



Question/Answer Booklet

DUNCRAIG SENIOR HIGH SCHOOL
ACCOUNTING AND FINANCE
ATAR
SEMESTER 2 - UNITS 3 AND 4

Student Name: _____

Candidate Number: _____

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	160	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: **25** minutes.

1. The function of an external audit includes all the following **except** to
 - (a) protect external users of financial reports.
 - (b) report on control and management procedures.
 - (c) promote confidence in users and financial markets.
 - (d) enhance credibility and reliability of financial reports.

2. The Master Budget prepared by a business
 - (a) is distinct from the operational budget of the business.
 - (b) includes all estimates except capital expenditure.
 - (c) consists of all interrelated operational and financial budgets.
 - (d) is made available to all interested parties including shareholders.

3. Which of the following accounts will increase when a company issues bonus shares?
 - (a) general reserve
 - (b) asset revaluation reserve
 - (c) retained earnings
 - (d) share capital

4. In CVP analysis, a decrease in the number of units sold will decrease the
 - (a) contribution margin per unit.
 - (b) fixed costs per unit.
 - (c) margin of safety.
 - (d) breakeven point.

5. Jetstar claims to be an Australian low-cost airline. Jetstar's mission is to offer low fares to enable more people to fly to more places, more often. Therefore, Jetstar is a company that
 - (a) uses a cost leadership strategy.
 - (b) is not interested in generating high levels of profits.
 - (c) focuses on providing a unique, high quality service.
 - (d) uses a product differentiation strategy.

(source: <https://www.jetstar.com/au/en/about-us/jetstar-group> retrieved 20/11/2018).

6. When a company is liquidated, the correct order of repayment to creditors as per the *Corporations Act 2001* would be
- (a) secured creditor, unsecured creditor, employee entitlements
 - (b) holder of charge over machinery, local supplier, employee entitlements
 - (c) mortgage holder, employee entitlements, local supplier
 - (d) unsecured creditor, holder of charge over machinery, shareholder
7. Cash and cash equivalents include
- (a) term deposit due to mature in 120 days.
 - (b) petty cash and land investment.
 - (c) investment in shares which will be sold within 90 days.
 - (d) cash on hand and term deposit due to mature in 90 days.
8. According to *the Framework for the Preparation and Presentation of Financial Statements*, which of the following is a fundamental qualitative principle of financial reporting?
- (a) timeliness
 - (b) faithful representation
 - (c) verifiability
 - (d) comparability
9. A business sells a product for \$7.00. The variable costs are \$4.00. The break-even units are 36,000. What are the total fixed costs?
- (a) \$144,000
 - (b) \$252,000
 - (c) \$540,000
 - (d) \$108,000
10. When calculating the mark-up for a cost object, management will **not** consider
- (a) covering all product costs.
 - (b) covering all period costs.
 - (c) competition prices in the marketplace.
 - (d) the price consumers are willing to pay.
11. Corporate Social Disclosure (CSD) is
- (a) driven largely by community concern about environmental and social wellbeing.
 - (b) reporting to management on the impact of company activities on the environment.
 - (c) a requirement under the *Corporations Act* for publicly listed companies only.
 - (d) reporting on financial performance and position for decision making by shareholders.
12. Which of the following describes part of a good internal control system?
- (a) employees regularly appointed to different positions without training and supervision

- (b) an employee responsible for the ordering of inventory and payment of the invoices
- (c) clearly established lines of responsibility and management for staff
- (d) management over investing in noncurrent assets to increase production capacity

Questions 13 & 14 relate to the summarised financial information given below for Lucinda Nominees Ltd.

Summary of comprehensive income for years ended 30 June

	2019	2018
	\$'000	\$'000
Gross profit	2,640	2,480
Other income	<u>520</u>	<u>800</u>
	3,160	3,280
Expenses excluding finance costs	1,780	1,560
Finance costs (interest expense)	<u>280</u>	<u>160</u>
Profit before income tax	1,100	1,560
Income tax expense	<u>330</u>	<u>268</u>
Profit for the period	770	1,292
Other comprehensive income, net of tax	<u>480</u>	<u>360</u>
Total comprehensive income for the period	1,250	1,652

Summary of financial position as at 30 June

	2019	2018
	\$'000	\$'000
Total assets	20,400	18,400
Total liabilities	5,600	3,800
Shareholders' Equity	14,800	14,600

13. What is the Rate of Return on Assets for the year ended 30 June 19?

- (a) 3.9%
- (b) 6.4%
- (c) 5.7%
- (d) 7.1%

14. What is the Times Interest Earned ratio for the year ended 30 June 19?

- (a) 3.2 times
- (b) 4.9 times
- (c) 6.1 times
- (d) 6.3 times

15. The Times Interest Earned ratio helps users assess the company's

- (a) profitability.
- (b) liquidity.
- (c) gearing.
- (d) efficiency.

