**WSHS**

**2023 Semester Two Examination**

**Marking Key**

**ACCOUNTING AND FINANCE**

**Year 11 ATAR**

**WSHS Semester Two Examination 2023**

**Analysis of questions by practical and theory**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Question No | Practical | Theory | Question No | Practical | Theory |
| **Sec 1 (15%)** |  |  | **Sec 2 (70%)** |  |  |
|  |  |  |  |  |  |
| 1 |  | 1 | 16a | 28 |  |
| 2 |  | 1 | 16b |  | 4 |
| 3 |  | 1 | 17a | 29 |  |
| 4 | 1 |  | 17b |  | 4 |
| 5 |  | 1 | 18a | 13 |  |
| 6 |  | 1 | 18b | 9 |  |
| 7 |  | 1 | 19 | 21 |  |
| 8 |  | 1 |  |  |  |
| 9 |  | 1 |  |  |  |
| 10 |  | 1 |  |  |  |
| 11 |  | 1 |  |  |  |
| 12 |  | 1 |  |  |  |
| 13 |  | 1 |  |  |  |
| 14 |  | 1 |  |  |  |
| 15 |  | 1 |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| **Total** | **(1%)** | **(14%)** | **Total** | **100 (65%)** | **8 (5%)** |
|  |  |  |  |  |  |
|  |  |  | **Sec 3 (15%)** |  |  |
|  |  |  | 20 |  | 25 |
|  |  |  | **or** |  |  |
|  |  |  | 21 |  | 25 |
|  |  |  |  |  |  |
| **Summary:**  Section 1 = 15% of examination (1% practical, 14% theory)  Section 2 = 70% of examination (65% practical, 5% theory)  Section 3 = 15% of examination (15% theory)  **Total examination = 66% practical, 34% theory** | | | | | |

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

|  |  |
| --- | --- |
| **Question** | **Answer** |
| 1 | c |
| 2 | d |
| 3 | b |
| 4 | b |
| 5 | d |
| 6 | a |
| 7 | b |
| 8 | b |
| 9 | c |
| 10 | d |
| 11 | b |
| 12 | c |
| 13 | b |
| 14 | a |
| 15 | a |

Q3) workings

Profit/av total assets

120,000

95,000 \*\*

= $1.26

\*\* (100,000+90,000)/2

**Section Two: Short answer 70% (160 Marks)**

**Question 16 (32 Marks)**

1. Prepare the required General Journal entries to account for the sale of the computer on the 1 March 2023 and the depreciation at the end of 30 June 2023 for the above assets.  
   Depreciate to the nearest dollar. (28 marks)

**Workings**:

Computer

3,632 x 0.08 = 290 x 8/12 = 194 (1+1+1) up to sale date

Total accumulated depreciation 1,124 + 194 = 1,318 (1+1)

Loss on sale

5,500 – 1,317 – 2,400 = 1,783 (1+1+1)

Remaining Equipment

10,000 – 3,500 = 6,500 (1+1) remaining equipment

6,500 x 0.08 = 520 (1+1) depreciation

Furniture

17,000 x 0.05 = 850 (1+1) depreciation

**Blue Traders**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Debit** | **Credit** |  |
| 2023  March 1 | Depreciation | 194 |  | 3 |
|  | Accumulated Depreciation |  | 194 | 1 |
|  | *Depreciation up to sale date.* |  |  |  |
|  | Sale of Asset | 5,500 |  | 1 |
|  | Equipment |  | 5,500 | 1 |
|  | *Transferred historical cost* |  |  |  |
|  | Accumulated Depreciation | 1,317 |  | 2 |
|  | Sale of Asset |  | 1,317 | 1 |
|  | *Transferred accumulated depreciation* |  |  |  |
|  | Bank | 2,400 |  | 1 |
|  | Sale of Asset |  | 2,400 | 1 |
|  | Proceeds on Sale of Asset |  |  |  |
|  | Loss on Sale of Asset | 1,783 |  | 3 |
|  | Sale of Asset |  | 1,783 | 1 |
|  | *Loss on sale of asset due to under depreciation* |  |  |  |
| June 30 | Depreciation - Equipment | 520 |  | 4 |
|  | Accumulated Depreciation -  Equipment |  | 520 | 1 |
|  | *Depreciated equipment at 8% pa reducing balance method* |  |  |  |
|  | Depreciation - Furniture | 850 |  | 2 |
|  | Accumulated Depreciation –  Furniture |  | 850 | 1 |
|  | *Depreciated furniture at 5% pa straight-line method* |  |  |  |

