 **Willetton Senior High School**

**2021 Semester One Examination**

**Question/Answer Booklet**

**ACCOUNTING AND FINANCE**

**Year 11 ATAR**

**Unit 1**

First Name:

Last Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Teacher: Bridger / Grimbly

**Time allowed for this paper**

Reading time before commencing work: Ten minutes

Working time for paper: Two and a half hours

**Materials required/recommended for this paper**

*To be provided by the supervisor*

This Question/Answer Booklet A

Extended Answer Booklet B

Multiple-choice answer sheet

Information booklet

***To be provided by the candidate***

Standard items: pens (blue/black preferred), pencils (including coloured), sharpener, correction fluid/tape, eraser, ruler, highlighters.

Special items: non-programmable calculators approved for use in this examination.

**Important note to candidates**

No other items may be taken into the examination room. It is **your** responsibility to ensure that you do not have any unauthorised material. If you have any unauthorised material with you, hand it to the supervisor **before** reading any further.

**Structure of this paper**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Section | Number of questions available | Number of questions to be answered | Suggested working time  (minutes) | Marks available | Percentage of exam |
| Section One:  Multiple-choice | 15 | 15 | 25 | 15 | 15 |
| Section Two:  Short answer | 4 | 4 | 90 | 113 | 70 |
| Section Three:  Extended answer | 2 | 1 | 35 | 26 | 15 |
|  | | | | | 100 |

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

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

Suggested working time for this section is 25 minutes.

1. Mr Panther runs a martial arts centre that has lots of old punching bags he wants to replace. He decides to take them all home. Which of the following journal entry would be correct?
2. Dr drawings, Cr inventory
3. Dr equipment, Cr capital
4. Dr drawings, Cr equipment
5. Dr equipment, Cr drawings
6. Historical cost requires
7. annual review of the value of the elements of accounting reports.
8. an accurate measurement of the value of an asset.
9. assets to be reported at the price the business paid for them.
10. the cost of an asset to be adjusted to its current market price.
11. Which of the following is considered a disadvantage of being a sole trader?
12. The owner is accountable for all debts of the business.
13. The owner may choose to keep all of the profits.
14. There is a flexibility in selecting working hours.
15. The owner must make all of the decisions on their own.
16. Which of the following best represents the accounting process?
17. General Journal, Ledger, Income Statement, Balance Sheet
18. Documenting, Recording, Processing, Reporting
19. Processing, Recording, Reporting
20. Ledger, General Journal, Trial Balance
21. Input taxed supplies include

(a) Fast food

(b) Education

(c) Accounting services

(d) Residential rent

6. Determine the value of drawings from the following information:

|  |  |
| --- | --- |
|  | $ |
| Bank | 11,000 |
| Accounts payable | 6,500 |
| Accounts receivable | 7,500 |
| Loan | 10,000 |
| Profit | 2,500 |
| Capital | 5,000 |
| Drawings | ? |

1. $2,000
2. $2,500
3. $5,500
4. $7,500

7. Jimmy Points is an electrician who operates his own business. He purchased a van for

$65,000 using the business credit card. What would be the effect on the balance sheet?

1. equity would increase by $65,000 and decrease assets by $65,000
2. assets would increase by $65,000 and increase equity by $65,000
3. assets would decrease by $65,000 and assets would increase by $65,000
4. liabilities would increase by $65,000 and assets would increase by $65,000

8. One of the following characteristics is **not** a limitation of internal control. Which one is it?

1. inexperienced employees
2. collusion by employees
3. separation of duties
4. cost for small businesses

9. Current liabilities could include

1. accounts payable, bank overdraft, GST payable.
2. GST credits, short-term loan and accounts payable.
3. bank overdraft, accounts receivable and short-term loan.
4. bank overdraft, accounts payable and mortgage.

10. A business without an ABN number may

1. not be able to pay GST to their suppliers.
2. have large amounts withheld by other businesses.
3. not be able to register their business name.
4. be identified as an illegal business under state law.

11. Which is the main advantage of a mortgage over other types of external finance?

1. it is secured against property
2. no establishment fee
3. lower rate of interest
4. flexible repayment terms

12. Tom, Juno, and Harry have decided to commence a cooking business as a partnership. Which of the following business names would **not** need to be registered?

1. TJH Cooking
2. Tom and Harry Juno
3. Juno Cookery
4. None of the above

13. Equity refers to

1. the owner’s claims to business assets.
2. outsiders’ claims to business assets.
3. internal and external claims to business assets.
4. the profit generated by the business.

