



Question/Answer Booklet

# MOUNT LAWLEY SENIOR HIGH SCHOOL ACCOUNTING AND FINANCE

## ATAR

### Unit 3

Student Name: \_\_\_\_\_

School: \_\_\_\_\_

#### Time allowed for this paper

Reading time before commencing work: Ten minutes  
Working time for paper: 3 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

*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 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 exam
Section One: Multiple-choice	15	15	25	15	15
Section Two: Short answer	4	4	120	139	70
Section Three: Extended answer	2	1	35	30	15
					100

**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 for this section is 25 minutes.

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1. To maintain control over the outflow of cash from a business, it is usual to
  - (a) reconcile bank statements with business cash records.
  - (b) perform daily banking and lock cash on premises.
  - (c) budget for cash expenditure and analyse variances.
  - (d) perform all of the above.
2. Period costs include
  - (a) raw materials.
  - (b) factory administration costs.
  - (c) wages paid to sales staff.
  - (d) depreciation of factory plant.
3. Management accounting involves
  - (a) preparing financial statements to assist managers with day-to-day decision making.
  - (b) preparing budgets to assist with planning, co-ordinating and controlling day to day activities.
  - (c) explaining financial reports to ensure information is accurate before they are published.
  - (d) liaising with lending institutions, government authorities and shareholders related to investment decisions.
4. Undercapitalisation of a business can result in
  - (a) ineffective utilisation of funds employed.
  - (b) lower returns to equity holders.
  - (c) liquidity problems to maintain repayments.
  - (d) all of the above.
5. The difference between direct and indirect costs is that
  - (a) direct costs relate to cost objects but indirect costs relate to period costs.
  - (b) indirect costs are overheads whereas direct costs relate to a cost object.
  - (c) direct costs can be traced to a cost object whereas indirect costs can't.
  - (d) there is no difference because they both relate to a cost object.
6. Cost leadership is a strategy
  - (a) to advertise the business prices so customers can make informed decisions.
  - (b) to position a business as being price sensitive rather than different.
  - (c) about differentiating itself from its competitors in the market place.
  - (d) to eliminate waste, improve economies of scale and business competition.

7. The role of financial institutions is to
- (a) provide a range of financial instruments for trade and speculation in a secure environment.
  - (b) provide a range of financial products to facilitate business productivity in a secure environment.
  - (c) regulate the economy with products that assist business to operate in a safe, secure environment.
  - (d) all of the above.
8. A past cost is one that
- (a) cannot be altered and is, therefore, irrelevant to current decision making.
  - (b) has occurred but is useful for future decision making and budgeting.
  - (c) provides information for accurate, future, planning purposes.
  - (d) relates to a future cost which can be depended upon for budgeting.
9. Financial reports are
- (a) internally and externally audited.
  - (b) used for planning and control purposes.
  - (c) used by all stakeholders for planning purposes.
  - (d) provided for external decision makers.
10. The difference between cash and accrual performance is
- (a) the way transactions are recorded and analysed after the budgeting process.
  - (b) that accrual variances do not necessarily represent current period events.
  - (c) that variances are underestimated in accrual accounting.
  - (d) the final result provided during the budgeting and analysis process.
11. The purpose of cash budgeting is to
- (a) summarise and predict future transactions and events.
  - (b) plan, co-ordinate and control future activities.
  - (c) predict liquidity and control expenditure.
  - (d) control future events that impact profit.
12. When a company is insolvent, the order of the distribution of funds is
- (a) shareholders, unsecured creditors, secured creditors, administrator costs.
  - (b) administrator costs, secured creditors, unsecured creditors, shareholders.
  - (c) administrator costs, employee benefits, shareholders, unsecured creditors.
  - (d) secured creditors, administrator costs, employee benefits, shareholders.
13. An example of an ethical issue between the business owner and employees would be
- (a) over complicated product disclosure statements provided with products sold.
  - (b) the lack of disclosure of material information in financial reports.
  - (c) the lack of provision and adherence to work safe policies.
  - (d) unconcerned approaches to COVID19 registration and sign-in protocols.

