



ATAR course examination, 2017

Question/Answer booklet

ACCOUNTING AND FINANCE

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: 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 this 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.

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	135	70
Section Three Extended answer	2	1	35	30	15
Total					100

Instructions to candidates

- The rules for the conduct of the 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, 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 answers in this Question/Answer booklet.

Section Three: Answer one question from a choice of two. Write your answers in this Question/Answer booklet.

- 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 the use of planning/continuing your answer to a question have been 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.
- Information for questions has been repeated in 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.

1. A characteristic of a company is that the
 - (a) ownership is transferable.
 - (b) liability of owners is unlimited.
 - (c) duration of existence is finite.
 - (d) number of directors is fixed.

2. Break-even point is achieved when total revenue equals
 - (a) total fixed costs.
 - (b) total indirect costs.
 - (c) total costs.
 - (d) total variable costs.

3. Ore and More Ltd is expanding its Pilbara operations and the assets acquired are expected to generate significant economic returns for at least 20 years. To raise cash to fund this expansion plan, what is the **most** likely mix of liabilities and equity to be used by Ore and More Ltd?

Liabilities	and	Equity
(a) Long-term secured loan payable	and	Asset revaluation reserve
(b) Trade suppliers	and	Issue of shares payable in full on application
(c) Bank overdraft	and	Bonus share issue
(d) Long-term secured loan payable	and	Issue of shares payable in full on application

4. The primary purpose of financial accounting is to provide information that will
 - (a) guide management's capital investment decisions.
 - (b) facilitate the preparation of general purpose financial reports.
 - (c) disclose management's social and ethical position.
 - (d) solely influence management's product pricing and marketing decisions.

See next page

5. For shareholders, which of the following alternatives poses the **greatest** threat to comparability when using published general purpose financial reports to make an investment decision?

	Calendar year(s) ending 31 December	Number of companies to invest in	Depreciation policies adopted for non-current assets
(a)	2015 and 2016	One company	Uses the straight-line method
(b)	2016	Three companies	All three use the reducing balance method
(c)	2015 and 2016	Three companies	All three use the straight-line method
(d)	2016	Three companies	Two use the straight-line method and one the reducing balance method

6. The Financial Reporting Council is responsible for

- (a) developing accounting standards to be used by all Australian reporting entities.
- (b) enforcing and regulating Australian company and financial services laws.
- (c) having budgetary oversight of the Australian Accounting Standards Board.
- (d) participating in the development of a single set of accounting standards for international use.

7. Which of the following provides a measure of the possibility of excessive debt in a business?

- (a) debtor's collection
- (b) debt to equity ratio
- (c) times interest earned ratio
- (d) dividend yield

8. Which of the following pairs of components of equity will change when a listed company makes a bonus issue of ordinary shares?

	Increase	Decrease
(a)	Asset revaluation reserve	Ordinary share capital
(b)	Retained earnings	Ordinary share capital
(c)	Ordinary share capital	General reserve
(d)	Ordinary share capital	Cash at bank

9. Obscurity Ltd has a \$500,000 mortgage payable that is secured over the company's freehold land and buildings. As Obscurity Ltd is insolvent and has missed six monthly principal and interest payments, the lender has taken custody of the secured land and buildings.
- By taking custody of the secured land and buildings, the lender has put Obscurity Ltd into
- (a) receivership.
 - (b) court ordered liquidation.
 - (c) voluntary administration.
 - (d) members' voluntary liquidation.
10. The document that has to be published before a public company can invite members of the public to subscribe for ordinary shares is the
- (a) ASIC review.
 - (b) prospectus.
 - (c) replaceable rules.
 - (d) written constitution.
11. Select the item below that is classified as a cash and cash equivalents item according to the Australian Accounting Standards.
- (a) gold bars stored in the company safe
 - (b) a term deposit that matures in 100 days
 - (c) shares traded on a stock exchange
 - (d) a term deposit that matures in 20 days
12. Select the transaction below that will increase the current ratio when the cash at bank balance is a debit and the current ratio is 1.50:1.00.
- (a) purchase of inventory using cash
 - (b) purchase of inventory using bank overdraft
 - (c) repayment of accounts payable using cash
 - (d) collections from accounts receivable
13. In cost-volume-profit (CVP) analysis, an increase in the number of units sold will increase the
- (a) contribution margin per unit.
 - (b) fixed costs per unit.
 - (c) break-even point.
 - (d) margin of safety.

