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**WSHS ACCOUNTING AND FINANCE**

**UNITS 1 & 2**

**2021**

**MARKING GUIDE**

**SECTION A MULTIPLE CHOICE**

1. B

2. A

3. D

4. C

5. D

6. A

7. B

8. C

9. A

10. D

11. C

12. A

13. C

14. C

15. C

**Question 16 30 marks**

**(A)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Leila Fungal**  **General Journal** | | | |  |
| **Date** | **Details** | **Debit** | **Credit** |  |
| Jan 1 | Prepaid Rent | 6,000 |  | **1** |
|  | GST-credits (outlays) | 600 |  | **1** |
|  | Cash at Bank |  | 6,600 | **1** |
|  | *Payment of 3 months rent in advance* |  |  |  |
|  | ---------------------------------------------------- |  |  |  |
| 5 | Inventory | 9,000 |  | **1** |
|  | GST-credits (outlays) | 900 |  | **1** |
|  | Accounts Payable – Matel Pty Ltd |  | 9,900 | **1** |
|  | *Purchase of Inventory on credit* |  |  |  |
|  | ----------------------------------------------------- |  |  |  |
| 23 | Accounts Receivable – Jimmy’s Toy Emp | 17,050 |  | **1** |
|  | GST-payable (collections) |  | 1,550 | **1** |
|  | Sales |  | 15,500 | **1** |
|  | *Sale of Inventory to* Jimmy’s Toy Emp *on credit* |  |  |  |
|  | *----------------------------------------------------------------* |  |  |  |
|  | Cost of Sales | 7,000 |  | **1** |
|  | Inventory |  | 7,000 | **1** |
|  | *Transfer of cost of inventory sold* |  |  |  |
|  | ----------------------------------------------------- |  |  |  |
| 25 | Sales Returns & Allowances | 2,000 |  | **1** |
|  | GST- payable (Collections) | 200 |  | **1** |
|  | Accounts Receivable – Jimmy’s Toy Emp |  | 2,200 | **1** |
|  | *Return of Inventory as it was faulty* |  |  |  |
|  | *----------------------------------------------------------------* |  |  |  |
|  | Inventory | 903 |  | **1** |
|  | Cost of Sales |  | 903 | **1** |
|  | *Reversal of COS on return of inventory* |  |  |  |
|  | *---------------------------------------------------------------* |  |  |  |
| 28 | Stationery | 400 |  | **1** |
|  | Inventory |  | 400 | **1** |
|  | *Correction of error* |  |  |  |
|  | *Suitable narrations & dates: up to -2* |  |  |  |

1. marks)

**(B)**

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Comprehensively explains the concept of accrual accounting and clearly describes two ways it has been applied in recording the transactions in the question | 6 |
| Briefly explains the concept of accrual accounting and lists two examples of how it has been applied in recording the transactions in the question | 3-5 |
| Just explains the concept of accrual accounting | 2 |
| Outlines two examples | 2 |
| **Total** | **/6** |
| **Answer could include, but is not limited to** |  |
| * Accrual Accounting requires the recognising of income and expenses at a point in the transaction process where the income is earned and the expense is incurred. * For income this is usually at the point of sale to the customer, or when the service has been completed. The cash can be received at a different point in time. * Expenses are recognised when the resource is used or consumed, this may not necessarily be when the cash is paid. (2)   **Possible examples of application (2 each)**   * purchase of inventory is recorded as an asset (inventory), and then expensed when the goods are sold (Cost of Sales) * Income from sale is recognised on the 23rd even though the cash will be received at a later date. * Payment of prepaid rent is treated as an asset when paid then recognised as an expense as the time expires. |  |

**2 marks for definition, 2 marks each for examples**

**(C)**

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Accurately explains how a direct debit works and gives two relevant benefits | 3 |
| Accurately explains how a direct debit works only gives one benefit | 2 |
| Only explains how a direct debit works | 1 |
| **Total** | **/3** |
| **Answer could include, but is not limited to** |  |
| * Direct Debits are a form of electronic payments offered by banks where a business instructs its bank to transfer funds to a nominated creditor for regular payments such as rent.   Possible benefits   * Does not require sending of a cheque and therefore saves on administrative costs of processing * Payments are always made on time and therefore it is difficult to miss a payment * Reduces time spent on paying creditors, leaving more time for other aspects of the business |  |

