

**ACCOUNTING & FINANCE**

**UNITS 1 & 2, 2021**

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

Teacher: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

# *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
* Extended Answer Booklet
* Multiple Choice Answer Sheet
* Specifications Sheet
* Information 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 | 5 | 5 | 125 | 127 | 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 2021*. 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. John Gilligan runs a small restaurant in the local area. Recently his Accountant discovered that John paid his son’s school fees of $15,000 from his business bank account. On examining his accounts, you discover John recorded this as a decrease in cash at bank and an increase in wages and salaries expense. Which of the following accounting concepts has been violated?
2. Materiality
3. Accounting Entity
4. Going concern
5. Monetary

2. Max’s Masks completes a stocktake at the end of each accouting period and uses a

valuation method in which the assets acquired first are sold first.

Max is using which method of inventory valuation?

1. First In First Out (FIFO)
2. Weighted Average
3. Net Realisable Value
4. Diminishing Balance

3.  Which of the following statements best describes how income is recognised as per the Conceptual Framework?

1. Provided it is relevant and faithfully represented, income is recognised when it is certain that it has been earned. This can only occur when the cash is received.

b) Income can only be recognised when the business chooses it to be recognised. This can be be at any time in the transaction process.

c) When it is probable that the future economic benefit will be received.

1. Provided it is relevant and faithfully represented, income is recognised when an increase in an asset occurs or a derecognition of a liability occurs which results in an increase in equity, not including contributions from the owner/s.

4 Which of the following should be classified as current assets?

a) Cash at bank; accrued revenue; accounts receivable; GST-payable.

b) Bank overdraft; accrued expenses; income in advance; accounts receivable.

c) Cash at bank; prepaid expenses; accounts receivable; accrued income.

d) Unearned income; cash at bank; prepayments; debtors; inventory.

5. Which of the following would **not** be considered a current liability in a balance sheet

prepared on 30 June 2021?

a) Loan due to be repaid on 30 October 2021

b) Accounts payable

c) Income in advance

d) Mortgage loan due after 30 June 2022

6. Philip Guy is a qualified Accountant and a member of the Institute of Chartered

Accountants Australia & New Zealand. In a recent dealing with a client, he has

discovered suspicious claims in the client’s business tax returns. What would be

Philip Guy’s best course of action?

a) Philip has an obligation under a code of conduct and the Tax legislation to rectify any anomalies and notify the client and the ATO.

b) Philip has an obligation under a code of conduct to protect client confidentiality so he can notify the client but can’t really do anything else.

c) Philip should ignore the code of conduct and pretend he didn’t know about it. This way he will stop the client going to another Accountant.

d) Philip should notify the ATO of the breach and have nothing else to do with the client.

7. An asset recognised in an end of year balance sheet for interest earned but not yet

received, would be the result of:

a) an adjusting entry for unearned revenue

b) an adjusting entry for accrued income

c) an adjusting entry for accrued expenses

d) both (a) and (b)

8. Which of the following would **not** be a characteristic of a depreciable non-current

asset?

a) An asset which brings a future economic benefit over a number of accounting periods.

b) An asset that loses monetary value over time due to wear & tear and obsolescence.

c) An asset usually sold or realised within the next 12 months.

d) An asset that has tangible, physical substance characteristics.

9. Which of the following is NOT a GST-free supply?

a) Renting a shop for commercial purposes.

b) Basic fresh food for human consumption.

c) A visit to a medical practitioner.

d) Studying a course at university.

1. Which of the following BEST describes the accounting period assumption?

a) The measurement of the elements of financial statements shall be in terms of the currency of the country in which they are reporting

b) Information in financial statements is significant if omitting it or misstating it could influence decisions that users make

c) Assets = Liabilities + Equity

d) The life of a business is divided into arbitrary periods of time for the purpose of determining the profit for the period

1. Luftwafa Pty Ltd had a quick asset ratio of 200% in 2020 and of 213% in 2021.Which of the following best describes the ability of Luftwafa Pty Ltd to pay urgent debts? Luftwafa Pty Ltd:

a) has a strong liquidity position on 2020 but deteriorates in 2021..

b) would struggle to pay urgent debts in 2020 and this deteriorates further in 2021.

c) has improved its liquidity over the 2020 – 21 period

d) should be able to pay its debts comfortably in both 2020 and 2021.