Section Two: Short answer

70% (160 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 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

(24 Marks)

Lion and Cougar Traders has provided you with the following budgeted income statement for the three months ending 31 December 2019.

**Lion and Cougar Traders
Budgeted Income Statement
for the quarter ending 31 December 2019**

	\$	\$
Sales	890,000	
Less Discount allowed	1,580	888,420
Less Cost of sales	460,000	
Less Discount received	1,350	458,650
Gross Profit		429,770
Add other Income		
Interest	1,500	
Gain on sale of asset	6,000	7,500
		437,270
Less other operating expenses		
Wages	293,700	
Rent	15,000	
Insurance	6,000	
Depreciation	18,000	
Other expenses	28,000	360,700
Estimated Profit		76,570

Other information:

- Sales include both cash and credit. Accounts receivable pay in the month after sale and are expected to rise from \$63,000 at 30/9/2019 to \$73,000 at 31/12/2019.
- Purchases are expected to be paid for in the month following purchase. Purchase details are as follows:
 - September 2019 \$154,000
 - October 2019 \$127,000
 - November 2019 \$139,000
 - December 2019 \$145,000
- The annual insurance premium is paid every year on 1st September.
- Rent is payable 6 monthly in advance. The next payment is due on 1st December 2019.
- The asset to be sold for cash will have a written-down value of \$4,000.
- Lion and Cougar Traders expect to purchase replacement assets for \$42,000 cash during the period.
- Interest revenue will accrue on a cash deposit and will be received when the deposit matures in February 2020.
- Accrued wages are estimated to be \$10,200 at the end of the quarter.
- All other expenses are payable in cash.
- The owners expect to draw \$4,500 per month for their own personal use.
- The balance in the firm's bank account at 30/9/2019 is \$15,500Dr.

Workings

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Question 17

(33 marks)

Clothilde Ltd has provided you with the following summarised statements and additional information as at the end of the financial year ending 30 June 2019.

Clothilde Ltd
Comparative Statement of Financial Position as at 30 June

	2019	2018
Assets	\$	\$
Cash		15,000
Accounts receivable	123,500	92,500
Inventory	265,000	195,000
Plant & equipment	795,000	640,000
Less Acc depreciation	(180,000)	(120,000)
Total Assets	1,003,500	822,500
Liabilities		
Overdraft	37,000	
Debentures (mature 2021)	200,000	100,000
Accounts payable	95,000	62,500
Accrued interest	25,000	50,000
Income tax payable	71,500	74,000
Total Liabilities	428,500	286,500
Net assets	575,000	536,000
Equity		
Share capital	300,000	300,000
Retained earnings	75,000	86,000
General reserve	200,000	150,000
Total Equity	575,000	536,000

Clothilde Ltd
Income Statement for year ended 30 June

	2019	2018
	\$	\$
Sales (all credit)	965,000	710,000
Less Cost of sales	(340,000)	(247,500)
Gross Profit	625,000	462,500
Other Income		
Gain on sale of equipment	7,500	
Total Income	632,500	
Expenses		
Interest	40,000	15,000
Depreciation plant and equipment	79,000	47,500
Other cash expenses	275,000	154,000
Total expenses	394,000	216,500
Profit before income tax	238,500	246,000
Income tax	(71,500)	(74,000)
Profit after tax	167,000	172,000

Additional Information:

- Equipment sold for \$9,500 cash during the year. Replacement equipment was bought for cash.
- Dividends were paid during the year.

Required:

(a) Prepare the Statement of cash flows for Clothilde Ltd for the year ended 30 June 2019.

(27 marks)

Workings

Workings

In 2019, Happy Travel Ltd produced 3,150 seats. The actual costs and hours involved in sewing and assembling these for 2019 are as follows:

	2019
Direct materials – sewing	\$226,850
Direct labour hours - sewing	4,600
Hourly rate – sewing	\$25.50
Direct materials – assembly	\$18,500
Direct labour hours – assembly	5,350
Hourly rate – assembly	\$28.50

Workings

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- (g) After analysing the labour efficiency variances, suggest two ways in which Happy Travels Ltd can take full advantage of the variance information in the highly competitive market in which they operate? (2 marks)

Workings

Question 19

(46 Marks)

The following information was provided by Tristan Ltd as at 30 June 2019.