**(D)**

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Outlines three disadvantages to small business | 3 |
| Outlines two disadvantages to small business | 2 |
| Only gives one disadvantages to small business | 1 |
| **Total** | **/3** |
| **Answer could include, but is not limited to** |  |
| * Initial cost of set-up for small business may be high * Ongoing service charges * Potential for fraudulent use of cards by customers can lead to a small business having to bear the losses * Due to use of the internet system, possibility of the shop’s system being hacked * Loss of function due to power outages or computer system failure. |  |

**Question 17 29 marks**

1. Depreciation workings

1/4/18 – 30/6/18 $82,000 x 0.15 x 3/12 = $3,075 (2)

1/7/18 – 30/6/19 $78,925 x 0.15 = 11,839 (1)

1/7/19 – 30/6/20 $67,086 x 0.15 = 10,063 (1)

1/7/20 – 30/6/21 $57,023 x 0.15 = 8,553 (1)

1/7/21 – 1/10/21 $48,470 x 0.15 x 3/12 = 1,818 (2)

Total Accumulated Depreciation 35,348 (1)

**(8 marks)**

**GENERAL JOURNAL**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **DEBIT** | **CREDIT** |  |
| 2021 | Sale of Asset | 82,000 |  | **(1)** |
| Oct 1 | Plant & Equipment |  | 82,000 | **(1)** |
|  | *Transfer of the cost to sale of asset account* |  |  |  |
|  | ------------------------------------------------------ |  |  |  |
|  | Accum Depn of P & E | 35,348 |  | **(1)** |
|  | Sale of Asset |  | 35,348 | **(1)** |
|  | *Transfer of the accum depn on the asset sold to* |  |  |  |
|  | *the sale of asset account* |  |  |  |
|  | ------------------------------------------------------ |  |  |  |
|  | Plant & Equipment | 124,000 |  | **(1)** |
|  | GST-credits | 12,400 |  | **(1)** |
|  | Sale of Asset |  | 26,500 | **(2)** |
|  | GST-collections/payable |  | 2,650 | **(1)** |
|  | Accounts Payable – LiftPower Ltd |  | 107,250 | **(1)** |
|  | *Entry to record trade-in allowance and purchase* |  |  |  |
|  | *of new hoist* |  |  |  |
|  | ---------------------------------------------------- |  |  |  |
|  | Loss on Sale of Asset | 20,152 |  | **(1)** |
|  | Sale of Asset |  | 20,152 | **(2)\*** |
|  | *Entry to record the loss on sale of asset* |  |  |  |
|  | ------------------------------------------------------ |  |  |  |

**OR**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **DEBIT** | **CREDIT** |  |
| 2021 | Sale of Asset | 82,000 |  | **(1)** |
| Oct 1 | Plant & Equipment |  | 82,000 | **(1)** |
|  | *Transfer of the cost to sale of asset account* |  |  |  |
|  | ------------------------------------------------------ |  |  |  |
|  | Accum Depn of P & E | 35,348 |  | **(1)** |
|  | Sale of Asset |  | 35,348 | **(1)** |
|  | *Transfer of the accum depn on the asset sold to* |  |  |  |
|  | *the sale of asset account* |  |  |  |
|  | ------------------------------------------------------ |  |  |  |
|  | Plant & Equipment | 124,000 |  | **(1)** |
|  | GST-credits | 12,400 |  | **(1)** |
|  | Sale of Asset |  | 26,500 | **(2)** |
|  | Accounts Payable – LiftPower Ltd |  | 109900 | **(2)** |
|  | *Entry to record trade-in allowance and purchase* |  |  |  |
|  | *of new hoist* |  |  |  |
|  | ---------------------------------------------------- |  |  |  |
|  | Loss on Sale of Asset | 20,152 |  | **(1)** |
|  | Sale of Asset |  | 20,152 | **(2)\*** |
|  | *Entry to record the loss on sale of asset* |  |  |  |
|  | ------------------------------------------------------ |  |  |  |

