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ACCOUNTING AND FINANCE ATAR YEAR 12 2017

Name: _____

Teacher: _____

TIME ALLOWED FOR THIS PAPER

Reading time before commencing work: Ten minutes

Working time for the paper: Three hours

MATERIALS REQUIRED/RECOMMENDED FOR THIS PAPER

To be provided by the supervisor:

- This Question/Answer Booklet
- Multiple Choice Answer Sheet
- Information sheet
- Specifications booklet

To be provided by the candidate:

- Standard items: pens, pencils, eraser or correction fluid, ruler, highlighter, ruler.
- Special items: 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 notes or other items of a personal nature in the examination room. 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 attempted | Suggested working time (minutes) | Marks available | Percentage of exam |
|------------------------------------|-------------------------------|-------------------------------------|----------------------------------|-----------------|--------------------|
| Section One: Multiple-choice | 15 | 15 | 25 | 15 | 15 |
| Section Two: Short answers | 4 | 4 | 120 | 140 | 70 |
| Section Three: Extended answers | 2 | 1 | 35 | 30 | 15 |
| Total marks | | | | 185 | 100 |

Instructions to candidates

- The rules for the conduct of Western Australian external examinations are detailed in the *Year 12 Information Handbook 2017*. Sitting this examination implies that you agree to abide by these rules.
- 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.

- You must be careful to confine your responses to the specific questions asked and to follow any instructions that are specific to a particular question.
- Spare pages are included within and 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.
- Information for Questions 16, 17 & 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 the 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 completed for any question.

Suggested working time: 25 minutes

- 1 Australian Accounting Standards are developed :
 - a) By the Financial Reporting Council;
 - b) To comply with the provisions of the Corporations Act;
 - c) In consultation with industry and the accounting profession;
 - d) All of a), b) and c).
- 2 Here is a summary of the cash budget for One Nation Trading Ltd. for the months of October – December:

| | OCT \$'000 | NOV \$'000 | DEC \$'000 |
|------------------------|-----------------------|-----------------------|-----------------------|
| Opening balance | 130 | (77) | 573 |
| Sales & other receipts | 873 | 850 | 900 |
| Issue of debentures | | 400 | |
| Expenses & purchases | (630) | (600) | (700) |
| Payment of dividend | (450) | | |
| Closing balance | (77) | 573 | 773 |

The **most** appropriate way of dealing with the cash shortfall in October would be:

- a) Increase the number of debentures to be issued;
 - b) Reduce the dividend payment;
 - c) Arrange an overdraft with the bank;
 - d) Cut back expenses.
- 3 The 'stakeholders' in a business are **only** :
 - a) The firm's owners and managers ;
 - b) The government ;
 - c) The firm's suppliers and customers ;
 - d) None of a), b), or c), is correct.
 - 4 The benefits of incorporating a business include :
 - a) The capacity to enter into contracts in the company's name;
 - b) Unlimited liability;
 - c) Greater publicity for the business;
 - d) All of a), b) and c).
 - 5 Corporate Social Responsibility means:
 - a) The company must look after the social needs of its employees;
 - b) The company should report the impact of its operations on the community and the environment;
 - c) The company must contribute to social security payments for the community;
 - d) The company is responsible for complying with the Corporations Act.

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- 6 Ethical behaviour in business:
- Is quite distinct from personal ethical behaviour;
 - Means strict compliance with the law;
 - Means acting in accordance with a moral code;
 - Is usually against a company's economic interests.
- 7 An example of a long-term financial investment would **NOT** be :
- A two-month term deposit with a bank ;
 - Shares in another company;
 - Company debentures ;
 - Purchase of additional fixed assets.
- 8 A system of internal control by a company would **not** include :
- An effective system for accounting for inventory;
 - Preparation of regular budgets;
 - Appointment of an external auditor;
 - Measures to monitor and control debtors.
- 9 The Framework for the Preparation and Presentation of Financial Reports:
- Must be complied with by all Australian businesses;
 - Defines the concepts underlying the preparation of General Purpose Financial Statements;
 - Is developed by the Financial Reporting Council (FRC);
 - All of alternatives a), b), and c) are correct.
- 10 The main purpose of management accounting is :
- To advise shareholders of the company's progress ;
 - To inform the taxation department of the company's tax liability ;
 - To enable investors to decide whether to buy or sell the company's shares ;
 - To assist decision-making by the company's managers.
- 11 The differences between a public and a proprietary company include :
- the minimum number of employees ;
 - the minimum number of directors ;
 - the minimum number of shareholders ;
 - the minimum amount of annual turnover.