1. Leverage refers to:

a) the relationship between debt and equity.

b) the excess of income over expenses.

c) the ability of a business to pay its debts as they fall due.

d) the difference between current assets and current liabilities.

1. Which of the following statements is correct?
2. Small business owners need not worry about sponsoring community activities or caring for the environment as these are covered by the taxes they pay.
3. According to the Framework, an asset can only be recognised if it contains a future economic benefit.
4. If GST payables exceed the GST credits for a period, a liability is recognised.
5. The withdrawing of cash by the owner of a business should be treated as an expense.

1. In determining the cost (for a business registered for GST) of a depreciable asset for

depreciation purposes, the Accountant should include:

a) all costs in buying the asset and bringing it into the business and condition

ready for use, including all taxes such as stamp duty, customs duty and

GST.

b) cost of buying the asset and all subsequent costs such as repairs and maintenance.

c) the invoice price of the asset plus all other costs required to set the asset up ready for use, but excluding GST as the business gets a credit back for this tax.

d) cost of the asset plus installation and freight inwards and including any taxes.

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

expense would cause:

a) gross profit to be overstated.

b) an understatement of profits and an understatement of liabilities.

c) an overstatement of profit and an understatement of liabilities.

d) an understatement of profits and an overstatement of liabilities.

**SECTION TWO: Short Answer 70% (127 Marks)**

This section has **five (5)** 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 30 marks**

Leila Fungal runs a toy wholesaling business as a sole trader. The business supplies a variety of imported toys to major retailers in Western Australia. The business uses the perpetual system to control inventory and is registered for GST.

One of the office staff, Jenna, is responsible for recording the day to day transactions in a general journal which is then posted to the ledger to update the accounts.

Upon checking the records the business accountant has discovered a number of invoices and other transactions were **not recorded** by Jenna during the month of January 2021:

* The bank statement shows an amount of $6,600 (GST-inclusive) direct debit for rent prepaid for the months of January to March 2021. The date shown on the statement was 1 January 2021.
* Invoice 231, received from Matal Pty Ltd for purchase of inventory on the  
   5 January, totalled $9,900 (inclusive of GST).
* Invoice 1342 dated 23 January 2021, was sent to Jimmy’s Toy Emporium for a $17,050 (GST-inclusive) sale. The cost of sales on this transaction was $7,000.
* An adjustment note was issued on the 25 January as Jimmy’s Toy Emporium returned $2,000 worth of inventory (GST-exclusive) which was damaged. The cost of sale for this transaction amounted to $903.
* The purchase of $440 worth of stationery on 28 January was incorrectly recorded as inventory. The figure is GST-inclusive.

**Required**

(a)Prepare the general journal entries to record the above transactions omitted in the

month of January 2021. Use suitable narrations. (18 marks)

**Workings:**

**GENERAL JOURNAL**

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| **DATE** | **DETAILS** | **DEBIT** | **CREDIT** |
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(b)Using two examples from the above question, explain how the concept of accrual accounting has been applied. (6 marks)

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(c)Clearly explain what a direct debit is and outline two (2) benefits for Leila’s business of using this facility. (3 marks)

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1. EFTPOS allows customers to pay for their goods and services using debit/credit cards and other personal devices such as a mobile phone. Outline three (3) disadvantages of using EFTPOS in a small business. (3 marks)

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**Question 17 29 marks**

TecCar Pty Ltd are a local small business running a mechanical repairs and servicing centre in Kardinya. Apart from the premises, the business has a number of large depreciable assets including tuning machines, hoists, and tools.