**Add 3 for narration, add 2 for dates.**

1. Describe the nature of depreciation and the reporting consequence if depreciation is not carried out. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Nature of Depreciation** |  |
| Describes the nature of depreciation. | 2 |
| States a relevant point about depreciation. | 1 |
| **Sub Total** | **2** |
| **Consequence if Depreciation not Carried Out** |  |
| Describes the consequence for reporting. | 2 |
| States a relevant point about the consequence. | 1 |
| **Sub Total** | **2** |
| **Total** | **4** |
| Answer could include:  **Nature of Depreciation**  Depreciation is an expense account that represents the historical cost used up in an accounting period. This account is transferred to profit and loss as that portion of the historical cost that has contributed to earning income for the period. It reflects the wear and tear of a depreciable non-current asset and/or its obsolescence.  **Consequence if Depreciation not Carried Out**  If depreciation were not carried out, then profits will be overstated because total expenses will be understated. The non-current assets of the balance sheet will also be overstated because the carrying value will still remain at the original cost indicating that the has not been used.  Accept other relevant responses. | |

**Question 17 (33 Marks)**

**Workings:**

Doubtful debts

50,000 – 900 = 49,100 x 0.05 = 2,455 (1+1+1)

600+900 +2,455 – 1,200 = 2,755 doubtful debts (1+1+1+1)

Electricity

14,000 + 750 = 14,750 used (1+1)

Insurance

6,000 ÷ 8 = 750 x 4 = 3,000 used and left (1+1+1)

Rent Income

6,000 ÷ 4 = 1,500 x 2 = 3,000 (1+1+1)

25,000 – 3,000 = 22,000 rent earned (1+1)

Wages

4,500 ÷ 2 = 2,250 per week + 110,000 = 112,250 used(1+1+1)

1. Prepare the adjusting General Journal entries.   
    (29 marks)

**Merv Traders**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Debit** | **Credit** |  |
| 2023  Dec 31 | Bad Debts | 900 |  | 1 |
|  | Accounts Receivable |  | 900 | 1 |
|  | *Write- off bad debts* |  |  |  |
|  | Allowance for Doubtful Debts | 900 |  | 1 |
|  | Bad Debts |  | 900 | 1 |
|  | *Transfer bad debts* |  |  |  |
|  | Doubtful Debts | 2,755 |  | 7 – F/T to 3.5 marks |
|  | Allowance for Doubtful Debts |  | 2,755 | 1 |
|  | *Set allowance for doubtful debts* |  |  |  |
|  | Electricity | 750 |  | 2 |
|  | Accrued Electricity |  | 750 | 1 |
|  | *Accrued electricity at period end* |  |  |  |
|  | Insurance | 3,000 |  | 3 |
|  | Prepaid Insurance |  | 3,000 | 1 |
|  | *Insurance at period end* |  |  |  |
|  | Rent Income | 22,000 |  | 5 |
|  | Rent Received in Advance |  | 22,000 | 1 |
|  | *Rent in advance at 31 Dec* |  |  |  |
|  | Wages | 2,250 |  | 3 |
|  | Accrued Wages |  | 2,250 | 1 |
|  | *Accrued wages at 31 Dec* |  |  |  |

1. Merv Traders sells air conditioners. Describe the most suitable method of costing inventory for the business and **one (1)** principle of internal control applicable to the inventory of air conditioners. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Principle of Internal Control** |  |
| Describes a principle of internal control. | 2 |
| Identifies a principle. | 1 |
| **Sub Total** | **2** |
| **Total** | **4** |
| Answer could include:  **Principle of Internal Control** (Any two of the following)  Segregation of Duties – separating the sale, purchase and recording of stock as separate jobs enables errors to be identified related stock management.  Security of assets – securing the air conditioners in a warehouse with restricted access is necessary to avoid units going missing due to theft.  Stocktaking and audits – counting air conditioning units and making sure the units are maintained according to policies and procedures is important to avoid theft and deterioration of the air conditioners.  Accept other relevant responses. | |

**Question 18 (22 Marks)**

**Workings**

Depreciation

105,000 x 0.12 = 12,600 (1+1) (awarded in (a) with 2 marks in journal entry OR if not journaled 1 mark awarded for workings)

Fees Income

15,000 x 0.05 = 750 (1+1) (awarded in (a) with 2 marks in journal entry OR if not journaled 1 mark awarded for workings)