This table contains information extracted from the Annual Report of Fammiliferst Limited for the latest financial year. Read the information and then answer Questions 12 & 13.

| | 2017 | 2016 |
|-------------------------------------|-------------|-------------|
| Interest expense | \$130 000 | \$160 000 |
| Profit before income tax | \$600 000 | \$510 000 |
| Income tax expense | \$200 000 | \$153 000 |
| Average total assets | \$5 400 000 | \$4 750 000 |
| Annual dividends per ordinary share | 9 cents | 8 cents |
| Share price at year end | \$1.75 | \$1.45 |

SEE NEXT PAGE

- 12 Between 2016 and 2017, the company's return on assets :
- Improved ;
 - Got worse ;
 - Remained about the same ;
 - Cannot be calculated from this information.
- 13 The dividend yield on the company's ordinary shares for the 2016 year was:
- 5.5%;
 - 5.1%;
 - 5.0%;
 - 5.6%.

Read the following summary of the Statement of Financial Position of Shooters & Fishers Ltd at the end of the financial year on 30/6/2017 and then answer Questions 14 & 15.

| | \$'000 |
|--|---------------------|
| Current assets | |
| Cash holdings | 386 |
| Other current assets | <u>619</u> |
| Total current assets | <u>1 005</u> |
| Non-current assets (net book value) | <u>3 820</u> |
| Total assets | <u>4 825</u> |
| Current liabilities | |
| Income tax | 286 |
| Other current liabilities | <u>201</u> |
| Total current liabilities | <u>487</u> |
| Non-current liabilities | <u>1 102</u> |
| Total liabilities | <u>1 589</u> |
| Shareholders' equity | |
| Share capital | 2 000 |
| Reserves | 1 000 |
| Retained earnings | <u>236</u> |
| Total shareholders' equity | <u>3 236</u> |

- 14 The company's leverage (gearing) is :
- Relatively low ;
 - Relatively high;
 - Requires urgent attention from management ;
 - Cannot be evaluated from the given information.
- 15 From this statement it is possible to say that :
- The business has been operating very profitably ;
 - The shareholders are getting a good return on their investment ;
 - The company has substantial working capital ;
 - The company's cash holdings are inadequate.

END OF SECTION ONE

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SECTION TWO: Short answers**70 % (140 Marks)**

This section has **4 (four)** 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. 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.

Suggested working time: 120 minutes

Question 16**(39 marks)**

Laybaparti Pty Ltd is a family company making surfboards in a small factory near Margaret River. They have been offered a contract to supply a large number of boards to a company in Japan. To be able to fulfil this contract they will need to substantially expand their factory at a total cost of \$960 000. The owners want your advice on whether they should proceed with the project and any short-term cash problems there might be. They have provided you with the following information:

The cost of the expansion will be paid \$300 000 in October 2017 and the remainder in equal instalments in November & December. The net extra cash flow it will generate is expected to be \$280 000/year after income tax over a six year period, at the end of which it will have no realisable value. The expected rate of return on investment is 10%. Expanded production and sales will not begin until 2018, although some additional staff will be hired to be trained and extra materials will be bought.

Estimates for the next 3 months of 2017 are as follows:

| | OCT \$ | NOV \$ | DEC \$ |
|-------------------------|---------------|---------------|---------------|
| Purchase of materials | 104 000 | 106 000 | 128 000 |
| Retail sales | 30 000 | 32 000 | 38 000 |
| Wholesale sales | 190 000 | 200 000 | 210 000 |
| Wages | 38 000 | 38 000 | 48 000 |
| Council rates | 6 000 | - | - |
| General office expenses | 2 500 | 2 500 | 2 800 |
| Advertising | 1 000 | 1 000 | 1 000 |
| Depreciation of assets | 15 000 | 15 000 | 15 000 |
| Electricity | 9 000 | 10 000 | 12 000 |

The insurance premium of \$45 000 was paid in July 2017 and an additional premium of \$9,000 will be payable on 1st January 2018, and from that date an additional \$14 000 per month depreciation expense will accrue.

Retail sales are estimated to be by credit card and subject to a 1% commission paid to the credit provider.

Materials purchased are paid for in the month following the purchase, and the proceeds of wholesale sales are expected to be received in the month following the sale.

