**Marking Key**

**ACCOUNTING AND FINANCE**

**Year 11 ATAR**

This is a provisional marking key developed by BEWA that can be reviewed and modified by the teacher as necessary.

This marking key does not show the only alternatives possible. Candidates should not be penalized for consequential errors, alternative responses or presentations.

**This Marking Key may not be released to students until towards the end of Term 4 for the security of the examination being done by other schools up until this time.**

**BEWA Semester Two Examination 2022**

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

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

**Section Two: Short answer 70% (141 Marks)**

**Question 16 (38 Marks)**

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

2022 65,000 x 0.12 x 4/12 = 2,600 *(1+1+1)*

2023 65,000 – 2,600 = 62,400 x 0.12 = 7,488 *(1+1+1)*

2024 65,000 – (2,600+7,488) x 0.12 = 6,589 *(1+1+1)*

2025 65,000 – (2,600+7,488+6,589) x 0.12 = 5,799 x 1/12 = 483 *(1+1+1+1)*

Therefore, accumulated depreciation = (2,600+7,488+6,589+483) = $**17,160** (1)

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

**Carts Galore**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Debit** | **Credit** | **Marks** |
| 31/7/26 | Sale of Asset | 65,000 |  | 1 |
|  | Machinery |  | 65,000 | 1 |
|  | Transferred historical cost |  |  |  |
|  | Accumulated Depreciation | 17,160 |  | 1 |
|  | Sale of Asset |  | 17,160 | 1 |
|  | Transferred accumulated depreciation |  |  |  |
|  | Bank | 12,000 |  | 1 |
|  | Sale of Asset |  | 12,000 | 1 |
|  | Gross proceeds on sale of asset |  |  |  |
|  | Loss on sale | 35,840 |  | 1+1 |
|  | Sale of Asset |  | 35,840 | 1 |
|  | Loss on sale due to under depreciation |  |  |  |
|  | **Add 1 mark for date, add 1 mark for narrations: Total** | | | **11** |

loss on sale = 65,000 – (17,160+12,000) = $35,840*(1)*

***OR***

**Carts Galore**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Debit** | **Credit** | **Marks** |
| 31/7/26 | Sale of Asset | 65,000 |  | 1 |
|  | Machinery |  | 65,000 | 1 |
|  | Transferred historical cost |  |  |  |
|  | Accumulated Depreciation | 17,160 |  | 1 |
|  | Sale of Asset |  | 17,160 | 1 |
|  | Transferred accumulated depreciation |  |  |  |
|  | Bank | 13,200 |  | 1 |
|  | Sale of Asset |  | 12,000 | 1 |
|  | GST payable |  | 1.200 |  |
|  | Gross proceeds on sale of asset |  |  |  |
|  | Loss on sale | 35,840 |  | 1+1 |
|  | Sale of Asset |  | 35,840 | 1 |
|  | Loss on sale due to under depreciation |  |  |  |
|  | **Add 1 mark for date, add 1 mark for narrations: Total** | | | **11** |

loss on sale = 65,000 – (17,160+12,000) = $35,840*(1)*

(c ) Prepare the general journal entries required on 30 June 2025. (6 marks)

**Carts Galore**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Debit** | **Credit** | **Marks** |
| 30/6/26 | Profit and Loss | 36,323 |  | 1 |
|  | Depreciation |  | 483 | 1 |
|  | Loss on Sale |  | 35,840 | 1 |
|  | Closing entry |  |  | 1 |
|  | **Add 1 mark for date, add 1 mark for narrations: Total** | | | **6** |

OR:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Debit** | **Credit** | **Marks** |
| 30/6/26 | Profit and Loss | 483 |  | 1 |
|  | Depreciation |  | 483 | 1 |
|  | Close off depreciation expense |  |  |  |
|  | Profit and Loss | 35,840 |  | 1 |
|  | Loss on Sale |  | 35,840 | 1 |
|  | Closing entry |  |  |  |
|  | **Add 1 mark for date, add 1 mark for narrations: Total** | | | **6** |

1. Define the historical cost principle and describe the need for depreciation. (3 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Historical Cost Principle** |  |
| Defines the historical cost principle. | 1 |
| **Sub Total** | **1** |
| **Need for Depreciation** |  |
| Describes the need for depreciation. | 2 |
| States a relevant point for depreciation. | 1 |
| **Sub Total** | **1** |
| **Total** | **3** |
| Answer could include:  **Historical Cost Principle**  Defines  The historical cost principle states that the value of a transaction is recorded at the time the transaction occurred and not altered for current market value.  **Need for Depreciation**  Describes  Historical cost values of depreciable non-current assets are depreciated to illustrate the portion of the asset that has been used in earning the business income and to adjust the balance sheet to prevent overstating the total value of assets by representing the carrying value left after depreciation is applied.  States   * Illustrates historical cost used up. * Prevents overstating assets in the balance sheet. * Prevents overstating profits in the income statement. * Historical cost can’t remain the same value year after year.   Accept any other correct, relevant answer. | |

