

**Willetton Senior High School**

**2020 Semester Two Examination**

**Question/Answer Booklet**

**ACCOUNTING AND FINANCE**

**Year 11 ATAR**

**Unit 1 and 2**

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

Teacher: Bridger / Eksteen

# *TIME ALLOWED FOR THIS PAPER*

## Reading time before commencing work: Ten minutes

Working time for the paper: Three hours

# *MATERIALS REQUIRED/RECOMMENDED FOR THIS PAPER*

**To be provided by the supervisor:**

* This Question/Answer Booklet
* Answer Booklet
* Multiple Choice Answer Sheet
* Specifications Sheet

**To be provided by the candidate:**

* Standard items: pens, pencils, eraser or correction fluid, ruler, highlighter, ruler.
* Special items: Calculators satisfying the conditions set by the School Curriculum and Standards Authority for this course and the booklet of notes provided on the School Curriculum and Standards Authority website.

# *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 | 20 | / 15 | / 15 |
| Section Two:  Short Answer | 4 | 4 | 125 | /140 | / 70 |
| Section Three:  Extended Answer | 2 | 1 | 35 | / 30 | / 15 |
|  |  |  |  | **Total** | /100 |

Instructions to candidates

1. The rules for the conduct of Western Australian external examinations are detailed in the *Year 12 Information Handbook 2020*. Sitting this examination implies that you agree to abide by these rules.

2. 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 (do not erase or use correction fluid) and shade your new answer. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is selected for any question.

Sections two and three:

Write all 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.

3. 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.

4. Spare pages are included within and 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(s) that you are continuing to answer at the top of the 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 and 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: 20 minutes**

1. Frank Furter and Hans Burger have incorporated their fast foods business as FurtzBurger Pty Ltd. Their annual turnover in 2019 was $98,000. Which of the following Acts can this business ignore?
2. Corporations Act 2001
3. GST Act 1999
4. Partnership Act 1895
5. Business Names Registration Act 2011

2. Which of the following statements is correct?

1. Bankruptcy laws apply to all forms of business ownership, sole traders, partnerships, and proprietary companies
2. The monetary concept says accountants would report assets of a business using their liquidation values
3. The accounting equation can be expressed as assets = liabilities - equity
4. Mutual agency only applies in the partnership form of business

3. The Accounting Concept that allows small assets of a similar class to be grouped

together and reported as one figure, provided it does not adversely affect decision

making is:

a) Accounting entity

b) Materiality

c) Monetary

d) Going concern

4.If total liabilities increased by $25,000 and equity increased by $5,000

during a period of time, then total assets must change by what amount and direction

during that same period?

a) $20,000 decrease

b) $20,000 increase

c) $25,000 increase

d) $30,000 increase

5. If a company has overdrawn its bank account then

a) its cash at bank account will show a debit balance

b) its cash at bank account will show a credit balance

c) the cash at bank account debits will exceed the cash at bank account credits

d) it cannot be detected by observing the balance of the cash at bank account

6. Good internal control over accounts receivable requires:

a) a stocktake to be taken of inventory to determine theft

b) spot checks to be made of the location of major non-current assets

c) monitoring of credit customers by using an aged analysis of debtors

d) banking of cash received intact daily

7. The current, quick asset and debt to equity ratios are indicators of:

a) the profitability of a business

b) the liquidity and profitability of a business

c) the gearing of a business

d) both short-term and long-term financial stability of a business

8. Which of the following would not appear in the current liabilities section of a business

balance sheet?

a) GST-payable

b) Income in advance

c) Interest receivable

d) Accrued expenses

9. Which of the following statements best describes GST- free supplies?

a) goods and services that are exempted under the GST-Act 1999 or are input taxed supplies such as residential rent.

b) goods and services exempted under the GST- Act 1999

c) all processed and fresh foods

d) services provided by charities and religious groups

10. The balance in the Accumulated Depreciation account represents the

a) cash fund to be used to replace plant assets.

b) amount to be deducted from the cost of the plant asset to arrive at its fair

market value.

c) amount charged to expense in the current period.

d) total amount charged to expense since the acquisition of the plant asset.