1. Prepare closing General Journal entries to determine profit or loss. (13 marks)

**Thursday Winter’s Strawberries**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Debit** | **Credit** |  |
| 2023  June 30 | Profit and loss | 75,300 |  | 1 No F/T |
|  | Utilities |  | 25,000 | 1 |
|  | Advertising |  | 3,500 | 1 |
|  | Cartage Outwards |  | 11,200 | 1 |
|  | Cost of Sales |  | 23,000 | 1 |
|  | Depreciation - Equipment |  | 12,600 | 2 |
|  | *Accounts Transferred* |  |  |  |
|  | Sales | 95,000 |  | 1 |
|  | Fees Income | 750 |  | 2 |
|  | Profit and loss |  | 95,750 | 1 No F/T |
|  | *Accounts Transferred* |  |  |  |
|  | Profit & Loss | 20,450 |  | 1 F/T marks |
|  | Capital |  | 20,450 | 1 F/T marks |
|  | *Transfer P & L to Capital* |  |  |  |

Less -1 for no narrations. Less -1 for no date. F/T = follow through

1. Prepare a post-closing Trial Balance as at 30 June 2023. (9 marks)

**Thursday Winter’s Strawberries**

**Post-Closing Trial Balance**

**as at 30 June 2023**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Debit** | **Credit** |  |
| Inventory | 30,000 |  | 1 |
| Capital |  | 87,700 | 1 |
| Accounts Receivable – Trend Grocers | 15,000 |  | 1 |
| Accounts Payable – Bulk Transports |  | 30,000 | 1 |
| Equipment | 105,000 |  | 1 |
| Accumulated Depreciation - Equipment |  | 12,600 | 1 |
| Accrued Fees Income | 750 |  | 1 |
| Profit and Loss |  | 20,450 | 1 |
|  | **150,750** | **150,750** | 1 |

**OR**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Debit** | **Credit** |  |
| Inventory | 30,000 |  | 1 |
| Capital |  | 108,150 | 2 |
| Accounts Receivable – Trend Grocers | 15,750 |  | 2 |
| Accounts Payable – Bulk Transports |  | 30,000 | 1 |
| Equipment | 105,000 |  | 1 |
| Accumulated Depreciation - Equipment |  | 12,600 | 1 |
| Profit and Loss |  | 20,450 | 1 |
|  | **150,750** | **150,750** | 1 |

**OR marks awarded for a combination of the 2 tables that is correct.**

**Question 19 (21 Marks)**

**CB Hi-Tech Retail Shop**

**Income Statement**

**for the year ended 30 June 2023**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **CB Hi-Tech Retail Shop**  **Income Statement**  **For the year ended 30 June, 2013** | | | |  |  |
|  | **$** | **$** | **$** |  |  |
| Sales |  | 185,000 |  | 1 |  |
| Discount Allowed |  | 10,500 |  | 1 |  |
| Net Sales |  |  | 174,500 | 1 |  |
|  |  |  |  |  |  |
| Less Cost of Sales | 95,000 |  |  | 1 |  |
| Customs Duty | 350 | 95,350 |  | 1 |  |
| Less Discount Received |  | 9,200 |  | 1 | Must be subtracted for mark |
| Total Cost of Sales |  |  | 86,150 | 1 |  |
| Gross Profit |  |  | 88,350 | 2 |  |
|  |  |  |  |  |  |
| **Add Other Income** |  |  |  |  |  |
| Profit on Sale of Motor Vehicle |  | 2,100 | 2,100 | 1 |  |
|  |  |  | 90,450 | 1 |  |
|  |  |  |  |  |  |
| **Less Other Expenses** |  |  |  |  |  |
| **Selling and Distribution** |  |  |  |  |  |
| Bad Debts | 1,700 |  |  | 1 |  |
| Depreciation – Delivery Vehicle | 2,900 |  |  | 1 |  |
| Wages – Sales Staff | 27,000 | 31,600 |  | 1 |  |
|  |  |  |  |  |  |
| **General and Administrative** |  |  |  |  |  |
| Loss on Sale of Office Furniture | 470 |  |  | 1 |  |
| Office expenses | 4,000 |  |  | 1 |  |
| Wages – Office Staff | 5,400 | 9,870 |  | 1 |  |
|  |  |  |  |  |  |
| **Financial** |  |  |  |  |  |
| Interest on Loans | 4,700 |  |  | 1 |  |
| Bank Fees | 390 | 5,090 | 46,560 | 1 |  |
| Profit for the period  OR Net Profit |  |  | 43,890 | 2 |  |

