



Government of **Western Australia**  
School Curriculum and Standards Authority



## ATAR course examination, 2022

### Question/Answer booklet

# ACCOUNTING AND FINANCE

Place one of your candidate identification labels in this box.  
Ensure the label is straight and within the lines of this box.

WA student number: In figures

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In words

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### Time allowed for this paper

Reading time before commencing work: ten minutes  
Working time: three hours

Number of additional  
answer booklets used  
(if applicable):

### 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: up to three calculators, which do not have the capacity to create or store programmes or text, are permitted in this ATAR course examination

### 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.

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Ref: 22-001



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## Structure of this paper

Section	Number of questions available	Number of questions to be answered	Suggested working time (minutes)	Marks available	Percentage of examination
Section One Multiple-choice	15	15	25	15	15
Section Two Short answer	5	5	120	151	70
Section Three Extended answer	2	1	35	30	15
<b>Total</b>					100

## Instructions to candidates

- The rules for the conduct of the Western Australian external examinations are detailed in the *Year 12 Information Handbook 2022: Part II Examinations*. 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. Do not use erasable or gel pens. 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 for any question.

Section Two: Answer all questions. 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. Write your answer in this Question/Answer booklet preferably using a blue/black pen. Do not use erasable or gel pens.

Section Three: Answer one question from a choice of two. Write your answers in this Question/Answer booklet preferably using a blue/black pen. Do not use erasable or gel pens.

- You must be careful to confine your answers to the specific questions asked and to follow any instructions that are specific to a particular question.
- Supplementary pages for planning/continuing your answers to questions are provided at the end of this Question/Answer booklet. If you use these pages to continue an answer, indicate at the original answer where the answer is continued, i.e. give the page number.
- Some questions have been repeated in the Information booklet so that you can refer more easily to the information while answering the questions. Do not write your answers in the Information booklet. The Information and Specifications booklets are not to be handed in with your Question/Answer booklet.

**See next page**

**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. Do not use erasable or gel pens. 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 for any question.

Suggested working time: 25 minutes.

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1. Which of the following **best** describes the concept of 'leverage'?
  - (a) the relationship between net assets and equity
  - (b) equity divided by non-current liabilities
  - (c) the relationship between all borrowings and equity
  - (d) the relationship between creditors and equity
  
2. The purpose of performance reports is to assist management with
  - (a) planning for the future and reporting to shareholders.
  - (b) investigating favourable and unfavourable variances and budgeting for the future.
  - (c) comparing actual results with budgeted results and reporting to shareholders.
  - (d) investigating favourable and unfavourable variances and preparing external reports.
  
3. The debit side of the Retained earnings ledger account could include
  - (a) profit for the period, dividends, transfer to General reserve.
  - (b) profit for the period, dividends, transfer from General reserve.
  - (c) loss for the period, dividends, transfer to General reserve.
  - (d) loss for the period, dividends, transfer from General reserve.
  
4. The importance of the International Accounting Standards Board is to
  - (a) develop international accounting standards that bring transparency, accountability and efficiency to financial markets around the world.
  - (b) ensure companies around the world comply with corporations law.
  - (c) ensure that general purpose financial reports follow a standard format.
  - (d) develop international accounting standards and reports to the Financial Reporting Council.

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5. A company plans to buy equipment costing \$39,000 and has net cash flows commencing in Year One of \$10,000, Year Two \$12,000, Year Three \$15,000 and Years Four and Five \$8,000 each. The payback period is
- (a) three years and three months.
  - (b) three years and two months.
  - (c) four years and three months.
  - (d) four years and four months.
6. A general journal entry to record payment of share issue costs is to
- (a) debit Bank, credit Share issue costs.
  - (b) debit Share capital, credit Share issue costs.
  - (c) debit Bank, credit Share capital.
  - (d) debit Share issue costs, credit Bank.
7. A business provides the following information

Sales (60,000 units)	\$180,000
Direct labour	\$20,000
Direct materials	\$15,000
Direct energy	\$12,000
Fixed costs	\$18,000
Profit	\$115,000

- What is the contribution margin ratio, rounded to the nearest whole number?
- (a) 74%
  - (b) 64%
  - (c) 26%
  - (d) 10%
8. The Australian organisation that develops legally-enforceable accounting standards is the
- (a) Financial Accounting Standards Board.
  - (b) Australian Securities Investment Commission.
  - (c) Australian Accounting Standards Board.
  - (d) Australian Securities Exchange.
9. A business needs to recalculate a capital investment project by decreasing the estimated interest rate. This will cause the net present value
- (a) and payback period to increase.
  - (b) and payback period to decrease.
  - (c) to increase and payback period to remain the same.
  - (d) to decrease and payback period to remain the same.