14. Mark-up is the difference between
- (a) direct costs and indirect costs.
 - (b) cost and selling price.
 - (c) profit achieved and selling price.
 - (d) fixed costs and variable costs.
15. Performance reports
- (a) analyse the variance between expected and actual outcomes of business activities.
 - (b) are prepared at the beginning of a budget period to predict business performance.
 - (c) list all the cash inflows and outflows of a business over a period of time.
 - (d) are published for external stakeholders to use to make informed decisions about a business.

End of Section One

See next page

Section Two: Short answer**70% (135 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.

Supplementary pages for the use of planning/continuing your answer to a question have been 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)**

GreenMatt Ltd is a Perth-based eco-friendly business that installs premium quality synthetic grass for its residential clients. The company charges its clients a flat fee of \$110.00 per square metre of synthetic grass actually installed. Currently, GreenMatt has a maximum monthly installation capacity of 7000 square metres.

Over the past six months, GreenMatt has installed an average of 5000 square metres of synthetic grass per month. Given that the process used by GreenMatt for installing synthetic grass is a highly-standardised one, the business has identified the following standard costs per square metre installed:

Direct material	\$20.00	per square metre.
Direct labour cost	\$30.00	per square metre.
Direct variable costs	\$35.00	per square metre.

The budgeted break-even point per month requires 3000 square metres of synthetic grass to be installed.

(a) Complete the following for GreenMatt's management.

- (i) Explain how management might use cost-volume-profit analysis for decision-making purposes. (3 marks)

See next page

Question 16 (continued)

- (ii) Explain what is meant by the term 'margin of safety'. (2 marks)

- (b) Calculate the contribution margin per installed square metre. (4 marks)

Workings:

Contribution margin per installed square metre: _____

- (c) Calculate the total fixed costs per month. (2 marks)

Workings:

Total fixed costs per month: _____

- (d) The owners of GreenMatt require a profit of \$40,000 per month.

GreenMatt's master budget for the month of December 2017 is based on 5000 square metres of synthetic grass being installed.

- (i) How many square metres of synthetic grass would have to be installed by GreenMatt to achieve the required target profit of \$40,000 for December 2017? (3 marks)

Workings:

Budgeted square metres of synthetic grass to be installed to achieve the minimum budgeted profit target of \$40,000 per month: _____

See next page

Question 16 (continued)

- (ii) Calculate the budgeted profit for the month ending 31 December 2017, on the master budget's basis of achieving the average installation of 5000 square metres for the month. (3 marks)

Workings:

Budgeted profit for the month ending 31 December 2017: _____

- (e) The standard direct labour cost of \$30.00 is based on one direct labour hour per square metre laid.

As a result of a shortage of direct labour, GreenMatt was only able to install 4000 square metres of synthetic grass during December 2017. In laying this quantity, the actual direct labour cost incurred was \$140,000 for the 4000 actual direct labour hours worked.

What was the amount of GreenMatt's total direct labour rate variance for December 2017? (5 marks)

Workings:

GreenMatt's total direct labour rate variance for December 2017: _____

See next page

Question 17

(25 marks)

Ayo Robotic Radio Ltd is preparing a cash budget for the month ending 30 June 2018. Management has provided you with the following Budgeted income statement for the month ending 30 June 2018.

**Ayo Robotic Radio Ltd
Budgeted income statement
for the month ending 30 June 2018**

	\$
Sales	400,000
Less cost of sales	260,000
Budgeted gross profit	140,000
Add other income	
Gain on sale of non-current asset	12,000
	152,000
Less operating expenses	
Salaries and wages	62,000
Doubtful debts	2,400
Insurance	2,000
Depreciation	12,600
Other operating expenses	13,000
Total operating expenses	92,000
Profit	60,000

Additional information:

- The closing bank balance as at 30 June 2018 is expected to be \$122,000.
- Collection from sales is expected to be 40% for cash sales and the remainder are credit sales. On average, 75% of credit sales are collected in the first month after sale, 24% in the second month after sale and the remaining 1% are never collected. Total sales for April and May were \$300,000 and \$350,000 respectively.
- All purchases are paid by Ayo Robotic Radio Ltd in the month following purchase. Purchases of inventory from suppliers were \$200,000 in May and are expected to be \$250,000 in June 2018.
- Other operating expenses are all payable in cash.
- Salaries and wages owing as at 31 May 2018 were \$3,000. It is expected there will be no accrued salaries and wages owing on 30 June 2018.
- The business expects to purchase a new delivery van in June 2018. The cost of \$30,000 is payable in three equal instalments in June, August and September 2018.
- The annual insurance premium is paid on 1 June every year.
- The carrying amount of the non-current asset sold in June is expected to be \$8,000.

See next page

Question 17 (continued)

- (a) Prepare a Cash budget for the month of June 2018.

(22 marks)

Workings:

Question 17 (continued)

(b) Identify and explain **one** purpose served by the cash budget. (3 marks)

Question 18**(25 marks)**

Seismo System Corporation (SSC) specialises in the provision of drilling equipment to the Australian offshore oil and gas industry. SSC is evaluating the purchase of a new high-powered sonar instrument it intends to use for analysing the production potential of oil and gas discoveries in the Southern Ocean.

You have been given the following information about two sonar instruments to evaluate the investment option of each and recommend which one to purchase.

Details	Baltic Sonar Deluxe (BSD) \$	Pacific Sonar Supreme (PSS) \$
Cost of acquisition	1,050,000	960,000
Installation cost	0	40,000
Useful life in years	4	3
Cash savings from a reduction in annual direct labour costs	150,000	150,000
Additional annual cash revenues generated		
Year 1	775,000	800,000
Year 2	775,000	750,000
Year 3	775,000	650,000
Year 4	775,000	
Maintenance cash costs per year	525,000	400,000
Residual value at end of useful life	Nil	50,000
Discount rate	10%	10%

Additional information:

- The installation costs for PSS are to be paid at the beginning of the first year of operations.
- Assume that apart from the cost of acquiring a sonar instrument, all other cash flows are received or paid at the end of each year.
- Ignore all tax implications.

Question 18 (continued)

(a) Calculate, showing all workings the net present value for the:

(i) Baltic Sonar Deluxe investment option. (7 marks)

(ii) Pacific Sonar Supreme investment option. (15 marks)

Baltic Sonar Deluxe investment option

Workings:

Net present value for the Baltic Sonar Deluxe investment option: _____

See next page

Pacific Sonar Supreme investment option**Workings:**

Net present value for the Pacific Sonar Supreme investment option: _____

See next page

Question 18 (continued)

- (b) Provide your investment recommendation as to which sonar instrument should be purchased stating **one** reason for your recommendation. (3 marks)

Question 19**(37 marks)**

The equity account balances of Zoopman Ltd as at 1 July 2016 are provided below.

**Zoopman Ltd
Trial balance (extract)
as at 1 July 2016**

	\$
General reserve	30,000
Ordinary share capital (\$2.00 per share fully paid)	600,000
Retained earnings	300,000

On 15 March 2017, the directors issued bonus shares to ordinary shareholders of one (1) bonus share for every ten (10) shares held, using the retained earnings of the company. The bonus shares are issued at \$2.50 fully paid.

- (a) Prepare the General journal entry, with a narration, to record the bonus share issue made on 15 March 2017. (7 marks)

Workings:

**Zoopman Ltd
General journal (extract)**

See next page

Question 19 (continued)

At the end of the financial year the following account balances were extracted from Zoopman Ltd's records.

Zoopman Ltd
Trial balance (extract)
as at 30 June 2017

Account	Debit \$	Credit \$
Accounts payable		15,000
Accounts receivable	45,000	
Accumulated depreciation – equipment		5,000
Equipment	125,000	
Cash at bank	157,800	
Debentures (due on 30 June 2019)		250,000
Debenture interest expense	15,000	
Bad debts expense	400	
Fees revenue		579,800
Goodwill	25,000	
Interest received from investments		2,000
Investments – short term	100,000	
Land (at cost)	410,600	
Other expenses	119,000	
Prepaid insurance	30,000	
Salaries and wages	254,000	

Additional information:

The following items have not been processed in respect to the accounts listed above.

- Depreciation of equipment is at the rate of 4% per annum using the reducing balance method. The equipment has an estimated residual value on disposal of \$10,000.
- Prepaid insurance used during the year was \$24,000.
- As at 30 June 2017, employees are owed salaries and wages of \$26,000.
- On 30 June 2017, the directors decided to revalue land upward by \$25,000 and increased the balance of the general reserve to \$60,000.
- Income tax is payable at the rate of 30%.

See next page

- (b) Prepare a Statement of comprehensive income for Zoopman Ltd for the year ended 30 June 2017. (17 marks)

Workings:

Question 19 (continued)

Zoopman Ltd
Statement of comprehensive income
for the year ended 30 June 2017

- (c) Prepare the Statement of changes in equity for Zoopman Ltd for the year ended 30 June 2017, showing the changes that occurred in all components of equity. (13 marks)

Zoopman Ltd
Statement of changes in equity
for the year ended 30 June 2017

See next page

Question 20

(26 marks)

The following information has been extracted from the comparative financial statements of Galle Gold Ltd for the 2016 and 2017 financial years.

**Galle Gold Ltd
Balance sheet
as at 30 June**

	2016 \$	2017 \$
Assets		
Current assets		
Cash and cash equivalents	342,000	847,140
Accounts receivable	192,500	232,500
Allowance for doubtful debts	(8,400)	(10,300)
Inventory	382,000	406,000
Dividend revenue receivable		19,000
Total current assets	908,100	1,494,340
Non-current assets		
Investments in shares (at market value)	317,000	342,000
Land (at cost)	760,000	860,000
Buildings (at cost)	1,775,000	2,225,000
Accumulated depreciation: buildings	(431,000)	(496,000)
Plant and machinery (at cost)	896,000	800,400
Accumulated depreciation: plant and machinery	(356,500)	(391,300)
Total non-current assets	2,960,500	3,340,100
Total assets	3,868,600	4,834,440
Liabilities		
Current liabilities		
Accounts payable	560,000	670,400
Accrued selling and distribution expenses	42,000	56,000
Accrued interest expenses	45,000	67,000
Dividend payable	101,000	120,000
Income tax payable	120,000	142,800
Total current liabilities	868,000	1,056,200
Non-current liabilities		
Long-term loan payable	1,335,000	1,455,000
Total non-current liabilities	1,335,000	1,455,000
Total liabilities	2,203,000	2,511,200
Net assets	1,665,600	2,323,240
Equity		
Ordinary share capital	1,000,000	1,000,000
Asset revaluation reserve		25,000
Retained earnings	665,600	1,298,240
Total equity	1,665,600	2,323,240

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Galle Gold Ltd
Income statement
for the year ended 30 June 2017

	\$	\$
Sales revenue (all made on credit)		6,930,000
Less cost of sales		4,430,000
Gross profit		2,500,000
Other income		
Dividend revenue		19,000
		2,519,000
Less operating expenses		
Salaries and wages	700,000	
Selling and distribution	445,000	
Other expenses	258,800	
Finance costs (i.e. interest expense)	40,000	1,443,800
Profit before tax		1,075,200
Less income tax expense		322,560
Profit after tax		752,640

Additional information:

- Bad debts of \$4,600 were written off during the current financial year.
- Other expenses of \$258,800 include the following: Depreciation (\$123,500); Loss on sale of plant and machinery (\$16,700) and Doubtful debts (\$6,500).
- During the year, Plant and machinery that cost \$95,600 and had Accumulated depreciation to the amount of \$23,700 at the time of sale, was sold for \$55,200 cash.
- Inventories purchased for the year ended 30 June 2016 was \$4,454,000.
- Unless otherwise advised or indicated, all other expenses were paid using cash.
- Income tax paid during the year ended 30 June 2017 amounted to \$299,760. The balances in Income tax payable as at 30 June 2016 and 2017 represents the income tax expense owing for the June quarters of each year.
- Non-current assets acquired for cash during the year ended 30 June 2017 comprised Land \$100,000 and Buildings \$450,000.
- Interest is classified as operating activities.