11. Which of the following is not a costing inventory method?

a) First-in, first-out

b) Perpetual

c) Last-in, first-out

d) Average cost

12. Which of the following would **not** be classified in the Income Statement as a Selling

and Distribution expense?

a) Depreciation of Manager’s car

b) Depreciation of Delivery Truck

c) Doubtful Debts

d) Advertising

13. On 1 July the Winter Shoe Store paid $6,000 to Ace Realty for 6 months rent beginning

1 July. Prepaid Rent was debited for the full amount. If financial statements are prepared

on 31 July, the adjusting entry to be made by the Winter Shoe Store is

a) Debit Rent Expense, $6,000; Credit Prepaid Rent, $1,000

b) Debit Prepaid Rent, $1,000; Credit Rent Expense, $1,000

c) Debit Rent Expense, $1,000; Credit Prepaid Rent, $1,000

d) Debit Rent Expense, $6,000; Credit Prepaid Rent, $6,000

14. Which one of the following statements is true?

a) The expanded Accounting equation can be expressed as

Assets + Expenses = Equity + Income + Drawings

b) Gearing can be an indicator that a business has too much debt

c) The reducing balance method of depreciating an asset is better than the straight-line method

d) Accounting is one of the rare professions where the members do not need to follow a code of conduct

15. Failure to prepare an adjusting entry at the end of a period to record an accrued

revenue would cause

a) net profit to be overstated

b) an understatement of assets and an understatement of revenues

c) an understatement of revenues and an understatement of liabilities

d) an understatement of revenues and an overstatement of liabilities

**SECTION TWO: Short Answer 70% (140 marks)**

This section has **four (4)** questions. Attempt **all** questions. Write your answers in the space 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 answer pages are provided 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(s) that you are continuing to answer at the top of the page.

**Suggested working time: 125 minutes**

**Question 16 42 marks**

Briscola Traders began business on the 1st January 2020 as an importer of Italian quality furniture products. In order to do this, the owner Tony Carico invested $240,000 of his own cash and borrowed $460,000 from the Grand Bank. Tony owns an old warehouse and land in Spearwood which will be used in the new business. It will be brought into the books at a fair value of $520,000.

(a) Prepare the opening general journal entry required to set up Briscola Traders books on

the 1st January 2020. (6 marks)

**GENERAL JOURNAL**

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(b) Tony is unsure about the use of electronic business systems and is seeking your

advice on the nature and benefits of these systems:

For each of the following, explain how it works and give one benefit to both the

business and its customers.

* EFTPOS
* Credit cards
* Electronic bill payments
* Direct debits (12 marks)

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(c) The business has been trading for the past five months and to date the transactions

have been successfully recorded by the business bookkeeper. Briscola Traders **is**

registered for GST. As end of financial year is fast approaching, Tony has called you in

to check some of the bookkeeper’s entries. Upon examining the accounts you discover

a number of omissions.

**General Ledger Account Balances (extract)**

as at 30th June 2020.

|  |  |  |
| --- | --- | --- |
|  | **Debit**  **$** | **Credit**  **$** |
| Cash at Bank |  | 4,230 |
| Accounts Receivable | 12,435 |  |
| Accounts Payable |  | 25,432 |
| Inventory | 125,400 |  |
| Office furniture & fittings | 5,430 |  |
| Sales |  | 435,300 |
| Sales Returns & Allowances | 23,480 |  |
| GST- credits /paid | 17,400 |  |
| GST – payable /collections |  | 43,530 |

The following transactions have **not** been recorded.

All figures shown are GST- exclusive.

June 24 There was a credit sale of $24,800 with cost of the goods sold of $9,920

26 A credit customer returned a furniture piece of $8,500 as it was damaged. The

cost price of the furniture returned was $3,400.

28 The purchase of an office desk for $700 was incorrectly recorded by the

bookkeeper as inventory. The office desk is being used in the manager’s office.

30 Received the amount owing from June 24th credit sale less a 3% discount for

prompt payment.

**Required:**

Prepare the following accounts including the above omitted transactions on the 30th June 2020. Rebalance the accounts to show the corrected balances.