**21 marks**

**Less 3 marks MAX for foreign items (F.I.) eg balance sheet items**

**Less 3 marks MAX for setting out (S.O.) eg. Numbers left, incorrect order etc**

**Less 3 marks MAX for classification errors (C) eg. G&A expense in S&D expense**

**Section Three: Extended Response. 15% (25 Marks)**

**Question 20 (25 Marks)**

1. Describe **two (2)** benefits of the perpetual inventory system and explain how changes to the business’s bathroom products have improved control over inventory. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Benefits of the Perpetual Inventory System** |  |
| Describes the benefit of the perpetual inventory system. | 2 |
| Identifies a benefit of the perpetual inventory system, | 1 |
| **Sub Total** | **4** |
| **Control over Inventory** |  |
| Explains how changes to the business’s bathroom products have improved control over inventory. | 2 |
| Describes the improvement in the control over inventory. | 1 |
| Identifies an improvement. | ½ |
| **Sub Total** | **6** |
| **Total** | **6** |
| Answer could include:  **Benefits of the Perpetual Inventory System**   * Gross profit can be calculated easily at any time because the cost of sales is readily available as an account in the general ledger which is continuously updated. * Inventory balances are readily available because they are updated with every sale and purchase made, allowing the business to determine its fast- and slow-moving lines.   **Control over Inventory**  Removing the individual hair products and soaps has made it easier to conduct a physical stocktake. This is because the number of inventory to count would be reduced to large bulk refill packets which are easier and faster to count than the numerous little bottles and soap cakes. It also will have reduced any theft of these items because the packets would be more noticeable if theft occurred whereas the little bottles and small soaps would have gone unnoticed. The number of cleaning chemicals used to clean carpets would also have been eliminated with simple cleaning solutions for laminate floors making counting of these items easier too. The storage space for housing hundreds of stock will have been considerably reduced, thus reducing the cost of maintaining the stock.  Accept other relevant responses. | |

1. Define an asset according to the Conceptual Framework and explain if the recycled water pump system is recognised as an asset in the business’s Balance Sheet.  
    (5 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Definition of an Asset** |  |
| Defines an asset according to the Conceptual Framework. | 2 |
| **Sub Total** | **2** |
| **Recognition of an Asset** |  |
| Explains whether the recycled water pump system is recognised as an asset. | 3 |
| Describes relevance and faithful representation. | 2 |
| States a relevant point about recognising an asset. | 1 |
| **Sub Total** | **3** |
| **Total** | **5** |
| Answer could include:  **Definition of an Asset**  ‘a present economic resource controlled by the entity as a result of past events.’  **Recognition of an Asset**  An asset is recognised only if it provides users of financial statements with information that is **useful**. The information needs to be **relevant** which is capable of making a difference in the decisions made by users. It must be certain that the **asset exists** and probable that an **inflow of economic bene**fit will flow to the entity. The information must also be **faithfully represented** where it is **complete**, **neutral** and **free from bias**.  The purchase and installation of the recycled water pump system satisfies the definition of an asset first. It is a valuable resource of the resort which the resort purchased to the value of $150,000 which was the result of a transaction. The water system is an example of a fixture and fittings that has increased assets and equity of the business because it reduced water costs impacting positively on profits. It is certain that the asset exists and probable that an inflow of economic benefit has flowed to the company in the form of reduced costs and increase profits. The value of the recycled water pump is complete, neutral and free from bias because an invoice payment can prove its legitimacy as an asset in the business.  Accept other relevant responses.  ½ marks for each bolded word used in the correct context. | |

1. Describe **two (2)** characteristics of a small proprietary company. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Describes the characteristic of a small proprietary company. | 2 |
| States a relevant fact about a small proprietary company. | 1 |
| **Sub Total** | **2** |
| **Total** | **4** |
| Answer could include: (any two below)   * The total gross assets of the company must be less than 25 million dollars and/or it must have less than 100 employees and/or the total revenue of the company must be less than 50 million dollars. * The company is a separate legal entity in that the company itself is recognized as an artificial person with rights and obligations like an individual in business. Therefore, the company can sue, be sued, own property and enter contracts in its own name. * Companies have separate ownership to their management. The shareholders who are the part owners of the company do not manage the day-to-day operations of the company, directors do.   Accept other relevant responses. | |

