**ACCOUNTING AND FINANCE, ATAR Year 11, Unit 1**

**TASK 4 – 2021 Task weighting:** 5%

**ANSWER KEY**

**Marks:**

|  |  |
| --- | --- |
| Section A: Q 1 – 5 | / 5 |
| Section B: Q | /48 |
|  |  |
| **TOTAL** | **/53** |

**Section A: Multiple Choice Questions [5 marks]**

1. Sana owns and operates her own store. Each week she takes $300 from the cash register for her living expenses and records this as ‘shop expenses’. This contravenes which accounting principle?
   1. monetary assumption
   2. **accounting entity assumption**
   3. materiality
   4. historical cost
2. Current market values of non-current assets are not generally reported in financial statements because the:
   1. monetary assumption applies
   2. going concern assumption applies
   3. materiality assumption applies
   4. **historical cost applies**
3. Due to COVID19 Hong Kong BBQ Restaurant has decided to close its doors at the end of July 2021. They have asked their accountant to prepare their financial statements but have not told the accountants about their plans to close. Their financial statements will contravene which accounting principle?
   1. **going concern assumption**
   2. accounting entity assumption
   3. materiality
   4. accounting period assumption
4. Kitchen On-line is a business with a surplus of money it has decided to invest. They have bought 1.5 bitcoins (purchased for $89,000) as a long term investment. Kitchen On-line have decided not to put this in their financial statements as it has nothing to do with what they sell for their kitchen business. Their financial statements will contravene which accounting principle?
   1. **materiality**
   2. accounting entity assumption
   3. going concern assumption
   4. historical cost

5. Which of the following types of error will **not** be shown up in a Trial Balance:

**a. a compensating error**

b. a calculation error in one ledger account

c. leaving a balance out of the Trial Balance

d. making a transposition error in the ledger

**Section B: Short Response [48 Marks]**

**Question 2 (7 marks)**

Below are some of the account balances for The Old Stove at 30 June 2022, an online business that sells designer homewares.

|  |  |  |
| --- | --- | --- |
| **Account Name** | **Acc Type** | **$** |
| Drawings |  | 60,000 |
| Land and Buildings |  | 550,000 |
| Bad Debts |  | 8,000 |
| Discount Received |  | 3,000 |
| Cash at Bank |  | 35,000 |
| Capital |  | 106,000 |
| Office Salaries |  | 120,000 |
| Inventory |  | 110,000 |
| Discount Allowed |  | 1,000 |
| Interest on Loan |  | 8,000 |
| Cost of Sales |  | 620,000 |
| Accounts Payable |  | 65,000 |
| Advertising |  | 45,000 |
| Accounts Receivable |  | 85,000 |
| Sales |  | 1,090,000 |
| Loan - ANZ Bank |  | 550,000 |

**Required:**

Do the ***closing entry*** for the ***expense accounts only*** in the General Journal for the year ended   
30 June 2022. (7 marks)

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Particulars** | **Debit** | **Credit** |
| 2022 June 30 | Profit & Loss | 802,000 |  |
|  | Bad debts |  | 8,000 |
|  | Office Salaries |  | 120,000 |
|  | Discount allowed |  | 1,000 |
|  | Interest on Loan |  | 8,000 |
|  | Cost of sales |  | 620,000 |
|  | Advertising |  | 45,000 |
|  | *Close expenses accounts* |  |  |
|  |  |  |  |

**Question 3 (25 marks)**

The following are balances of some accounts of Dexter’s Dog Spa at 30 June 2021:

|  |  |
| --- | --- |
| Rent | 32 000 |
| Electricity | 3 500 |
| Water | 3 000 |
| Sales | 95 000 |
| Cost of Sales | 25 000 |
| Capital | 60 000 |
| Drawings | 20 000 |
| Interest Received | 4 000 |

**Required:**

a. Enter the above **balances** into the **ledger accounts** provided and show all relevant closing entries in the

**accounts**. (12 marks)

b. Prepare the **Profit and Loss account** for the year ended 30 June 2021. (7 marks)

c. Show the **Equity section** of the firm’s Balance Sheet at the above date. (4 marks)

d. Explain the importance of closing entries. (2 marks)

a. **General Ledger**

\_\_\_\_\_\_\_\_\_\_\_\_\_Rent\_\_\_\_\_\_\_\_\_\_\_\_\_ Account

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2021 June 30 | Balance | 32,000 | 2021 June 30 | Profit & Loss Acc | 32,000 (1) |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

\_\_\_\_\_\_\_\_\_\_\_Electricity\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Account

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2021 June 30 | Balance | 3,500 | 2021 June 30 | Profit & Loss Acc | 3,500 (1) |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

\_\_\_\_\_\_\_\_\_\_\_\_Water\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Account

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2021 June 30 | Balance | 3,000 | 2021 June 30 | Profit & Loss Acc | 3,000 (1) |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Sales\_\_\_\_\_\_\_\_\_\_\_ Account

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2021 June 30 | Profit & Loss Acc | 95,000 (1) | 2021 June 30 | Balance | 95,000 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_Cost of sales\_\_\_\_\_\_\_\_\_\_\_\_\_ Account

