



Western Australian Certificate of Education Examination, 2015

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

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	4	4	120	142	70
Section Three: Extended answer	2	1	35	30	15
Total					100

Instructions to candidates

- The rules for the conduct of Western Australian external examinations are detailed in the *Year 12 Information Handbook 2015*. 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.

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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.

1. When considering the appropriate level of equity for a business, the **least** important factor is the
 - (a) level of risk.
 - (b) business structure.
 - (c) economic cycle.
 - (d) growth prospects.

2. Business planning allows managers to
 - (a) decrease costs and risks.
 - (b) increase costs and risks.
 - (c) eliminate costs and risks.
 - (d) ignore costs and risks.

3. The purpose of the cash flow statement is to
 - (a) reconcile the bank accounts at the end of the period.
 - (b) show the budget cash balance at the end of the period.
 - (c) ensure the liquidity of the reporting entity is maintained.
 - (d) show how cash was generated and used during the period.

4. Managers use a budgeted income statement to predict
 - (a) competitor's performance.
 - (b) cash flow performance.
 - (c) accrual performance.
 - (d) stock market performance.

5. Which of the following is a benefit of public and large proprietary companies?
 - (a) limited liability of shareholders
 - (b) limited life of the business
 - (c) managers must be owners
 - (d) accessing funding is difficult

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6. Which of the following is categorised as a cash flow from financing activities?
- (a) payment of income taxes
 - (b) sale of property and plant
 - (c) purchase of property and plant
 - (d) issue of ordinary shares
7. Detection and correction of errors and deficiencies is a key function of
- (a) ratio analysis.
 - (b) bench marking.
 - (c) internal control.
 - (d) standard costing.
8. Discounted cash flows are used to account for
- (a) cash and cash equivalents.
 - (b) the time value of money.
 - (c) the return on equity.
 - (d) the payback period.
9. A reporting entity is **best** described as an entity that
- (a) has users dependent on annual reports for decision-making.
 - (b) lodges its annual financial reports with government agencies.
 - (c) is registered for GST and compiles an activity statement regularly.
 - (d) is characterised by limited liability and is a separate legal entity.
10. The qualitative characteristic of relevance in financial reporting is **best** described as information that
- (a) is free from material bias and undue error.
 - (b) influences the decision-making process.
 - (c) is comparable with alternative information.
 - (d) enables users to comprehend its meaning.
11. A company pays its sales staff 8% commission on each car sold. The cost is classified as
- (a) indirect, period and variable.
 - (b) direct, product and fixed.
 - (c) direct, period and variable.
 - (d) indirect, product and fixed.

12. The purpose of accounting standards is to

	I	II	III	IV
assist directors to discharge their obligations.	no	yes	no	yes
protect external users.	yes	yes	no	yes
facilitate the Australian capital markets.	yes	yes	yes	no

- (a) I
 (b) II
 (c) III
 (d) IV
13. Businesses engage actively in socially and environmentally responsible practices to

- (a) control the costs of doing business.
 (b) reduce their financial performance.
 (c) align their interests with consumers.
 (d) limit the benefits of doing business.

14. Manufacturing overheads consist of

- (a) direct material and not direct labour.
 (b) indirect material and not indirect labour.
 (c) direct material and direct labour.
 (d) indirect material and indirect labour.

15. If the selling price per unit and the variable cost per unit both increase by 20% and fixed costs do not change, what will be the effect on the following?

	Contribution margin per unit	Contribution margin ratio	Break-even in units
(a)	increases	no change	decreases
(b)	no change	no change	no change
(c)	no change	increases	no change
(d)	increases	increases	decreases

End of Section One

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Section Two: Short answer

70% (142 Marks)

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

The management of Chateau Pty Ltd is planning to buy a piece of land to expand the business and provided the following information for the six months ending 30 September 2015.

Month	Cash sales \$	Credit sales \$	Total sales \$
Actual sales			
April	25,000	73,000	98,000
May	23,000	75,000	98,000
June	21,000	80,000	101,000
Budgeted sales			
July	24,000	71,000	95,000
August	22,000	74,000	96,000
September	26,000	76,000	102,000

Additional information

Month	Credit purchases \$
Budgeted purchases	
July	59,000
August	56,000
September	58,000
October	42,000
November	47,000
December	49,000

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- Credit sales are expected to be collected as follows: 50% in the first month following the month of sale; 30% in the second month following the month of sale; and 20% in the third month following the month of sale.
- All purchases are made on credit, with 70% expected to be paid in the month following the month of purchase and 30% in the second month following the month of purchase.
- Finance expenses are expected to be \$3,750 cash per month.
- In September 2015, the business intends buying the land for \$400,000. A deposit of \$40,000 will be paid on 15 September 2015, with the balance payable in the following month. The purchase will be financed by a mortgage, with the first monthly repayment due in November 2015.
- The cash at bank balance at 1 September 2015 was \$45,200.