* Accounts Receivable
* Sales
* Inventory
* Cash at Bank
* GST – payable/collections (24 marks)

**Accounts Receivable**

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**Sales**

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| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
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**Inventory**

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**Cash at Bank**

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**GST- payable/collections**

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**Question 17 43 marks**

Dinari Tours operates a bus tour business in the south west of the state. It is the end of financial year 2020, and the bookkeeper has passed on the following information. Tours booked directly through Dinari Tours, are paid for in advance by the tourists. Dinari tours also receives bookings made through major hotels, and these are paid for after the tours run.

**Dinari Tours**

**Unadjusted Trial Balance**

As at 30th June 2020

|  |  |  |
| --- | --- | --- |
|  | **Debit**  **$** | **Credit**  **$** |
| Cash at Bank | 41,981 |  |
| Accounts Receivable | 62,140 |  |
| Allowance for Doubtful Debts |  | 3,150 |
| Accounts Payable |  | 12,431 |
| Goodwill | 266,000 |  |
| Motor Vehicles | 240,000 |  |
| Accumulated Depreciation – Motor Vehicles |  | 130,500 |
| Tour Fees Revenue |  | 634,960 |
| Wages & Salaries | 234,650 |  |
| Advertising | 43,260 |  |
| Capital – Carlo Dinari |  | 150,000 |
| Drawings – Dinari | 35,620 |  |
| Bad Debts | 3,980 |  |
| Tour Fees Revenue in Advance |  | 32,450 |
| Office Expenses | 35,860 |  |
|  | **963,491** | **963,491** |

**Additional Information**

* During the month of June, Dinari tours had completed two tours earning $15,000 each from a group of Japanese tourists who had paid their fees in advance.
* Adjust the allowance for doubtful debts to 5% of accounts receivable.
* Accrued expenses include $8,250 wages and salaries and $430 office expenses
* Motor vehicles are depreciated at 20% per annum reducing balance method.

**Required:**

(a) Prepare the adjusting **general journal** entries required for the above on the 30th June

2020. (15 marks)

(b) Prepare the closing **general journal** entries required to finalise the accounts on the

30th June 2020. (13 marks)

Use suitable narrations for all the above journal entries

**Space for Workings**

**GENERAL JOURNAL**

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(c)Prepare ONLY the current assets, the non-current assets and current liabilities section(s) of the Statement of Financial Position (Balance Sheet) as at 30th June 2020.

(12 marks)

**Dinari Tours**

**Balance Sheet (extract)**

**as at 30th June 2020**

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(d) Clearly explain the effects of not carrying out the adjusting entry for accrued expenses

on the income statement and balance sheet of Dinari Tours. (3 marks)

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**Question 18 25 marks**

Pasta Bella Pty Ltd is a pasta manufacturer located in the eastern states of Australia. The company is going through the process of overhauling its plant and equipment. Below is a summary from the plant & equipment non-current asset registers.

**Plant & Equipment as at 30 June 2019**

|  |  |  |  |
| --- | --- | --- | --- |
| **Equipment item** | **Cost** | **Repairs & Maintenance** | **Accumulated**  **Depreciation** |
| 101 A Piacenti Dough Mixer | $19,850 | $4,320 | $11,640 |
| 21C San Remo Pasta Cutter | $42,000 | $6,430 | $21,571 |
| 43 D Nanda Ravioli Filla | $23,430 | $ 980 | $ 13,420 |
| 569 WestingHouse Industrial Ovens | $54,320 | $1,840 | $ 26,425 |

On the 31st October 2019, Pasta Bella Pty Ltd decided to replace its 21C San Remo Pasta Cutter with the 21D San Remo Pasta Cutter costing $50,000. This was done by trading in the 21C for the 21D. Pasta Bella Pty Ltd received a $17,200 trade-in allowance and the balance was paid for in cash to San Remo Ltd.

**21C San Remo Pasta Cutter**

Date of purchase 1st April 2016

Depreciation method: Reducing Balance at 20% per annum

Note: Pasta Bella Pty Ltd depreciates all its plant and equipment using the reducing balance method at a rate of 20% per annum. Ignore GST for this question.

**Required:**

1. Calculate the depreciation expense on the San Remo Pasta Cutter 21C for each year from date of purchase to date of disposal. (show all workings and round your figures to the nearest whole dollar. (7 marks)

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1. Prepare the following ledger accounts from the 1st July 2019 to the date of disposal on the 31st October 2019.

