

**Business Educators of Western Australia (Inc.)
2016 Semester Two Examination**

Question/Answer Booklet

**ACCOUNTING
AND FINANCE**

ATAR

Units 3 and 4

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
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: Extended response	6	6	120	130	70
Section Three: Essay	2	1	35	30	15
					100

Section One: Multiple-choice**15% (15 Marks)**

This section has **15** questions. 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: **25** minutes.

Multiple choice

1. Wendi Ltd issued a prospectus offering 200 000 ordinary shares at \$2.00 each payable in full on application. Within 30 days, the share issue was fully subscribed and all monies had been received.

The appropriate General Journal entry to record this transaction is

- (a) debit Application account, credit Bank account.
 (b) debit Bank account, credit Application account.
 (c) debit Share Capital account, credit Bank account.
 (d) debit Bank account, credit Share Capital account.
2. The following information relates to Valenti's Winery who produces two types of table wines – Muscat and Port.

	Muscat	Port
Selling price per bottle	\$47	\$42
Variable cost per bottle	\$15	\$13
Contribution margin per bottle	\$32	\$29
Sales volume for the year	180 000 bottles	120 000 bottles
Total fixed costs	\$210 000	

The sales mix for Muscat and Port and the total weighted average contribution margin for Valenti's Winery are

- | | Sales mix
Muscat | Sales mix
Port | Total weighted average
contribution margin |
|-----|-----------------------------|---------------------------|---|
| (a) | 52% | 48% | \$30.56 |
| (b) | 45% | 55% | \$30.35 |
| (c) | 60% | 40% | \$30.80 |
| (d) | none of the above | | |
3. An over-investment in inventory can result in a
- (a) loss of sales.
 (b) loss in other investment opportunities.
 (c) reduction in storage costs.
 (d) reduction in suppliers discounts.

4. Information for Rocca Ltd is shown below:

	2015	2016
	\$	\$
Beginning inventory	72 000	45 000
Cash purchases	60 000	82 000
Credit purchases	52 000	43 000
Ending inventory	45 000	47 000
Cost of sales	139 000	123 000

The inventory turnover ratio (rounded to two decimal places) for the year 2016 is

- (a) 3.02 times
 - (b) 2.40 times
 - (c) 2.10 times
 - (d) 2.67 times
5. Southern Curtains uses machine hours to calculate a predetermined overhead rate to allocate manufacturing overhead costs to completed jobs.

The estimated non-manufacturing and manufacturing costs, and allocation base details are shown below:

	2016
Office administration costs	\$455 000
Selling costs	\$55 000
Manufacturing overhead costs	\$387 600
Machine hours	10 200 hours

The details of a completed batch of curtains manufactured are as follows:

	2016
Direct materials	\$162 000
Direct labour	\$72 000
Machine hours used	2 000 hours

The total cost of the batch of curtains is

- (a) \$410 000
 - (b) \$320 780
 - (c) \$234 000
 - (d) \$310 000
6. An investment in the money market
- (a) has a maturity time, ranging from a day to a year.
 - (b) is difficult to sell and convert into cash.
 - (c) can be considered higher risk than shares.
 - (d) is usually invested over a long term.

7. A public company may be insolvent if
- (a) a net loss has been recorded.
 - (b) the budgeted profit was not achieved.
 - (c) total liabilities exceed total assets.
 - (d) all of the above.
8. Which of the following is a function of financial accounting?
- (a) producing general purpose financial reports used by shareholders
 - (b) producing customised financial reports for manager decision making
 - (c) reviewing the internal control measures implemented by the business
 - (d) assisting managers in directing and controlling operational activities
9. In addition to budgets, businesses prepare performance reports to
- (a) identify differences and improve future budgeting.
 - (b) identify and quantify variances as either favourable or unfavourable.
 - (c) compare budgeted and actual data to identify past problems.
 - (d) all of the above.
10. Costs which are classified as operating expenses in the current financial year are
- (a) direct labour costs.
 - (b) direct materials costs.
 - (c) period costs.
 - (d) mixed manufacturing costs.
11. The Framework for the Preparation and Presentation of Financial Statements describes the qualitative characteristic of *relevance* as information that can be
- (a) comparable over time and between entities.
 - (b) useful in decision making.
 - (c) free from material error and bias.
 - (d) comprehensible to users.
12. Which of the following is a characteristic of internal reporting?
- (a) reports on the economic, social and environmental success
 - (b) predicts future performance and activities
 - (c) provides useful information to outside parties
 - (d) complies with accounting standards