14. An unsecured note is

- (a) a source of finance that provides interest on investment and principal repayment which is not secured to any business assets.
- (b) an investment opportunity that provides a part share of the business not secured to business assets.
- (c) a part share investment in a business secured to business assets providing dividend returns.
- (d) a source of finance that creates a debt with investors and where the finance is secured to business assets.

15. Debtors Schedules are found in cash budgeting because

- (a) the income earned from debtors needs to be included in the cash budgeting process as part of receipts.
- (b) cash received from credit sales needs to be factored into the calculation of estimated payments.
- (c) costs related to credit sales needs to be determine and entered as part of estimated receipts.
- (d) a working table is needed to calculate the pattern of collections from debtors as a result of credit sales.

**End of Section One**

**Section Two: Short answer****70% (134 Marks)**

This section has **four** 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 the Question/Answer booklet. If you use these pages to continue an answer, indicate at the original answer where the answer is continued, ie, give the page number.

Suggested working time for this section is 120 minutes.

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**Question 16 (43 marks)**

*Independent Screening Pty Ltd* manufactures low cost hospital grade facial masks. The company needs to forecast its liquidity and profitability positions for the next quarter ended 30 September, 2022.

The closing balance of the *Independent Screening Pty Ltd* bank account was \$136,800 on 30<sup>th</sup> June, 2022.

The credit sales information regarding its facial masks are as follows:

	<b>Actual</b>	<b>Predicted</b>
April	\$237,200	
May	\$230,600	
June	\$228,000	
July		\$338,000
August		\$325,000
September		\$329,200

Collections are based on the following pattern: 30% of the credit sales collected in the month after sale, 30% in the second month after sale. The remainder is collected in the third month after sale with the month of July anticipated to lose \$1,200 in uncollectable debts.

All purchases are made on credit terms and are paid for in the month after sale. The mark up on the purchase price of all facial masks is 25%.

At the start of August, old equipment with an historical cost of \$13,000 was sold at a loss of \$2,000. The carrying value of the equipment was \$5,000. New equipment is to be purchased on sale date at \$45,000. Equipment is depreciated at \$8% pa on the straight line method.

Annual insurance on the new equipment will be paid on purchase date at a cost of \$9,600.

Factory rent of \$19,000 is paid quarterly. The last rental payment made at the start of April.

Factory workers' wages are \$95,000 per month with full payment made each month.  
Factory utilities of \$13,000 are paid per month.

NB: Round to the nearest dollar where appropriate.

(a) Prepare a cash budget for each of the three months ending 30 September, 2022. (28 marks)

**Independent Screening Pty Ltd**  
**Cash Budget**  
**for each of the three months ending 30 September, 2022**

This image shows a single sheet of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

### Workings:

**Independent Screening Pty Ltd**  
**Budgeted Income Statement**  
**For the month of August, 2022**

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**Question 17 (32 marks)**

A local artist in the northern suburbs specialises in murals on commercial and industrial buildings. The artist has been commissioned by the City of Joondalup to paint a special mural on three commercial walls located in Joondalup City, which will each represent the unique features of Joondalup's Regional Parks. The artist has estimated the following standard costs for the commissioned artwork:

**Artwork**

Direct materials	\$15,000 for 300 paints in total
Direct labour hours	150 hours for one commercial wall
Overheads	\$5,000 per month
Labour rate per hour	\$90
Overheads allocated by direct labour hours	

Estimated direct labour hours per month 450 hours.