Balances at 30/9/2017 include:

SEE NEXT PAGE

| | |
|---------------------|---------------|
| Accounts receivable | \$186 000 |
| Accounts payable | \$103 000 |
| Cash at bank | \$113 000 Dr. |

The firm has arranged a mortgage loan with the bank of \$800 000 to fund the expansion which would be drawn down in two equal amounts in October and November.

Required:

- a) Calculate the Payback Period and the Net Present Value for the proposed expansion.
(8 marks)
- b) Explain how these results might be used to evaluate the expansion and suggest what other information might be needed to make use of these measures.
(5 marks)
- c) Outline the advantages and disadvantages of these two methods of evaluating a capital investment. On the basis of the information you have, would you recommend this investment?
(6 marks)
- d) Produce a cash budget for Laybaparti Pty Ltd for the three months October – December 2017.
(20 marks)

a)

Payback period:years months

WORKINGS:

Net present value: \$

WORKINGS:

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Question 17**(33 marks)**

Set out below is the Trial Balance for Greens Limited, after balance day adjustments, at the end of the most recent financial year, together with some additional information.

GREENS LIMITED
TRIAL BALANCE AT 30/6/17

| | Dr \$ | Cr \$ |
|---|------------------|------------------|
| Accounts payable | | 146 000 |
| Accounts receivable | 201 000 | |
| Accrued expenses | | 43 000 |
| Accumulated depreciation, buildings | | 245 000 |
| Accumulated depreciation, fixtures & fittings | | 102 000 |
| Asset revaluation reserve | | 400 000 |
| Buildings, at cost | 1 500 000 | |
| Cash at bank | 167 000 | |
| Cost of sales | 924 000 | |
| Debentures | | 700 000 |
| Depreciation of buildings | 62 500 | |
| Depreciation of fixtures & fittings | 57 000 | |
| Fixtures & fittings, at cost | 380 000 | |
| General office expenses | 45 000 | |
| General reserve | | 300 000 |
| GST owing | | 7 500 |
| Interest expense | 56 000 | |
| Interim dividend | 120 000 | |
| Inventories | 935 000 | |
| Land, at valuation | 2 200 000 | |
| Post & telecommunications expenses | 64 500 | |
| Retained earnings | | 307 500 |
| Sales | | 2 965 000 |
| Selling expenses | 108 000 | |
| Share capital | | 2 500 000 |
| Short-term bank deposits | 100 000 | |
| Wages | 796 000 | |
| | 7 716 000 | 7 716 000 |

Additional information:

The land was revalued upwards during the year by \$400 000.

The directors have resolved to transfer \$200 000 from Retained Earnings to General Reserve with effect from 30/6/17. This is **not** yet reflected in the above balances.

Income tax needs to be provided at 30% of profit.

The directors have decided to recommend a final dividend of 8 cents per share. This will need shareholder approval at the AGM in October.

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Question 18**(34 marks)**

Nationals Patios makes and installs patios throughout the Perth metropolitan area. It has two models, the Nat-Pat and the N-P Plus, and it uses job costing on a standard costing basis. The components for the patios are made in the firm's workshop in Malaga and then erected at the customers' homes. The costs of the two patios are estimated to be as follows:

| | Nat-Pat | N-P Plus |
|-----------------------------------|----------------|-----------------|
| Timber –metres @ \$9/metre | 42 metres | 60 metres |
| Paint –litres @ \$25/litre | 2 litres | 2.8 litres |
| Bolts & other materials | \$25 | \$40 |
| Workshop labour hours @ \$28/hour | 2 hours | 2.5 hours |
| Assembly labour hours @ \$35/hour | 4 hours | 7 hours |

Other estimated costs include:

| | |
|---------------------------------------|-----------|
| Workshop rental | \$60 000 |
| Administrative staff wages & salaries | \$260 000 |
| Delivery vehicle running costs | \$15 000 |
| Insurance and other office expenses | \$48 000 |

Overheads are to be allocated on the basis of assembly labour hours. The total assembly labour hours for the year are estimated at 9500 hours.

The expected Nat-Pat:N-P Plus sales mix is 3:2.

The firm intends to sell its patios at a mark-up of 30% on cost.

