**WSHS ACCOUNTING AND FINANCE**

**Units 1 and 2**

**2020**

**MARKING GUIDE**

Multiple choice answers;

|  |  |
| --- | --- |
| 1 | C |
| 2 | D |
| 3 | B |
| 4 | D |
| 5 | B |
| 6 | C |
| 7 | D |
| 8 | C |
| 9 | A |
| 10 | D |
| 11 | B |
| 12 | A |
| 13 | C |
| 14 | B |
| 15 | B |

**Question 16 42 marks**

(a)

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|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **DEBIT** | **CREDIT** |  |
| Jan 1 | Cash at Bank | 700,000 |  | (2) |
|  | Land & Buildings | 520,000 |  | (1) |
|  | Loan from Grand Bank |  | 460,000 | (1) |
|  | Capital – Tony Carico |  | 760,000 | (1) |
|  | *Entry to commence business* |  |  |  |
|  | ------------------------------------------------------------ |  | *Narration & Date* | (1) |
|  |  |  |  |  |

**(6 marks)**

(b)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **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** |  |
| **EFTPOS**   * Electronic Funds Transfer at Point of Sale – system where the business arranges with their bank to be linked electronically so the customer can pay by presenting either a debit or credit card.   Benefit to customer: - convenience of not having to carry cash  Benefit to business – reduced costs of cash handling and control   * Credit card – a system of payment where funds are transferred to the business via the card company and cardholder pays provider at a future date.   Benefit to customer – easy form of credit and convenience  Benefit to business – no need to conduct credit checks on customers   * Electronic bill payments – using netbank facilities to make payments rather than using cheques or cash.   Benefit to customers – ease of payment over the internet without having to shop in-store  Benefit to business – no need to use cheques which can take time to clear   * Direct debits – an arrangement made with the bank where regular payments are transferred electronically at the same time every period.   Benefit to customers – set regular payments not forgotten once set up  Benefit to business – less clerical costs as regular payments such as rent and wages are transfeered automatically at set times.  Note Accept other logical benefits by students. | 4 x  3 marks ea |
|  | **12** |

**(12 marks)**

(c)

**Accounts Receivable** (8 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
| 30/6 | Balance b/d (1) | 12,435 | 30/6 | Sales Returns & All/GST Payable Collections  (1) | 9,350 |
|  | Sales/GST Payable Collections (1) | 27,280 |  | Cash at Bank  Discount Allowed | (2)#117,392.10  (1) \* 489 |
|  |  |  |  | GST – Payable/Collections | (1)\* 48.90 |
|  |  |  |  | Balance c/d (1) | 12,435 |
|  |  | **39,715** |  |  | **39,715** |
|  | Balance b/d | 12,435 |  |  |  |

**Sales** (3 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
|  |  |  | 30/6 | Balance b/d (1) | 435,300 |
|  | Balance c/d (1) | 460,100 |  | Accounts Receivable(1) | 24,800 |
|  |  | **460,100** |  |  | **460,100** |
|  |  |  |  | Balance b/d | 460,100 |
|  |  |  |  |  |  |

**Inventory** (5 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
| 30/6 | Balance b/d (1) | 125,400 | 30/6 | Cost of Sales (1) | 9,920 |
|  | Cost of Sales (1) | 3,400 |  | Office furniture & Fitt(1) | 700 |
|  |  |  |  | Balance c/d (1) | 118,180 |
|  |  | **128,800** |  |  | **128,800** |
|  | Balance b/d | 118,180 |  |  |  |

**Cash at Bank** (3 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
| 30/6 | Accounts Receivable  (1) | 17,392.10 | 30/6 | Balance b/d (1) | 4,230 |
|  |  |  |  | Balance c/d (1) | 13,162.10 |
|  |  | **17,392.10** |  |  | **17,392.10** |
|  | Balance b/d | 13,162.10 |  |  |  |
|  |  |  |  |  |  |

**GST- payable/collections** (5 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
| 30/6 | Accounts Receivable | 1. 850 | 30/6 | Balance b/d (1) | 43,530 |
|  | Accounts Receivable  (1) | 48.90 |  | Accounts Receivable(1) | 2,480 |
|  | Balance c/d (1) | 45,111.10 |  |  |  |
|  |  | **46,010** |  |  | **46,010** |
|  |  |  |  | Balance b/d | 45,111.10 |

**Workings**

|  |  |
| --- | --- |
|  |  |
| Amount sold | 27,280 |
| Less sales returns | (9,350) |
| Amount owing | 1. #1 17,930 |
| Discount Allowed (17,930 x 0.03) = 537.90 **(1) \*** | (489) |
| GST-payable 537.90 = $48.90 **(1)\*** | (48.90) |
| 11 |  |
| Cash Received (1)#1 | (17,392.10) |
|  |  |

**(24 marks)**

**Alternative Solution**

**Accounts Receivable** (8 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
| 30/6 | Balance b/d (1) | 12,435 | 30/6 | Sales Returns & All/GST Payable Collections  (1) | 9,350 |
|  | Sales/GST Payable Collections (1) | 27,280 |  | Cash at Bank  Discount Allowed | (2)#126,462  (2) 818 |
|  |  |  |  |  |  |
|  |  |  |  | Balance c/d (1) | 3,085 |
|  |  | **39,715** |  |  | **39,715** |
|  | Balance b/d | 3,085 |  |  |  |

**Sales** (3 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
|  |  |  | 30/6 | Balance b/d (1) | 435,300 |
|  |  |  |  | Accounts Receivable(1) | 24,800 |
|  |  |  |  |  | **460,100** |
|  |  |  |  | Balance b/d (1) | 460,100 |
|  |  |  |  |  |  |

**Inventory** (5 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
| 30/6 | Balance b/d (1) | 125,400 | 30/6 | Cost of Sales (1) | 9,920 |
|  | Cost of Sales (1) | 3,400 |  | Office furniture & Fitt(1) | 700 |
|  |  |  |  | Balance c/d (1) | 118,180 |
|  |  | **128,800** |  |  | **128,800** |
|  | Balance b/d | 118,180 |  |  |  |

**Cash at Bank** (3 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
| 30/6 | Accounts Receivable  (1) | 26,462 | 30/6 | Balance b/d (1) | 4,230 |
|  |  |  |  | Balance c/d (1) | 22,232 |
|  |  | **26462** |  |  | **26462** |
|  | Balance b/d | 22,232 |  |  |  |
|  |  |  |  |  |  |

**GST- payable/collections** (5 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
| 30/6 | Sales Returns | 1. 850 | 30/6 | Balance b/d (1) | 43,530 |
|  | Discount Allowed  (1) | 74 |  | Accounts Receivable(1) | 2,480 |
|  | Balance c/d (1) | 45,085 |  |  |  |
|  |  | **46,010** |  |  | **46,010** |
|  |  |  |  | Balance b/d | 45,085 |

**Question 17 44 marks**

**Workings**

Tour Fees in Advance $32,450 - $30,000 = $2,450 (1)

Tour Fees Revenue $634,960 + $30,000 = $664,960 (1)

Allowance for Doubtful Debts ($62,140 x 0.05) = $3,107 (1)

Doubtful Debts = $3,107 - ( 3,150 - 3,980) = $3,937 (3) \*

Wages & Salaries Expense $234,650 + $8,250 = $242,900 (1)

Office Expense $35,860+ $430 = $36,290 (1)

Depreciation of Motor Vehicles = ($240,000 - $130,500) x 0.20 = $21,900 (2) \*\*

Accumulated Depreciation MV 130,500 + 21,900 = $152,400 (1)\*

Profit = $664,960 – 348287 = $316,673 (1)\*

(a)

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|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **DEBIT** | **CREDIT** |  |
| 2020 | Tour Fees in Advance | 30,000 |  | (1) |
| June 30 | Tour Fees Revenue |  | 30,000 | (1) |
|  | *Adjusting entry for tour revenue earned* |  |  |  |
|  | ------------------------------------------------------ |  |  |  |
|  | Allowance for Doubtful Debts | 3,980 |  | (1) |
|  | Bad Debts |  | 3,980 | (1) |
|  | *entry to offset bad debts against allowance* |  |  |  |
|  | ------------------------------------------------------ |  |  |  |
|  | Doubtful Debts | 3,937 |  | (1) |
|  | Allowance for Doubtful Debts |  | 3,937 | (3)\* |
|  | *entry to adjust the allowance for doubtful debts* |  |  |  |
|  | ------------------------------------------------------ |  |  |  |
|  | Wages & Salaries Expense | 8,250 |  | (1) |
|  | Office Expenses | 430 |  | (1) |
|  | Accrued Expenses |  | 8,680 | (2) |
|  | *Adjusting entry to allow for expenses owing but* |  |  |  |
|  | *not yet paid* |  |  |  |
|  | ------------------------------------------------------- |  |  |  |
|  | Depreciation of Motor Vehicles | 21,900 |  | (1) |
|  | Accumulated Depreciation – Motor Vehicles |  | 21,900 | (2)\*\* |
|  | *Entry to allow for depreciation of motor vehicles* |  |  |  |
|  | ---------------------------------------- |  |  |  |
|  |  |  | narrations | (1) |

**(16 marks)**

(b)

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|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **DETAILS** | **DEBIT** | **CREDIT** |
|  | Tour Fees Revenue (1) | 664,960 |  |
|  | Profit & Loss |  | 664,960 (1)\* |
|  | *entry to close revenue accounts to P & L* |  |  |
|  | ----------------------------------------------------------- |  |  |
|  | Profit & Loss (1) | 348,287 |  |
|  | Wages & Salaries (1) |  | 242,900 (1)\* |
|  | Advertising (1) |  | 43,260 |
|  | Office Expenses (1) |  | 36,290 (1)\* |
|  | Doubtful Debts (1) |  | 3,937 |
|  | Depreciation of Motor Vehicles (1) |  | 21,900 |
|  | *entry to close expense accounts to P & L* |  |  |
|  | ----------------------------------------------------------- |  |  |
|  | Profit & Loss | 316,673 |  |
|  | Capital – Dinari (1) |  | 316,673 (1)\* |
|  | *entry to transfer profit to the capital account* |  |  |
|  | ----------------------------------------------------------- |  |  |
|  | Capital – Dinari | 35,620 |  |
|  | Drawings – Dinari (1) |  | 35,620 |
|  | *entry to transfer drawings to the capital account* |  |  |
|  | ---------------------------------------------------------- |  |  |
|  | Narrations (1) |  |  |

**(14 marks)**

**Dinari Tours**

**Balance Sheet (extract)**

**as at 30th June 2020**

|  |  |  |  |
| --- | --- | --- | --- |
|  | $ | $ |  |
| **Current Assets** |  |  |  |
| Cash at Bank |  | 41,981 | (1) |
| Accounts Receivable  Less Allowance for Doubtful Debts | 62,140 |  | (1) |
| (3,107) | 59,033 | (2) |
| **Total Current Assets** |  | **101,014** | (1) |
| **Non current Assets** |  |  |  |
| Goodwill |  | 266,000 | (1) |
| Motor Vehicles | 240,000 |  | (1) |
| Accumulated Depreciation – Motor Vehicles | (152,400) | 87,600 | (1) |
| **Total Non Current Assets** |  | **353,600** | (1) |
| **Current Liabilities** |  |  |  |
| Accounts Payable |  | 12,431 | (1) |
| Accrued Expenses |  | 8,680 | (2) |
| Tour Fees in Advance / Unearned Revenue |  | 2,450 | (2) |
| **Total Current Liabilities** |  | **23,561** | (1) |

1. **marks)**

d)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Clearly explain the effects of not carrying out the adjusting entry for accrued expenses on the income statement and balance sheet of Dinari Tours.** |  |
| * The expenses in the income statement would be understated meaning the profit would be overstated. * The liabilities in the balance sheet would also be understated | (2)  (1) |
| **total** | **3** |

**(3 marks)**

d)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Using the *Conceptual* *Framework definition,* explain whether the drawings by Carlo Dinari of $35,620 should be treated as an expense.** |  |
| * The Conceptual Framework defines expenses as decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims. * In the above example, there is a decrease in cash and the $35,620 was not used to repay a business liability so therefore equity also decreases * However, being the owner, Carlo holds an equity claim on the assets and this $35,620 is a distribution to him and therefore excluded under the definition. | (2)    (2)  (2) |
| **total** | **6** |

**(6 marks)**

**Question 18 25 marks**

1. Depreciation workings

1/4/16 – 30/6/16 $42,000 x 0.2 x 3/12 = $2,100 (2)

1/7/16 – 30/6/17 $39,900 x 0.2 = 7,980 (1)

1/7/17 – 30/6/18 $31,920 x 0.2 = 6,384 (1)

1/7/18 – 30/6/19 $25,536 x 0.2 = 5,107 (1)

1/7/19 – 31/10/19 $20,429 x 0.2 x 4/12 = 1,362(2)

Total Accumulated Depreciation 22,933

**(7 marks)**

**Plant & Equipment** (6 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
| 1/7/19 | Balance b/d | 139,600  (2) | 31/10/19 | Sale of Asset (1) | 42,000 |
| 31/10/19 | Cash at Bank  **(**1) | 32,800 |  |  |  |
|  | Sale of Asset  (Trade-in All) (1) | 17,200 |  | Balance c/d | 147,600 (1) |
|  |  | **189,600** |  |  | **189,600** |
| 1/11/19 | Balance b/d | 147,600 |  |  |  |

**Accumulated Depreciation – Plant & Equipment** (4 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
| 31/10/19 | Sale of Asset (1) | 22,933 | 1/7/19 | Balance b/d | 73,056  (1) |
|  |  |  | 31/10/19 | Depreciation (1) | 1,362(1) |

**Sale of Asset** (5 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
| 31/10/19 | Plant & Equipment  (1) | 42,000 | 31/10/19 | Accum Depn  (1) | 22,933 |
|  |  |  |  | Plant & Equip (1)  (Trade in Allowance | 17,200 |
|  |  |  |  | Loss on Sale (1) | 1,867  (1) |
|  |  | **42,000** |  |  | **42,000** |

**Correct dates** (1) **(16 marks)**

c)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Explain whether the San Remo Pasta Cutter 21C was over or under depreciated? Give a reason for your answer.** |  |
| * The machine was underdepreciated | (1) |
| **Any ONE of the following**   * The machine was sold for less than the carrying amount * A loss was made on disposal of the asset * Estimates required for useful life and residual values mean non-current assets never realize the carrying amount and they will be sold for more or less than the carrrying amount value. | (1) |
| **total** | **2** |

**(2 marks)**

**Question 19 39 marks**

**Workings**

Rent Revenue $22,000 +$2,000 = $24,000 (1)\*

Interest Income $4,950 + $50 = $5,000 (1)\*

Office Salaries $25,300 + $790 = $26,090 (1)\*

Insurance 12,000 x 3/12 = $ 3,000 (1)\*

Interest on BAN LOAN 50,000 x 0.09 = $ 4,500 (1)\*

**(a)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Cory Traders** |  |  |  |  |
| **INCOME STATEMENT** |  |  |  |  |
| **for year ended 30 June 2020** |  |  |  |  |
| Sales |  | $ 984,000 |  | (1) |
| less sales returns |  | -$ 2,460 |  | (1) |
| discount allowed |  | -$ 2,900 |  | (1) |
| NET SALES |  |  | $ 978,640 | (1) |
| Cost of Sales |  | $ 329,500 |  | (1) |
| add Freight Inwards |  | $ 4,210 |  | (1) |
| less discount received |  | -$ 3,432 |  | (1) |
| TOTAL COST OF SALES |  |  | $ 330,278 | (1) |
| ***Gross Profit*** (1) |  |  | $ 648,362 | (1) |
| **add Other Income** |  |  |  |  |
| Rent Revenue (1) |  | $ 24,000 **(1)\*** |  |  |
| Interest Income (1) |  | $ 5,000**(1)\*** | $ 29,000 |  |
|  |  |  | $ 677,362 |  |
| **less EXPENSES** |  |  |  |  |
| **Selling & Distribution** |  |  |  |  |
| Freight outwards | $ 1,980 |  |  | (1) |
| Depreciation of Delivery Vehicles | $ 6,200 |  |  | (1) |
| Salesperson’s salaries | $ 45,000 |  |  | (1) |
| Sales staff commissions | $ 12,200 |  |  | (1) |
| Advertising expense (1) | $ 12,000 | (1)\* |  |  |
| Doubtful Debts | $ 3,970 | $ 81,350 |  | (1) |
| **General & Administration** |  |  |  |  |
| Depreciation of Office Equipment | $ 4,150 |  |  | (1) |
| Office Salaries(1) | $ 26,090 | (1)\* |  |  |
| Insurance(1) | $ 3,000 | (1)\*33,240 |  |  |
| **Financial** |  |  |  |  |
| Interest on overdraft | $ 846 |  |  | (1) |
| Interest on BAN loan | (1)\*$ 4,500 | $ 5,346 | $ 119,936 |  |
| ***Profit*** (1) |  |  | ***$ 557,426*** |  |
| **Correct format** (1) |  |  |  |  |
|  |  |  |  | 30 |

**-1 for incorrect items included to a max of (5) (30 marks)**

(b)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Cory Traders management has had some issues with inventory and has asked for your advice. This business is currently using the perpetual inventory system and management has questioned the need for a stocktake. The argument put forward is stocktakes are costly and disruptive.**  **Required:**  **Compare the functions of a stocktake under both the periodic and the perpetual methods.** | **9** |
| * A stocktake is the physical counting of inventory at the end of a period. | (1) |
| Periodic Inventory System |  |
| * In the Periodic Inventory system,the stocktake is used to determine the final value of inventory to be shown in the Balance Sheet | (1) |
| * The stocktake is also used to determine the cost of sales expense for the period | (1) |
| * The cost of sales is calculated by using the formula Opening Inventory + Purchases – closing inventory | (1) |
| Perpetual Inventory System |  |
| * Under the perpetual system, a continous record is kept of the movement of inventory in and out of the business | (1) |
| * The cost of sales is determined after each sale transaction and removed from the inventory account into the cost of sales account. | (1) |
| * At the end of a period the total cost of sales and closing inventory is available from the accounts and a stocktake is not used for valuation purposes | (1) |
| * The stocktake is used to compare what is actually on hand with what should be on hand according to the inventory records. | (1) |
| * In this system better control is achieved as theft and stock losses can be detected. | (1) |

**(9 marks)**

**Question 20 (30 marks)**

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **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** |  |
| Partnership 2 – 20 owners  Small Proprietary Company 1 – 50 owners | (2) |
| Partners have unlimited liability for the debts of the partnership  Shareholders have liability limited to amount of capital invested or agreed to invest in the company | (2) |
| Partnership profits distributed according to an agreement (contract) between the partners. In absence of an agreement, profits are shared equally as per the Partnership Act. Profits shared in a small proprietary company according to directors resolution. The directors of a proprietary company are usually able to approve and pay out a share of the profits to the shareholders in the form of a dividend. | (3) |
| Small proprietary companies have the potential to raise more capital as they can have up to 50 shareholders as opposed to a max of 20 in a partnership.  Partnerships and proprietary companies are restricted in their ability to borrow money. The extent to which they can borrow money will usually depend on the property (such as, land) that the business owners can offer as security for a loan and the history and current performance of the business. | (3) |
| Transfer of ownership for both partnerships and small proprietary companies are restricted. In a partnership, change of ownership usually means the end of the old partnership and a new partnership begins with the new partner. The existing partners have a say as to who can enter the new partnership. Similarly, proprietary companies can have a clause in the constitution restricting transfer of ownership. Its shares cannot be sold to the public. | (2) |
| **Total** | **/12** |

(b)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **A third option Steve was considering was to borrow the funds for expansion from a**  **financial institution. Discuss four (4) risk factors considered by financial institutions when**  **approving finance.** |  |
| **Answer:** |  |
| Collateral – assets that the borrower can provide the lender that can be used as security for the finance. | (2) |
| Credit History – the lender should check the borrowers previous loan repayment history and investigate any previous defaults on credit. This can be not repaying credit cards on time, defaulting on personal as well as business loans, any history of bankruptcy. | (2) |
| Guarantors – can the borrower find a person or organization that will pay a loan or credit if the borrower cannot. | (2) |
| Liquidity – lender should check the ability of the borrower to pay current debts as and when they fall due. | (2) |
| **Total** | **/8** |

(c)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **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.**  **(ii) Comment on the change in this ratio and the likelihood of Special Brew Café being**  **successful in this loan application.** |  |
| **Answer:** |  |
| (i) Debt to Equity Ratio | (1) |
| **2019 2020**  673,012 677,560  371,138 397,360  181.33 % 170.52 % | (4)  2 marks for each correct answer |
| (ii) Comment   * Ratio indicates the business is already highly geared, ie it relies more on external borrowings than funds provided by the owner. (2) * Decrease from 2019 – 20 is a favourable trend but still not sufficiently decreased to meet Expanda Finance’s requirement for the debt to equity being less than 150% (2) * Special Brew Café is not likely to get the loan (1) | (5) |
| **Total** | **/10** |