* Plant & Equipment
* Accumulated Depreciation Plant & Equipment
* Sale of Asset

(16 marks)

**Plant & Equipment**

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| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
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**Accumulated Depreciation – Plant & Equipment**

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| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
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**Sale of Asset**

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1. Explain whether the San Remo Pasta Cutter 21C was over or under depreciated. Give a reason for your answer. (2 marks)

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**Question 19 30 marks**

Cory Traders is a local business selling furniture to the general public. On the 30th June 2020, the owner Cory admitted he allowed his grandson who was studying Year 10 Accounting to prepare his reports. The following Income Statement, is the grandson’s first attempt. On initial inspection, Cory is concerned about the large loss and believes some major errors in both the format and content of this report may have been made.

Cory has reproduced the **Incorrect** report below.

**Cory Traders**

**Income Statement**

**As at 30th June 2020.**

|  |  |  |
| --- | --- | --- |
| **Income** | **$** | **$** |
| Sales |  | 984,000 |
| Unearned Revenue |  | 4,000 |
| Rent Revenue |  | 22,000 |
| Discount Allowed |  | 2,900 |
| Freight Outwards |  | 1,980 |
| Loan – BAN Bank |  | 50,000 |
| Bank Overdraft |  | 3,950 |
| **Expenses** |  |  |
| Cost of Sales | 329,500 |  |
| Office Salaries | 25,300 |  |
| Freight Inwards expense | 4,210 |  |
| Depreciation of Delivery Vehicle | 6,200 |  |
| Discount Received | 3,432 |  |
| Sales Returns & Allowances | 2,460 |  |
| Salesperson’s Salaries | 45,000 |  |
| Salesperson’s Commission | 12,200 |  |
| Depreciation of Office Equipment | 4,150 |  |
| Interest on BAN Bank Loan | 4,000 |  |
| Prepaid Advertising | 12,240 |  |
| Prepaid Insurance | 12,000 |  |
| Land | 640,000 |  |
| Interest Income | 4,950 |  |
| Doubtful Debts | 3,970 |  |
| Interest on Overdraft | 846 |  |
| Accounts Receivable | 25,450 | 1,131,908 |
| *Loss* |  | (63,078) |

**Additional Information**

The following adjustments had not been carried out when the above Income Statement was prepared.

* + The unearned income relates to Rent Revenue collected from tenants during the month of June. On the 30th of June, $2,000 of the Income received in advance remains unearned.
  + $12,000 of the prepaid advertising has expired during the accounting period.
  + Office salaries owing but not yet paid amounted to $790.
  + The annual insurance was prepaid on the 1st of April 2020. There was no prepaid insurance prior to the 1st of April.
  + Interest charged by the BAN Bank is 9% per annum. On the 30th June some interest remains accrued. The loan had been taken out before 1st July 2019.
  + Interest earned from deposits but not yet received amounted to $50.

**Required:**

(a) Prepare a new **fully classified** Income Statement after correcting all errors and after

taking into account the above adjustments. (30 marks)

**Workings:**

**Cory Traders**

**Income Statement**

**for year ended 30th June 2020**

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# SECTION THREE: Extended Answer 15% (30 marks)

This section has **two (2)** questions based on stimulus material common to both Questions 20 and 21. You must answer **one (1)** question. Write your answers in the separate Answer Booklet.

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

Suggested working time: 35 minutes

**Stimulus material for Questions 20 and 21**

Read the following material about the ‘Special Brew Café’ for the year ending 30 June 2020 before selecting the question you will answer.

The ‘Special Brew Café’ has been operating as a sole trader for the past five years and the proprietor Steve Brew believes it is time to expand. The business sells a unique blend of coffee sourced from a supplier located in Brazil. Steve has investigated three possible options and believes either starting a partnership or a small proprietary company are two possibilities. A third option is to finance the expansion using sources of finance other than equity. This would involve continuing operations as a sole trader and having managers for the other stores.

The business currently has one coffee shop located in the Fremantle area and Steve wishes to open a second store in the Perth central business district. From the advice of a business broker, Steve has estimated the set-up costs of the Perth café to be $1,800,000.