(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)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Outlines three risk factors considered before approving finance. | 3 |
| Outlines two risk factors considered before approving finance. | 2 |
| Outlines one risk factor considered before approving finance. | 1 |
| **Total** | **3** |
| Answer could include: Any three factors below:   * Collateral – providing assets for surrender to the same value of the finance. * Guarantor – specifying someone who will step in to continue repayments if there is a default. * History – financial history of repaying debts on time. * Liquidity – ability to raise cash to pay for debts.   Accept any other correct, relevant answer. | |

**Question 17 (42 Marks)**

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

Depreciation

40,000 – 5,000 = 4,375 pa x 5/12 = **1,823** expense *(1+1+1+1)*

8

Prepaid Advertising

12,000 ÷ 10 = 1,000 per month x 8 = **8,000** expense *(1+1+1)*

12,000 – 8,000 = **4,000** prepaid *(1)*

Prepaid Insurance

1,500 – 700 = **800** expense *(1+1)*

Wages

145,000 – 80,000 = **65,000** accrued *(1+1)*

Stock of Supplies

45,000 – 9,000 = **36,000** expense *(1+1)*

Profit or Loss

Gross profit less expenses

119,000 – (1,823+8,000+800+145,000+36,000+7,800) = **$80,423 Loss**

1. *(4) (3) (2) (1) (2) (1)*
2. 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**

|  |  |  |
| --- | --- | --- |
| **Current Assets** |  | **Marks** |
| Cash at Bank | 99,700 | 1 |
| Prepaid Advertising | 4,000 | 1 |
| Stock of Supplies | 9,000 | 1 |
| Prepaid Insurance | 700 | 1 |
| Total Current Assets | 113,400 | 1 |
| **Non-Current Assets** |  |  |
| Investments | 50,000 | 1 |
| Equipment and Furniture 40,000 |  | 1 |
| Less Accumulated Depreciation (1,823) | 38,177 | 1 |
| Total Non-Current Assets | 88,177 | 1 |
| Total Assets | 201,577 | 1 |
| **Current Liabilities** |  |  |
| Accounts Payable | 27,000 | 1 |
| Accrued Wages | 65,000 | 1 |
| Total Current Liabilities | 92,000 | 1 |
| **Non-Current Liabilities** |  |  |
| Mortgage | 55,000 | 1 |
| Loan – IXG due 2029 | 40,000 | 1 |
| Total Non-Current Liabilities | 95,000 | 1 |
| Total Liabilities | 187,000 | 1 |
| **Net Assets** | 14,577 | RE 1 |
| **Equity** |  |  |
| Capital | 95,000 | 1 |
| Less Loss | (80,423) | RE 1 |
| Total Equity | 14,577 | 1 |
| **Total** | | **21** |

-1 mark for poor setting out, -3 MAX for incorrect classification, -3 MAX for foreign items

(c) Explain the going concern principle for Yellow Tearoom (3 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explains the going concern for Yellow Tearoom. | 3 |
| Describes the going concern principle. | 2 |
| Defines the going concern principle only. | 1 |
| **Total** | **3** |
| Answer could include:  Explains  The going concern principle assumes that the life of the business will continue into the foreseeable future. Having sustained three consecutive losses and once again a large loss for 2022, it can be viewed that Yellow Tearoom may not be a going concern for very much longer. This is because losses create financial instability for the owner/s and its creditors which makes it difficult to remain optimistic and continue investment in a business that is not able to make a return on its investment. Losses also create liquidity issues especially when the business has liabilities that it owes money to in the short and long term.  Describes  The going concern principle assumes that the life of the business will continue into the foreseeable future. The going concern for Yellow Tearoom is threatened by the losses of the past four years and it can be assumed that it will not be in business for very much longer if it can’t make profits soon.  Defines  The going concern principle assumes that the life of the business will continue into the foreseeable future.  Accept any other correct, relevant answer. | |

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

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Accurately defines Equity according to the Conceptual Framework. | 1 |
| **Total** | **1** |
| Answer could include:  Equity is *the residual interest in the assets of the entity after deducting the liabilities*. | |

(e) Explain the purpose of the Statement of Financial Position for Yellow Tearoom.