**Question 21 (30 marks)**

(a)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Steve is trying to attract equity partners into the business and has asked you to**  **evaluate the profitability of the Special Brew Café.**  **(i) Calculate the profit ratios for both 2019 and 2020.**  **(ii) Comment on the trend revealed by the above ratios and the main reason for this**  **trend.**  **(iii) Calculate the rate of return on assets for 2020. Explain what this ratio tells us**  **about the profitability of Special Brew Café. Comment on how this compares to the**  **industry average return on assets of 10%?** |  |
| **2019 2020**  Profit Ratio 44,158 159,040  480,450 640,000  9.19 % 24.85 % | (2)  1 mark for each correct answer |
| * The profit to sales shows a significant increase and this is a favourable trend. (1) * This was caused by a decrease in the expense to sales which was the main reason for improvement in profit. (1) | (2) |
| **2020**  Rate of Return on Assets 159,040 **(1)**  1,044,150 + 1,074,920 **(2)**  2  = 159,040  1,059,535  = 15%   * The rate of return on assets is an indicator of how efficiently the assets of the business are used in generating profits. (1) * Special Brew Café generates 15c of profit for every dollar invested in assets. (1) * This is better than other coffee shops in the same industry who only generate 10c for every dollar in assets. (1) | (6) |
| **Total** | **/10** |

(b)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **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.** |  |
| **Answer: any 2 of the following** |  |
| * Negative publicity from this could reach the Australian market and affect Special Brew Café sales (1) * Steve Brew’s personal reputation could also be affected negatively as he could be branded an unethical business man (1) * Special Brew may find it difficult to attact equity partners as they may not be willing to invest in a company which is not socially responsible (1) * Difficult to borrow funds from financial institutions as they may not wish to be associated with an unethical companies(1) | (2) |
| * Steve may need to find a new supplier of coffee, one that does not engage child labour and is also ethically responsible. * This may be difficult as other suppliers may not have the same quality of coffee and information about ethical practices of overseas companies may not be readily available. | (2) |
| **Total** | **/4** |

(c)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Professional Accountants are obliged to behave in an ethical manner. Explain the**  **nature an purpose of professional codes of conduct for members of professional**  **associations.** |  |
| **Answer:** |  |
| * Codes of conduct for accountants are written guidelines for ethical behaviour expected from members of professional organisations such as CPA Australia and ICAANZ. * These guidelines cover fundamental principles such as integrity; objectivity; professional competence; confidentiality; and professional behaviour. * Breach of these principles can result in disciplinary action taken by the professional body against the member. * The purpose of the codes of conduct is to build confidence by the public and clients in the services offered by accountants in the community. | (4) |
| **Total** | **/4** |

(d)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| ) It is important for the management of Brew Café to have good internal control over its  main assets. Discuss three principles of internal control and how they are applied to  the control of both cash. . (12 marks) |  |
| 1. **Segregation of duties** – duties of employees are separated so that one employee is not allowed to combine certain job tasks. This is often applied in cash control where the person who is handling cash is separated from the person recording the cash transactions. Ie the cashier and bookeeping roles are often separated to prevent stealing of cash and hiding the theft by manipulation of the accounts | (3) |
| 1. **Established Lines of Responsibility**  - those responsible for cash are clear as to the extent of their duties. Those reposnible for signing of cheques, preparing monthly bank reconciliations, depositing cash into the bank are all clear as to what they can or cannot do. | (3) |
| 1. **Appropriate security of assets and records** - Cash (notes & coins) should always be stored in a secure location ie (safe) and deposited into a bank account on a regular basis intact. Other controls can include, limited access to cash registers; CCTV cameras over cash registers etc | (3) |
| 1. **Verification and Checking processes** - periodically, bank statements should be checked against the business accounts in a process known as bank reconciliation. This allows for independent verification and detection of errors and possible fraud. | (3) |
| **Accept any other logical control with discussion.** |  |
|  | **/12** |