****

**ACCOUNTING AND FINANCE**

**ATAR Year 11**

**Unit 2**

**TASK 7 - 2022**

**Assessment type:** Test

**Content:**

Accruals, Balance Day Adjustments, Definitions and Recognitions

Criteria of the Elements of the Financial Statements

**Conditions:** 55 minutes, closed book test

**Task weighting:** 6%

**Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Marks:**

|  |  |
| --- | --- |
| Section A: | / 15 |
| Section B: | / 40 |
|  |  |
| **TOTAL** | **/55** |

**Teacher**:

BURGOYNE/ BRIDGER (Please circle)

**Section A (15 Marks)**

**Multiple choice; please circle the correct answer, 1 mark each.**

1. An asset is defined in the *Conceptual Framework* as a present economic resource controlled by an entity as a result of past events. An economic resource in this context is defined as:
2. a resource that a business owns.
3. **a right that has the potential to produce economic benefits.**
4. a right that will produce economic benefits.
5. an obligation to transfer a resource.
6. As at 30 June 2022, a business will have earned $1,720 interest that has not yet been received. When preparing financial statements this would need to be included as;
7. accrued expense
8. **accrued income**
9. unearned income
10. prepaid expense
11. Under an accrual system of accounting:
12. income is recognised at the time when it is recorded in an accounting system.
13. income is recognised at the time the sale is made or the service is provided.
14. **income is recognised at the time when it is incurred.**
15. income is recognised when the cash is received.
16. If $400 of accrued telephone expenses was incorrectly debited as a prepayment, the balance sheet:
17. **would have current assets overstated by $400**
18. would have current assets understated by $400
19. would have current liabilities overstated by $400
20. would have non-current liabilities understated by $400
21. The business “Gym Fit”, receives $11,000 (GST inclusive) of unearned income on the 1 June 2022 and makes the following journal entry:

|  |  |  |  |
| --- | --- | --- | --- |
| Date |  | DR | CR |
| 1/6/22 | Cash at bank | 11,000 |  |
|  | Fees |  | 10,000 |
|  | GST Payable |  | 1,000 |

Does “Gym Fit” use:

1. the accrual accounting method.
2. **the cash accounting method.**
3. both the accrual and cash accounting method.
4. Not enough information to tell what accounting method is used.
5. Using an accrual accounting method, expenses relevant to an accounting period which remain unpaid at the end of the period should:
6. be shown as part of the non-current liabilities in the Balance Sheet at the end of the accounting period.
7. **be shown as an expense in the Income Statement for the period and shown as a current liability in the Balance Sheet at the end of the period.**
8. be shown as an expense in the Income Statement for the period and shown as non-current asset in the Balance Sheet at the end of the period.
9. be shown as an expense in the Income Statement for the period and shown as a non-current liability in the Balance Sheet at the end of the period.
10. Which of the following is recorded in the accounting system as a current asset?
11. unearned income
12. accrued wages
13. **accrued income**
14. accrued expense

8. Using the *Conceptual Framework* definition, explain why a loan from a financial

institution would be considered a liability for accounting purposes. (4 marks)

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

9. Discuss two (2) recognition criteria that also have to be met before the loan can be

included in the business balance sheet. (4 marks)

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

(2)

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

**SECTION B (45 Marks)**

“Hot Air Ballooning” commenced business on 1 January 2022, and has supplied the financial information for the six months ended 30 June 2022. The business is not registered for GST.

**Hot Air Ballooning**

**Trial Balance**

**as at 30 June 2022**

|  |  |  |
| --- | --- | --- |
| Account | Dr  $ | Cr  $ |
| Cash at bank | 15,600 |  |
| Accounts receivable | 15,200 |  |
| Wages | 60,100 |  |
| Hot Air Ballons | 520,700 |  |
| Advertising | 5,430 |  |
| Repairs | 12,764 |  |
| Oil and fuel | 4,320 |  |
| Interest on loan | 673 |  |
| Loan (due 2023) |  | 20,000 |
| Telephone | 2,470 |  |
| Unearned income |  | 2,000 |
| Prepaid utilities | 663 |  |
| Allowance for doubtful debts |  | 900 |
| Fees |  | 585,020 |
| Capital |  | 30,000 |
|  | **637,920** | **637,920** |

**Additional Information**

* Wages due but not yet paid amounted to $300.
* Fees of $2,000 were received on 1 June 2022 for two months in advance.
* Prepaid utilities on balance day amounted to $221.
* Interest earned but not received was $500.
* Bad debts of $3,200 are to be written off.
* Allowance for doubtful debts is to be raised at 3.5% of **net** accounts receivable.