(3 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explains the purpose of the Statement of Financial Position. | 3 |
| Describes the purpose of the Statement of Financial Position. | 2 |
| States a relevant point about the Statement of Financial Position. | 1 |
| **Total** | **3** |
| Answer could include:  Explains  The Statement of Financial Position is a statement that illustrates the assets, liabilities and equity of a business. It illustrates, in financial terms, the financial stability of the business by comparing the total assets with total liabilities at a particular point in time. The statement is heavily relied upon by business owners, investors and creditors of the claims that can be made upon the assets of the business should the business face financial instability. The statement also provides information to carry out financial analysis using ratios to assess liquidity and leverage of the business over a period of time to determine trends and predictable outcomes for the business. This is important for deciding continued investment in the business and the business as a going concern.  Describes  The purpose of the Statement of Financial Position is to illustrate, in financial terms, the financial stability of the business by comparing the total assets with total liabilities at a particular point in time and assessing the financial state of the business in terms of liquidity and leverage of the business.  States  The Statement of Financial Position is a statement that illustrates the assets, liabilities and equity of a business.  Accept any other correct, relevant answer. | |

**Question 18 (36 Marks)**

1. Prepare the General Ledger entries for the remaining June transactions. Enter the required opening balances and then balance required accounts at 30 June 2022. (31 marks)

Workings:

GST E-Scooter Prepaid Insurance

540 x 0.10 = 54 (1) 3,000 ÷ 12 = 250 per week (1+1)

250 x 2 = 500 incurred (1)

Allowance for Doubtful Debts

35,000 – 1,000 x 0.05 = 680 (1+1+1)

Interest on Investments

80,000 x 0.05 = 4000 (1+1)

4,000 – 2,500 = 1,500 (1+1) accrued interest

Accrued Wages

2,400 ÷ 2 = 1,200 (1)

**E-Transportable Services**

**General Ledger**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 15/6/22 | Balance b/d | 135,000 | 17/6/22 | Prepaid insurance | 3,000 | 1+1 |
|  |  |  |  | GST Receivable | 300 | 1 |
|  |  |  | 21/6/22 | Wages | 2,400 | 1 |
|  |  |  | 30/6/22 | Balance c/d | 129,300 |  |
|  |  | 135,000 |  |  | 135,000 |  |
| 1/7/22 | Balance b/d | 129,300 |  |  |  | 1 |

**Cash At Bank**



**Prepaid Insurance**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 17/6/22 | Cash at bank | 3,000 | 30/6/22 | Insurance | 500 | 1+1+1 |
|  |  |  |  | Balance c/d | 2,500 |  |
|  |  | 3,000 |  |  | 3,000 |  |
| 1/7/22 | Balance b/d | 2,500 |  |  |  | 1 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 15/6/22 | Balance b/d | 50,000 |  |  |  |  | 1 |
| 21/6/22 | Cash at bank | 2,400 |  |  |  |  | 1 |
| 30/6/22 | Accrued wages | 1,500 |  |  |  |  | 1+1 |
|  |  | 53,600 |  |  |  |  |  |

**Wages**

**Accounts Receivable**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 15/6/22 | Balance b/d | 35,000 | 30/6/22 | Bad debts | 1,000 | 1+1 |
|  |  |  |  | Balance c/d | 34,000 |  |
|  |  | 35,000 |  |  | 35,000 |  |
| 1/7/22 | Balance b/d | 34,000 |  |  |  | 1 |

**Allowance for Doubtful Debts**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 30/6/22 | Bad debts | 2,070 | 15/6/22 | Balance b/d | 980 | 1+1 |
|  | Balance C/d | 680 | 30/6/22 | Doubtful debts | 1,770 | 1+1+1 |
|  |  | 2,750 |  |  | 2,750 |  |
|  |  |  | 1/7/22 | Balance b/d | 680 | 1 |

**Prepaid Advertising**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 15/6/22 | Balance b/d | 7,300 | 30/6/22 | Advertising | 1,200 | 1+1 |
|  |  |  |  | Balance c/d | 6,100 |  |
|  |  | 7,300 |  |  | 7,300 |  |
| 1/7/22 | Balance b/d | 6,100 |  |  |  | 1 |

**Unearned Fees**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 30/6/22 | Fees income | 125,000 | 15/6/22 | Balance b/d | 130,000 | 1+1 |
|  | Balance c/d | 5,000 |  |  |  |  |
|  |  | 125,000 |  |  | 125,000 |  |
|  |  |  | 1/7/22 | Balance b/d | 5,000 | 1 |

**Interest on Investments**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  | 15/6/22 | Balance b/d | 2,500 | 1 |
|  |  |  |  |  |  |  |

**Accrued Wages**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  | 30/6/22 | Wages | 1,200 | 1 |

**Insurance**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 30/6/22 | Prepaid Insurance | 500 |  |  |  | 1 |

**TOTAL 31**

Students must demonstrate correct balance carried down and brought down with correct dates to gain the allocated 1 mark on 30 June 2022.