13. The role of the Australian Securities Exchange (ASX) includes to

- (a) outline the form and content of financial reports of publicly listed companies.
- (b) investigate breaches of the Corporations Act by companies.
- (c) issue Practice Notes to guide the application of accounting standards.
- (d) monitor trading information to detect unusual volumes or patterns.

14. The objective of general purpose financial reporting according to The Framework for the Preparation and Presentation of Financial Statements is to provide

- (a) information about the financial position, financial performance and cash flows of an entity that allows a range of users in making economic decisions.
- (b) information to the Australian Taxation Office (ATO) to enable it to calculate the entity's GST obligations and income tax payable.
- (c) disclosure of all the non-financial information about an entity so that the general public know what reporting entities are doing.
- (d) financial information about a reporting entity that is useful to the government when they are deciding what laws to introduce.

15. The purpose of accounting standards is to specify how transactions and other events are to be recognised, measured, presented and disclosed in financial statements so as to

- (a) assist the Australian government in making consistent decisions.
- (b) ensure companies disclose fully their corporate social responsibilities.
- (c) protect external users and assist directors to discharge their duties.
- (d) ensure that information is relevant and reliable for internal users.

Section Two: Short answer**70% (130 Marks)**

This section has **six** 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**(12 marks)**

Hobart Enterprises manufacture wooden chairs. The mahogany hardwood used in making the chairs is classified as direct materials. However the glue, wood stain and varnish are indirect materials.

Management uses standard costing as a valuable tool to plan and control its manufacturing operations.

The standard machine hours for each batch of 500 wooden chairs is 80 hours and the cost details are as follows:

- Direct materials – 500 square metres of hardwood at \$26.00 per square metre.
- Direct Labour – 130 hours at \$60.00 per hour.

In addition to the indirect materials, a number of other manufacturing overheads are incurred such as electricity, cleaning, insurance and rent. These overheads are applied at the rate of \$20.00 per machine hour to each batch of wooden chairs made.

At the end of May 2016, the actual details of two batches of wooden chairs are as follows:

- 1 060 square metres of hardwood at \$25.00 per square metre.
- 240 hours of direct labour at \$63.00 per hour.
- 150 machine hours were used in making the batches of wooden chairs.

Management have expressed concern regarding the direct material usage and direct labour cost in making the wooden chairs.

(a) Calculate the direct materials usage variance. (4 marks)

(b) Identify **two** strategies management could use to improve an unfavourable direct material usage variance. (2 marks)

(c) Calculate the direct labour rate variance. (3 marks)

(d) Explain why the direct labour rate variance is favourable or unfavourable. (1 mark)

(e) The owners of Hobart Enterprises have questioned why the glue, wood stain and varnish are not classified as direct manufacturing costs. Provide a suitable explanation.

(2 marks)

Question 17**(13 marks)**

Tassie Tiger Enterprises is considering the acquisition of a new machine to meet the increased demand for its products in the overseas market. The purchase of this machine would bring in more net cash flows from increased sales and cost savings.

The owners, Gail Devonport and Ray Ross, have two options from which to choose: Machine A or Machine B.

The owners have already evaluated and appraised Machine A. It has a payback period of 3 years and 8 months with a positive net present value of \$115 000.

Management have provided the following details for Machine B:

- The cost is \$600 000, with \$500 000 to be paid initially and the balance of \$100 000 paid in year one of the project.
- The estimated useful life is 6 years.
- The machine is expected to be sold for \$40 000 cash at the end of its useful life.

Additional Information:

- The increased net cash flows are anticipated to be \$170 000 per year for each of the years ended 31 December over the machines useful life.
- The business has a target cost of capital of 12%.

(a) Calculate the payback period (in years and months) for Machine B. (3 marks)

(b) Calculate the net present value for Machine B.

(7 marks)

(c) Based on the calculations, which machine should be purchased and why?

