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

ATAR course examination, 2017

ACCOUNTING AND FINANCE

INFORMATION BOOKLET

Ref: 17-002

This contains information from the Question/Answer Booklet. No answers are to be written on this booklet. Do not hand this booklet in with your answers.

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.

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 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.

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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%.

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.

End of booklet

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