**Appropriate narrations & correct dates up to (-2) (13 marks)**

*Calculation of Gain or Loss on Sale of Asset*

*Loss = 26,500 - (82,000 – 35,348)*

*= ($20,152)* **(2)\* Do not penalise consequential errors**

**(C)**

**Sale of Asset**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **AMOUNT $** | **DATE** | **DETAILS** | **AMOUNT $** |
| 1/10/21 | Plant & Equipment | 82,000 **(1)** | 1/10/21 | Accum Depn | 35,348  **(1)** |
|  |  |  |  | Plant & Equip  (Trade in Allowance | 26,500  **(1)** |
|  |  |  |  | Loss on Sale | 20,152  **(2)** |
|  |  | **82,000** |  |  | **82,000** |

**Correct dates or no subtotals (-1) (5 marks)**

**(D)**

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Identifies loss on sale is due to under-depreciation and comprehensively gives reasons | 3 |
| Adequately explains why a loss on sale occurs | 2 |
| Identifies loss on sale is due to under-depreciation but does not give reasons | 1 |
| **Total** | **/3** |
| **Answer could include, but is not limited to** |  |
| * The hoist was under-depreciated as a loss on sale was incurred. * The hoist was sold for more than the carrying amount. * The asset was damaged or a new unexpected technological advancement was made or it was utilized much more than anticipated due to greater demand for services resulting in the trade-in allowance being well below the carrying amount * A loss on the sale of an asset indicates that too little depreciation was deducted. * The asset was damaged or was utilized much more than anticipated due to greater demand for services resulting in a shorter useful life for the asset * Accounting for depreciation requires estimation of residual value and useful life and these were not accurately estimated. |  |

**Question 18 32 marks**

**a)**

**Bolt Lighting**

**Income Statement**

**For the year ended 30 June 2021**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | $ | $ | $ |  |
| Sales |  | 230,000 |  | (1) |
| Less Discount Allowed |  | (1,800) |  | (1) |
| Net Sales |  |  | 228,200 |  |
|  |  |  |  |  |
| Less Cost of Sales |  | 112,000 |  | (1) |
| Add Freight Inwards |  | 2,800 |  | (1) |
| Less Discount Received |  | (1,200) |  | (1) |
| Total Cost of Sales |  |  | 113,600 | (1) |
| Gross Profit |  |  | 114,600 | (1) |
|  |  |  |  |  |
| **Add Other Income** |  |  |  |  |
| Interest Received |  | 1,000 |  | (1) |
| Service Fees Revenue |  | 16,000 | 17,000 | (1) |
|  |  |  | 131,600 |  |
|  |  |  |  |  |
| **Less other Expenses** |  |  |  |  |
| **Selling and Distribution** |  |  |  |  |
| Advertising | 5,400 |  |  | (1) |
| Freight Outwards | 5,600 |  |  | (1) |
| Bad Debts | 1,500 |  |  | (1) |
| Sales Wages and Salaries | 20,000 | 32,500 |  | (1) |
|  |  |  |  |  |
| **General and Administrative** |  |  |  |  |
| Insurance | 3,000 |  |  | (1) |
| Office Expenses | 23,900 |  |  | (1) |
| Electricity | 3,200 | 30,100 |  | (1) |
|  |  |  |  |  |
| **Financial** |  |  |  |  |
| Interest Expense | 5,600 | 5,600 |  | (1) |
|  |  |  | 68,200 |  |
| Profit for the Period |  |  | 63,400 | (1) |

(18 marks)

1. Prepare the Non-Current Liabilities and Owner’s Equity sections of the Balance Sheet as at 30 June 2020. (4 marks)

**Bolt Lighting**

**Balance Sheet (Extract)**

**As at 30 June 2020**

|  |  |  |  |
| --- | --- | --- | --- |
|  | $ | $ |  |
| **Non-current Liabilities** |  |  |  |
| Loan Payable (due 1 July 2025) |  | 94,000 | (1) |
|  |  | 94,000 |  |
|  |  |  |  |
| **Owner’s Equity** |  |  |  |
| Capital |  | 140,000 | (1) |
| Add Net Profit |  | 63,400 | (1) |
|  |  | 203,400 |  |
| Less Drawings |  | 27,000 | (1) |
|  |  | 176,400 |  |