14. Which type of business(es) are a separate accounting entity but **not** a separate legal entity?

1. sole traders only
2. companies only
3. companies and partnerships
4. sole traders and partnerships

15. In the absence of a partnership agreement, profits between partners are shared

1. in proportion to the cash capital they contributed.
2. equally, despite any difference in contributions.
3. according to work load they perform in the business.
4. according to the amount of assets they contributed.

**End of Section One**

**Section Two: Short answer 70% (113 Marks)**

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

Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer.

* Planning: If you use the spare pages for planning, indicate this clearly at the top of the page.
* Continuing an answer: If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question(s) that you are continuing to answer at the top of the page.

Suggested working time for this section is 90 minutes.

**Question 16 (35 Marks)**

The business *Freak Trainers* commenced on 1 June 2021, providing personal training services to the public. The business was registered for GST. The following transactions occurred during the first month of operations:

2021

June

1 The owner commenced business with $8,000 cash, equipment worth $6,000 and an amount of $10,000 owing to Western Bank.

5 Cross-training equipment was purchased on credit from Trainer Plus for $4,400 including GST.

10 The owner withdrew $220.

14 Received fees of $1,200 plus GST.

26 Paid $1,800 to Trainers Plus.

27 Received fees of $1,089 including GST.

**Required:**

1. Enter the above transactions into the General Ledger. Balancing of accounts is required on   
   30 June 2021. (26 marks)

**Workings:**

**General Ledger**

**Cash at Bank**



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**Loan – Western Bank**

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**Accounts Payable**

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**Capital**

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**Fees**

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**GST Payable**

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**GST Credits**

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**Equipment**

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**Drawings**

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**GST Control/Clearing**

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1. Prepare the Trial Balance as at 30 June 2021. (4 marks)

**Freak Trainers**

**Trial Balance**

**as at 30 June 2021**

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|  | **Debit** | **Credit** |
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1. Discuss three errors not disclosed by a trial balance. (3 marks)

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1. Being new to business, the owner of Freak Trainers seeks clarification on a few matters.

Outline the importance of the accounting period assumption. (2 marks)

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**Question 17 (38 Marks)**

The owner of Jenista Hair Products provides the following transactions for the month of June 2021. The business is registered for the GST.

2021

June

2 Purchased inventory $3,410, including GST, from HP Australia on 21-day terms.

3 Cash sales $400 plus GST. Cost price $90.

Paid advertising of $1,980, including GST.

14 Paid HP Australia in full after a 2% discount.

Sold hair products to Hair Craze on 14-day terms $9,000 plus GST. Cost price $500.

15 Made the monthly loan repayment of $4,500 which includes loan interest of $100.

18 Hair Craze returned $220, including GST, worth of damaged stock. Cost price $40.

21 Hair Craze paid their account after a 5% discount.

**Required:**

Enter the above transactions into the General Journal for the month of June.

(38 marks)

**Workings:**

**General Journal**

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| **Date** | **Details** | **Debit** | **Credit** |
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**General Journal (cont.)**

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| **Date** | **Details** | **Debit** | **Credit** |
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**Question 18 (14 Marks)**

P. Singh, the owner of Singh Wholesalers has provided you with the following information about her business:

**Singh Wholesalers**

**Account Balances as at 30 June 2021**

|  |  |
| --- | --- |
| Advertising | 5 000 |
| Accounts Payable | 35 000 |
| Accounts Receivable | 48 000 |
| Capital | 800 000 |
| Bank Overdraft | 25 000 |
| Cost of Sales | 220 000 |
| Drawings | 55 000 |
| Electricity | 4 000 |
| Interest on Overdraft | 1 500 |
| Rent Received | 9 000 |
| Inventory | 65 000 |
| Motor Vehicle | 30 000 |
| Office Equipment | 10 000 |
| Premises | 940 500 |
| Telephone Expense | 5 000 |
| Wages | 58 000 |
| Sales | 573 000 |
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**Required:**

a. Prepare the business’s Profit and Loss Account, and the closing entries in the Drawings and Capital Accounts. (12 marks)

**Profit and Loss Account**

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**Drawings Account**

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**Capital Account**

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b. Describe the importance of the closing entries? (2 marks)

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**Question 19 (26 Marks)**

Puff Cakes is a local bakery in Ocean Reef and has provided you with their account balances as at 31 March 2021:

**Puff Cakes**

**Account Balances**

**as at 31 March 2021**

|  |  |
| --- | --- |
|  | $ |
| Accounts payable | 17,100 |
| Accounts receivable | 5,220 |
| Advertising | 560 |
| Bad debts | 90 |
| Capital | 40,000 |
| Cartage inwards | 3,400 |
| Cash at bank | 1,040 |
| Cleaning | 150 |
| Cost of sales | 61,800 |
| Delivery van | 65,000 |
| Delivery van petrol | 320 |
| Electricity | 2,800 |
| GST clearing/control | 880 CR |
| Interest on investments | 130 |
| Interest on loan | 1,500 |
| Inventory | 4,800 |
| Investments (matures 2021) | 7,000 |
| Loan (long term) | 20,000 |
| Petty cash | 180 |
| Rent | 2,000 |
| Sales | 87,500 |
| Sales returns | 20 |
| Store fittings and fixtures | 3,200 |
| Wages – sales staff | 6,000 |

