**Marking Key**

**ACCOUNTING AND FINANCE**

**Year 11 ATAR**

**BEWA Semester One Examination 2021**

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 2 for the security of the examination being done by other schools up until this time.**

**Analysis of questions by practical and theory**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Question No | Practical | Theory | Question No | Practical | Theory |
| **Sec 1 (15%)** |  |  | **Sec 2 (70%)** |  |  |
|  |  |  |  |  |  |
| 1 | 1 |  | 16a | 26 |  |
| 2 |  | 1 | 16b | 4 |  |
| 3 |  | 1 | 16c |  | 3 |
| 4 |  | 1 | 16d |  | 2 |
| 5 |  | 1 | 17a | 38 |  |
| 6 | 1 |  | 18a | 12 |  |
| 7 | 1 |  | 18b |  | 2 |
| 8 |  | 1 | 19a | 15 |  |
| 9 |  | 1 | 19b | 5 |  |
| 10 |  | 1 | 19c |  | 2 |
| 11 |  | 1 | 19d |  | 4 |
| 12 |  | 1 |  |  |  |
| 13 |  | 1 | 115 | 100 | 13 |
| 14 |  | 1 | **Total** | **(88%)** | **(12%)** |
| 15 |  | 1 |  |  |  |
| **Total** | **(3%)** | **(12%)** |  |  |  |
|  |  |  |  |  |  |
|  |  |  | **Sec 3 (15%)** |  |  |
|  |  |  | 20 |  | 26 |
|  |  |  | **or** |  |  |
|  |  |  | 21 |  | 26 |
| 156 |  |  |  |  |  |
| **Summary:**  Section 1 = 15% of examination (3% practical, 12% theory)  Section 2 = 70% of examination (88% practical, 12% theory)  Section 3 = 15% of examination (15% theory)  **Total examination = 65% practical, 35% theory** | | | | | |

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

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

*Workings:*

**Q6** **A** 18,500 – L 16,500 = EQ 2,000

Drawings = Capital 5,000 + Profit 2,500 = 7, 500 – 2,000 = 5,500

**Section Two: Short answer 70% (140 Marks)**

**Question 16 (35 Marks)**

**Required:**

1. Enter the above transactions into the general ledger. Close and balance required accounts on 30 June, 2021. (26 Marks)

**Workings:**

Jun 1 capital open balance 8,000 + 6,000 – 10,000= $4,000 (1)

**General Ledger**

**Cash at Bank (6)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2021  Jun 1 | Balance (1) | 8,000 | 2021 Jun 10 | Drawings (1) | 220 |
| 14 | Fees/GST Payable (1) | 1,320 | 26 | Accounts Payable (1) | 1,800 |
| 27 | Fees/GST Payable (1) | 1,089 | 30 | Balance c/d | 8,389 |
|  |  | 10,409 |  |  | 10,409 |
| Jul 1 | Balance b/d (1) | 8,389 |  |  |  |

**Loan – Western Bank (1)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | Jun 1 | Balance (1) | 10,000 |
|  |  |  |  |  |  |

**Accounts Payable – Trainers Plus (3)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Jun 26 | Cash at Bank (1) | 1,800 | Jun 5 | Equipment/GST Credits (1) | 4,400 |
| 30 | Balance c/d | 2,600 |  |  |  |
|  |  | 4,400 |  |  | 4,400 |
|  |  |  | Jul 1 | Balance b/d (1) | 2,600 |

**Capital (2)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | Jun 1 | Balance (1)+(1) | 4,000 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**Fees Income (2)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | Jun 14 | Cash at bank (1) | 1,200 |
|  |  |  | 27 | Cash at bank (1) | 990 |
|  |  |  |  |  | 2,190 |
|  |  |  |  |  |  |

**GST Payable (3)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Jun 30 | GST Control (1) | 219 | Jun 14 | Cash at bank (1) | 120 |
|  |  |  | 27 | Cash at bank (1) | 99 |
|  |  | 219 |  |  | 219 |

**GST Credits (2)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Jun 5 | A/c Payable (1) | 400 | Jun 30 | GST Control (1) | 400 |
|  |  |  |  |  |  |
|  |  | 400 |  |  | 400 |

**Equipment (3)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Jun 1 | Balance (1) | 6,000 | Jun 30 | Balance c/d | | 10,000 |
| 5 | A/c Payable (1) | 4,000 |  |  | |  |
|  |  | 10,000 |  |  | 10,000 | |
| Jul 1 | Balance b/d (1) | 10,000 |  |  |  | |