**Question 19 17 marks**

1. Using the information above, calculate the following ratios for the year ended 30 June 2020. (rounded to one decimal place where necessary) (8 marks)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **RATIO** | **FORMULA** | **CALCULATION** | **SOLUTION** |  |
| Profit  (2 marks) | Profit  Net Sales | 51,000#  175,000 | 29.1% | (2)  (1) |
| Rate of return on Assets  (2 marks) | Profit  Average Total Assets | 51,000#  240,000 + 278,000\*  2 | 19.7% | (1)  (2) |
| Expenses  (2 marks) | Operating Expenses  Net Sales | 31,000  175,000 | 17.7% | (1)  (1) |

#Net Profit for year ended 30 June 2020: Gross Profit $82,000 - Operating Expenses $31,000 = $51,000

\*Total assets as at 30 June 2020: $85,000 + 193,000 = $278,000

**Required:**

1. Define profitability and compare the ratio figures calculated in Part (a) above with the ratios for the previous year ended 30 June 2019. For each ratio, comment on whether there has been a positive or negative change for the period. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Define profitability and compare the ratio figures calculated in Part (a) above with the ratios for the previous year ended 30 June 2019. For each ratio, comment on whether there has been a positive or negative change for the period.** | **4** |
| **Answer:** |  |
| Profitability is the ability of a business to use its resources to earn an income in excess of its expenses. | (1) |
| The profit ratio has declined from 35.2% in 2019 to 29.1% in 2020 and this is a negative trend. | (1) |
| The rate of return on assets ratio has declined from 24.8% in 2019 to 19.7% in 2020 and this is a negative trend. | (1) |
| The expenses ratio has increased from 13.8% in 2019 to 17.7% in 2020 and this is not a good trend | (1) |
| Total | /4 |

1. State two factors which may have contributed to the change in profitability from 2019 to 2020 (2 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **State two factors which may have contributed to the change in profitability from 2019 to 2020.** | **2** |
| **Answer:** |  |
| ***Students should give any two of the following or other appropriate points worth one mark each*** | ***(2)*** |
| Decreases in the volume of sales with no decreases in cost of sales or other expenses |  |
| Increases in expenses due to poor control of expenses |  |
| A decline in gross profit with no decline in expenses |  |
| Increases in expenses with no increase in selling price |  |
| New assets have been acquired but they have not yet generated extra sales |  |
| Assets are being used less efficiently and not generating as much in sales |  |
| Total | /2 |

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Accurately defines both liquidity and gearing and identifies (2) liquidity ratios and (1) gearing ratio | 5 |
| Accurately defines both liquidity and gearing and identifies (1) liquidity ratio and (1) gearing ratio | 4 |
| Only some definitions and ratios are correctly identified | 1-3 |
| **Total** | **/5** |
| **Answer could include, but is not limited to** |  |
| * Liquidity refers to the ability of a business to convert assets to cash so as to pay debts when they fall due. It is measured by calculating the current ratio and the quick ratio. (3) * Gearing refers to the extent of money borrowed externally compared to funds contributed by the owners. The ratio used to assess gearing is the debt to equity ratio. (2) |  |

**Question 20 44 marks**

**Workings**

Insurance expense 9,000 x 3/12 = 2,250 (1)\*

Rent expense 12,000 x 3/6 = 6,000 (1)\*

Stationery expense 9,540 – 7,430 = 2,110 (1)\*

Interest expense $400,000 x 0.09 x 3/12 = $9,000 (2)\*

Wages & Salaries Expense (3 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 30/6 | Balance b/d (1/2) | 372,500 | 30/6 | P & L (1/2) | 385,000 |
|  | Accrued Expenses (1) | 12,500 |  |  |  |
|  |  | 385,000 |  |  | 385,000 |
|  |  |  |  |  |  |