**Required:**

1. Prepare a classified Income Statement for the month ended 31 March 2021. (15 marks)

**Puff Cakes**

**Income Statement**

**for the month ended 31 March 2021**

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1. Prepare an extract of the current assets section ONLY of the Balance Sheet as   
   at 31 March 2021. (5 marks)

**Puff Cakes**

**Balance Sheet (extract)**

**as at 31 March 2021**

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| **Current Assets** | |
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1. Define the term income and discuss why Sales should be classified as income for Puff Cakes. (2 marks)

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1. State three features of the perpetual inventory system. What evidence is there to   
   suggest that Puff Cakes operates under this inventory system? (4 marks)

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**End of Section Two**

**Section Three: Extended answer 15% (26 Marks)**

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

Spare pages are included at the end of this booklet. They can be used for planning your response and/or as additional space if required to continue an answer.

* Planning: If you use the spare pages for planning, indicate this clearly at the top of the page.
* Continuing an answer: If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question(s) that you are continuing to answer at the top of the page.

Suggested working time for this section is 35 minutes.

**Question 20 (26 Marks)**

Bill Dodgy is the director of Bill Dodgy Pty Ltd providing maintenance services to homeowners on 30 day credit terms. Over the past twelve months Bill has been struggling to pay his bills due to poor collection procedures and lack of work opportunities in a challenging economic climate. He desperately needs finance to continue business operations.

Bill has managed his accounts on his own with occasional advice from an accountant but has struggled with his financial paperwork. As a single operator he has always included personal transactions in the business which has lowered his income tax bill by reporting low profits. His balance sheet projects strong financial stability but seems to be struggling with liquidity that is threatening the survival of his business.

Prepare responses to the following questions:

1. Describe two advantages and two disadvantages of operating a proprietary company.

(4 marks)

1. Define the accounting entity principle and discuss the impact on Bill’s business when it complies with this principle. (4 marks)
2. Discuss the main ethical issue with regard to Bill’s income tax responsibility.

(2 marks)

1. State four relevant measures that Bill could use to gain control over his accounts receivable and four relevant measures to gain control over his accounts payable.

(8 marks)

1. Describe two consequences of a person being bankrupted as a result of a failed business. (4 marks)
2. Describe an appropriate source of finance to solve Bill’s liquidity issues in his business. Include an advantage and a disadvantage in your discussion. (4 marks)

**OR**

**Question 21 (26 Marks)**

Pieta and Payne are partners in a new business called Kebabland. It sells gourmet kebabs at $18.70 each (GST inclusive). Despite challenging times, the business was booming with their new approach to an old favourite take-away. Within 5 months of operation up to 30 June 2021, they were already pulling in $95,000!

Both partners are celebrated chefs, but only Pieta has business management experience. Payne is old fashioned and often takes short-cuts to get things done quickly which means he does not always check in with Pieta about his activities. Payne is responsible for banking each Friday and as such, withdraws $1,500 from the cash register for himself before banking.

Pieta knew they were making good money, and to his knowledge, he thought they were financially sound until he checked the last monthly bank statement and began receiving overdue notices from suppliers and the Australian Tax Office about their GST commitments. Their accountant prepared their first end of year financial statements, reporting a lower-than-expected profit result, low liquidity and marginal financial stability. Both partners were disappointed as they had hoped to apply for a license for an outside eating area with their City Council and for appropriate finance from their bank.

Prepare responses to the following questions:

1. Describe two advantages and two disadvantages of a partnership.

(4 marks)

1. Define the term liquidity and explain two clear reasons for Kebabland’s liquidity situation.

(4 marks)

1. With reference to Kebabland, explain three GST legal requirements. (6 marks)
2. Pieta is calling for a rethink in the way cash is being handled in the business. Outline four relevant measures the partners could use to rectify their control over cash and two relevant measures to gain control over their accounts payable. (6 marks)
3. Define the term materiality and explain whether Payne’s withdrawals from the business are regarded as material. (4 marks)
4. If Pieta and Payne want to acquire a loan to set up an outside eating area for their business, describe one appropriate risk factor that their financial institution will consider regarding their loan application. (2 marks)

ANSWER SECTION THREE IN THE EXTRA BOOKLET.

**End of Section Three**