(3 marks)

Question 18**(14 marks)**

Launceston Traders manufacture indoor garden pots and currently sell these at \$35 per unit. The current variable costs are as follows:

Direct materials per unit	\$7.00
Direct Labour per unit	\$5.00
Factory overhead cost per unit	\$4.50
Total variable cost per unit	\$16.50

The fixed costs incurred by the business total \$2.50 per unit. To make the garden pots, production equipment was purchased 5 years ago at a cost of \$25 000.

The factory has a maximum capacity of 5 000 units per month and currently produces 4 500 units per month.

The business has received a special order of 700 units from a new customer. To accommodate the special order, modifications to the existing equipment is required at a cost of \$1 000.

For this special order, the customer is only prepared to pay \$30 for each pot. The cost of direct labour per unit would remain the same but the cost of direct materials would be reduced by \$1.00 per unit.

(a) Calculate the gain or loss on the special order.

(9 marks)

(b) Should Launceston Traders accept or reject the special order based on the quantitative calculation? (1 mark)

(c) Distinguish between a past and future cost using examples from the special order calculated in (a) to illustrate your answer. (4 marks)

Question 19**(18 marks)**

Normandy Wholesalers specialises in fashion clothing and sells to retailers on a cash and credit basis. They are planning to expand their business and provided the following information for the six months ending 31 October 2016.

The cash at bank account balance as at 31 July 2016 was \$19 000 (debit) and the forecast balance as at 30 September 2016 will be \$15 820 (debit).

They have provided the following information for sales and purchases:

Month	Cash sales \$	Credit sales \$	Credit purchases \$
Actual			
May	31 000	84 000	42 000
June	34 000	86 000	41 000
July	32 000	82 000	43 000
Budgeted			
August	33 000	83 000	48 000
September	37 000	88 000	57 000
October	36 000	89 000	56 000

Credit sales are expected to be collected:

- 65% in the month following the sale;
- 25% collected in the second month after sale;
- 8% in the third month after sale; and
- 2% is uncollectable

All purchases are made on credit and are paid in the month after purchase to take advantage of a 2% discount for prompt payment.

The following are expected to be paid in cash during each month of the budget period:

	August \$	September \$	October \$
Wages and salaries	5 600	6 600	6 800
Prepaid insurance		1 300	
Advertising		1 100	
Electricity	700		800
Office costs	600	650	650

Additional Information:

The following is also anticipated during the budget period:

- In September, \$200 accrued interest on investments for July and August is due to be received in cash.
- Depreciation on Plant and Equipment is \$600 per month, for August and September, and \$800 in October.
- The business expects to purchase new equipment costing \$50 000 in September with \$10 000 payable in September and the balance in October. The balance of \$40 000 will be financed by a loan on 1 October. The monthly loan repayment of \$1 000 and interest payable at a rate of 6% pa will be due at the end of each month commencing 31 October.

- (a) Prepare the Schedule of Receipts from Accounts Receivables for Normandy Wholesalers for the month ending 31 October 2016. (3 marks)

Workings:

- (b) Prepare the cash budget for Normandy Wholesalers for the month ending 31 October 2016. (13 marks)

Workings:

**Normady Wholesalers
Cash Budget
For the month ending 31 October 2016**

- (c) Outline **two** reasons why cash is so important to the viability of a business. (2 marks)

Question 20**(33 marks)**

The comparative Balance Sheets of Kelsey Ltd as at 30 June for the past two years is shown below:

	2016 \$	2015 \$
Cash at bank	12 000	0
Accounts receivable	43 000	39 000
Allowance for doubtful debts	(1 500)	(1 000)
Inventory	59 000	51 000
Prepaid insurance	3 000	2 000
Land	181 000	171 000
Machinery	71 000	68 000
Accumulated depreciation - machinery	(33 000)	(25 000)
TOTAL ASSETS	\$334 500	\$305 000
Bank overdraft	0	3 000
Accounts payable	60 500	70 000
Accrued salaries	1 000	800
Income tax payable	7 000	5 200
Ordinary share capital	146 000	133 000
Asset Revaluation reserve	39 000	29 000
General reserve	21 000	9 000
Retained earnings	60 000	55 000
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	\$334 500	\$305 000

