



## Western Australian Certificate of Education Examination, 2014

### Question/Answer Booklet

# ACCOUNTING AND FINANCE

## Stage 3

Please place your student identification label in this box

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 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

Number of additional answer booklets used (if applicable):

#### *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 notes or other items of a non-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 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	152	70
Section Three: Extended answer	2	1	35	30	15
<b>Total</b>					100

## Instructions to candidates

- The rules for the conduct of Western Australian external examinations are detailed in the *Year 12 Information Handbook 2014*. 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, 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.

Sections Two and Three: Write 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 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 that you are continuing to answer at the top of the page.
- Information for questions has been repeated on the removable Information Booklet which has been inserted inside the front cover of this booklet so that you can refer more easily to it 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. 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. Equity is defined as the residual interest in
  - (a) liabilities of the entity after deducting all assets.
  - (b) revenue of the entity after deducting all expenses.
  - (c) expenses of the entity after deducting all revenue.
  - (d) assets of the entity after deducting all liabilities.
  
2. Australian Accounting Standards require public companies to calculate profit using
  - (a) the accrual accounting system.
  - (b) the cash accounting system.
  - (c) either the cash or accrual accounting systems.
  - (d) both the cash and accrual accounting systems.
  
3. The purpose of professional codes of conduct for accountants is to
  - (a) promote accounting in the wider community.
  - (b) eliminate liability to clients for negligent advice.
  - (c) ensure honesty, ethical conduct and competence.
  - (d) impose penalties for breaches of a code of conduct.
  
4. A financial principle of asset management is to
  - (a) over invest in current and non-current assets.
  - (b) control current and non-current assets.
  - (c) use short term loans to finance assets.
  - (d) under invest in current and non-current assets.
  
5. Short-term business finance includes
  - (a) cash management trusts.
  - (b) unsecured debentures.
  - (c) secured debentures.
  - (d) ordinary shares issued.

**See next page**

6. A company plans to replace its existing computer system. When performing differential analysis, the cost of the existing computer system is
- (a) relevant for decision making purposes.
  - (b) irrelevant for decision making purposes.
  - (c) avoidable for decision making purposes.
  - (d) a future cost for decision making purposes.
7. Which of the following **best** represents the correct order of repayment of creditors as prescribed by the *Corporations Act 2001*?
- (a) unsecured creditors before employee entitlements
  - (b) secured and unsecured creditors before the liquidator
  - (c) preference and ordinary shareholders before the liquidator
  - (d) secured creditors before employee entitlements
8. Which of the following correctly describes cash equivalents according to AASB 107 *Statement of Cash Flows*?
- (a) all highly liquid assets that are convertible into a known amount of cash that is subject to a significant risk of change in value within five months
  - (b) all highly liquid assets that are convertible into a known amount cash that is subject to an insignificant risk of change in value within five months
  - (c) all highly liquid assets that are convertible into a known amount of cash that is subject to an insignificant risk of change in value within three months
  - (d) all highly liquid assets that are convertible into a known amount of cash that is subject to a significant risk of change in value within three months
9. A production budget
- i. shows production in units.
  - ii. is dependent on sales targets and inventory policy.
  - iii. assists with the planning, coordinating and control of production.
  - iv. includes inventory figures and has a direct impact on profit.
- (a) i and ii
  - (b) i and iii
  - (c) i and iv
  - (d) i, ii and iii
10. Limitations on using financial accounting and financial statement analysis to assess company performance include
- (a) comparing similar companies with different accounting methods for depreciation.
  - (b) preparing company financial statements using mandated accounting standards.
  - (c) auditing company financial statements using mandated accounting standards.
  - (d) determining the monetary unit used in the company financial statements.