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

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Outlines two errors disclosed by a Trial Balance. | 2 |
| Outlines one error disclosed by a Trial Balance | 1 |
| **Total** | **2** |
| Answer could include: Any two of the following: 1 mark each   * An account was debited but the corresponding account was not credited. * Two debits or two credits were made for a transaction. * Figures were transposed for an account. * Incorrect adding or subtracting in the balancing of accounts. * Incorrect adding of the Trial Balance columns.   .  Accept any other correct, relevant answer. | |

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

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explains the purpose of a Trial Balance with a reason. | 3 |
| Describes the Trial Balance. | 2 |
| Defines the Trial Balance | 1 |
| **Total** | **3** |
| Answer could include:  Explains  The purpose of the Trial Balance is to ensure that the double entry process was correctly carried out in the General Ledger. It also ensures that the reports from which the final account balances are used provide accurate financial information for the assessment of the business’s financial performance, stability and liquidity. Users who rely on accurate financial information are dependent upon recording systems be accurate and preparing a Trial Balance provides an internal control tool for accurate reporting.  Describes  A Trial Balance is a statement prepared at a particular date that lists all of the General Ledger accounts and their final balances recorded in the debit or credit column. The debit and credit columns are added to check if they agree and that the double entry process has been carried correctly before reports are prepared or adjustments made and can be prepared after closing entries.  Defines  A Trial Balance is a statement that lists General Ledger accounts and their balances to check the accuracy of double entry.  Accept any other correct, relevant answer. | |

**Question 19 (17 Marks)**

1. Prepare the General Journal for the above transactions. (17 marks)

Workings:

May 15 25,000 x.1 = 2,500

18 1,540 ÷ 11 = 140

25 6.600 ÷ 11 = 600

**Tier Constructions**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Debit** | **Credit** | **Marks** |
| 2022  May 1 | Cash | 32,000 |  | 1 |
|  | Equipment | 35,000 |  | 1 |
|  | Capital |  | 67,000 | 1 |
|  | *Equipment and cash contributed by owner* |  |  |  |
| 15 | Machinery | 25,000 |  | 1 |
|  | GST Credits | 2,500 |  | 1 |
|  | Cash |  | 27,500 | 1 |
|  | *Purchase of machinery* |  |  |  |
| 18 | Accounts Receivable - FXY | 1,540 |  | 1 |
|  | GST Payable |  | 140 | 1 |
|  | Fees Income |  | 1,400 | 1 |
|  | *Fees made on credit* |  |  |  |
| 25 | Accounts Receivable - ABC | 6,600 |  | 1 |
|  | GST Payable |  | 600 | 1 |
|  | Fees Income |  | 6,000 | 1 |
|  | *Fees made on credit* |  |  |  |
| 29 | Bad Debts | 1,400 |  | 1 |
|  | GST Payable | 140 |  | 1 |
|  | Accounts Receivable - FXY |  | 1,540 | 1 |
|  | *Write-off of bad debts* |  |  |  |
| **1 mark for dates, 1 mark for narrations Total** | | | | **17** |