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2021 June 30 | Balance | 25,000 | 2021 June 30 | Profit & Loss Acc | 25,000 (1) |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_Capital \_\_\_\_\_\_\_\_\_\_\_\_\_Account

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2021 June 30 | Drawings | 20,000 (1) | 2021 June 30 | Balance | 60,000 |
|  | Balance c/d | 75,500 (1) |  | Profit & Loss Acc | 35,500 (1) |
|  |  | 95,500 |  |  | 95,500 |
|  |  |  | Jul 1 | Balance b/d | 75,500 |

\_\_\_\_\_\_\_\_\_\_\_\_\_Drawings\_\_\_\_\_\_\_\_\_\_\_\_\_ Account

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2021 June 30 | Balance | 20,000 | 2021 June 30 | Profit & Loss Acc | 20,000 (1) |
|  |  | 20,000 |  |  | 20,000 |
|  |  |  |  |  |  |

\_\_\_\_\_\_\_\_\_\_Interest received\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Account

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2021 June 30 | Profit & Loss Acc (1) | 4,000 | 2021 June 30 | Balance | 4,000 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

2 marks – balances and balancing

b. **Profit and Loss Account**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2021 June 30 | Rent | 32,000 (1) | 2021 June 30 | Sales | 95,000 (1) |
|  | Electricity | 3,500 (1) |  | Interest received | 4,000 (1) |
|  | Water | 3,000 (1) |  |  |  |
|  | Cost of sales | 25,000 (1) |  |  |  |
|  | Capital | 35,500 (1) |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

c. **Balance Sheet (Extract)**

**of Dexter’s Dog Spa**

**As at 30 June 2021**

|  |
| --- |
| **Equity** |
| Capital 60,000 (1) |
| Add profit 35,500 (1) |
| Less Drawings 20,000 (1) |
| 75,500 (1) |
|  |

d. Importance of closing entries.

* They ensure that the income and expenses of the current year cannot be included in the calculation of the profit and loss for the next year.
* Able to calculate P & L for a period.
* Enable to compare periods.

B

**Question 3 (10 marks)**

Hot Spices is a restaurant located in Northbridge, Western Australia. The owner, Clement Day, has provided you with the following account list as at 30 June 2024.

**Hot Spices**

**Trial Balance as at 30 June 2024**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account** | **Acc Type** | **Debit** | **Credit** |
| Sales Staff Wages |  | 37,500 |  |
| Bad Debts |  | 800 |  |
| Drawings |  | 34,000 |  |
| Inventory |  | 22,440 |  |
| Accounts Receivable |  | 14,620 |  |
| Accounts Payable |  |  | 26 200 |
| Office Equipment |  | 28,000 |  |
| Restaurant Fixtures and Fittings |  | 100,000 |  |
| Advertising |  | 11,000 |  |
| Loan - AB Bank (Repayable in 2035) |  |  | 200,000 |
| Capital |  |  | 35,860 |
| Sales |  |  | 381,080 |
| Land and Building |  | 191,000 |  |
| Cash at Bank |  |  | 20,700 |
| GST Payable |  |  | 8,900 |
| Cost of Sales |  | 214,000 |  |
| Insurance |  | 6,000 |  |
| Interest on Loan |  | 8,200 |  |
| Office Staff Wages |  | 5,180 |  |
| **Total** |  | **$672 740** | **$672 740** |

**Required:**

1. Prepare a ***classified*** Income Statement for the year ending 30 June 2024. (10 marks)

**Income Statement - Hot Spices for the year ended 30 June 2024**

**Answers:**

**Hot Spices (10 marks)**

**Income Statement**

**for the year ending 30 June 2024**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sales |  | 381,080 |  | **(1)** |
| Less: Cost of Sales |  | 214,000 |  | **(1)** |
| Gross profit **(1/2)** |  |  | 167,080 |  |
| ***Less: Operating Expenses*** |  |  |  |  |
| **Selling and Distribution** |  |  |  |  |
| Sales Staff Wages | 37,500 |  |  | **(1)** |
| Advertising  Bad debts | 11,000  800 | 49,300 |  | **(1)**  **(1)** |
| **General and Administration** |  |  |  |  |
| Insurance | 6,000 |  |  | **(1)** |
| Office Staff Wages | 5,180 | 11,180 |  | **(1)** |
| **Financial Expenses** |  |  |  |  |
| Interest on Loan | 8,200 | 8,200 | 68,680 | **(1)** |
| Profit for the period **(1/2)** |  |  | **$98,400** | **(1)** |

**Question 4 (6 Marks)**

a. Explain the meaning of the Monetary Principle to a business owner. (2 marks)

All business events can be measured in terms of money.

A business event must be given a money value before it can be recorded in an accounting system.

Able to compare information.

b. Explain the reasons for preparing a trial balance. (4 marks)

1. Detects errors made in posting information into the general ledger such as transpositional errors
2. Provides a list of general ledger account balances from which are prepared important accounting reports, such as the balance sheet and income statement.
3. – provide examples of errors and fully explain,