11. A company's external auditors are reappointed by
- (a) directors at the annual general meeting.
  - (b) employees at the annual general meeting.
  - (c) creditors at the annual general meeting.
  - (d) shareholders at the annual general meeting.
12. The primary duty of company directors is to protect
- (a) creditors' interests.
  - (b) shareholders' interests.
  - (c) regulators' interests.
  - (d) auditors' interests.
13. A new motor vehicle, with an estimated life of five years was purchased for \$60,000 and depreciation was not recorded. What would be the effect of this on the financial statements?
- (a) profit and net assets would be overstated
  - (b) expenses and net assets would be understated
  - (c) profit would be understated and equity overstated
  - (d) expenses would be overstated and equity understated
14. Job order costing would be **most** appropriate for which of the following industries?
- (a) food processing
  - (b) custom home building
  - (c) paper production
  - (d) oil refining
15. The working capital and quick asset ratios are indicators of
- (a) effective profitability.
  - (b) long-term solvency.
  - (c) short-term liquidity.
  - (d) operating efficiency.

**End of Section One**

**See next page**

## Section Two: Short answer

70% (152 Marks)

This section has **five (5)** 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.

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 that you are continuing to answer at the top of the page.

Suggested working time: 120 minutes.

## Question 16

(19 marks)

A company is considering investing in Project A or Project B. The initial capital expenditure budget is limited to \$15,000,000.

Cash flows for each project are as follows:

	Project A	Project B
	\$	\$
Initial investment 1 January, Year 1	13,500,000	15,000,000
Net after tax operating cash inflow as at 31 December for the following years:		
Year 1	4,000,000	Nil
Year 2	4,000,000	6,500,000
Year 3	4,000,000	6,500,000
Year 4	4,000,000	5,000,000
Year 5	4,000,000	3,500,000
Year 6	4,000,000	Nil

The final year cash flows include the net proceeds of salvage.

The company has a 16% target rate of return for capital investments.

(a) Calculate the Net Present Value (NPV) for Project A.

(5 marks)

**Workings:**

NPV for Project A: \_\_\_\_\_

(b) Calculate the Net Present Value (NPV) for Project B.

(6 marks)

**Workings:**

NPV for Project B: \_\_\_\_\_

Question 16 (continued)

- (c) Calculate the payback period in years and months for Project A. (3 marks)

**Workings:**

Payback period for Project A: \_\_\_\_\_

- (d) The payback period for Project B is 3 years and 4.8 months.

Provide an investment recommendation for the company and justify the recommendation with specific reference to **two** quantitative methods. (3 marks)

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- (e) State **one** advantage and **one** disadvantage of using the payback method to evaluate capital investment decisions. (2 marks)

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## Question 17

(23 marks)

A company accountant prepared the following budget information as at 31 December 2014 (Note: ignore GST).

- Sales for January are budgeted at \$500,000. Of all sales, 50% are expected to be cash sales and the balance paid equally in the following two months.
- Inventory was \$75,000 on 31 December and is expected to increase by \$10,000 for the following month.
- Cost of sales for January is budgeted at \$312,500.
- The book value/carrying amount of the depreciable assets is \$900,000 and depreciation is calculated at 20% per annum using the reducing balance method.
- At 31 December wages payable (accrued) amounted to \$8,000 and the amount is expected to decrease to \$6,500 by the end of January. During January expected wages paid are \$24,000.
- At 31 December prepaid insurance is \$4,000 and the amount is expected to be \$62,250 by the end of January. The annual insurance premium of \$66,000 is expected to be paid in January.
- Office administration expenses are expected to total \$66,750 every three months.
- Selling expenses are expected to be 10% of sales.
- The company tax rate is 30%.

- (a) Prepare a budgeted income statement for the month ending 31 January 2015. (18 marks)

**Workings:**





## Question 18

(27 marks)

A company manufactures and sells three products: 'X', 'Y' and 'Z'. Data relating to the products is provided below.

	Product X	Product Y	Product Z
Sales (units)	2,000	3,000	5,000
Selling price/unit (\$)	1,600	1,200	400
Variable cost/unit (\$)	640	560	200
Sales mix (%)	20%	30%	50%

Fixed costs are \$2,420,000 p.a.