**End of Section Two**

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

**Question 20 (30 marks)**

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Explain the nature of four 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** |
| **Answer: Any four of the following types** |  |
| EFTPOS – Electronic Funds Transfer at Point of Sale (1/2)– is a system allowing customers to use either their debit or credit(1/2) card to pay for their goods (1). Funds are transferred from the customers bank to Lizard Machinery Pty Ltd’s bank. (1)  Possible benefits – 1 mark for a well explained benefit   * More convenience for customers, some customers may not buy if they don’t have the cash * Less handling of cash by the business. Less opportunity of theft * Other reasonable benefits offered by students (1) | (3) |
| Bill Payments – Electronic payment system – is a system allowing Lotza to pay suppliers by using online banking rather than sending a cheque. Bank will transfer funds directly to supplier and debit Lizard Machinery Pty Ltd’s account. (2)  Possible benefits   * Removes cost of preparing and handling of cheques * Overseas suppliers are paid in their currency as a service offered by banks * Other reasonable benefits offered by students (1) | (3) |
| Direct Debits – regular recurring payments such as rent, and other fixed payments can be made by setting up an automatic request to transfer funds at the same time each period. A direct debit is made from Lizard Machinery Pty Ltd’s account to a supplier’s account. (2)  Possible benefits   * Removes cost of preparing and handling of cheques * Removes need to continuously authorise payments * Other reasonable benefits offered by students (1) | (3) |
| Credit Cards – where funds are provided by an outside provider allowing the user to pay the provider at a later date. A form of short-term finance for both Lizard Machinery Pty Ltd and its customers. (2)  Possible benefits   * Gives the business a short-term form of financing * Gives their customers flexibility of payments without Lizard Machinery Pty Ltd having to chase them * Payments from credit customers easily processed * Funds received immediately rather than having to handle customer’s cheques which take time to be presented * Other reasonable benefits offered by students (1) | (3) |
| Online banking – a system offered by banks where funds can be transferred between entities electronically,(1.5) without the use of cash(0.5).  Possible benefits   * Lizard Machinery Pty Ltd’s can accept payments from credit customers electronically rather than by cheque * Could lead to increase in business due to convenience offered its customers. * All payments and receipts recorded automatically allowing for better control * Other reasonable benefits offered by students (1) | (3) |
| **Total** | **/12** |

1. Discuss the company’s obligations regarding the GST. (3 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Discusses the company’s obligations regarding the GST including positive and negative aspects of the GST. | 3 |
| Describes a few relevant aspects of the GST for the company. | 2 |
| States one relevant point about the GST for the company. | 1 |
| **Total** | **3** |
| Answer could include:  Discusses  Lizard Machinery Pty Ltd has reached the threshold for recording the GST. When a business reaches gross income of $75,000 or more, it must register for the GST.  GST stands for Goods and Services Tax which is a Federal tax that businesses are obliged to administer when they reach the required threshold.  Up until then, the company did not have to worry about collecting the GST which made its recording process simple. Now that it has reached the threshold, the company needs to put in place recording of the GST to the sale of its goods. The business is carrying on an enterprise in Australia where its baking equipment is being bought and sold which makes the business eligible to apply for the GST. Selling baking equipment is a taxable supply that attracts the GST.  Every sale made from now on needs to impose 10% GST which must be disclosed clearly on any tax invoice. The price can be stated as plus GST or inclusive of GST. They must also have two additional ledger accounts one called GST Credits which it can claim the GST when it purchases inventory and another account called GST Payable that records the 10% charged added onto every sale.  At the end of each month or quarter, the company will need to complete a Business Activity Statement (BAS) that details the company’s income, GST collection and credits as well as other information for the Australian Taxation Office (ATO). At the end of the year a reconciliation of GST needs to be made when the company’s income statement is prepared to ensure any additional GST outstanding is paid or refund expected.  Failure to administer the GST will result in hefty penalties depending upon the size of the business and frequency of the penalties. Deliberate evasion of GST can incur imprisonment. It is an obligation of all businesses to pay correct taxes to avoid penalties and potential damaged reputation and business sales.  Describes  Lizard Machinery Pty Ltd has reached the threshold for recording the GST. When a business reaches gross income of $75,000 or more, it must register for the GST.  Every sale made from now on needs to impose 10% GST which must be disclosed clearly on any tax invoice. The price can be stated as plus GST or inclusive of GST. They must also have two additional ledger accounts one called GST Credits which it can claim the GST when it purchases inventory and another account called GST Payable that records the 10% charged added onto every sale.  At the end of each month, the company will need to complete a Business Activity Statement (BAS) that details the company’s income, GST collection and credits as well as other information for the Australian Taxation Office (ATO).  States   * Register for GST with ATO as $75,000 threshold is reached so now need to charge and collect GST. * Failure to administer the GST will result in hefty penalties. * Lizard Machinery Pty Ltd has reached the threshold for recording the GST. * GST stands for Goods and Services Tax which is a Federal tax that businesses. * Selling baking equipment is a taxable supply that attracts the GST.   Accept any other correct, relevant answer. | |

1. Explain why a shareholder may not be responsible for any debts incurred by Lizard Machinery Pty Ltd. (3 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explains why a shareholder may not be responsible for company debts. | 3 |
| Describes the separate legal entity concept. | 2 |
| States one relevant fact about shareholders and liability in the company. | 1 |
| **Total** | **3** |
| Answer could include:  Explains  A shareholder is a part owner of a company, and whilst it owns shares in a company, it is separate and distinct from the company’s name. This is because a company is an artificial person created in law that enables it to carry out business transactions in its own name, purchase or sell assets, invest assets and create debts in its own name too. This is due to the separate legal entity concept which protects shareholders from any company liability provided the shareholder has paid up all of its shares before the debt was incurred by the company.  Describes  A shareholder is a part owner of a company, and whilst it owns shares in a company, it is separate and distinct from the company’s name and is not responsible for company debts if shares are fully paid.  States   * Separate legal entity concept protects shareholders from any company liability. * Company is separate and distinct from shareholders. * Companies pay for all debts with assets in its own name.   Accept any other correct, relevant answer. | |

(d ) i. 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)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Distinguishes (explains the difference) between FIFO and Weighted Average inventory methods with appropriate examples. | 4 |
| Illustrates (explains the examples) used in both inventory methods. | 3 |
| Identifies an examples for both inventory methods. | 2 |
| Identifies an example for one inventory method. | 1 |
| **SubTotal** | **4** |
| Justifies with appropriate reasons for the recommendation. | 3 |
| Justifies with a reason for the recommendation. | 2 |
| Recommends an appropriate method for the business only. | 1 |
| **Sub Total** | **3** |
| **Total** | **7** |
| Answer could include:  Methods of Inventory Valuation  The FIFO inventory method is recording cost of sales based on the oldest inventory being sold first. It is a method that is suited to inventory that is easy to count and subject to obsolescence where old inventory ordered must be sold before the new ordered stock. For example a retail store that sells inventory as individual units that is easy to count. Weighted inventory however, is recording cost of sales based on the averaging of stock on hand and it is suited to inventory that is difficult to count separately and accurately. Weighted inventory would be suited to inventory such as fuel at a petrol station where it is difficult to determine new and old fuel when it all goes into the same tank when filled.  Recommendation  The most appropriate method of inventory valuation would be the FIFO method because counting baking equipment is easy. Older models would be sold first before newer models come on the market.  Accept any other correct, relevant answer.  Such as,  Weighted average as there is no use by date, the products are similar/identical and the price of inventory may increase due to current high inflation. | |

ii. Describe how inventory can be controlled to reduce the effects of obsolescence or damage. (2 marks)

(2 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Describes a method of controlling the effects of obsolescence or damage. | 2 |
| States a relevant fact about an appropriate control method. | 1 |
| **Total** | **2** |
| Answer could include: Any one of the following for 2 marks.  Inventory can be controlled by:   * undertaking regular physical stock takes to limit and determine extent of damage to stock so that any inefficiencies can be rectified. OR * use FIFO method of inventory control so that older stock is always sold first before new stock which will limit a backlog of old stock that will be difficult to sell. OR * order quantities in batches that can be sold. Ordering too much stock may remain on shelves or the floor for long periods which will increase levels of unsold inventory and therefore contribute to obsolescence. OR * Installing cameras and regular stock security patrols can prevent deliberate or accidental damage to inventory if customers are not given appropriate customer service to assist with inventory inspection before sale.   Accept other appropriate responses. | |

iii. Describe **three** limitations that can make inventory control difficult to achieve.

(3 marks)

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| --- | --- |
| **Description** | **Marks** |
| Describes three limitations of inventory control. | 3 |
| Describes two limitations of inventory control. | 2 |
| Describes one limitation of inventory control. | 1 |
| **Total** | **3** |
| Answer could include:  Despite good inventory controls, there are some situations that may prevent inventory from being appropriately safe-guarded. These may include:   * Collusion. Collusion is a deliberate act between employees to steal from the business. It is difficult to control collusion between employees who conspire to steal valuable inventory. Even the best employed staff with a good track record can succumb to temptation to steal inventory by covering steps to avoid detection. Such practices are difficult to trace and sometimes may go on for long periods of time before anomalies appear that require attention. * Staff shortages. Inability to recruit required employees. Even if an appropriate software system is installed, not having enough staff to handle inventory in and out of the business can make inventory vulnerable to theft. If there isn’t enough staff to do physical stock takes to check computer accuracy then it will result in damage and shrinkage of inventory. Not enough staff on the floor to service customers can result in lost sales which contributes to obsolete stock because they are not being sold. * Liquidity issues. Lack of cash when required. Inability to buy equipment such as cameras, security guards, security equipment can make it difficult to safe-guard inventory. Inventory control processes will be inadequate if cash is limited to install required control systems that will make inventory vulnerable to damage, theft and shrinkage.   Accept other appropriate responses eg human error with a description. | |