Below are summarised financial statements for the past two years prepared by the bookkeeper.

**‘Special Brew Café’**

**Income Statements (summarised)**

|  |  |  |
| --- | --- | --- |
|  | **For year ended 30 June**  **2019**  **$** | **For year ended**  **30 June**  **2020**  **$** |
| Sales Revenue (net) | 480,450 | 640,000 |
| Total cost of sales | (225,812) | (300,800) |
| Other operating expenses | (210,480) | (180,160) |
| Profit | 44,158 | 159,040 |

**‘Special Brew Café’**

**Balance Sheets**

|  |  |  |
| --- | --- | --- |
|  | **as at 30 June**  **2019**  **$** | **as at 30 June**  **2020**  **$** |
| **Current assets** |  |  |
| Cash | 0 | 74,500 |
| Inventory | 94,150 | 100,420 |
| **Non-current assets** |  |  |
| Property, plant and equipment | 950,000 | 900,000 |
| **Total Assets** | **1,044,150** | **1,074,920** |
| **Current liabilities** |  |  |
| Bank Overdraft | 7,432 | 0 |
| Accounts Payable | 12,400 | 23,320 |
| GST-Payable | 3,180 | 4,240 |
| **Non-current liabilities** |  |  |
| Loan – BNZ Bank | 650,000 | 650,000 |
| **Total Liabilities** | **673,012** | **677,560** |
| **Net Assets** | **371,138** | **397,360** |

The loan from BNZ-Bank was taken out as an interest only loan and the loan documents were signed on the 1st January 2018 when the loan funds were transferred to the business bank account. The loan principal of $650,000 is due to be repaid, in full, on the 1st January 2022.

**Question 20 (30 marks)**

Steve Brew has asked your advice on certain Accounting and Finance issues pertaining to his business and proposals. You are to prepare a response for the issues listed below.

(a) In order to expand, Steve was considering forming either a partnership or a small

proprietary company as one option. Contrast these two forms of business ownership

from the following perspectives.

* number of owners
* liability of owners
* distribution of profits
* ability to raise capital or borrow funds
* transfer of ownership (12 marks)

(b) A third option Steve was considering was to borrow the funds for expansion from a

financial institution. Discuss four (4) risk factors that are considered by financial

institutions when approving finance. (8 marks)

(c) Steve has approached Expanda Finance Co Ltd and is hopeful of securing the

$1,800,000 loan needed to open the new store in Perth. In order to do this, Expanda

Finance wish to evaluate the current gearing/leverage position of the business.

Expanda considers any business with debt more than1.5 times equity to be too high a

risk.

(i) Calculate the ratio required to evaluate the gearing of Special Brew Café’ for 2019

and 2020. (5 marks)

(ii) Comment on the change in this ratio and the likelihood of Special Brew Café being

successful in this loan application. (5 marks)

**OR**

**Question 21 (30 marks)**

Steve Brew has asked your advice on certain Accounting and Finance issues pertaining to his business and proposals. You are to prepare a response for the issues listed below.

(a) Steve is trying to attract equity partners into the business and has asked you to

evaluate the profitability of the Special Brew Café.

1. Calculate the profit ratio for both 2019 and 2020.

(2 marks)

(ii) Comment on the trend revealed by the above ratio and the main reason for this

trend. (2 marks)

(iii) Calculate the rate of return on assets for 2020. Explain what this ratio tells us

about the profitability of the Special Brew Café. Comment on how this compares to

the industry average return on assets of 10%? (6 marks)

(b) In investigating the Brazilian supplier of coffee, Steve discovers that the company

employs child labour to harvest the coffee beans. Discuss two possible negative

impacts this may have on the Special Brew Café and what the business could do to

behave in an ethically responsible manner. What difficulties could Steve face in trying

to resolve this issue? (4 marks)

(c) Professional Accountants are obliged to behave in an ethical manner. Explain the

nature and purpose of professional codes of conduct for members of professional

associations. (4 marks)

(d) It is important for the management of Brew Café to have good internal control over its

main assets. Discuss four principles of internal control and how they are applied in

the control of cash. (12 marks)

Extra workspace: