

**ACCOUNTING & FINANCE**

**UNITS 1 & 2, 2022**

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 Booklet

***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 | 25 | 15 | 15 |
| Section Two:  Short answer | 4 | 4 | 120 | 133 | 70 |
| Section Three:  Extended answer | 2 | 1 | 35 | 30 | 15 |
|  | | | | | 100 |

**Section One: Multiple-choice 15% (15 Marks)**

This section has **15** questions. Answer **all** questions on the separate Multiple-choice answer sheet provided. For each question, shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square then shade your new answer. Do not erase or use correction fluid/tape. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question. Each question is worth one mark. Attempt **all** questions. Choose the most correct answer.

Suggested working time for this section is 25 minutes.

1. Financial institutions may ask for collateral in loan applications to
2. minimise the risk to the borrower.
3. minimise the risk to the lender.
4. ensure regular repayments.
5. discourage bad debts.
6. Which of the following statements best describes the concept of ‘gearing’ when it

comes to financing a business.

1. The extent of external borrowings compared to funds provided internally by the owners.
2. Measured by calculating the quick ratio.
3. It is a strategy used by management to solve a liquidity problem.
4. When a business has greater debt than equity.
5. The accounting entity concept is important because
6. it influences the financial statements that represent the financial state of the business.
7. all records of the business are to be kept separate and distinct from the owners of the business.
8. all business decisions should be made from the point of view of the owners of the business and not the entity itself.
9. it separates liability between the owner of the business and the entity itself which is important for debt responsibility.
10. Which of the following statements would **not** be correct?
11. Cheques are slowly being phased out as electronic payment methods allow faster and more convenient transfer of funds between businesses.
12. Codes of conduct must be followed by accountants as they are mandated by law and regulated by ASIC.
13. Small business owners have an ethical obligation towards their customers, employees, taxation authorities and the general community.
14. The carrying amount of an asset shown in the balance sheet is the difference between the cost and the accumulated depreciation to date.
15. Straight-line depreciation is suitable for
16. all non-current assets, especially those of a depreciable nature.
17. depreciable assets that provide high revenue in the initial years of use.
18. depreciable assets that provide consistent carrying value over their useful life.
19. depreciable assets that are used and maintained in a consistent manner.
20. Stock of supplies are
21. purchased in bulk for re-sale.
22. purchased in bulk not for re-sale.
23. classed as non-current assets.
24. included in the calculation of profit.
25. Credit cards should generally be used in business for
26. the payment of large loans and outstanding debts.
27. to meet the minimum repayments on loans.
28. short-term financing.
29. the purchase of non-current assets.
30. The Rate of Return on Assets is a ratio
31. that indicates the profitability of non-current assets.
32. that indicates the efficient use of current assets.
33. used to measure the efficient management of debt.
34. that determines the income generating capacity of assets.
35. Which of the following statements is correct?
36. An advantage of sole trader businesses is that they pay tax at a flat rate of 30%.
37. The going concern concept says accountants would report assets of a business using their liquidation values.
38. Equity is the residual interest left once assets are added to the liabilities.
39. A partnership agreement will allow partners to determine how profits are to be shared rather than equally as stated in the *Partnership Act 1895.*
40. The inventory valuation method of First-in First-out is most suitable for inventory that
41. is difficult to count individually.
42. is subject to use-by dates or obsolescence.
43. can be averaged across the same product.
44. requires cost of sales to be constant.
45. The main advantage of direct debits is that they
46. ensure bills are regularly paid on time.
47. guarantee liquidity control and cash availability.
48. do not attract penalties when funds are low.
49. can be set up automatically without authorisation.
50. Select the transaction that best illustrates the practice of accrual accounting.
51. Paid wages 5thJuly 2022, for services rendered for the fortnight ended 30th June 2022.
52. Purchased new machinery January 25th 2022 but was ready for use March 10th 2022.
53. Paid $5,000 for 5 advertising commercials 1st April 2022 and expensed $3,000 on 30th June 2022.
54. Injected $10,000 into the business, 14th May 2022.
55. Which of the following is not used to evaluate the liquidity position of a business?
56. Working capital
57. Debt to equity ratio
58. Current ratio
59. Quick asset ratio
60. Select the incorrect statement about personal bankruptcy according to the Bankruptcy Act 1966 (WA).
61. a creditor can make you bankrupt through a court order.
62. an individual can voluntarily apply for bankruptcy.
63. bankruptcy usually lasts for 3 years and one day.
64. all debts can be cleared under the Bankruptcy Act.
65. To gain advice for personal wealth creation would be to go to

1. CPA Australia
2. Chartered Accountants Australia and New Zealand
3. The Institute of Public Accountants
4. Financial Planning Association of Australia Limited

**End of Section One**

**Section Two: Short answer 70% (133 Marks)**

This section has **four** questions. Answer **all** questions. Write your answers in the space provided.