**Question 21 (30 Marks)**

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

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

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| --- | --- |
| **Description** | **Marks** |
| For each characteristic described, **Two** marks awarded. |  |
| Describes the characteristics of a company. | 2 |
| States a relevant fact about the characteristic of a company. | 1 |
| **Sub Total** | **2** |
| **Total** | **6** |
| Answer could include:  Number of Owners  Swinalong Pty Ltd can have a minimum of 1 shareholder to a maximum of 50 shareholders (1 mark) which do not include employee shareholders (1 mark).  Liability of owners  Shareholders are protected from company debts, provided they are fully paid up on their shares at the time of wind up or debts incurred. Swingalong Pty Ltd has a separate legal existence to its owners and therefore is responsible for all debts it incurs.  Separate legal existence  Swingalong Pty Ltd has a separate legal existence to its owners meaning the company is an artificial persona in its own right. It can trade, own assets, sell assets, invest and create debts in its own name. Due to the separate nature of a company, Swingalong Pty Ltd can exist well into the future without any interruption. It is not affected by changing shareholders.  Accept other appropriate responses. | |

1. i. Recommend an appropriate external method of finance. (2 marks)

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| **Description** | **Marks** |
| Describes an appropriate method of finance. | 2 |
| Recommends an appropriate method of finance only. | 1 |
| **Total** | **2** |
| Answer could include:  Operating Lease  An operating lease is a form of finance that enables a business to use an asset for a specified period of time. After the term of the lease, the asset is returned back to the leasing company. It cannot be owned by the business who leases the asset. It is really a form of renting an asset.  Long-Term Loan  A long-term loan is a form of finance that enables a business to purchase the asset outright with regular interest and/or principal payments over the term of the loan. This enables the business to spread their commitments over an affordable length of time.  NB short-term finance options are not acceptable.  Accept other appropriate responses. | |

ii. Explain one disadvantage of this source of finance. (3 marks)

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| **Description** | **Marks** |
| Explains the disadvantage of the finance option chosen. | 3 |
| Describes disadvantage of the finance option chosen. | 2 |
| States a relevant fact about the disadvantage of the finance option chosen. | 1 |
| **Total** | **3** |
| Answer could include:  Operating Lease   * An operating lease does not provide the business with an option to purchase the asset at the end of the lease. It must be returned back to the leasing company as the asset belongs to them. A business is merely renting the asset for a set period of time. It’s not like a finance lease where the option to purchase the asset at a discounted price can occur at the end of a finance lease. OR * The asset needs to be maintained by the business leasing the asset. Therefore, not only is the business renting the asset, it must also pay for any maintenance required to keep the asset in good working order. This adds to the cash required to maintain and operate the leased asset which can eat into profits and cash flow if the leased asset is dated.   Long-Term Loan   * A long-term loan requires regular repayments which means the business needs regular sales, cash flow and profits to maintain the financial commitment over the term of the loan without incurring extra interest or penalties that could severing affect the business’s liquidity. OR * A long-term loan can restrict the business’s investment in other projects because cashflow and profits will be tied up in servicing the long-term loan. This could restrict the business’s ability to grow and keep up with customer demand that may limit production and sales. OR * If the business has existing debt commitments, acquiring another long-term loan may put further pressure on the business’s ability to keep up with financial commitments. This could, as a result, affect the business’s credit rating if repayments fall behind and then in turn affect the business’s ability to acquire further finance.   Accept other appropriate responses. | |

(c) i. Explain the nature of depreciation as a balance day adjustment. (3 marks)

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| **Description** | **Marks** |
| Explains the nature of depreciation as a balance day adjustment. | 3 |
| Describes depreciation as a cost allocation process. | 2 |
| States a relevant point about depreciation. | 1 |
| **Total** | **3** |
| Answer could include:  Depreciation is an expense account because it represents a portion of the historical cost of a depreciable asset used up. Depreciation is a **cost allocation process of apportioning the historical cost of a depreciable asset over its useful life**. This is then represented in profit calculation to ensure profits are not over estimated. **Depreciation accounts for wear and tear, technical obsolescence and commercial obsolescence.** It is calculated at the end of each financial year to represent the year’s use of the asset. The accuracy of the calculation however is not precise because only the historical cost aspect of the formula used is based on fact. The estimated life and residual value are arbitrary components based on past usage and industry norms. As it is calculated each year, an accumulated depreciation account is created to keep track of the historical cost used up over the life of the asset. This account is then used to update the **non-current asset each year to determine carrying value left in the balance sheet**. Since assets are acquired to generate profit in the first instance, **then a portion of the asset must be represented in profit calcu**lation through the depreciation process.  Accept other appropriate responses. | |

ii. Recommend an appropriate method of depreciation for the asset. (3 marks)