**Required:**

1. Prepare the general journal entries to account for the above balance day adjustments. Show

all workings. (14 marks)

1. Post transactions from the General Journal to the General Ledger accounts provided at

30 June 2022. Balance the ledger accounts where required. Closing entries are not required. (21 marks)

1. Prepare an extract of the Balance Sheet at 30 June 2022. (5 marks)

**Workings:**

**Allowance for doubtful debts**

Accounts receivable $15 200 - bad debt $3 200 = $12 000x 0.035 = $420

Allowance for doubtful debts

|  |  |  |  |
| --- | --- | --- | --- |
| Bad debts | 3 200 | Bal | 900 |
| Bal c/d | 420 | *Doubtful debts* | *2 720* |
|  | 3 620 |  | 3 620 |

**Utilities Expense**

$663 - $221 = $442

**Unearned Fees**

$2 000 x ½ = $1,000

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** | **Mk** |
| 2020 | Wages | 300 |  | **1** |
| June 30 | Accrued Wages |  | 300 | **1** |
|  | *Wages due but not yet paid* |  |  |  |
|  | Unearned Fees | 1,000 |  | **1** |
|  | Fees |  | 1,000 | **1** |
|  | *Fees earned for the period* |  |  |  |
|  | Utilities Expenses | 442 |  | **1** |
|  | Prepaid Utilities |  | 442 | **1** |
|  | *Utilities consumed on balance day* |  |  |  |
|  | Accrued Interest Income | 500 |  | **1** |
|  | Interest Income |  | 500 | **1** |
|  | *Interest income owing on balance day* |  |  |  |
|  | Bad Debts | 3 200 |  | **1** |
|  | Accounts Receivable |  | 3 200 | **1** |
|  | *Additional bad debts written off* |  |  |  |
|  | Allowance for Doubtful Debts | 3 200 |  | **1** |
|  | Bad Debts |  | 3 200 | **1** |
|  | *Transfer of bad debts* |  |  |  |
|  | Doubtful Debts | 2,720 |  | **1** |
|  | Allowance for doubtful debts |  | 2,720 | **1** |
|  | *Allowance for doubtful debts raised to 3.5% of accounts receivable* |  |  |  |

-1 mark for incorrect dates to a maximum of 2

-1 mark for incorrect narrations to a maximum of 2



**GENERAL LEDGER**

**Wage Expense**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 30/6/22 | Balance | 60,100 |  |  |  |
|  | Accrued wages | 300 |  |  |  |
|  |  | **60,400** |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**Prepaid expenses**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 30/6/22 | Balance | 663 | 30/6/22 | Utilities exp | 442 |
|  |  |  |  | Bal c/d | 221 |
|  |  | **663** |  |  | **663** |
| 1/7/22 | Bal b/d | 221 |  |  |  |

**Accrued Income**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **30/6/22** | **Interest income** | **500** |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**Accounts Receivable A/c**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 30/6/22 | Balance | 15,200 | 30/6/22 | Bad debts | 3,200 |
|  |  |  |  | Bal c/d | 12,000 |
|  |  | **15,200** |  |  | **15,200** |
| 1/7/22 | Bal b/d | 12,000 |  |  |  |
|  |  |  |  |  |  |

**Bad Debts A/c**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 30/6/22 | Accounts receivable | 3,200 | 30/6/22 | Allowance for DD | 3,200 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**Allowance for Doubtful Debts A/c**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 30/6/22 | Bad debts | 3,200 | 30/6/22 | Balance | 900 |
|  | Bal c/d | 420 |  | Doubtful debts | 2,720 |
|  |  | **3,620** |  |  | **3,620** |
|  |  |  | 1/7/22 | Bal b/d | 420 |
|  |  |  |  |  |  |

**Doubtful Debts A/c**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 30/6/22 | Allowance for DD | 2,720 |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**Fees**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | 30/6/22 | Balance | 585,020 |
|  |  |  |  | Unearned income | 1,000 |
|  |  |  |  |  | **586,020** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

1. **Balance Sheet (Extract) of Hot Air Balloons**

**As At 30 June 2022**

**Current Assets**

|  |  |
| --- | --- |
| Accounts receivable | 12,000 |
| Less: Allowance for doubtful debts | 420 |
|  | 11,580 |
| Cash at bank | 15,600 |
| Prepaid expense/utilities | 221 |
| Accrued Income | 500 |
| **Total Current Assets** | **27,901** |

**Marks: +1 for each item; -1 for omission of totals (including subtotal)**