**Drawings (1)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Jun 10 | Cash at bank (1) | 220 |  |  |  |
|  |  |  |  |  |  |

**GST Clearing/Control (3)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Jun 30 | GST Credits (1) | 400 | Jun 30 | GST Payable (1) | 219 |
|  |  |  |  | Balance c/d | 181 |
|  |  | 480 |  |  | 480 |
| Jul 1 | Balance b/d (1) | 181 |  |  |  |

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

**Freak Trainers**

**Trial Balance**

**as at 30 June 2021**

|  |  |  |  |
| --- | --- | --- | --- |
| **Ledger Accounts** | **Debit** | **Credit** |  |
| Cash at bank | 8,389 |  | (1/2) |
| Loan |  | 10,000 | (1/2) |
| Accounts payable – Trainers Plus |  | 2,600 | (1/2) |
| Capital |  | 4,000 | (1/2) |
| Fees Income |  | 2,190 | (1/2) |
| Drawings | 220 |  | (1/2) |
| Equipment | 10,000 |  | (1/2) |
| GST control/clearing | 181 |  | (1/2) |
|  | $18,790 | $18,790 |  |

-1 for no totals

1. State three errors not disclosed by a trial balance. (3 marks)

|  |  |
| --- | --- |
| States any three errors not disclosed by a trial balance | 3 |
| States any two errors not disclosed by a trial balance | 2 |
| States any one error not disclosed by a trial balance | 1 |
| **Sub Total** | **3** |
| Answer could include:  Three errors not disclosed by a trial balance:   * Debiting and crediting incorrect accounts with the correct amount * Missing an entire transaction * Entering transaction details incorrectly in the general journal from source documents * Debiting and crediting correct accounts but both with the incorrect amount * Compensating errors where amounts are increased or decreased by the same amount in the debit and credit process that cancels out the error   Accept other valid and appropriate points. |  |

1. Being new to business, the owner of Freak Trainers seeks clarification on a few matters.
2. Outline the purpose of the accounting period assumption. (2 marks)

|  |  |
| --- | --- |
| Outlines accounting period and its purpose in relation to profit calculation. | 2 |
| States a fact about the accounting period assumption | 1 |
| **Sub Total** | **2** |
| Answer could include:  The accounting period assumption breaks the life of a business up into equal periods of time (1). This allows profit/loss and tax to be calculated (1) and compared to previous years.  Accept other valid and appropriate points. |  |

**Question 17 (38 Marks)**

**Workings:**

Hair Products Australia: $3,410 (1) - $110 (1)= $3,300

June 14 Discount received $3,300 (1) x 0.02 (1) = $66 ÷ 11 = $6 GST (1)

$66 (1) - $6 (2) = $60

Bank $3,300 - $66 = $3,234 (1)

Hair Craze: $9,900 (1) – 220 (1) = $9,680

June 21 Discount allowed $9,680 (1) x 0.05 (1) = $484 ÷ 11 = $44 GST (1)

$484 (1) - $44 (2) = $440

Bank $9,680 - $484 = $9,196 (1)

