	6,000	
Plant and equipment	<u>40,000</u>	
Total payments	301,500	
Cash surplus	30,950	
Cash balance at beginning of period	<u>14,300</u>	
Cash balance at end of period	<u>45,250</u>	

Additional information:

- Credit sales are usually received in the month following the sale less a 1.5% discount.
- Accounts receivable at 30 September 2019 were \$50,000 and this is expected to rise to \$65,000 by 31 December 2019.
- Inventory purchases are paid in the month following purchase. Accounts payable at 30 September 2019 were \$42,000 and this is expected to rise to \$55,000 by 31 December 2019.
- Cost of sales for the period is expected to be \$152,000.
- The annual insurance premium of \$12,000 was paid on 1 July 2019.
- The loan is expected to be drawn in full at the beginning of December. Interest of 7% per annum will be payable on this loan.
- Depreciation expense is expected to be \$900 per month.
- Equipment will be replaced on 1 October 2018. The equipment to be sold was purchased for \$20,000 and has accumulated depreciation of \$16,000.
- All other expenses are expected to be paid as incurred.

Required:

- (a) Prepare a budgeted Income Statement (unclassified) for Pesky Peloton for the three months ending 31 December 2019. (22 marks)

Workings

**Pesky Peloton
Budgeted Income Statement
For three months ending 31 December 2019**

(b) Explain the purpose of a budgeted Income Statement. (4 marks)

- (c) Calculate the variances on the Cash Budget Performance Report of Pesky Peloton for the three months ending 31 December 2019. (8 marks)

**Pesky Peloton
Cash Budget Performance Report
For three months ending 31 December 2019**

	Budget	Actual	Variance
Receipts	\$	\$	
Cash sales	112,000	115,000	
Receipts from debtors	167,450	150,000	
Proceeds of loan	50,000	50,000	
Proceeds from sale of equipment	3,000	2,500	
Total receipts	<u>332,450</u>	<u>317,500</u>	
Payments			
Wages and salaries	98,000	100,000	
Creditors	144,000	160,000	
Rent	9,000	8,900	
Other expenses	4,500	4,000	
Drawings	6,000	6,000	
Plant and equipment	40,000	40,000	
Total payments	<u>301,500</u>	<u>318,900</u>	
Cash surplus/deficit	30,950	(1,400)	
Cash balance at beginning of	14,300	14,300	
Cash balance at end of period	<u>45,250</u>	<u>12,900</u>	

- (d) Examine the Cash Budget Performance Report for Pesky Peloton and give two possible reasons for the variation in receipts from debtors and two possible reasons for the variation in payment to creditors. (4 marks)

Question 18 (35 marks)

Marple Manufacturers produce 2 seater sofa lounges, 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 per unit	\$1,150	\$1,890	\$650
Variable costs per unit	\$650	\$1,260	\$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: _____

(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 (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 20 (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	\$133,125
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)

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 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:

- 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)
- Explain the difference between management and financial accounting. (6 marks)
- Explain the importance of managing inventory and some procedures that Gerry and Mary could establish to ensure the appropriate management of inventory. (6 marks)
- 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)
- Explain the benefits and costs of the supermarket engaging in good environmental practices. (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) Define the concept of insolvency as per the *Corporations Act 2001*. (2 marks)
- (f) What is voluntary administration and what are the benefits of voluntary administration? (6 marks)

End of questions