Additional Information:

- Sales of \$180 000 and purchases of inventories during the year were on credit.
- Machinery costing \$12 000 with accumulated depreciation of \$6 000 was sold during the year for \$4 000 cash. Additional machinery was purchased for cash.
- An extract from the Statement of Comprehensive Income for the year ended 30 June 2016 shows the following:

Profit after Income Tax	\$50 300
Add other Comprehensive income	
Gain on asset revaluation	\$10 000
Total Comprehensive income for the year	\$60 300

- Expenses for the year ended 30 June 2016 were as follows:

o Cost of sales	\$75 000
o Depreciation of machinery	14 000
o Insurance	1 200
o Bad debts	2 000
o Salaries	23 000
o Other expenses	11 500
- Other expenses include the loss on sale of machine and doubtful debts.
- Dividends approved at last year's AGM in September 2015 were paid in cash during the year.
- Ordinary shares were issued for cash during the year.
-

Required:

- (a) Calculate the total payments to suppliers and employees for Kelsey Ltd for the year ending 30 June 2016. (18 marks)

Workings:

Payments to suppliers and employees

(b) Prepare the Investing Activities section of the Statement of Cash Flows for Kelsey Ltd for the year ending 30 June 2016. (4 marks)

Workings:

**Kelsey Ltd
Statement of Cash Flow (extract) – Investing Activities
For the year ending 30 June 2016**

- (c) Prepare the Financing Activities section of the Statement of Cash Flows for Kelsey Ltd for the year ending 30 June 2016. (7 marks)

Workings:

**Kelsey Ltd
Statement of Cash Flow (extract) – Financing Activities
For the year ending 30 June 2016**

- (d) Define cash and cash equivalents as stated in Australian Accounting Standards Board AASB 107. (4 marks)

Question 21**(40 marks)**

Fahrrad Ltd manufactures and distributes high performance bicycles, clothing, shoes and bike trailers. It had the following equity account balances as at 1 July 2015:

	\$
000	Share capital (102 000 ordinary shares at \$2.00 fully paid) 204
	Retained earnings 76
000	General reserve 10 000

They have provided the below Trial Balance extract as at 30 June 2016:

Account Name	Debit \$	Credit \$
Land	280 000	
Sales		201 000
Trades payable		53 000
Discount received		2 000
Accounts receivable	72 000	
Discount allowed	500	
Wages	79 500	
Prepaid shop rent	9 800	
Insurance	7 500	
Other expenses	1 850	
Inventory	52 000	
Bank	31 000	
Cost of sales	92 000	
Interest on loan	3 500	
Cartage outwards	2 100	
Motor vehicle	12 000	
Goodwill	7 500	
Interim Dividend	6 120	

Additional Information during the year ended 30 June 2016:

- Land was revalued from \$170 000 to \$280 000 on 1 August 2015.
- An interim dividend of 6 cents per share was declared and paid

in January 2016.

- At the end of March 2016, the directors decided to make a bonus issue of 1 for 10 shares at \$2.00 per share. This was to be funded from the asset revaluation reserve.
- A motor vehicle costing \$12 000 was purchased on 1 April 2016.

Additional Information on 30 June 2016:-

- Prepaid shop rent unexpired \$2 500.
- Depreciation on motor vehicles at 10% per annum using the straight line method.
- Loan interest still owing on balance day \$1 000.
- Income tax is to be calculated at 30%.
- The directors decided to transfer \$5 000 of profits to a general reserve.
- The directors recommended that the ordinary shareholders at 30 June 2016 receive a final dividend of 10 cents per share. This dividend must be approved by the shareholders at the next AGM in September 2016.

- (a) Prepare a Statement of Comprehensive Income for Fahrrad Ltd for the year ended 30 June 2016. (17 marks)

Workings:

**Fahrrad Ltd
Statement of Comprehensive Income
For the year ended 30 June 2016**

(b) Prepare the Statement of Changes in Equity for Fahrrad Ltd for year ending 30 June 2016. (15 marks)

Workings:

Fahrrad Ltd
Statement of Changes in Equity
For the year ended 30 June 2016

- (c) After approval by the shareholders at the AGM on 12 September 2016, the Directors declared a final dividend of 10 cents per ordinary share. Prepare the General Journal entry to record the final dividend declared. (6 marks)

Workings:

Fahrrad Ltd
General Journal (extract)

(d) State **two** functions of the Financial Reporting Council (FRC).