**Required:**

1. Enter the above transactions into the General Journal for the month of June. (38 marks)

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| June 2 | Inventory | 3,100 |  |  |
|  | GST Credits | 310 |  | (1) |
|  | Accounts Payable – Hair Products Australia |  | 3,410 | (1) |
|  | *Purchased inventory on 21-day terms* |  |  |  |
| 3 | Bank | 440 |  | (1) |
|  | GST Payable |  | 40 | (1) |
|  | Sales |  | 400 | (1) |
|  | *Cash sales* |  |  |  |
|  | Cost of sales | 90 |  | (1) |
|  | Inventory |  | 90 | (1) |
|  | *Cost of cash sales* |  |  |  |
|  | Advertising | 1,800 |  | (1) |
|  | GST Credits | 180 |  | (1) |
|  | Bank |  | 1,980 | (1) |
|  | *Paid advertising in advance* |  |  |  |
| 14 | Accounts payable – Hair Products Australia | 3,410 |  | (2) |
|  | Bank |  | 3,341.80 | (1) |
|  | Discount received |  | 62 | (3) |
|  | GST Credits |  | 6.20 | (1) |
|  | *Paid creditor in full after a 2% discount* |  |  |  |
|  | **OR** |  |  |  |
|  | **Accounts payable – Hair Products Australia** | **3,410** |  | **(2)** |
|  | **Bank** |  | **3,241.80** | **(1)** |
|  | **Discount received** |  | **62** | **(2)** |
|  | ***Paid creditor in full after a 2% discount*** |  |  |  |
|  | **Discount received** | **6.20** |  | **(1)** |
|  | **GST Credits** |  | **6.20** | **(1)** |
|  | ***GST adjustment*** |  |  |  |
|  | Accounts receivable - Hair Craze | 9,900 |  | (1) |
|  | Sales |  | 9,000 | (1) |
|  | GST Payable |  | 900 | (1) |
|  | *Credits sales on 14-day terms* |  |  |  |
|  | Cost of sales | 500 |  | (1) |
|  | Inventory |  | 500 | (1) |
|  | *Cost of credit sales* |  |  |  |
| 15 | Loan | 4,400 |  | (1) |
|  | Interest on loan | 100 |  | (1) |
|  | Bank |  | 4,500 | (1) |
|  | *Paid wages* |  |  |  |
| 18 | Sales returns | 200 |  | (1) |
|  | GST Payable | 20 |  | (1) |
|  | Accounts receivable – Hair Craze |  | 220 | (1) |
|  | *Debtor returned damaged stock* |  |  |  |
|  | Inventory | 40 |  | (1) |
|  | Cost of sales |  | 40 | (1) |
|  | *Cost of sale return* |  |  |  |
| 21 | Bank | 9,196 |  | (1) |
|  | Discount allowed | 440 |  | (3) |
|  | GST Payable | 44 |  | (1) |
|  | Accounts receivable – Hair Craze |  | 9,680 | (2) |
|  | *Debtor paid account in full after 5% discount* |  |  |  |
|  | **OR** |  |  |  |
|  | **Bank** | **9,196** |  | **(1)** |
|  | **Discount allowed** | **484** |  | **(2)** |
|  | **Accounts Receivable – Hair Craze** |  | **9,680** | **(2)** |
|  | ***Debtor paid account in full after 5% discount*** |  |  |  |
|  | **GST Payable** | **44** |  | **(1)** |
|  | **Discount allowed** |  | **44** | **(1)** |
|  | ***GST adjustment*** |  |  |  |
| -1 mark for each incorrect narration to maximum of 3  -1 mark for each incorrect date to maximum of 2 | | | |  |

**Question 18 (14 marks)**

* + - * 1. Prepare the business’s Profit and Loss Account, and the closing entries in the

Drawings and Capital Accounts. (12 marks)

**Profit and Loss Account (9)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2021  Jun 30 | Advertising (1) | 5,000 | 2021  Jun 30 | Rent received (1) | 9,000 |
|  | Cost of sales (1) | 220,000 |  | Sales (1) | 573,000 |
|  | Electricity (1) | 4,000 |  |  |  |
|  | Interest on overdraft (1) | 1,500 |  |  |  |
|  | Telephone expense (1) | 5,000 |  |  |  |
|  | Wages (1) | 58,000 |  |  |  |
|  | Capital (Profit) (1) | 288,500 |  |  |  |
|  |  | 582,000 |  |  | 582,000 |
|  |  |  |  |  |  |

**Drawings Account (1)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2021  Jun 30 | Balance | 55,000 | 2021  Jun 30 | Capital (1) | 55,000 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**Capital Account (2)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2021  Jun 30 | Drawings (1) | 55,000 | 2021  Jun 30 | Balance | 800,000 |
|  | Balance c/d | 1,033,500 | 2021  Jun 30 | Profit and Loss (1) | 288,500 |
|  |  | 1,088,500 |  |  | 1,088,500 |
|  |  |  | Jul 1 | Balance b/d | 1,033,500 (1) |
|  |  |  |  |  |  |

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

Closing entries are important because they:

* Ensure all income and expenses are included in the calculation of profit and loss
* Reduce the income and expense account balances to zero so that they cannot be included in the calculation of the profit or loss for next year.