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| --- | --- |
| **Description** | **Marks** |
| Explains an appropriate method of depreciation for the asset with a valid reason. | 3 |
| Describes an appropriate method and describes the method. | 2 |
| Recommends the appropriate method only. | 1 |
| **Total** | **3** |
| Answer could include:  An appropriate method of depreciation for plant and equipment would be the **reducing balance method**. This is because of the nature of the asset. Plant and equipment would be used **regularly that will give efficient use in the early years of operation with minimal maintenance**. As a result, **profit will be higher in the earlier years and therefore a greater portion of the historical cost ought to be written off in depreciation in the early years and less as the asset ages** when maintenance costs will be higher than the productive capacity of the asset.  Accept other appropriate responses. | |

iii. Describe the consequence for profit if an incorrect method of depreciation was   
 applied. (2 marks)

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| **Description** | **Marks** |
| Describes the consequence for profit if an incorrect method of depreciation were applied. | 2 |
| State an overall effect on profit without elaboration. | 1 |
| **Total** | **2** |
| Answer could include:  If the incorrect method of depreciation were applied, the profits will be either underestimated or overestimated over the life of the asset. If **straight-line were used instead of reducing balance, then profits will we underestimated** due to the high same depreciation calculation applied to profits on a consistent basis over the life of the asset. **Or If reducing balance were used instead of straight-line then profits will be overestimated as the asset ages because of the sliding scale of depreciation used over the life of the asset**.  Accept other appropriate responses. | |

1. As a director of Swingalong Pty Ltd, M Abrhol 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)

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| --- | --- |
| **Description** | **Marks** |
| For each professional accounting body described, **Two** marks awarded. |  |
| Describes the role of each of the professional accounting and financial bodies. | 2 |
| States on relevant fact about the professional accounting and financial bodies. | 1 |
| **Sub Total** | **2** |
| **Total** | **6** |
| Answer could include:  CPA Australia  CPA has a broad focus on general accounting and business management and highly suitable for members who want to work primarily in the ASIA Pacific Region.  CAANZ  CAANZ has focus on technical aspects of accounting and complex tax issues and it is highly suited for members who want to work across the global. They focus on specific areas of finance, in-depth analysis and advising and compliance with ASIC.  Financial Planning Association of Australia Limited  The association represents the financial interests of the general public. The main focus is on wealth creation and management of financial affairs to meet life goals for the individual.  Accept other appropriate responses. | |

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

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| --- | --- |
| **Description** | **Marks** |
| **Nature of professional codes of conduct** |  |
| Describes the nature of professional codes of conduct for members of professional accounting service providers. | 4 |
| States a relevant point about the nature of professional codes of conduct. | 3 |
| **Sub Total** | **4** |
| **Purpose of professional codes of conduct** |  |
| Explains the purpose of professional codes of conduct. | 2 |
| States one relevant point about the purpose of professional codes of conduct. | 1 |
| **Sub Total** | **2** |
| **Total** | **6 but maximum of 5 marks given** |
| Answer could include:  **Nature of Professional Codes of Conduct**  Describes  A professional code of conduct is a set of behavioural rules that members of an association must abide by in order to bring credit to the association they belong to. The code of conduct for many accounting associations are very similar and may contain the following common rules:  States – up to 3 marks   * Act with integrity – which means being honest in dealings with clients * Objectivity – to provide non bias advice to clients * Professional Competence and Duty of Care – carrying out accounting duties with competence and being highly skilled within areas of responsibility to the client * Confidentiality – client information needs to be kept confidential without disclosure to anyone else outside the firm * Professional behaviour – conduct must always be of a nature to ensure a high reputation of the business and the individual   **Purpose of Professional Codes of Conduct**  Explains  The purpose is to enhance the reputation of the association and its members so that members are highly regarded in the professional circles in which they work and do not bring the association into disrepute that can affect the brand and increase risk for the accounting association. They also provide security and confidence for the client that members are competent with a high degree of skill.  States  It enhances the reputation of the association and its members in the professional circles in which they work and provides security and confidence for the client.   * Enhances reputation of association. * Provides guidelines for members. * Enhances client confidence and trust.   Accept other appropriate responses. | |