Stationery Supply Expenses (3 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 30/6 | Stationery supplies | 2,110(2)\* | 30/6 | P & L (1/2) | 2,110 |
|  |  | 2,110 |  |  | 2,110 |
|  |  |  |  |  |  |

Insurance Expenses (2 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 30/6 | Insurance expense | 2,250(1)\* | 30/6 | P & L (1/2) | 2,250 |
|  |  | 2,250 |  |  | 2,250 |
|  |  |  |  |  |  |

Prepaid Insurance (3 marks)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 30/6 | Balance b/d | 9,000  (1/2) | 30/6 | Insurance expense | | 2,250 (1) |
|  |  |  |  | Balance c/d | | 6,750(1) |
|  |  | 9,000 |  |  | | 9,000 |
| 1/7 | Balance b/d | 6,750 |  | |  |  |

Rent Expenses (2 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 30/6 | Rent expense | 6,000(1)\* | 30/6 | P & L (1/2) | 6,000 |
|  |  | 6,000 |  |  | 6,000 |
|  |  |  |  |  |  |

Prepaid Rent (3 marks)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 30/6 | Balance b/d (1/2) | 12,000 | 30/6 | Rent Expense | | 6,000 (1) |
|  |  |  |  | Balance c/d | | 6,000 (1) |
|  |  | 12,000 |  |  | | 12,000 |
| 1/7 | Balance b/d | 6,000 |  | |  |  |

Unearned Magazine Subscription (3 marks)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 30/6 | Subscription Rev | | 698,400(1) | | | 30/6 | Balance b/d (1/2) | 964,000 |
|  | Balance c/d | | 265,600(1) | | |  |  |  |
|  | |  | | 964,000 | |  |  | 964,000 |
|  | |  | | |  | 1/7/18 | Balance b/d | 265,600 |
|  | |  | | |  |  |  |  |

Magazine Subscription Revenue (2 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 30/6 | P & L (1/2) | 698,400 | 30/6 | Unearned Subs (1) | 698,400 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

Accounts Receivable (2 marks)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 30/6 | Balance b/d (1/2) | 10,850 | 30/6 | Bad debt | | 2,000 (1) |
|  |  |  |  | Balance c/d | | 8,850  (1) |
|  |  | 10,850 |  |  | | 10,850 |
| 1/7 | Balance b/d | 8,850 |  | |  |  |

Bad debts (2 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 30/6 | Accounts receivable | 2,000(1)\* | 30/6 | Allowance for doubtful debts | 6,000(1) |
|  |  | 6,000 |  |  | 6,000 |

Allowance for doubtful debts (3 marks)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 30/6 | Bad debts | 2,000(1) | 30/6 | Balance b/d (1/2) | | 1,000 |
|  | Balance c/d | 3,000 (1) |  | Doubtful debts | | 4,000 (1) |
|  |  | 5,000 |  |  | | 5,000 |
|  |  | 8,850 | 1/7 | | Balance b/d | 3,000 |

Doubtful debts (2 marks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 30/6 | Allowance for doubtful debts | 4,000(1)\* | 30/6 | P&L (1/2) | 4,000 |
|  |  | 4,000 |  |  | 4,000 |

Dates (up to -2) Setting out (up to -2) (27 marks)