- (a) Calculate the predetermined overhead rate for the artwork. (Round calculations to two decimal places.) (2 marks)

**Workings:**

Predetermined Overhead Rate: \_\_\_\_\_

- (b) Calculate the cost of painting **one** commercial wall. (Round calculations to two decimal places.) (7 marks)

**Workings:**

Cost of painting one wall: \_\_\_\_\_

- (c) Calculate the total cost of the commissioned work. (Round calculations to two decimal places.) (1 mark)

**Workings:**

Cost of complete job: \_\_\_\_\_

- (d) If the artist requires a markup of 150%, calculate the price to be charged to the Joondalup City Council. (Round calculations to two decimal places.) (2 marks)

**Workings:**

Total price to be charged: \_\_\_\_\_

- (e) The actual costs for the commissioned artwork are provided below:

Direct Materials	\$ 9,000 for 120 paints in total
Direct Labour hours	\$90,250 @ \$95.00 per hour

- i) Calculate the direct materials price variance. (Round calculations to two decimal places.) (6 marks)

**Workings:**

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

- ii) Calculate the direct labour price variance. (Round calculations to two decimal places.) (6 marks)

**Workings:**

Direct labour price variance: \_\_\_\_\_

- iii) Calculate the direct labour efficiency variance. (Round calculations to two decimal places.) (5 marks)

**Workings:**

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

(e) Explain the nature of overheads. (3 marks)

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**Question 18 (37 marks)**

The management of *Killing Time Resort* is considering purchasing either hoverboards or E bikes to boost revenue for the resort. Hoverboards are readily available at a cost of \$4,000 each whereas E bikes cost \$3,500 each but are more difficult to secure due to current supply issues. The resort has a limited budget of \$60,000 to purchase either 15 Hoverboards **or** 15 E bikes. Straight-line depreciation will be applied to either item at a rate of 12% pa rounded to the nearest dollar. The cost of capital is set at 8% pa. The management requires a payback period of 3 years and provides the following information:

	<b>Hoverboards</b>	<b>E bikes</b>
Useful life	4 years	3 years
Total Residual value	\$16,000	\$18,000
Total Cash inflows	\$75,000	\$90,000
Total Expenses (including depreciation; all other expenses are cash)	\$27,000	\$36,000

- (a) Calculate the annual depreciation charge for both the Hoverboards and E bikes.

(6 marks)

**Workings:**

Depreciation: Hoverboards \_\_\_\_\_ E bikes \_\_\_\_\_

- (b) Calculate the net cash flows for both the Hoverboards and E bikes. (10 marks)

**Workings:**

Net cash flow for: Hoverboards	Year 1 _____	Year 2 _____
	Year 3 _____	Year 4 _____
E bikes	Year 1 _____	Year 2 _____
	Year 3 _____	

- (c) Calculate the payback periods for both the Hoverboards and E bikes. (8 marks)

**Workings:**

Payback period: Hoverboards \_\_\_\_\_

E bikes \_\_\_\_\_

- (d) Calculate the net present value for both the Hoverboards and E bikes. (10 marks)

**Workings:**

Net Present Value: Hoverboards \_\_\_\_\_

E bikes \_\_\_\_\_

(e) Advise management on the most appropriate purchase – Hoverboards or E bikes - based on the information provided, and calculations made in parts (c) and (d). (3 marks)

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**Question 19 (27 marks)**

*Dinkum Pets* breed popular small dogs and specialise in Pomeranians, Shih Tzus and Pugs. The popularity of small dogs has increased markedly over the past two years with demand outstripping available supply. Information about these breeds is summarised below:

	<b>Pomeranian</b>	<b>Shih Tzu</b>	<b>Pug</b>
Selling price per pup	\$7,000	\$3,500	\$6,000
Contribution margin per pup	\$3,900	\$2,200	\$2,100
Monthly sales volume	40	50	20
Fixed expenses per month	\$230,000		

- (a) Calculate the sales mix. (Round calculations to one decimal point.) (4 marks)

**Workings:**

Sales mix: Pomeranian \_\_\_\_\_  
 Shih Tzu \_\_\_\_\_  
 Pug \_\_\_\_\_

- (b) Calculate the weighted average contribution margin. (Round calculations to one decimal point.) (4 marks)

**Workings:**

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

- (c) Calculate Dinkum Pets' monthly breakeven point in units. (Round to a whole number.) (2 marks)