On the 1 October 2021, TecCar replaced an old hoist with a new one costing $136,400 GST inclusive. The old hoist was purchased on the 1 April 2018 for $82,000, GST exclusive. TecCar depreciates all Plant & Equipment at 15% per annum, using the reducing balance method. The new hoist was purchased from LiftPower Ltd who gave TecCar a trade-in allowance of $26,500 in exchange for the old hoist. The trade-in allowance does not include GST. The remaining balance owing is to be repaid, in instalments, over the next three year period. The first repayment is due on the 1 December 2021.

(a) Calculate the Accumulated Depreciation on the old hoist being replaced from date of purchase to date of disposal. Round all calculations to the nearest whole dollar.

(8 marks)

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| **Workings**  **Answer: Accumulated Depreciation of hoist sold** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |

1. Prepare the general journal entries required to record the disposal of the old hoist, and purchase of the new hoist on the 1st October 2021. Suitable narrations are required (13 marks)

**Workings**

**GENERAL JOURNAL**

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(c) Prepare the Sale of Asset account that would appear in the general ledger of TecCar

Pty Ltd on the 1 October 2021. (5 marks)

**Sale of Asset A/c**

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1. Was the hoist sold on 1 October 2021 over- or under-depreciated? Explain.

(3 marks)

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**Question 18 22 marks**

Bolt Lighting Retailers sell residential light fittings and ceiling fans and provide a lighting designer service to assist customers in planning, selection and installation requirements.

The following is their trial balance as at 30 June 2021.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
|  | **$** | **$** |
| Sales |  | 230,000 |
| Discount Received |  | 1,200 |
| Bad Debts | 1,500 |  |
| Bank Overdraft |  | 11,000 |
| Accounts Payable |  | 35,000 |
| Inventory | 60,200 |  |
| Freight Inwards | 2,800 |  |
| Advertising | 5,400 |  |
| Loan Payable due 1 July 2025 |  | 94,000 |
| Capital |  | 140,000 |
| Cost of Sales | 112,000 |  |
| Sales Wages and Salaries | 20,000 |  |
| Shop Fittings and Fixtures | 98,000 |  |
| GST Credits | 13,000 |  |
| Delivery Vehicle | 56,000 |  |
| Interest Received |  | 1,000 |
| Electricity | 3,200 |  |
| Insurance Expense | 3,000 |  |
| Drawings | 27,000 |  |
| Interest Expense | 5,600 |  |
| Accounts Receivable | 52,000 |  |
| GST Collections |  | 18,600 |
| Discount Allowed | 1,800 |  |
| Freight Outwards | 5,600 |  |
| Service Fees Revenue |  | 16,000 |
| Investment (maturing 30 June 2023) | 55,800 |  |
| Office expenses | 23,900 |  |
|  | **$546,800** | **$546,800** |

1. Prepare a fully classified Income Statement for the year ended 30 June 2021.

(18 marks)

**Bolt Lighting Retailers**

**Income Statement For the year ended 30 June 2021**

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| --- | --- | --- | --- |
|  | **$** | **$** | **$** |
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1. Prepare the Non-Current Liabilities and Owner’s Equity sections of the Balance Sheet as at 30 June 2021. (4 marks)

**Bolt Lighting Retailers**

**Balance Sheet (Extract)**

**As at 30 June 2021**

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**Question 19 19 marks**

Finch Retail runs a small mobile phone and accessories shop in a local shopping centre. An extract of information from the business Income Statement for the year ended 30 June 2021, and Balance Sheet as at 30 June, 2021 showed the following totals:

|  |  |
| --- | --- |
|  | **$** |
| Net Sales | 175,000 |
| Gross Profit | 82,000 |
| Operating Expenses | 31,000 |
| Current Assets | 85,000 |
| Non-Current Assets | 193,000 |
| Current Liabilities | 42,000 |
| Non-Current Liabilities | 94,000 |
| Owner’s Equity | 142,000 |