Spare pages are included 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 for this section is 120 minutes.

**Question 16 (38 Marks)**

Carts Galore manufactures state of the art shopping carts. New machinery was purchased to integrate smart features for supermarket roll outs. The new machinery was purchased 1 March 2022 for $65,000 plus $6,500 GST. It was sold July 31st, 2024 for $12,000, excluding GST. The firm applies the reducing balance method of depreciation for machinery at 12% pa.

Round calculations to the nearest dollar.

1. Calculate the accumulated depreciation up to sale date. (14 marks)

Accumulated Depreciation is $ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Prepare the General Journal entries required on sale date. (12 marks)

Workings:

**Carts Galore**

**General Journal**

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| --- | --- | --- | --- |
| **Date** | **Particulars** | **Debit** | **Credit** |
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(c) Prepare the relevant closing General Journal entry/ies required on 30 June 2025. (6 marks)

**Carts Galore**

**General Journal**

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| --- | --- | --- | --- |
| **Date** | **Particulars** | **Debit** | **Credit** |
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1. Define the historical cost principle and describe the need for depreciation. (3 marks)

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(e) Carts Galore requires finance to purchase the new machinery on 1 March 2022. Outline   
 **three** risk factors financial institutions would consider before approving finance.

(3 marks)

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**Question 17 (42 Marks)**

Yellow Tearoom provides the following unadjusted trial balance as at 30 June 2022:

**Yellow Tearoom**

**Unadjusted Trial Balance**

**as at 30 June 2022**

|  |  |  |
| --- | --- | --- |
| **Ledger Accounts** | **Debit** | **Credit** |
| Equipment and Furniture | 40,000 |  |
| Cash at Bank | 99,700 |  |
| Investments | 50,000 |  |
| Mortgage |  | 55,000 |
| Gross profit |  | 119,000 |
| Prepaid Advertising | 12,000 |  |
| Utilities | 7,800 |  |
| Prepaid Insurance | 1,500 |  |
| Wages | 80,000 |  |
| Stock of Supplies | 45,000 |  |
| Accounts Payable |  | 27,000 |
| Loan – IXG due 2029 |  | 40,000 |
| Capital |  | 95,000 |
|  | 336,000 | 336,000 |
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The following adjustments are required at 30 June 2022:

* Equipment and Furniture was purchased 31 January 2022. The estimated life is set at eight years and the residual value is $5,000. Depreciate the asset using the straight-line method. Round to the nearest dollar.
* Advertising was paid on 1 November 2021 for 12 months.
* Insurance paid in advance on 30 June 2022 was $700.
* Wages incurred for the 2022 financial year was $145,000
* Stock of supplies unused on 30 June 2022 was $9,000.

1. Calculate the profit or loss for the period. (14 marks)

Workings:

1. Prepare the Statement of Financial Position (Balance Sheet) for Yellow Tearoom as at 30 June 2022. (21 marks)

**Yellow Tearoom**

**Statement of Financial Position**

**as at 30 June 2022**

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1. In the last three years up to 2021, Yellow Tearoom sustained consecutive losses. Explain the going concern principle for Yellow Tearoom. (3 marks)

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1. Define Equity according to the Conceptual Framework. (1 mark)

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1. Explain the purpose of the Statement of Financial Position (Balance Sheet) for Yellow Tearoom. (3 marks)

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**Question 18 (36 Marks)**

E-Transportable Services provide the following information as at 15 June 2022:

Accounts Receivable 35,000

Allowance for Doubtful Debts 980

Bad debts 1,070

Utilities 8,000

Hiring Equipment 85,000

Rent 60,000

Loan RTR due 2034 65,000

Capital 190,390

Prepaid Advertising 7,300

GST Payable 65,000

Unearned Fees 130,000

Investments 80,000

Interest on Investments 2,500

Wages 50,000

Cash at Bank 135,000

Transactions for the remainder of June are as follows:

June 17 Paid 12 weeks of insurance $3,000, plus $300 GST.