1. Comment on the company’s profitability. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Comments on the company’s profitability. | 2 |
| States a relevant fact about the company’s profitability. | 1 |
| **Sub Total** | **2** |
| **Total** | **4** |
| Answer could include:  Profit Ratio – The profit ratio has increased from 120% to 290% which is a significant increase in one year. It has more than doubled. It means that in 2023, for every dollar earned in revenue, the return is $2.90. This positive return is due to the reduced overall costs as a result of the refurbishment of the units. This means that shareholders can gain a positive share of the profits through dividends.  Expense Ratio – The expense ratio has decreased from 75% to 30% which is also a significant decrease in one year. It means that in 2023 for every dollar earned in revenue, expense takes up 30 cents, yielding a higher profit. This is due to the fact that import costs have been eliminated, and local suppliers now provide the stock. The way products are made available for clients at the resort and the way their gardens are watered have also reduced costs significantly impacting the profit ratio result.  Accept other relevant responses. | |

1. Describe the difference between accounting entity and legal entity. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Describes the principle. | 2 |
| States a relevant fact about the principle. | 1 |
| **Sub Total** | **2** |
| **Total** | **4** |
| Answer could include:  Accounting Entity – the accounting entity is a recording principle of recording business transactions separately from the owner’s private transactions The business must record transactions from the point of view of the business and not the owner so that the financial reports reflect the financial state of the business whereas  Legal Entity – the legal entity principle relates to the structure of the business in determining who is responsible for the debts of the business. All entities except for companies do not have separate legal entity which means the owner is not separate from the business and there is responsible for all debts accumulated in the business. This is not the case with a company because it has separate legal entity created in law. The owners and management are totally separate.  Accept other relevant responses. | |

1. Describe what the ratios say about the business’s ability to meet their short term debts. (2 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Comments on the relevant ratio. | 2 |
| States a relevant fact about the ratio. | 1 |
| **Total** | **2** |
| Answer could include:  **Liquidity – Quick Asset Ratio**  The quick asset ratio indicates that the company can meet its short term debts, and it has improved its liquidity from 175% to 270%. That is an increase of 95%. This means that in 2023, the company has $2.70 available in liquid assets to cover $1.00 of its immediate debts. The business is in a strong position to be able to pay its short-term debts. This would have due to the increase in profits and decrease in expenses.  Accept other relevant responses. | |

**Question 22 (25 Marks)**

1. Describe **two (2)** benefits of corporate social responsibility and explain how the company has demonstrated this. (7 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Benefits of Corporate Social Responsibility** |  |
| Describes a benefit of the Corporate Social Responsibility | 2 |
| Identifies a benefit of Corporate Social Responsibility | 1 |
| **Sub Total** | **4** |
| **Company Demonstrating Corporate Social Responsibility** |  |
| Explains how the company demonstrates Corporate Social Responsibility. | 3 |
| Describes the Corporate Social Responsibility undertaken. | 2 |
| Identifies the action take on Corporate Social Responsibility. | 1 |
| **Sub Total** | **3** |
| **Total** | **7** |
| Answer could include: (any two below)  **Benefits of Corporate Social Responsibility**   * CSR can reduce costs for the company by finding alternatives that are cost effective in the long term. * CSR can raise the profile of the company as a good corporate citizen which can attract investment and increase market share. * CSR can attract loyal employees who have the same values as the company and who will enforce the company’s CSR policies and procedures.   **Company Demonstrating Corporate Social Responsibility**  The company has reduced its shipping costs by sourcing local bathroom products instead of looking overseas. The high quality of the products has contributed to increased profits and customers booking the resort at maximum capacity as a result of the changes made to the units. Full capacity can indicate greater market share with customers looking for a stay that is affordable, clean and environmentally friendly.  Accept other relevant responses. Eg Environment benefits | |

1. Contrast **two (2)** characteristics between a partnership form of business and a company. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Contrasts a characteristic between a partnership and a company. | 2 |
| States a relevant point about the characteristic for partnership or company. | 1 |
| **Sub Total** | **2** |
| **Total** | **4** |
| Answer could include:  Legal entity – a company has separate legal entity meaning the owner and management of the company are totally separate. The owners are not responsible for any company debts, transactions or contracts made because the company has a separate identity to the owners. In contrast, there is not separate legal entity in a partnership. The business and owners are one in the same and so the partners are totally responsible for all business activities.  Profit Sharing – in a partnership, the partners get a share of total profits according to the Partnership Agreement or Act. In contrast, shareholders can only get a share of the profits in the form of dividends if declared by directors. The amount of dividends is also subject to the shareholder’s investment in the company ie the number of shares they hold.  Accept other relevant responses. | |