10. Pat Bosso runs a catering business but is unsure of the difference between product and period costs. Which of the following is the **best** example of a product cost?
- (a) manager's salary
  - (b) advertising expense
  - (c) food packaging expense
  - (d) depreciation of office equipment
11. Which of the following would be shown as a favourable variance in a performance report?
- (a) actual receipts for sales \$120,000, budgeted sales receipts \$112,000
  - (b) budgeted wages expense \$340,000, actual wages expense \$460,000
  - (c) actual cash paid for a new machine \$563,000; budgeted purchase price \$450,000
  - (d) actual gross profit \$42,000, budgeted gross profit \$50,000
12. The enhancing qualitative characteristics in the *Conceptual Framework for Financial Reporting* are
- (a) comparability, reliability, materiality, consistency.
  - (b) understandability, timeliness, readability, uniformity.
  - (c) uniformity, comparability, consistency, reliability.
  - (d) verifiability, timeliness, comparability, understandability.
13. Which of the following would be included in a statement of changes in equity?
- (a) amount of cash that the company has on hand
  - (b) decreases in the retained earnings balance
  - (c) final dividends declared and paid after the reporting date
  - (d) increases in income tax owed
14. Cost leadership means that a business
- (a) has the lowest market share compared to its competitors.
  - (b) has the greatest market share compared to its competitors.
  - (c) charges higher prices than its competitors in the same market.
  - (d) charges lower prices than its competitors in the same market.
15. The directors declared a dividend on 30 April 2022. This will result in
- (a) an increase in the bank balance.
  - (b) a decrease in equity.
  - (c) a decrease in liabilities.
  - (d) an increase in assets.

**End of Section One**

**See next page**

## Section Two: Short answer

70% (151 Marks)

This section has **five** questions. Answer **all** questions. Write your answers in the spaces provided.

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.

Supplementary pages for planning/continuing your answers to questions are provided at the end of this Question/Answer booklet. If you use these pages to continue an answer, indicate at the original answer where the answer is continued, i.e. give the page number.

Suggested working time: 120 minutes.

**Question 16****(22 marks)**

Zlaire Pty Ltd manufactures washing machines at a selling price of \$750 each. The machines are made at a factory in Perth that has a maximum production capacity of 4,000 machines per year. The company is operating at full capacity.

The costs to produce 4,000 washing machines are as follows:

Total variable costs per washing machine	\$544
Total fixed costs allocated	\$310,000

In January 2022, Zlaire Pty Ltd received a special order for 400 washing machines with added special features. The prospective purchaser offered to pay \$800 per machine. The special order is to be delivered by 31 March 2022. The costs of producing the special order washing machines will involve additional variable expenses of \$20 per machine. Zlaire Pty Ltd will also need to purchase additional equipment costing \$10,500, to be able to fulfil the order. (This equipment will not be used for any other purpose.)

**Required**

- (a) Calculate the gain or loss on the special order and state whether Zlaire Pty Ltd should accept or reject the special order. (11 marks)

**Workings:**

Gain/loss on special order: \_\_\_\_\_

Accept/reject the special order: \_\_\_\_\_

**See next page**

- (b) The management of Zlaire Pty Ltd is now considering purchasing the electronic components used in the washing machines from a supplier, rather than making them in their own factory. The supplier will charge \$130 for each of the electronic components.

The total fixed costs allocated will be reduced by \$24,000 if the electronic components are purchased.

Zlaire Pty Ltd budgets the following costs to make the electronic components for the 4,000 washing machines they expect to produce from June 2022.