**Question 21 30 marks**



|  |  |
| --- | --- |
| **Description** | **Marks** |
| Describes the general principle of long-term finance to be applied to the acquisition of premises. Explains two long-term sources of finance, gives one advantage, one disadvantage of each. | 8 |
| Explains two long – term sources of finance, gives one advantage, one disadvantage of each. | 6 |
| Explains one long – term source of finance, gives one advantage, one disadvantage of each. | 3 |
| States two long-term sources of finance | 2 |
| **Total** | **/8** |
| **Answer could include, but is not limited to** |  |
| * As the business is looking to expand, it will need to consider long-term sources of finance.   Short-term sources, such as overdraft and trade credit, are not appropriate as cash cannot be generated quickly from an asset which generates income over a long period of time.   1. Mortgage Loan from a financial institution  * Type of financing that can be negotiated for a long period of between 10 – 40 yrs requires the premises as security until the loan is paid off. (1) * Advantages: * Term of repayment is very flexible to suit the business needs * Interest rates are lower on secured loans than other forms of term loans (1.5) * Disadvantages: * The asset is required as security * Loan repayments including interest must be met each period otherwise the asset may be repossessed or you may be forced to sell the asset * The business owner may be required as a guarantor (1.5)  1. Lease Finance  * Is an agreement to rent the premises usually for a fixed period whereby the business has control and use of the asset but does not legally own it. (1) * Benefit: * The business has use of the asset without having to fund the large amount required to purchase it. * It may provide some tax benefit as lease payments are an expense * Obtain use of an asset without the requirement of a large initial cash investment (1.5) * Disadvantage: * Lease payments must be kept up even in hard times, * Unlike a mortgage loan, the business does not have the option to sell the asset as it does not own it during the period of the lease. * The business does not benefit from any increase in value on the property (1.5)   *Note : - no marks to be awarded for short-term sources of finance such as overdraft, trade credit, factoring.*  *Additional Capital, as this is equity financing and is excluded by the question.* |  |

**(B)**

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Correctly states and describes two risk factors and both return factors | 8 |
| Correctly states and describes two risk factors and only one return factor; or one risk factor and two return factors | 6 |
| Correctly states and describes only two risk factors or only two return factors or one risk factor and one return factor | 4 |
| Correctly states and describes only one risk factor or only one return factor | 2 |
| **Total** | **/8** |
| **Answer could include, but is not limited to** |  |
| Any two (2) of the following risk factors:   * Collateral – refers to the assets the business can provide to a financial institution as security in case the business cannot repay a debt. **(2)** * Liquidity – refers to the ability of the business to generate cash to regularly repay a debt (plus interest) each period, after all costs of running the business have been taken into account. **(2)** * History – a financial institution will look into the history of the owner – how long have they been in business, history of debt repayment, credit rating. **(2)** * Guarantors – is there another person/s who will agree to repay the debt if the owner or business cannot repay the debt to the bank. (**2)**   Both of the following return factors   * Interest Rate – the financial institution must judge whether the interest rate that can be charged is sufficient to make the investment worthwhile compared to other investments and to cover the risk taken. **(2)** * Future Business – what is the likelihood that granting the finance now is likely to generate future business for the financial institution. **(2)** |  |

**(C)**

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explains the main differences between sole trader and proprietary company from all three aspects: legal entity, liability of owners, ability to raise capital or borrow funds. | 6 |
| Explains the main differences between sole trader and proprietary company from only two aspects | 4 |
| Explains the main differences between sole trader and proprietary company from only one aspect | 2 |
|  |  |
| **Total** | **/6** |
| **Answer could include, but is not limited to** |  |
| * A sole trader business is unincorporated so the owner is not a separate legal entity from the business. A proprietary company is incorporated and is therefore a separate legal entity from the owner/s **(2)** * The owner in a sole trader business has unlimited liability for all debts owed by the business. In case of the failure of the business, the owner could be required to sell personal assets to cover business debts. Shareholders in proprietary companies have limited liability for debts of the business and can only lose amounts invested in the company. (unless personal guarantees are signed when finance is taken out) **(2)** * Sole traders are limited to the amount of capital and finance that they can personally raise as there is only one owner. Proprietary companies have the potential to raise more capital as they can ask up to fifty (50) shareholders to invest capital for expansion. Borrowing funds will depend on collateral prepared to be put up by the shareholders. **(2)** |  |