1. Comment on the liquidity and financial stability of the company. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Comments on the relevant ratio. | 2 |
| States a relevant fact about the ratio. | 1 |
| **Sub Total** | **2** |
| **Total** | **4** |
| Answer could include:  **Liquidity – Quick Asset Ratio**  The quick asset ratio indicates that the company is liquid, and it has improved its liquidity from 175% to 270%. That is an increase of 95%. This means that in 2023, the company has $2.70 available in liquid assets to cover $1.00 of its immediate debts. The business is in a strong position to be able to pay its short-term debts. This would have due to the increase in profits and decrease in expenses.  **Financial Stability – Debt to Equity Ratio**  The debt to equity ratio indicates that the company has strengthened its control over the business’s assets. The ratio has reduced from 250% to 125% meaning in 2023, outsiders have contributed less to financing the business compared to the shareholders from 2022. Continued improvements in the profit ratio and quick asset ratio will improve the debt to equity ratio for the business.  Accept other relevant responses. | |

1. Explain the nature of the recycled water pump system as a depreciable non-current asset and explain the appropriate depreciation method to be applied to this asset. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Nature of a Depreciable Non-Current Asset** |  |
| Explains the nature of the water pump system as a depreciable non-current asset. | 3 |
| Describe the nature of a depreciable non-current asset. | 2 |
| States a fact about depreciable non-current assets | 1 |
| **Sub Total** | **3** |
| **Method of Depreciation** |  |
| Explains the appropriate method of depreciation to be applied to the recycled water pump system | 3 |
| Describes the reducing balance depreciation method | 2 |
| States a fact about a depreciation method | 1 |
| **Sub Total** | **3** |
| **Total** | **6** |
| Answer could include:  **Nature of an Asset**  A depreciable non-current asset is one that suffers **wear and tear**, **technical** or **commercial obsolescence**. These are man-made **physical assets** that do not last long and consequently have an **estimated useful life to the business**. At the end of its useful life, the asset may have some **residual value** left that can be sold which is also estimated. The depreciable asset **is purchased to earn the business income** when it is put to use either directly or indirectly depending upon the asset. The recycled water pump system is an example of a depreciable asset **that is used to water the resort’s gardens** on a daily basis. After a set amount of time, the system **will deteriorate** and will need to be replaced because it is a mechanical asset that will wear down after constant use and eventually **be replaced** with a new system. It is **a man-made product that does not last for ever**.  **0.5**mark for each bolded phrase used in the correct context. Other responses accepted.  **Method of Depreciation**  The most appropriate depreciation method for the recycled water pump system would be the **reducing balance method (1 mark)**. The pump when new, works efficiently without the need for any repairs for the first several years. As time passes, parts will need to be replaced and unless it is maintained, can become a costly exercise where repairs outstrip its usefulness to the business consuming a lot of cash and profits for its continued used within the resort. This type of asset will contribute greatly to the maintenance of the resort’s gardens which will contribute indirectly to the resort’s income. Well maintained gardens attracts tourists to stay at the resort when there are beautiful surroundings.  Accept other relevant responses – 2 marks for explanation. | |

1. Describe **two (2)** contrasting features between the periodic inventory method and the perpetual method. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Contrasts a feature between the periodic inventory method and the perpetual method. | 2 |
| States a relevant point about the feature of the periodic inventory method or the perpetual method. | 1 |
| **Sub Total** | **2** |
| **Total** | **4** |
| Answer could include: (Any two)   * The periodic inventory method is a manual system where stock takes are important to determine closing inventory for the calculation of gross profit whereas the perpetual inventory system usually relies on computer software to automatically determine cost of sales for the calculation of gross profit at any time. * Physical stock takes in a periodic system are essential to determine closing stock, fast- or slow-moving lines, whereas in the perpetual system a physical stock take is only required to check computer data with what is on the floor and fast- or slow-moving lines are available at any time without a stock take because inventory is continuously updated after each transaction sale or purchase. * Stock takes in a periodic system sometimes requires temporary closure of the store which interrupts sales whereas in a perpetual system, a stock take can be done at any time without the need to interrupt trade.   Accept other relevant responses. | |