Total variable costs per electronic component	\$128
Total fixed costs allocated	\$60,000

**Required:**

Determine the effect on profit for both the make and buy options to recommend which option Zlaire Pty Ltd should take. (9 marks)

**Workings:**

Recommendation:

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Question 16 (continued)

(c) Describe what the 'margin of safety' measures. (2 marks)

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**Question 17****(28 marks)**

Zanthria Safetywear manufactures personal protective clothing at a factory in Perth. Annual overhead costs are estimated to be \$236,500 and these are allocated to the various products on the basis of direct labour hours, which are expected to be a total of 11,000 hours for the year.

Among its main products are protective coats. These are costed on the basis of a batch of 500 coats, for which the standard costs are estimated as follows:

- 1,500 square metres of cloth at \$8 per square metre
- sundry materials (zips, buttons, thread) at \$5 per coat
- labour hours – 40 hours at \$35 per hour.

- (a) Calculate the cost of the coats per batch **and** per unit, using job order costing processes.

(10 marks)

**Workings:**

Cost per batch: \_\_\_\_\_

Cost per unit: \_\_\_\_\_

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**Question 17** (continued)

- (b) Assuming the business applies a mark-up of 30% on cost, calculate the selling price of each coat in dollars and cents. (2 marks)

**Workings:**

Selling price of each coat: \_\_\_\_\_

The actual costs of producing the first batch of 500 coats were as follows:

- 1,420 square metres at a cost of \$8.40 per square metre
- sundry materials cost of \$5 per coat (this was the same as the estimated standard cost)
- 39 labour hours at \$34.50 per hour.

**Required:**

- (c) Calculate the following variances per batch: (4 marks)
- (i) Direct materials price variance

**Workings:**

Direct materials price variance: \_\_\_\_\_

- (ii) Direct materials usage variance (4 marks)

**Workings:**

Direct materials usage variance: \_\_\_\_\_

- (iii) Direct labour rate variance (4 marks)

**Workings:**

Direct labour rate variance: \_\_\_\_\_

- (iv) Direct labour efficiency variance (4 marks)

**Workings:**

Direct labour efficiency variance: \_\_\_\_\_

**See next page**

## Question 18

(33 marks)

Lawds her Ltd is preparing a cash budget for May and June 2023.

All sales are on credit and 20% are collected during the month of sale, 50% in the month following sale, 20% in the second month following sale and 8% in the third month following sale. The remaining 2% are treated as uncollectable.

The company pays for 80% of purchases in the month after purchase and the balance in the following month.

Fixed selling expenses amount to \$4,400 per month plus variable selling expenses equal to 5% of the previous month's sales. Administration expenses are estimated to be \$8,800 per month, which includes \$3,200 of depreciation expense. Finance expenses are \$800 per month. All expenses other than purchases are paid for in the month they are incurred. It is planned to purchase equipment for \$14,400 cash during May 2023. A \$6,000 loan payable will be repaid during July 2023. The interest due on the loan is calculated at 7% per annum, paid monthly.

The company's expected cash at bank balance on 1 May 2023 is \$9,000 credit.

Estimated sales and purchases		
Month	Sales \$	Purchases \$
February	50,000	13,000
March	44,000	11,000
April	56,000	12,000
May	60,000	8,000
June	72,000	10,000

**Required**

- (a) Prepare a schedule of collections from debtors for each of the months of May and June 2023. (8 marks)

See next page





- (c) Describe **three** courses of action a public company could consider to prevent or reduce a shortfall in cash that has been predicted by its cash budget. (6 marks)

One: \_\_\_\_\_

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Two: \_\_\_\_\_

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Three: \_\_\_\_\_

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## Question 19

(33 marks)

The following are extracts from the most recent annual report for Xunobus Ltd.