- (a) Calculate the contribution margin per unit for Product X. (3 marks)

Contribution margin per unit for Product X: \_\_\_\_\_

- (b) The contribution margin per unit for Product Y is \$640 and for Product Z is \$200. Calculate the weighted average contribution margin for the company. (4 marks)

**Workings:**

Weighted average contribution margin: \_\_\_\_\_

- (c) Calculate the break-even point in weighted average units for the company. (3 marks)

**Workings:**

Break-even point in weighted average units for the company: \_\_\_\_\_

**See next page**

**Question 18** (continued)

- (d) Calculate the break-even point in units for Product Y, using the weighted average units from part (c). (3 marks)

**Workings:**

Break-even point for Product Y in units: \_\_\_\_\_

- (e) Calculate the number of units of each product that must be sold to achieve the company target profit of \$968,000 (Note: ignore taxation). (10 marks)

**Workings:**

Number of units Product X: \_\_\_\_\_

Number of units Product Y: \_\_\_\_\_

Number of units Product Z: \_\_\_\_\_

**See next page**

- (f) If the sales mix for Product X, Product Y and Product Z changes to 50%, 30% and 20% respectively, explain whether the number of break-even units required for the company will increase or decrease. (2 marks)

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- (g) Due to production constraints, management has decided to close a product line. Explain which product line should be closed and why. (2 marks)

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## Question 19

(48 marks)

Callaroo Ltd provides commercial cleaning services. The Trial balance is provided below and the figures are before balance day adjustments.

**Callaroo Ltd**  
**Pre-balance day adjustments trial balance as at 30 June 2014**

Accounts	Debit \$	Credit \$
Ordinary share capital		500,000
Dividend paid	50,000	
Prepaid insurances	160,000	
Cash at bank	304,950	
Accounts payable		112,000
Accounts receivable	950,000	
Allowance for doubtful debts		6,325
Bad Debts	6,000	
Rent office building	60,000	
Debentures (due on 30 June 2020)		200,000
Fees		3,200,000
Term deposit – matures 1 August 2015	50,000	
Land (currently at cost)	450,000	
Plant and equipment	410,000	
Accumulated depreciation – Plant and equipment		58,000
Wages	1,500,000	
Other expenses	110,000	
Cleaning materials expense	125,375	
Retained earnings (1 July 2013)		100,000
<b>Total</b>	<b>\$4,176,325</b>	<b>\$4,176,325</b>

**Additional information on 30 June 2014:**

- Ordinary share capital was issued at \$1.00 per share fully paid.
- A dividend of 10 cents per share declared at the 2013 annual general meeting was paid on 1 January 2014.
- The directors have resolved to recommend to shareholders a dividend of 5 cents per share at the up-coming 2014 annual general meeting.
- Insurance expense for the year was \$148,000.
- Adjust the Allowance for doubtful debts account to \$19,000.
- The Term deposit was invested for 24 months on 1 August 2013 at a rate of 6.00% per annum. Interest is payable annually.
- Depreciation of Plant and equipment is at 12% per annum using the reducing balance method.
- Wages expense is currently \$60,000 per fortnight and wages have been paid up to and including 23 June 2014.
- Debenture interest is of 7.00% per annum paid annually on 1 July. The 2014 interest expense has not been recorded.
- Cleaning materials on hand of \$10,000.
- Income tax is payable at the rate of 30%.
- Create a General Reserve of \$100,000.

**See next page**

- (a) Calculate Callaroo Ltd's net profit after tax for the year ended 30 June 2014. (19 marks)

**Workings:**

Callaroo Ltd's net profit after tax for the year ended 30 June 2014 is \_\_\_\_\_

**See next page**

Question 19 (continued)

- (b) Prepare the necessary general journal entries including narrations relating to the Retained earnings account for the year ended 30 June 2014. (9 marks)

**Callaroo Ltd**  
**General journal (extract)**  
**for the year ended 30 June 2014**

Date	Particulars	Debit	Credit

- (c) Prepare an extract of the current assets and current liabilities sections only for the Statement of financial position in external reporting format as required by AASB 101 *Presentation of Financial Statements*. (14 marks)

**Workings:**

**Callaroo Ltd  
Statement of Financial Position (extract)  
as at 30 June 2014**

**Current assets**

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**Current liabilities**

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## Question 20

(35 marks)

**X2Y27! Company Ltd**  
**Statement of Financial Position**  
**as at 30 June 2014**

	30 June 2013	30 June 2014
	\$	\$
<b>ASSETS</b>		
Total current assets	183,500	117,850
Non-current assets		
Land (cost)	275,000	685,000
Long-term investments	250,000	190,550
Plant and equipment (cost)	295,000	675,000
Less accumulated depreciation	(200,000)	(45,000)
Total non-current assets	620,000	1,505,550
<b>Total assets</b>	<b>\$ 803,500</b>	<b>\$ 1,623,400</b>
<b>EQUITY AND LIABILITIES</b>		
Equity		
Share capital	125,000	350,000
Retained earnings	113,800	257,000
<b>Total equity</b>	<b>\$ 238,800</b>	<b>\$ 607,000</b>
Current liabilities		
Total current liabilities	139,700	46,400
Non-current liabilities		
Debentures 8.5% p.a. (due 1 January 2018)	375,000	375,000
Term loan (mortgage)	50,000	595,000
Total non-current liabilities	425,000	970,000
<b>Total liabilities</b>	<b>\$ 564,700</b>	<b>\$ 1,016,400</b>
<b>Total equity and liabilities</b>	<b>\$ 803,500</b>	<b>\$ 1,623,400</b>

**Additional information:**

- Ordinary shares issued at \$1.00 per share.
- No dividends have been declared or paid for the last two years.
- Debentures of \$100,000 at 7.5% p.a. due 1 January 2014 were repaid.
- No share issue costs were incurred during the year.
- Cash and cash equivalents were \$145,000 at 30 June 2013 and \$75,250 at 30 June 2014.
- Purchase of all non-current assets are made by cash.
- Plant and equipment that cost \$145,000 on acquisition was sold for cash on 28 February 2014. At disposal the item of plant and equipment had a net book value/carrying amount of \$27,000. The company made a gain on disposal of \$5,000.
- The company reported net cash from Operating activities of \$103,800 for the year ended 30 June 2014. This figure includes interest paid and interest received.

**See next page**

**Question 20** (continued)

- (a) Complete the Statement of Cash Flows for X2Y27! Company Ltd as at 30 June 2014.  
(21 marks)

**Workings:**

**X2Y27! Company Ltd  
Statement of Cash Flows  
for the year ended 30 June 2014**

**Cash flows from operating activities**

Net cash from operating activities \_\_\_\_\_

**Cash flows from investing activities**

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Net cash from investing activities \_\_\_\_\_

**Cash flows from financing activities**

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Net cash from financing activities \_\_\_\_\_

**Net increase/decrease in cash and cash equivalents** \_\_\_\_\_

**Cash and cash equivalents at the beginning of period** \_\_\_\_\_

**Cash and cash equivalents at the end of period** \_\_\_\_\_





**Section Three: Extended answer****15% (30 Marks)**

This section has **two (2)** questions. You must answer **one (1)** 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)**

Awbourne Flaime Ltd is an Australian listed company in the mining services sector. The company headquarters are located in the central business district of a major Australian capital city. The company's regional office is located in a Western Australian Pilbara town that is used as a base to access the company's clients' site operations. As a part of Awbourne Flaime Ltd's corporate social disclosure, the company produces an annual sustainability report. Below is an excerpt from the company's 2014 Sustainability Report.

**Mission**

Awbourne Flaime Ltd is unified with our people, environment, community and stakeholders to maximise the value of our business. Our aim is to be a successful and flexible mining services company that uses its resources to the benefit of the company and the communities in which we operate.

**Company Values**

Awbourne Flaime Ltd operations are governed by the PECS system. PECS represents the four sectors of most importance to our continuing operations: People, Environment, Community and Stakeholders.

<b>People</b>	<b>Environment</b>
Description: work with the company to achieve our goals. Participants: employees, suppliers and contractors.	Description: where the company works to achieve our goals. Participants: physical resources, including water, land, flora and fauna.
<b>Community</b>	<b>Stakeholders</b>
Description: allow the company to achieve our goals. Participants: people residing in the places where we work.	Description: help the company to achieve our goals. Participants: shareholders, debt holders, government and other regulators.

**Company values in action****Community**

Awbourne Flaime Ltd is an active community member and supports the Pilbara community where it operates through the following initiatives:

## University bursary

An annual scholarship to the highest ranking student from the local high school to attend university, based on the university entrance score achieved. The scholarship, for the duration of the student's undergraduate degree, is provided to assist with living away from home costs while attending university.

**See next page**

Tradespersons education and traineeship program

Three annual apprenticeships for welders/boilermakers, electricians and automotive mechanics to support the local youth to obtain high quality on the job training and education. The program is based on a competitive selection process and includes employment until the trainee finishes their education and the option of permanent employment with the company.

Indigenous support program

Ongoing support for projects for the local Indigenous community, including: skill development, environmental protection, community improvement and beautification.

Local employment initiative

Priority employment program for the recruitment of local residents for employment in the company, including administrative, trades, technical and managerial roles.

### **PECS performance indicators**

The company directors are required to measure their performance using Key Performance Indicators (KPIs), which measure their short-term and long-term performance. Short-term performance indicators include achievement of all existing PECS commitments. Long-term performance indicators include the development of new PECS commitments and the continuous achievement of existing PECS commitments for a minimum of three years, with a bonus paid for every additional year of achievement.

### **Required:**

The Chief Financial Officer of Awbourne Flaime Ltd has asked you to prepare a written analysis for the Board of Directors on corporate social disclosure.

Your answer should:

- (a) explain the nature of Corporate Social Disclosure (CSD) (5 marks)
- (b) discuss the usefulness of CSD, including costs and benefits (5 marks)
- (c) evaluate why the community is included in Awbourne Flaime Ltd's CSD (5 marks)
- (d) comment on the issues that accountants face when presenting social and environmental information (5 marks)
- (e) examine how the directors of Awbourne Flaime Ltd would use their company's CSD to evaluate their performance (5 marks)
- (f) identify **two** external users of CSD and compare how they might use the information provided by Awbourne Flaime Ltd. (5 marks)

## Question 22

(30 marks)

Robbyun Ltd manufactures wood and leather office chairs. In December 2013, the company met all production requirements for the current month and had an opportunity to produce additional units of product with its excess capacity. Unit selling prices and costs for the two types of chairs were as follows:

	Wood \$	Leather \$
Selling price	35	45
Direct materials (DM)	10	15
Direct labour (DL) (\$12/hr)	6	12
Variable overhead	4	6
Contribution margin	15	12
Contribution margin per metre (DM)	1.5	0.8
Contribution margin per DL hour	30	12

A special order has been received to supply 900 wooden chairs to the State Government. If the order is accepted, the Production Manager has advised that machine capacity may be limited, but there are no other expected production constraints.

Company management is also investigating outsourcing the supply as the costs of production are lower. Currently, it is marginally cheaper to buy the chairs than to manufacture them and outsourcing would result in the closure of the manufacturing plant.

Management is of the opinion that if it can cut production costs, it can continue manufacturing. The Management Accountant has provided the following information for the most recent period:

	Standard cost	Actual cost
<b>Wooden chairs</b>		
DM	2m @ \$5/m	2.5m @ \$4.50/m
DL	0.5hr @ \$12/DL hour	1hr @ \$8/DL hour
<b>Leather chairs</b>		
DM	1.5m @ \$10/m	2m @ \$9/m
DL	1hr @ \$12/DL hour	1.5hr @ \$8/DL hour

The Management Accountant has prepared the following variance analysis based on the current production of 10,000 wooden chairs and 5,000 leather chairs:

	Price variance	Usage variance
Wooden chair DM	\$12,500 F	\$25,000 U
Leather chair DM	\$10,000 F	\$25,000 U
	Rate variance	Efficiency variance
Wooden chair DL	\$40,000 F	\$60,000 U
Leather chair DL	\$30,000 F	\$30,000 U

See next page

**Required:**

The company management has asked you to prepare a written analysis.

Your answer should:

- (a) discuss the importance of business planning (6 marks)
- (b) analyse the relative profitability of the two types of chair (4 marks)
- (c) explain briefly **five** actions the company could implement to accept the special order (5 marks)
- (d) analyse the company's variances and make **two** recommendations for improvements (10 marks)
- (e) state **five** reasons why the company should continue manufacturing rather than outsourcing. (5 marks)

**End of questions**





















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