**Question 19 (24 Marks)**

**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**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Income** | $ | $ | $ |  |
| Sales |  | 87,500 |  | (1) |
| Less sales returns |  | 20 |  | (1) |
| Net sales |  | 87,480 | 87,480 |  |
| Less Cost of sales | 61,800 |  |  | (1) |
| Cartage inwards | 3,400 | 65,200 |  | (1) |
| Cost of sales |  |  | 65,200 |  |
| Gross Profit (1) |  |  | 22,280 |  |
| **Add Other Income** |  |  |  |  |
| Interest on investments |  |  | 130 | (1) |
| Total Income |  |  | 22,410 |  |
| **Less Operating Expenses** |  |  |  |  |
| ***Selling and distribution*** |  |  |  |  |
| Van petrol | 320 |  |  | (1) |
| Bad debts | 90 |  |  | (1) |
| Wages | 6,000 |  |  | (1) |
| Advertising | 560 | 6,970 |  | (1) |
| ***General and Administration*** |  |  |  |  |
| Cleaning | 150 |  |  | (1) |
| Electricity | 2,800 |  |  | (1) |
| Rent | 2,000 | 4,950 |  | (1) |
| ***Financial*** |  |  |  |  |
| Interest on loan |  | 1,500 | 13,420 | (1) |
| **Profit before tax (1)** |  |  | **$8,990** |  |
|  |  |  |  |  |

-1 mark (up to 3 marks) for poor setting out/no headings

-1 mark (up to 3 marks) for foreign items

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**

|  |  |  |
| --- | --- | --- |
| **Current Assets** | **$** |  |
| Accounts receivable | 5,220 | (1) |
| Cash at bank | 1,040 | (1) |
| Inventory | 4,800 | (1) |
| Investments | 7,000 | (1) |
| Petty cash | 180 | (1) |
| **Total Current Assets** | **18,240** |  |

- 1 mark for no headings/totals

-1 mark (up to 2 marks) for foreign items

1. Describe the term income using Sales as your example for Puff Cakes. (2 marks)

|  |  |
| --- | --- |
| Defines income using sales as an example in relation to the nature of the business. | 2 |
| Defines income without reference to the sales. | 1 |
| **Sub Total** | **2** |
| Answer could include:  Income is an element that is reported in an incomes statement as an activity of the business which brings in money for the business. (1) Sales is an example of income for Puff Cakes because it sells cakes as its main activity to make money. (1)  Income definition: Increases in assets or decrease in liabilities that result in increase in equity, other than those relating to contributions from holders of equity claims.  Accept other valid and appropriate points. |  |

1. State three principles of the perpetual inventory system. What evidence is there to suggest that Puff Cakes operates under this inventory system? (5 marks)

|  |  |
| --- | --- |
| States three principles of the perpetual inventory system | 3 |
| States two principles of the perpetual inventory system | 2 |
| States one principle of the perpetual inventory system | 1 |
| **Subtotal** | **3** |
| States two pieces of evidence to suggest the perpetual system | 2 |
| States one piece of evidence to suggest the perpetual system | 1 |
| **Subtotal** | **2** |
| Answer could include:  **Principles** of the perpetual inventory system (any three, one mark each)   * A cost of goods sold account is maintained. * Sales price and cost price is recorded for every sale of inventory. * The inventory on hand is always known as the account is updated with every sale and purchase of inventory. * A physical stock take is carried out to check floor stock with system records to detect losses * Profit can be calculated at any time through sales less cost of sales. * Operates on a computerized system   **Evidence:** (any two, one mark each)  Puff Cakes operates under the perpetual system because it has a cost of sales account in its list of account balances as at 31 March, 2021 and it is used to determine gross profit at any time as indicated by the need to present an income statement extract dated 31 March, 2021 instead of waiting until the end of the financial year. It also does not have a purchases account which would be used in a physical system.  Accept other valid and appropriate points. |  |

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

**Question 20 (26 Marks)**

1. Describe two advantages and two disadvantages of operating a proprietary company. (4 marks)

|  |  |
| --- | --- |
| Describes two advantages and two disadvantages of a Pty Ltd | 4 |
| Describes two advantages and one disadvantage or vice versa | 3 |
| States one advantage and one disadvantage of a Pty Ltd | 2 |
| States one advantages or disadvantage of a Pty Ltd | 1 |
| Answer could include:  **Advantages:** (any two, one mark each)   * Limited liability is provided for the members who are not responsible for business debts provided they are paid up on their shares. * 50 members are allowed so raising funds from owners is potentially easier than for sole traders or partners. * As a separate legal entity, the business exists in its own right and will continue into the future despite any changes in members which will not disrupt the existence of the business. * There is potential for greater growth than other business structures because of the business’s ability to raise more funds more easily.   **Disadvantages:** (any two, one mark each)   * There is a separation between the members who own the business and the management who run the business by elected directors because the business is a separate legal entity. * There is more legal administration and costs with this type of business ownership in the formation and operation of the business. * Directors are responsible for running the business and can be personally liable for severe mismanagement of the business. * Tax is paid on the whole of the business’s profits where the tax rate is quite high compared to other business structures. * Members only gain a share of the profits through dividends declared which is under the control of the directors and they are based on the number of shares the members own.   Accept other valid and appropriate points. | |