**Xunobus Ltd**  
**Balance sheet**  
**as at 30 June**

	<b>2022</b> \$	<b>2021</b> \$
<b>Total assets</b>	<b>3,422,400</b>	<b>3,058,200</b>
<b>Current liabilities</b>		
Borrowings (bank overdraft)	17,900	0
Accounts payable	33,000	29,000
Income tax payable	59,100	73,200
Lease liabilities	10,000	10,000
Accrued interest expense	6,000	8,000
<b>Total current liabilities</b>	<b>126,000</b>	<b>120,200</b>
<b>Non-current liabilities</b>		
Borrowings	200,000	100,000
Lease liabilities	50,000	50,000
<b>Total non-current liabilities</b>	<b>250,000</b>	<b>150,000</b>
<b>Total liabilities</b>	<b>376,000</b>	<b>270,200</b>
<b>Net assets</b>	<b>3,046,400</b>	<b>2,788,000</b>
<b>Shareholders' equity</b>		
Share capital	2,800,000	2,500,000
Reserves	100,000	50,000
Retained earnings	146,400	238,000
<b>Total equity</b>	<b>3,046,400</b>	<b>2,788,000</b>

**Additional information**

- The company transferred \$50,000 from retained earnings into a general reserve during the year.
- The company paid its 2021 income tax liability in September 2021. The company tax rate is 30%.
- There was a cash issue of 150,000 shares on 1 January 2022. All the company's shares have been issued at \$2 each.
- The number of shares issued at 30 June 2021 was 1,250,000.
- The company classifies interest and dividends received and paid as financing activities.

See next page



**Xunobus Ltd**  
**Income statement**  
**for the year ended 30 June**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Sales (all on credit)	1,043,000	986,000
Less: Cost of sales	596,000	540,000
<b>Gross Profit</b>	<b>447,000</b>	<b>446,000</b>
Other income – interest revenue	0	6,000
Total operating income	447,000	452,000
<b>Less expenses</b>		
Interest	35,000	4,000
Other	215,000	204,000
<b>Total expenses</b>	<b>250,000</b>	<b>208,000</b>
<b>Operating profit before tax</b>	<b>197,000</b>	<b>244,000</b>

**Required**

- (a) Prepare the financing activities section of the statement of cash flows for the company for the year ended 30 June 2022. (12 marks)

**Workings:**

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Question 19 (continued)

**Xunobus Ltd**  
**Statement of cash flows (extract)**  
**for the year ended 30 June 2022**

Cash flows from financing activities

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- (b) Based on the information provided, calculate the following ratios for the 2022 financial year. (13 marks)

Ratio	Workings	2022
Times interest earned  (3 marks)		
Earnings per share  (5 marks)		
Debt to equity  (2 marks)		
Rate of return on assets  (3 marks)		

See next page

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## Question 20

(35 marks)

Fyndulos Ltd operates a retail business in Perth. The directors want to review the company's performance and position for the year ended 30 June 2022. They have provided the following information.

**Fyndulos Ltd**  
**Trial balance (extract)**  
**as at 30 June 2022**

	Debit \$	Credit \$
Accrued income	1,000	
Accumulated depreciation of plant and equipment		20,000
Allowance for doubtful debts		3,000
Asset revaluation reserve		20,000
Cash at bank		18,100
Cash on hand	200	
Cost of sales	416,000	
Debtors	69,000	
Other expenses	171,800	
Goodwill	60,000	
Interest expenses	35,000	
Investments (maturing in 2030)	10,000	
Land	2,730,000	
Mortgage		60,000
Patents and trademarks	15,000	
Plant and equipment	360,000	
Prepayments	4,670	
Sales		1,050,000
Sales returns	10,500	
Share issue costs	11,000	
Inventory	104,500	
Stock of stationery supplies	500	

**Additional information, not reflected above:**

- Plant and equipment is depreciated using the reducing balance method, at a rate of 12% per annum.
- Land is to be revalued upwards on balance day by \$30,000.
- The company is subject to an income tax rate of 30%.

See next page





- (c) State **three** differences between internal and external reporting for a company. (3 marks)

One: \_\_\_\_\_

\_\_\_\_\_

Two: \_\_\_\_\_

\_\_\_\_\_

Three: \_\_\_\_\_

\_\_\_\_\_

- (d) Describe **three** difficulties faced by accountants in producing social and environmental information. (6 marks)

One: \_\_\_\_\_

\_\_\_\_\_

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Two: \_\_\_\_\_

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\_\_\_\_\_

Three: \_\_\_\_\_

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**End of Section Two**

**See next page**

## Section Three: Extended answer

15% (30 Marks)

This section has **two** questions. You must answer **one** question. Write your answer in the space provided following Question 22.

If you use a page for planning, indicate this clearly at the top of the page.