**Tristan Ltd
Trial Balance
as at 30 June 2019**

	\$	\$
Cash at bank	170,085	
Accounts receivable	325,000	
Accounts payable		150,000
Inventory	520,000	
Plant - at cost	1,330,000	
Accumulated depreciation – plant		7,200
Government bonds (Mature 2021)	510,000	
Debentures (9% Mature November 2019)		210,000
Interim dividend	160,000	
Ordinary share capital		1,900,000
Revaluation reserve		410,000
General reserve		206,800
Retained earnings		190,000
Sales		3,590,000
Wages	1,200,000	
Interest expense	20,000	
Interest revenue		28,000
Cost of sales	1,660,000	
Electricity	13,415	
Insurance	76,000	
Allowance for doubtful debts		2,000
Repairs and maintenance	81,000	
Land – at cost	150,000	
Buildings – at cost	774,500	
Accumulated depreciation - buildings		315,000
Discount allowed	13,000	
Share issue costs	6,000	
	7,009,000	7,009,000

Additional information as at 30 June 2019:

- Depreciation of plant is set at 20% per annum using the reducing balance method. Buildings are depreciated at 5% per annum on a straight-line basis.
- Allowance for doubtful debts is to be set at \$2,500.
- Employees are owed wages of \$50,000
- In June 2019, the company issued 50,000 shares at an issue price of \$1 each, payable in full on application.
- On 30 June 2019, the directors have decided to revalue land upward by \$50,000 and transfer \$25,000 of profits to the General reserve.
- Income tax is payable at the rate of 27.5%.

- (d) Explain the purpose of the replaceable rules and identify three matters covered in the replaceable rules. (4 marks)

Workings

Question 20

(18 marks)

The following information has been extracted from the financial statements contained in the annual report of Lucinda Limited for the year 2019.

	2019	2018
Profit after income tax	\$821 000	\$619 000
Ordinary share capital (7.9 million shares)	\$6 400 000	\$6 400 000
Ordinary dividends	\$553 000	\$474 000

The current share market price is \$2.50. At the same time last year, the market price was \$1.90. No ordinary shares have been issued by the company over the last 3 years.

Required

- (a) Calculate (to two decimal places) for both years, **three** ratios that might be helpful to a potential investor in this company. (12 marks)

RATIO	2019	2018

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.

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Suggested working time for this section is **35** minutes.

Question 21

(30 marks)

Fabulous Furniture Ltd manufacture two types of tables – wooden and glass. For the month of June 2019, the company met all production requirements and had an opportunity to produce additional tables with its excess machine production capacity. Unit selling prices and costs for the two types of tables were as follows:

	Wooden table	Glass top table
Selling price	\$500	\$550
Direct materials	\$100	\$158
Direct labour (@\$12/hr)	\$60	\$48
Variable overhead	\$40	\$50
Contribution margin	\$300	\$294
Contribution margin per machine hour	\$60	\$98

You are to help management of Fabulous Furniture Ltd understand the importance of planning and cost, volume, profit analysis by answering the following questions:

- Discuss the importance of business planning. (6 marks)
- Analyse the relative profitability of the two types of tables manufactured by Fabulous Furniture Ltd. (4 marks)
- Distinguish between the three types of product costs. Provide two examples, relevant to Fabulous Furniture Ltd, of each to help illustrate your answer. (6 marks)
- Define the terms contribution margin, break-even point and margin of safety and explain how each is used to make important business decisions. (9 marks)
- What is variance analysis? Provide an explanation on how it can be used by Fabulous Furniture Ltd to assess the efficiency of their production process both in terms of labour and material inputs. (5 marks)

OR

Question 22 (30 marks)

Elizabeth and Darcy have an established clothing manufacturing business incorporated as E & D Clothing Pty Ltd. Elizabeth and Darcy are the directors and only shareholders. They have the opportunity to expand their business and have established contacts in various countries to sell their goods in overseas stores and also online. The proposed expansion will involve considerable cost and they are considering the possibility of raising capital by floating their business on the Australian Securities Exchange (ASX).

Elizabeth and Darcy are seeking help and have approached you for advice on the following matters:

- (a) What type of company will Elizabeth and Darcy need to set up in order to have its securities listed on the ASX? Compare and contrast the characteristics of this type of company with those of their existing company. (7 marks)
- (b) Describe the purpose and nature of the Corporations Act 2001 and its impact on company formation and operation. Address the following in your answer: (9 marks)
 - I. The role of ASIC (1 marks)
 - II. The duties of directors (2 marks)
 - III. Consequences for directors who fail to perform duties (2 marks)
 - IV. The purpose of the constitution or replaceable rules including the difference between the two (4 marks)
- (c) Outline the responsibilities of the directors of a company that Elizabeth and Darcy want to set up. To what extent will Elizabeth and Darcy be able to continue to determine the policy of their business? (6 marks)
- (d) Identify and discuss the purpose and nature of the document required to make an issue of shares to the public. (4 marks)
- (e) In addition to a share issue, Elizabeth and Darcy are considering issuing debentures or unsecured notes. Explain the differences between debentures and unsecured notes. (4 marks)

End of questions

End of questions