Required:

- Calculate the overhead rate per assembly labour hour.
(2 marks)
- Calculate the standard cost of each of the two types of patio.
(11 marks)
- Calculate the selling price of both types of patio.
(2 marks)
- Calculate the contribution margin for each of the products and the weighted contribution margin at the expected 3:2 sales mix.
(6 marks)
- What is the breakeven point in terms of dollars at the expected sales mix and how many of each of the types of patio will need to be sold at that point?
(5 marks)
- The owners would like to make a profit of \$120 000 per year. How many patios of each type at the expected sales mix will they need to build to achieve this?
(4 marks)
- What is the difference between direct and indirect costs? Give an example of each from the costs mentioned in this question.
(4 marks)

a) Overhead rate: \$..... /assembly labour hour

WORKINGS

b) Standard cost: Nat-Pat: \$

N-P Plus: \$

WORKINGS

c) Selling prices: Nat-Pat: \$

N-P Plus: \$

WORKINGS

d) Contribution margins: Nat-Pat: \$

N-P Plus: \$

Weighted average: \$

WORKINGS

e) Breakeven point: Sales \$

Nat-Pat units:

N-P Plus units:

WORKINGS

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Question 19**(34 marks)**

The following information has been extracted from the latest annual report of Libarnett Limited.

Balances at 30/6:

| | 2017 \$'000 | 2016 \$'000 |
|--|------------------------------|------------------------------|
| Cash at bank (overdraft) | (233) | 160 |
| Accounts receivable | 310 | 235 |
| Inventories | 290 | 270 |
| Other current assets (not cash-related) | 120 | 140 |
| Accrued expense | 65 | 50 |
| Accounts payable | 480 | 330 |
| Other current liabilities (not cash-related) | 40 | 30 |
| Debentures (2017) | - | 800 |
| Share capital | 2 000 | 1 500 |
| Non-current assets, at cost | 2 100 | 1 700 |

Income & expenses for the year:

| | 2017 \$'000 | 2016 \$'000 |
|-------------------------|------------------------------|------------------------------|
| Sales (all credit) | 1 980 | 1 920 |
| Purchases (all credit) | 840 | 680 |
| Cost of sales | 820 | 650 |
| Interest expense (cash) | 50 | 80 |
| Depreciation | 150 | 130 |
| Other expenses | 410 | 350 |
| Income tax expense | 165 | 213 |

Additional information for the 2017 year:

No non-current assets were sold.

Dividends totalling \$250 000 were paid.

The Income tax owing from 2016 was paid.

Required:

- a) Prepare a Statement of Cash Flows for the company for the year ended 30/6/17.
(21 marks)
- b) Calculate for **both** years the ratios given on the next page and comment briefly on changes in the company's situation and performance between 2016 and 2017.
(9 marks)
- c) What is meant by the statement "a company is insolvent"? Briefly outline the responsibility of a company's directors in relation to insolvency.
(4 marks)

WORKINGS

SECTION THREE : Extended answers**15% (30 marks)**

This section contains **two** questions. You must answer **one** question. Write your answer in the space provided following Question 21

Spare answer pages are provided at the end of this booklet which you may use for planning responses or continuing an answer. If you use a page for planning, indicate this clearly at the top of the page.

Suggested working time for this section is 35 minutes.

Question 20**(30 marks)**

You have been appointed Chief Accountant for Fluorono Limited, a listed public company running a quarrying and brick-making business in the Perth Hills.

a) Briefly outline what your duties would be in this position.

(4 marks)

b) What are the essential reporting requirements of this sort of company?

(6 marks)

c) The Directors have become very concerned about 'corporate social responsibility'. What does this mean and how may it affect the reports for which you, as Chief Accountant, will be responsible, and their preparation?

(12 marks)

d) What kind of costs might be incurred by a company of this sort (engaged in quarrying and manufacturing) in minimising its environmental impact?

(4 marks)

e) What is meant by 'ethics' in a business context? How will ethics affect the actions of the board and senior employees such as yourself, and why is it important?

(4 marks)

OR

Question 21**(30 marks)**

Flux Shipbuilding Limited is a newly-formed public company, formerly proprietary, which aims to take advantage of significant ship-building contracts to be awarded in Western Australia. This will involve considerable fund-raising (initially by a share issue) and a more well-organised and professional approach to internal management. You have been asked to advise the Board. In your report to them:

a) Outline the process of raising funds through a share issue, including factors to be considered, documentation needed, and arrangements that must be made to ensure there is a market for the new shares.

(9 marks)

b) State the essential purposes of internal control and explain how these would be achieved with reference to any **two** categories of the company's assets.

(9 marks)

c) Suggest appropriate forms of investment of any temporary cash surpluses the company may have.

(2 marks)

d) Explain the significance for the company of the differences between financial and management accounting.

(4 marks)

e) Identify and compare **three** sources of funds that would be appropriate for the company, apart from the issue of shares.

(6 marks)

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