Suggested working time: 35 minutes.

## Question 21

(30 marks)

Juntrae Pty Ltd is a small company based in Perth and has two directors who are also the only shareholders. The company produces quality hair products that are sold throughout Australia and New Zealand.

Kelly Bianchi, one of the directors, has developed the knowledge and experience to produce the quality hair products and also oversees their production and marketing.

Lee Chao is the other director and majority shareholder. Lee provided the funding to help start up the business but does not get involved in its day-to-day running. Lee is happy to receive an annual dividend and leave the management of the business to Kelly.

The company has a small number of employees who are involved in the production process, but Kelly tries to do all the administration work to help keep costs down.

An accountant prepares financial reports and completes the tax work for Juntrae Pty Ltd. The accountant has raised the following issues:

- Juntrae Pty Ltd appears to make frequent use of its overdraft facility
- while the sales figures are excellent, profit is declining
- debtors frequently pay what they owe after the due date
- creditors are often paid late and this sometimes leads to late payment costs being incurred
- inventory levels are quite high and the cost of sales has increased significantly over the past twelve months.

The accountant is suggesting that Juntrae Pty Ltd should be undertaking significant planning and control to protect its assets, ensure the company has cash flow to pay debts and to investigate why profits are declining.

Although Kelly is concerned about the accountant's advice, Lee is confident that she will sort out the problems and is not interested in getting involved in the running of the company.

- (a) Identify any **two** components of a master budget and describe **two** budgets that might assist Juntrae Pty Ltd to identify and manage problems before they occur. (6 marks)
- (b) Describe **three** duties of directors as per the *Corporations Act 2001* to help both Kelly and Lee understand their responsibilities as directors of Juntrae Pty Ltd. (6 marks)
- (c) Explain the purpose of an internal audit and describe **three** internal control procedures the company could implement to detect and correct possible errors and deficiencies. (9 marks)
- (d) State the objective of general purpose financial reporting and outline **two** of its fundamental qualitative characteristics as per the *Conceptual Framework for Financial Reporting*. (5 marks)
- (e) Describe **two** characteristics that distinguish a public company and a large proprietary company. (4 marks)

See next page



## Question 22

(30 marks)

Krebsaw Ltd is a manufacturing company located in Western Australia. It produces large storage sheds for both urban and rural properties. It has built a reputation for excellence, and demand for its sheds is increasing. Many orders are now coming from all over Australia.

Management is considering establishing another factory in one of two different locations in Australia, believing it will lead to an increase in sales and reduction in transport costs. The cost of transporting sheds from the current factory to the proposed new locations is significant. In addition, the company has problems competing on price with existing shed makers in other parts of Australia.

Krebsaw Ltd has provided the information below regarding payback period and net present value (NPV).

Location 1: Factory		Location 2: Factory	
Payback period	NPV	Payback period	NPV
4 years 6 months	\$125,000	4 years 8 months	\$120,000

The factory proposal for Location 1 will be in a city urban area and will be close to all transport systems. Government officials in Location 1 have not indicated their support for the factory project at this stage.

The factory proposal for Location 2 will be in a rural area and close to rural customers. Government officials in Location 2 have already given approval for development of the proposed factory. They believe the factory will provide much-needed employment opportunities for people in the area.

Management of Krebsaw Ltd expects that other manufacturers of sheds in both proposed locations will reduce their prices to ensure that they remain competitive. Krebsaw Ltd believes that its product is superior and will be able to compete successfully within a few months of its commencement. Management also believes that the company has better after-sales service than its competitors.

Krebsaw Ltd is considering a long-term business finance option for the proposed purchase.

- Based on the net present value and payback period data, which location would you recommend Krebsaw Ltd purchase. State **two** reasons for your recommendation. (3 marks)
- From the information provided, describe **two** non-financial factors that should be considered by management when assessing the location of the factory project. (4 marks)
- Describe **three** types of long-term business finance that Krebsaw Ltd could consider for the proposed purchase. (6 marks)
- Explain **three** limitations in assessing performance from financial statement analysis and/or traditional financial accounting. (9 marks)
- Describe **four** benefits to internal and/or external users of a cash flow statement. (8 marks)

End of questions























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