**(D)**

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Accurately defines a liability as per the Framework, and clearly explains how each of the three elements of the definition applies to a loan. | 4 |
| Accurately defines a liability as per the Framework, and clearly explains how two of the three elements of the definition applies to a loan. | 3 |
| Accurately defines a liability as per the Framework, and clearly explains how one of the three elements of the definition applies to a loan. | 2 |
| Only defines a liability as per the Framework | 1 |
| **Total** | **/4** |
| **Answer could include, but is not limited to** |  |
| The Conceptual Framework defines a liability as apresent obligation of the entity to transfer an economic resource as a result of past events. **(1)**   * In the case of a loan, a **present obligation** exists as a loan contract is signed and a legal obligation exists to meet the repayments and interest. **(1)** * **As a result of past events** - this means the contract has been signed on a previous date and the borrowed funds have already been received. **(1)** * **To transfer an economic resource is met as** in order to satisfy the obligation, the business will need to pay back cash to repay the principal and interest at a future date or dates agreed on in the loan contract.**(1)** |  |

**(E)**

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explains that to be included, the two criteria of relevance and faithful representation are required and comprehensively describes both criteria | 4 |
| Explains that to be included, the two criteria of relevance and faithful representation are required and only briefly describes both criteria | 3 |
| States that to be included, two criteria of relevance and faithful representation are required | 2 |
| Only states one of the criteria required | 1 |
| **Total** | **/4** |
| **Answer could include, but is not limited to** |  |
| A liability, to be included in a balance sheet, must satisfy or pass the two liability recognition criteria that are set out in the Framework. For a liability to be recognised, the Framework requires the information about the liability needs to be ***Relevant*** and is a ***Faithful Representation*** of the liability. (2) Relevance As outlined in the qualitative characteristics of the *Conceptual Framework*, ‘Relevant financial information is capable of making a difference in the decisions made by users.  According to the *Conceptual Framework*,a liability may not be recognised if:   * ‘it is uncertain whether or not the liability exists,’ or * ‘it may exist, but the probability of an outflow of economic benefits is low.’ (1)   ***students only need to provide one (1) aspect of what relevance means***  ***Faithful representation***  As outlined in the qualitative characteristics of the *Conceptual Framework*, information must faithfully represent the substance of what it purports to represent.  Accordingly, a liability, if it is to meet this requirement it must have three characteristics: it would be complete, neutral (free from bias) and free from error.’ This may be affected by the level of measurement uncertainty (1)  **students only need to provide one (1) aspect of what faithful representation means** |  |

**Question 22 30 marks**

**(A)**

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Critically evaluates by identifying and discussing five main weaknesses and discusses three relevant suggestions of how to improve the internal controls | 8 |
| Provides 4 weaknesses and 3 improvements | 7 |
| Provides 3 weaknesses and 2 improvement | 5 |
| Provides 2 weaknesses and 2 improvement | 4 |
| Provides only 1 weaknesses or improvement | 1 |
| **Total** | **/8** |
| **Answer could include, but is not limited to** |  |
| Critical evaluation   * Segregation of duties – the office employee is responsible for recording sales in the journal and also handles the cash from the cash registers. This is a weakness as he/she can pocket the cash and not record the sale in the journal to hide the theft. **(1)** * The office person also writes and signs the cheques. In this situation, it would be too easy for the office employee to create a phantom creditor and write cheques to him or herself. **(1)** * Cash is generally cleared once a week and kept on the premises. This is unsafe as any of the employees can gain access to the office and to the cash. Too easy to take cash and no way of knowing who may have taken it. (1) * No established lines of responsibility for the cash. Any sales person, or the office person can clear the cash from the registers so no one person can be held responsible for the cash. **(1)** * There is no verification or checking process for cash. The Accountant does not prepare a bank reconciliation so there is no checking of journals against the bank statement, so there is no way of checking the cash received or paid against sales or legitimate payments. **(1)**   Possible improvements **(1 mark each suggestion to a maximum of three (3) improvements)**   * Established lines of responsibility / Segregation of duties – Each sales person be given access to only one cash register and made responsible for only one section of the business. Excess cash be removed daily from the register by the sales person and taken to the office where the office person counts the cash with the sales person present. * Office person to record cash received and collected, then cash put into a safe. * Cash to be deposited into the bank, intact, by Bruce once a week. * Only Bruce & Office employee to have access to the combination to the safe. * CCTV cameras to be installed in the office and over cash registers. * Manager to read the cash registers at end of each day and pass readings onto the office person to record the daily sales. * Accountant and Manager to reconcile daily sales with cash collected and EFTPOS sales. * Accountant to prepare a bank reconciliation once a month to detect theft/possible errors |  |