Total assets as at 30 June 2020 were $240,000

**Required:**

1. Using the information above, calculate the following ratios for the year ended 30 June 2021. (rounded to one decimal place where necessary) (8 marks)

|  |  |  |
| --- | --- | --- |
| **RATIO** | **FORMULA** | **ANSWER** |
| Profit  (3 marks) | Profit  Net Sales |  |
| Rate of return on Assets  (3 marks) | Profit  Average Total Assets |  |
| Expenses  (2 marks) | Operating Expenses  Net Sales |  |

**Additional information**:

The following were the ratio results for the previous financial year ended 30 June 2020:

|  |  |
| --- | --- |
| **Ratio** | **2020** |
| Profit | 35.2% |
| Rate of Return on Assets | 24.8% |
| Expenses | 13.8% |

1. Define profitability, and compare the ratio figures calculated in Part (a) above with the ratios for the previous year ended 30 June 2020. For each ratio, comment on whether there has been a positive or negative change for the period. (4 marks)

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1. State two factors which may have contributed to the change in profitability from 2020

to 2021. (2 marks)

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1. Explain the meaning of the terms liquidity and gearing. For each term state the ratio/s

that would need to be calculated to evaluate both criteria. (5 marks)

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**Question 20 27 Marks**

Molly Mags Pty Ltd is the publisher of a new magazine which is distributed both in print form and e-form. The owner/director is Molly Magda, and the business commenced trading on   
1April 2021. Whilst the business has an experienced office person who uses a computer software package to prepare the accounts, help is required with the year end adjustments.

The following Unadjusted Trial Balance appeared in the books of Molly Mags on 30 June 2021.

**Molly Mags Pty Ltd**

**Unadjusted Trial Balance**

**as at 30 June 2021**

|  |  |  |
| --- | --- | --- |
| Wages & Salaries Expense | 372,500 |  |
| Accounts Receivable | 10,850 |  |
| Allowance for Doubtful Debts |  | 1,000 |
| Prepaid Insurance | 9,000 |  |
| Prepaid Rent | 12,000 |  |
| Stationery Supplies Asset | 9,540 |  |
| Unearned Magazine Subscription Revenue |  | 964,000 |
| Capital – Molly Magda |  | 800,000 |
| Loan – Prudential Bank (due 2028) |  | 400,000 |
| Drawings – Molly Magda | 23,400 |  |
| Plant and Equipment | 910,000 |  |
| Cash at Bank | 38,400 |  |
| Cost of Sales | 525,000 |  |
| Inventory of Magazines | 98,560 |  |
| Accounts Payable |  | 54,250 |
| Motor Vehicles | 210,000 |  |
|  | **2,219,250** | **2,219,250** |

**Additional Information:**

On 30June 2021 the following adjustments had not yet been entered in the accounts:

* Wages & salaries owing but not yet paid $12,500.
* The Insurance of $9 000 had been paid on 1 April for 12 months in advance.
* Stationery was counted, and valued at $7,430 on the 30th June 2021.
* Rent of $2,000 per month was paid for 6 months in advance on 1 April 2021.
* Molly Mags sells its magazines on a subscription basis: customers pay for a year’s subscription in advance. On balance date there were $265,600 of unearned subscriptions.
* $2,000 are to be written off as a bad debt.
* Set the allowance for doubtful debts to $2,000.

**Required:**

Post transactions to the General Ledger accounts provided, at 30 June 2021. Opening and closing balances and are required where relevant, as are closing. (27 marks)

**Workings**

**Wages & Salaries Expense A/c**

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**Stationery Supplies Expense A/c**

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**Insurance Expense A/c**

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**Prepaid Insurance A/c**

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**Rent Expense A/c**

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**Prepaid Rent A/c**

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**Unearned Magazine Subscriptions Revenue A/c**

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**Magazine Subscriptions Revenue A/c**

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**Accounts Receivable A/c**

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**Bad Debts A/c**

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**Allowance for Doubtful Debts A/c**

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**Doubtful Debts A/c**

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**SPARE ACCOUNTS**

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

This section has **two (2)** questions, questions 21 and 22. You must answer **one (1)** question **only**. Write your answers in the space provided on the **separate extended answer booklet.**

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**

Jessie Calendar runs and operates a small wholesaling business supplying stationery and all types of greeting cards to her clients. These clients are typically newsagents, major department stores and other retailers. Recently, the volume of business has tripled, and Jessie can no longer operate her business from home. She has been considering acquiring a medium sized premises in Malaga. She therefore requires the services of a business advisory and consultation team at a local professional accounting firm.

Jessie has written to you regarding a number of Accounting and Finance issues and has asked you to respond to each issue in writing.

1. Describe two (2) appropriate sources of finance, other than equity, that could be used for the acquisition of a suitable business premises. For each source of finance, give one possible advantage and one disadvantage that should be considered. (8 marks)
2. Describe two (2) risk factors and two (2) return factors considered by financial institutions when approving finance. (8 marks)
3. Jessie currently runs her business as a sole trader and has heard that changing the business structure to a small proprietary company may have benefits. Contrast these two forms of business ownership structures from the following aspects: legal entity, liability of owners and ability to raise capital or borrow funds. (6 marks)
4. Using the *Conceptual Framework* definition, explain why a loan from a financial institution would be considered a liability for accounting purposes. (4 marks)
5. Discuss the two (2) recognition criteria that will also have to be met before the loan can be included in the business balance sheet. (4 marks)

**Question 22 30 marks**

Clever Household Pty Ltd, is a small proprietary company selling a variety of whitegoods ranging from TVs, fridges and washing machines right down to airfryers and other kitchen appliances. As a retailer, it sells to the general public through an outlet in Mandurah.

The company has one shareholder, Bruce Eclipse who is the main equity contributor. Bruce does not work in the business but occasionally pops in to see if things are running smoothly. The business has three managers who work on a rostered basis, but only one manager is on duty at any one time. The business also has a full time Accountant who oversees the recording and reporting functions of the business. An office employee is also present who makes sure all the purchase invoices are processed and paid for. The business still pays invoices using cheques, which are prepared for and signed by the office employee. The office employee then records the payment in a journal. The Accountant never reconciles the journals with the bank statements.

On the main floor of the business, there are always three (3) sales persons present to assist customers with their purchases. There are three cash registers strategically spread out in the store. Any sales person can use any of the cash registers. All cash registers have EFTPOS facilities and most customers pay by using debit or credit cards. However, some customers still pay using cash. The office employee clears the cash registers of cash once a week and puts the cash into a special drawer in the office, for Bruce to pick up when he pops in. Sometimes, if a cash register is getting full, any one of the sales persons can clear the cash and go to the office to put it in the cash drawer. All employees have a key to the office. The cash is never counted, but the office employee reads the total off the cash registers and records the total sales in a journal once a week.

Bruce Eclipse recently dropped into the business to pick up cash from the drawer and has discovered it empty. Bruce seeks your advice as a business systems expert working for a public accounting firm.

1. Critically evaluate the internal control system over cash for Clever Household outlining five (5) weaknesses and suggest three (3) possible improvements to this system (8 marks)
2. Discuss four (4) limitations any system of internal control may have despite the best efforts of management (8 marks)
3. Clever Household currently uses the periodic method of managing inventory. Bruce has heard the perpetual method may give better control over his inventory. Compare the main features of the periodic and the perpetual methods.  
    (6 marks)
4. Compare the following inventory costing methods
   1. Weighted average
   2. First in first out (4 marks)
5. Using the *Conceptual Framework* definition explain why inventory would be considered an asset for accounting purposes. (4 marks)

**Spare Paper**

Indicate the number of any question you are continuing on these pages.

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