- (a) Prepare a cash budget for Chateau Pty Ltd for the month ending 30 September 2015.
(15 marks)

Workings:

Question 17

(45 marks)

The following transactions occurred for Roozi Ltd during the period 1 July 2014 to 30 June 2015.

Date	Details
22 July 2014	At the Annual General Meeting, the shareholders approved and paid a \$45,000 final dividend, as recommended by the directors.
1 September 2014	The company issued a prospectus for 100,000 new ordinary shares at the price of \$2.80 per share. The company hired a broker to manage the new issue and agreed to a fee of 7% of the capital raised.
1 November 2014	The new shares issue closed fully subscribed and paid. The broker fee was paid.
14 November 2014	The directors resolved that the new ordinary shares be allotted.
10 January 2015	The company paid an ordinary interim dividend of 10 cents per share on all issued ordinary shares.
1 February 2015	Company directors decided to create a General reserve and transferred \$80,000 from Retained earnings.
1 March 2015	The company issued bonus ordinary shares from the General reserve at the rate of 1-for-20 at \$3.00 per share.

Additional information

- At the end of the period the Retained earnings account balance was \$400,000.
- The Ordinary share capital at the beginning of the period is \$2 ordinary shares issued at \$600,000.
- Roozi Ltd reported a profit before tax of \$231,000.
- The directors recommend a final dividend of \$38,000 at the end of the period.
- Roozi Ltd records all property, plant and equipment at cost.
- The company tax rate is 30%.

- (a) Prepare the General journal entries for the ordinary share issue for the financial year. Journal narrations are not required. (14 marks)

Workings:

Question 18

(34 marks)

XYZ Bikebuilders Pty Ltd custom-make environmentally-friendly bikes. They manufacture a Hybrid bike and a Road bike. Each comes equipped with GPS mounts, saddlebags and retractable security locks. They distribute the product through their website and approved bicycle stores in Perth, Western Australia.

The following information has been provided.

Total fixed costs	\$140,000
Production capacity in units	1,700
Sales commission per unit on sale price	20%

	Hybrid bike	Road bike
Variable costs	\$1,800	\$1,540
Sales mix in units	600	800
Sales price per unit	\$2,500	\$2,300

- (a) Calculate the contribution margin per unit for each bike.

(6 marks)

Workings:

Contribution margin per unit for the Hybrid bike: _____

Contribution margin per unit for the Road bike: _____

See next page

Question 18 (continued)

- (b) Calculate to the nearest cent the weighted average contribution margin per unit for each bike. (6 marks)

Workings:

Weighted average contribution margin per unit for the Hybrid bike: _____

Weighted average contribution margin per unit for the Road bike: _____

Question 18 (continued)

- (iii) Calculate the overall increase in profit for XYZ Bikebuilders Pty Ltd if the special order is accepted. (7 marks)

Workings:

Overall increase in profit: _____

- (iv) Using purely quantitative reasoning, recommend whether XYZ Bikebuilders Pty Ltd should accept the order. (1 mark)

Question 19

(44 marks)

The following information has been extracted from the comparative financial statements of Phloppsi Ltd for the 2015 and 2014 financial years.

Phloppsi Ltd		
Balance sheet (extract)		
as at 30 June 2015		
	30 June 2015	30 June 2014
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	145,200	85,300
Accounts receivable	110,925	88,830
Less: Allowance for doubtful debts	(5,125)	(3,990)
Inventory	262,755	246,330
Prepayments - insurance	63,180	23,520
Total current assets	576,935	439,990
Non-current assets		
Total non-current assets	1,276,085	951,335
Total assets	1,853,020	1,391,325
LIABILITIES		
Current liabilities		
Accounts payable	255,200	292,330
Income tax payable	20,576	15,400
Interest payable	45,580	53,400
Dividend payable	45,204	-
Total current liabilities	366,560	361,130
Non-current liabilities		
Total non-current liabilities	747,000	622,500
Total liabilities	1,113,560	983,630
NET ASSETS	\$ 739,460	\$ 407,695
EQUITY		
TOTAL EQUITY	\$ 739,460	\$ 407,695

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Phloppi Ltd
Income statement (extract)
for the year ended 30 June 2015

INCOME			
Sales revenue	3,326,400		
Less: Discounts allowed	5,700	3,320,700	
Dividends received		18,720	3,339,420
EXPENSES			
Cost of sales		1,903,200	
Less: Discounts received		12,075	1,891,125
Gross profit			1,448,295
Selling and administrative expenses		1,283,678	
Depreciation - equipment		27,300	
Depreciation - buildings		23,760	
Interest expense		34,960	
Doubtful debts expense		10,010	1,379,708
Profit before income tax			\$ 68,587
Income tax expense			20,576
Profit for the period			\$ 48,011
Other comprehensive income			0
Total comprehensive income for the period			\$ 48,011

Additional information

- Income tax rate is 30%, payable in arrears.
 - All sales and purchases are made on credit by Phloppi Ltd.
 - Selling and administrative expenses include wages and insurance expense for the period.
 - All wages are paid at the end of the month when incurred.
 - Interest is treated as a cash flow for day-to-day activities.
- (a) Prepare the Cash flows from operating activities section of the Statement of cash flows for Phloppi Ltd for the year ended 30 June 2015. (27 marks)

Question 19 (continued)

Workings:

Question 19 (continued)

- (b) The managers have provided the average values for four liquidity and efficiency ratios for 2015 for similar businesses in Phloppsi Ltd's industry sector.

Ratios	Industry average, 2015
Current ratio	2.5:1
Quick ratio	1.3:1
Debtors collection period	23.7 days
Inventory turnover ratio	6.5 times

- (i) Calculate to **two** decimal places the current ratio, quick ratio, debtors collection period and inventory turnover ratio for Phloppsi Ltd for 2015. (12 marks)

Workings:

Current ratio: _____

Quick ratio: _____

Debtors collection period: _____

Inventory turnover ratio: _____

See next page

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 21.

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

Suggested working time: 35 minutes.

Question 20**(30 marks)**

The directors of a listed company want to ensure they are complying with the Corporations Act. They have asked you as their accountant to prepare written advice regarding the following:

- (a) the purpose of disclosure in financial reports for reporting entities (4 marks)
- (b) replaceable rules and what would be involved in adopting a written constitution (4 marks)
- (c) the role of the AASB and the ASX (4 marks)
- (d) **three** limitations in assessing performance from either financial statement analysis or from traditional financial accounting (6 marks)
- (e) the nature and importance of the role of ASIC (6 marks)
- (f) **three** rights of shareholders. (6 marks)

or

Question 21

(30 marks)

Jyant Paynt Ltd is an Australian company in the medical support services industry. The managers have compiled the following cash performance report for the month of June 2015. The company has no cash sales. Receipts and payments are on a monthly account basis and are due in full the following month, except for wages for services staff, which are payable on a weekly basis for services performed during the week.

Jyant Paynt Ltd
Cash performance report for the month of June 2015

	Budget \$	Actual \$	Variance \$ U/F
Bank balance start	4,500,000	4,500,000	
Receipts			
Collections from accounts receivable	1,500,000	1,825,000	325,000 F
Total cash available	6,000,000	6,325,000	325,000 F
Payments			
Accounts payable	350,000	460,000	110,000 U
Office administration	200,000	235,000	35,000 U
Wages service staff	650,000	795,000	145,000 U
Equipment repairs and maintenance	175,000	115,000	60,000 F
Loan repayment	50,000	45,000	5,000 F
Interest	12,250	17,750	5,500 U
Total payments	1,437,250	1,667,750	230,500 U
Bank balance end	4,562,750	4,657,250	94,500 F

Management want to expand the company's operations and is considering two different investment proposals. Proposal A is the purchase of an automated medical instrument control unit that counts medical instruments after surgical procedures and sorts them in preparation for sterilisation and can be used for all hospital operations. Proposal B is the purchase of a surgical laser unit that is designed for specialist surgical procedures and is used for half of all hospital operations. Both machines have a useful life of seven years with a nil scrap value at the end of this period. The capacity for technological innovation in the medical equipment industry is high and both machines may be obsolete before the end of their useful life. The company policy for capital expenditure proposals includes only investing in one project at a time during the payback period.

The managers have obtained the following information for the two proposals.

	Proposal A	Proposal B
Initial investment	495,000	2,625,000
Annual net after tax operating cash flows	205,000	575,000
Net present value (NPV) at 6%	649,392	584,880
Payback period (calculated)	2.415 years	4.565 years
Payback period (years and months)	2 years and 5 months	4 years and 7 months

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Question 21 (continued)

The managers of Jyant Paynt Ltd have asked you to prepare a written analysis.

Your answer should:

- (a) state the purpose and function of a performance report (4 marks)
- (b) explain **two** variances in the cash performance report, including why each has occurred (6 marks)
- (c) explain the nature and importance of capital investment decisions (5 marks)
- (d) analyse the proposals and advise which one should be invested in (4 marks)
- (e) discuss **three** financial principles of asset management (6 marks)
- (f) explain the differences between external and internal reporting. (5 marks)

End of questions

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