**Workings:**

Monthly breakeven units: \_\_\_\_\_



- (d) Calculate the breakeven units for each of the three dog breeds. (Round to whole numbers.)  
(3 marks)

**Workings:**

Breakeven:      Pomeranian \_\_\_\_\_  
                      Shih Tzu      \_\_\_\_\_  
                      Pug              \_\_\_\_\_

- (e) Calculate the monthly profit. (4 marks)

**Workings:**

Monthly profit: \_\_\_\_\_

- (f) Calculate the margin of safety. (7 marks)

**Workings:**

Margin of safety: \_\_\_\_\_

- (g) *Dinkum Pets* have recently experienced difficulties with breeding Pug pups due to a genetic defect with the current adults. Consequently, the cost of breeding a successful Pug pup is lowering the contribution margin even though there are increasing orders for this breed. The owners of the business are considering removing the breeding of Pug pups to make way for breeding Jack Russell Terriers. A Jack Russell can be sold for \$2,500, with a contribution margin of approximately \$980 and estimated sales of 80 pups per month.

Explain whether *Dinkum Pets* should continue breeding Pug pups.

(3 marks)

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**End of Section Two**

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

This section contains **two** questions. You must answer **one** question. Write your answer in the space provided.

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

Suggested working time for this section is 35 minutes.

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**Question 20 (30 marks)**

*Supa Juices Ltd* is a local fresh juicing company and pride themselves on being a fully sustainable business. Most of their packaging has been plastic bottles but they have now researched and developed a fully bio-degradable packaging solution for their juices. The packaging completely dissolves into safe composting material that can be used for gardens, without compromising on the storage quality of the juices.

The initiative requires funding and will cost approximately \$1.2 million dollars to upgrade the company's systems to implement. The City Council in which the business operates is requiring all businesses to meet stringent new environmental and sustainability regulations to reduce industrial and residential waste in landfill caused, in part, by packaging not suitable for recycling.

- (a) Suggest one suitable long-term source of finance for *Supa Juices Ltd* and describe the short-term and long-term management of this finance. (5 marks)
- (b) Describe the nature and importance of capital investment. (4 marks)
- (c) Explain the importance of the following two factors for *Supa Juices Ltd* in their capital investment decision of introducing a new packaging solution: (6 marks)
- competition
  - government regulation
- (d) Discuss the costs and potential income associated with engaging in environmentally responsible practices for *Supa Juices Ltd*. (8 marks)
- (e) If it were discovered that the \$1.2 million raised was misappropriated by the directors and, as a result, plunged the company into insolvency, describe voluntary administration as a course of action and explain two possible consequences for the directors. (7 marks)

**OR**

**Question 21 (30 marks)**

*Sandy Feet Winery Estate* was recently taken over by new owners with a new direction and vision for the estate. Some operations will continue, such as the wine production, but new initiatives will be introduced to attract new markets and inject renewed vitality into the region. The estate trades under the name *Sandy Feet Winery Estate Pty Ltd* with three new directors managing the estate.

- (a) Describe three distinguishing characteristics of management accounting and financial accounting. (6 marks)
- (b) Discuss the nature and importance of a master budget for the new directors of *Sandy Feet Winery Estate*. (8 marks)
- (c) The directors wish to invest in a project that involves a series of five annual outdoor concerts with food and wine tastings in the autumn of each year. It is hoped that it will bring locals and visitors to the region to enjoy the surrounds of the estate. Explain the concept of 'time value of money' in relation to this investment project and the following two factors that would affect such a capital investment decision:
- consumer preferences
  - competition
- (9 marks)
- (d) In order to track the progress of *Sandy Feet Winery Estate*, performance reports are essential. Describe the function of a Cash Budget Performance Report and the function of an Income Statement Performance Report for the directors of the estate. (4 marks)
- (e) Explain how an internal audit can detect errors and deficiencies in an internal control system. (3 marks)

**End of questions**

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Supplementary page

Question number \_\_\_\_\_

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