(2 marks)

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 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 22**(30 marks)**

As a shareholder of Hasting Ltd, Dee Wellington has recently received a copy of the annual company report and has engaged Napier Public Accountants for professional advice.

Napier Public Accountants have analysed the financial reports of Hastings Ltd and have calculated the following ratios:

Ratio	2015	2016
Profit ratio	1.0:0.07 or 7%	1.0:0.06 or 6%
Debt to Equity ratio	1.0:0.80 or 80%	1:0.70 or 70%
Rate of Return on Assets ratio	8%	7%
Earnings per share	20 cents per share	23 cents per share
Dividend yield	3.5%	4.1%
Price earnings ratio	12 times	14 times

Recent speculation has indicated that Hastings Ltd may have been involved in unethical and fraudulent practices. Media reports cite the misuse of assets, inaccurate financial reporting, omission of data, misleading clients and failure to complete taxation returns.

In an effort to model itself as a good corporate citizen, environmentally sustainable initiatives have been adopted. These include recycling, energy and water conservation, donations and sponsorship of local community groups, educational grants and encouraging its employees to be involved in community-focused causes.

“All this effort distracts Hastings Ltd from its real task of making profits to boost shareholder wealth” quoted Dee. “Hastings Ltd needs to focus on optimising profit performance and to comply with the law such as the Corporations Act”.

Dee values the benefit of the ratio analysis provided by Napier Public Accountants but questions whether they are an automatic solution for assessing the company's performance.

You are required to prepare a written analysis on behalf of Napier Public Accountants. Your answer should:

- (a) Comment on the trends in profitability, market value and gearing ratios for Hastings Ltd, giving possible reasons for the changes revealed. (9 marks)
- (b) Identify and describe **three** items included in a company annual report **other** than financial statements and notes to the accounts. (6 marks)
- (c) State **three** limitations in assessing the company's performance from financial statement analysis. (3 marks)
- (d) Explain **three** reasons why Hastings Ltd has engaged in socially and environmentally responsible practices (6 marks)
- (e) Explain **three** ethical issues/dilemmas which may be encountered in financial dealings between business managers and their clients, employees and investors. (6 marks)

OR

Question 23

(30 marks)

Ross Kilda is a respected and sought-after businessman with 25 years of experience in the retail business.

Until now he has been operating as a partnership with three other partners. He has recently been interviewed to join the Board of Directors of two rival companies in which he has a small portfolio of shares.

The first being Silver Coast Ltd, a public company specialising in sportswear and leisure related merchandise. The other is Gee Long Pty Ltd, a large proprietary company that sells a similar product line.

He has been supplied the following ratios for the two companies:

Ratio	Silver Coast Ltd	Gee Long Pty Ltd
Working Capital ratio	0.98:1.0	1.4:1.0
Debt to Equity ratio	70%	100%
Times Interest earned ratio	14 Times	8 Times
Quick asset ratio	0.91:1.0	1.2:1.0

Ross envisaged both roles would centre on increasing market share; debt management; ensuring accurate financial reporting and data analysis; liaising with internal auditors and regulatory bodies; and ongoing business and strategic planning.

At the interviews, it became clear to Ross that his role would vary depending on whether he joins the Board of a public company or large proprietary company.

Before making his final decision, Ross has sought your advice on the following:

- differences between these types of companies.
- powers of a company director.
- internal and external auditing requirements.
- their ability to repay debts.
- importance of business planning.

You are required to prepare a written analysis for Ross Kilda. Your answer should:

- (a) Comment on the differences, and possible reasons for the differences, in the liquidity and gearing of Silver Coast Ltd and Gee Long Pty Ltd. (9 marks)
- (b) Outline **three** major differences between a public and large proprietary company. (6 marks)
- (c) Describe **three** duties of a company director as outlined in the Corporations Act 2001. (3 marks)
- (d) Explain the function of internal and external audits. (6 marks)
- (e) Explain **three** key reasons why business planning is important. (6 marks)