21 Paid fortnightly wages $2,400 in arrears.

30 Additional bad debts $1,000.

Allow for doubtful debts to be 2% of Accounts Receivable.

Advertising incurred $1,200.

Fees earned $125,000.

One week’s wages are still owing.

1. Prepare the General Ledger entries for the remaining June transactions (above) and then complete balance day adjustment entries at 30 June 2022. Balance required accounts at 30 June 2022. **(No closing entries required)** (31 marks)

Workings:

**E-Transportable Services**

**General Ledger**

**Cash At Bank**

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**Prepaid Insurance**

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**Wages**

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**Accounts Receivable**

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**Allowance for Doubtful Debts**

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**Prepaid Advertising**

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**Unearned Fees**

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**Interest on Investments**

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**Accrued Wages**

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**Insurance**

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(b) Outline two errors disclosed by a Trial Balance. (2 marks)

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1. Explain the purpose of a Trial Balance. (3 marks)

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**Question 19 (17 Marks)**

Tony Tier is the owner of a newly registered business called Tier Constructions. He provides you with the following transactions for the first month of trade:

2022

May 1 The business commenced with the following accounts: cash $32,000,   
 equipment $35,000.

15 Purchased machinery $25,000 plus 10% GST.

18 Charged customer FXY fees for site works $1,540 including GST. Account is  
 payable within seven days.

25 Charged customer ABC for site works $6,600 including GST. Account is   
payable within seven days.

29 FXY was declared bankrupt. Write off this customer as a bad debtor.

1. Prepare the General Journal for the above transactions.

(17 marks)

Workings:

**Tier Constructions**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Particulars** | **Debit** | **Credit** |
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**End of Section Two**

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

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

Suggested working time for this section is 35 minutes.

**Question 20 (30 Marks)**

Lizard Machinery Pty Ltd is a new business selling baking equipment. In its first year of operation, the business made a gross income of $75,000. The director of the company, G Lizard, requires answers to the following questions:

1. Explain the nature of four (4) types of electronic processing methods for dealing with receipts and payments. For each method, give one benefit Lizard Machinery Pty Ltd would gain by introducing the process. (12 marks)
2. Discuss the company’s obligations regarding the GST. (3 marks)
3. Explain why a shareholder may not be responsible for any debts incurred by Lizard Machinery Pty Ltd. (3 marks)

(d) Selling baking equipment requires control of inventory to ensure stock is not obsolete or damaged.

1. Distinguish between the inventory methods of FIFO and Weighted Average with an example to illustrate. Recommend which method would be appropriate for the business and justify your response. (7 marks)
2. Describe how inventory can be controlled to reduce the effects of obsolescence or damage. (2 marks)
3. Describe **three** limitations that can make inventory control difficult to achieve.

(3 marks)

**OR**

**Question 21 (30 Marks)**

M Abrol owns and operates Swingalong Chairs Pty Ltd which manufactures and wholesales stylish swing chairs for the outdoors. The company has five shareholders, all of which are family members who have invested heavily in the company.

Provide appropriate responses to the following questions:

1. Briefly describe the following characteristics of a Pty Ltd company: (6 marks)

* number of owners
* liability of owners
* separate legal existence

1. M Abrol would like to purchase new plant and equipment costing $190,000 to increase production capacity.
   1. Recommend an appropriate external method of finance. (2 marks)
   2. Explain one disadvantage of this source of finance. (3 marks)
2. Plant and Equipment that will be most efficient in its first years of life, needs to be depreciated utilizing an appropriate method.  
   1. Explain the nature of depreciation as a balance day adjustment. (3 marks)
   2. Recommend an appropriate method of depreciation for the asset. (3 marks)
   3. Describe the consequence for profit if an incorrect method of   
      depreciation was applied. (2 marks)
3. As a director of Swingalong Pty Ltd, M Abrol will need the services of an accountant. Briefly describe the differing roles of each of the following professional accounting and financial association bodies: (6 marks)

* CPA Australia
* CAANZ
* Financial Planning Association of Australia Limited

(e) Describe the nature and explain the purpose of professional codes of conduct for members of professional accounting service providers. (5 marks)

**ANSWER QUESTION 20 OR 21 IN THE EXTRA BOOKLET**

**End of section three**