See next page

Question 20 (continued)

- (a) Prepare the operating activities section of the Statement of cash flows for Galle Gold Ltd for the year ended 30 June 2017. (21 marks)

Workings:

Galle Gold Ltd
Statement of cash flows (extract)
for the year ended 30 June 2017

Cash flows from operating activities

See next page

Question 20 (continued)

- (b) (i) Explain why the profit after tax is different from the net operating cash flows. (2 marks)

- (ii) Identify and explain **one** item that is dealt with in different ways by the Statement of comprehensive income and the Statement of cash flows for the year ended 30 June 2017. (3 marks)

End of Section Two

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 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)**

AA Pets Pharmaceuticals Australia Ltd (APPA) specialises in developing, manufacturing and marketing innovative health supplements and tonics for the pet industry.

As other leading pharmaceutical companies have started to report voluntarily on their social and environmental performance, APPA's shareholders have been requesting that the company widen its corporate disclosures to include the social and environmental impacts of its operations.

APPA's executive has requested that you provide a written response to each of the following tasks.

- (a) If APPA were to voluntarily embrace corporate social disclosure, identify and explain **two** uses that APPA's shareholders might expect to make from the disclosure. (6 marks)
- (b) Describe **three** financial statements that would form part of APPA's general purpose financial reports for a financial year. (6 marks)
- (c) When APPA reports to external users, *The Framework for the Preparation and Presentation of General Purpose Financial Reports (The Framework)* identifies the qualitative characteristics that are applied to information for it to be considered useful.

Explain how management determines whether to include information in the reports based on the qualitative characteristics of:

- (i) relevance (6 marks)
 - (ii) faithful representation (which has replaced reliability) (6 marks)
 - (iii) timeliness. (2 marks)
- (d) The Australian Securities and Investment Commission (ASIC) has a legislated interest in registered companies. Explain briefly the role of ASIC and its importance to APPA's existing and potential investors. (4 marks)

or

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Question 22

(30 marks)

Toddlersmart Ltd manufactures a range of toys aimed at preschool children. Three years ago it launched a new electronic toy which at that time had no competitors in the market.

To satisfy demand, two years ago the company invested \$5 million in a new automated manufacturing facility. Operating at full capacity, this allowed the company to manufacture 50% more toys, saving 15% in labour costs and 10% in raw materials, due to less wastage.

Unfortunately six months ago a large international toy manufacturer entered the Australian market with a similar electronic toy and, through an aggressive marketing campaign based on price alone, captured a large percentage of the market from Toddlersmart Ltd.

Toddlersmart Ltd's research has determined that customers have based their purchasing decisions primarily on price. Thus, the company has had to lower its selling price so that it can retain a profitable share of the Australian market. The decrease in sales has led to only 55% of the normal capacity of the automated manufacturing facility being utilised.

To assist the internal audit process and the preparation of the company's latest financial reports, the management of Toddlersmart Ltd has asked you to address the issues below.

- (a) In terms of the costs of manufacturing and selling toys by Toddlersmart Ltd, distinguish between:
- (i) fixed and variable costs (4 marks)
 - (ii) product and period costs. (4 marks)
- (b) It has been suggested by some that if sales of this toy continue to decline, the automated manufacturing facility should be closed down. Others however, argue that given the size of the investment it should remain open and operational. Explain why the initial investment of \$5 million can be ignored when future production decisions are made and outline what future production decisions should be based on. (6 marks)
- (c) Explain the difference between cost leadership and differentiation. Provide evidence to identify when Toddlersmart Ltd has employed each of these strategies. (6 marks)
- (d) For many manufacturing businesses non-current assets constitute a significant proportion of total assets. Explain **three** financial principles of asset management as they apply to maintaining appropriate levels of investments in non-current assets. (6 marks)
- (e) The management of the company has recently been in meetings with the internal auditors who have stressed the importance of accounting standards when completing their financial reports. Outline **two** purposes of accounting standards. (4 marks)

End of questions

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