**(B)**

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Comprehensively discusses four (4) limitations of internal controls | 8 |
| Comprehensively discusses three (3) limitations of internal controls | 6 |
| Briefly outlines four limitations with some discussion | 5 |
| Briefly discusses some limitations with limited discussion | 1-4 |
| **Total** | **/8** |
| **Answer could include, but is not limited to** |  |
| * Internal controls will only work if the employees follow set procedures. Human nature is such that when employees are careless, negligent, apathetic or suffer from fatigue, internal control systems can be ineffective. Some individuals will find ways around internal controls, this is when errors or fraud may occur. **(2)** * Two or more employees may agree to work together or collude to commit fraud. In the above example, the office person could collude with the salespersons and the accountant to commit fraud and cover the theft by changing records. **(2)** * In some businesses, the costs of implementing the internal controls may outweigh the benefits. For example employing extra staff just to segregate some duties may not be viable. **(2)** * The use of computerised systems now makes the segregation of duties, and checking procedures more difficult to implement. More often than not, one person using a computerised system will complete several functions, leaving the business open to fraud. **(2)** |  |

**(C)**

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| --- | --- |
| **Description** | **Marks** |
| Comprehensively discusses and compares the main features of the two systems | 6 |
| Briefly describes 2 to 3 differences between the two systems | 3-5 |
| States one or two facts about one or both of the systems | 1 - 2 |
| **Total** | **/6** |
| **Answer could include, but is not limited to** |  |
| * Periodic system: * Relies on a periodic stocktake to determine the quantity of inventory on hand. (1) * No continuous record is kept of the movement of inventory in or out of the business. (1) * Cost of Sales can only be determined after a stocktake and is calculated - by Opening Inventory + Purchases – Closing Inventory. (1) * Perpetual system: * Keeps a continuous record of the movement of inventory in and out of the business. (1) * Cost of Sales is determined after each sale and inventory account is constantly updated. (1) * Stocktake is still done but for control purposes. After the stocktake, actual stock on hand is compared with what should be on hand and discrepancies may mean lost or stolen inventory. (1) |  |

**(D)**

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| --- | --- |
| **Description** | **Marks** |
| Accurately describes both the Weighted Average and FIFO method | 3-4 |
| Only describes one of the two methods accurately | 2 |
| States one fact about one of the systems | 1 |
| **Total** | **/4** |
| **Answer could include, but is not limited to** |  |
| * The weighted average method of inventory costing determines the total cost of inventory at any time by dividing the total cost of merchandise available for sale by the total number of units available for sale to give the average cost. (2) * The first-in first-out method of inventory costing assumes that the inventory sold at any time is always the stock that was purchased first. The cost of sales is therefore the cost of the oldest units in stock. (2) |  |

**(E)**

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Accurately defines an asset as per the Framework, and clearly explains how each of the three elements of the definition applies to inventory. | 4 |
| Accurately defines an asset as per the Framework, and clearly explains how two of the three elements of the definition applies to inventory. | 3 |
| Accurately defines an asset as per the Framework, and clearly explains how one of the three elements of the definition applies to inventory | 2 |
| Only defines an asset as per the Framework | 1 |
| **Total** | **/4** |
| **Answer could include, but is not limited to** |  |
| The Conceptual Framework defines an asset as:  a present economic resource controlled by the entity as a result of past events. (1)  An **‘economic resource’** is defined in the Conceptual Framework as: *a right that has the potential to produce economic benefits.* When inventory is purchased, it is held with the intention of selling it in the near future to generate a profit. When it is sold, cash or Accounts Receivable is the economic benefit generated. **(1)**  When the inventory is delivered to Clever Household Pty Ltd, it controls the asset as it is now in the company’s possession and only Clever Household can direct where and how it is stored and managed. (1)  This control is passed on as a result of the purchase and delivery in the past, which is the past event that brings the asset into existence. **(1)** |  |