1. Define the accounting entity principle and describe two consequences for Bill if he does not adhere to this principle. (4 marks)

|  |  |
| --- | --- |
| Discusses two impacts of the business complying with this principle | 2 |
| Discusses one impact of the business complying with this principle | 1 |
| **Subtotal** | **2** |
| Defines the accounting entity in full | 2 |
| Defines accounting entity simply | 1 |
| **Subtotal** | **2** |
| Answer could include:  **Accounting Entity** (any two, two marks each)  The accounting entity principle requires business owners to keep their private transactions separate and distinct from business transactions as all recording is done from the point of view of the business and not the owner.  **Consequences:** (any two, two marks each)   * Financial statements will be accurate as it is won’t present false profitability and financial stability of the business by including personal profits. * Incorrect tax assessment based on false profit results is a type of fraud that may land Bill in legal difficulties if investigated – the business won’t have this problem if it complies with the accounting entity principle. * If finance is acquired based on a great looking balance sheet, creditors may threaten legal action if there are liquidity issues where Bill cannot pay them back because finance was gained based on false information – the business won’t have this problem if it complies with the accounting entity principle. * If Bill attracts members to invest in his business later, they need to be assured that their decision to invest is based on business activity and not his personal activity. – they can be assured when the business has applied the accounting entity principle.   Accept other valid and appropriate points. | |

1. Discuss the main ethical issue with regard to Bill’s income tax responsibility.

(2 marks)

|  |  |
| --- | --- |
| Discusses the ethical issues about income tax responsibility and refers to Bill/ uses and example. | 2 |
| Identifies the main ethical issue about income tax responsibility | 1 |
| Answer could include:  Discussion (any four points, one mark each)   * The main ethical issue is including Bill’s personal transactions in the company’s accounts which breaches the accounting entity principle and distorts the profit and loss reported to the ATO. This may result in the company paying not enough tax or possibly too much tax. For example, if inventory was taken home by Bill and not recorded this will increase company income which will likely result in more tax being paid by the company.   Other arguments:   * Bill has paid tax on the company’s profits over the years on time even though he has managed to minimize his income tax bill * While minimising tax is not illegal, he has not evaded tax which is illegal, so Bill might be able to still get away with what he has been doing in the past. * The question remains though whether not following the accounting entity principle contributes to intended or unintended fraud It appears he may not have intended to do as he has been doing it for so long and been able to get away with it. * If his accountant did not advise him over the years to separate his private transactions, then Bill will not have known about this requirement and would not be at fault. * It is not known exactly what Bill has done in the past to minimize his tax bill other than not following the accounting entity principle. Perhaps in the event he was investigated, it might be discovered that he had done other things that were unethical but not illegal to minimize his tax responsibility.   Accept other valid and appropriate points. | |

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)

|  |  |
| --- | --- |
| States one to four relevant controls over accounts receivable | 1-4 |
| **Subtotal** | **4** |
| States one to four relevant control over accounts payable | 1-4 |
| **Subtotal** | **4** |
| Answer could include:  **Control over accounts receivable:** (any four, one mark each)   * Send tax invoice and statements promptly to encourage payment * Review debtor accounts monthly and follow up with overdue letters or make follow up phone calls to personally encourage payment * Reduce credit terms from 30 days to 7-14 days and state in bold on invoice. * Offer discounts for prompt payments * Recording of debtors should be separate from handling * Conduct credit checks before extending credit to new clients * Minimise credit limits for new customers or deny existing customers further credit if payment not made   **Control over accounts payable:** (any four, one mark each)   * Check all orders made are consistent with invoices received. * Pay invoices on due date to avoid late payment fees. * Don’t pay invoices earlier than the due date, so cash can be retained * Set limits on orders to avoid large invoice bills that can cause strain on cash reserves. * Contact suppliers and negotiate new extended payment terms. * Set up monthly GST BAS statements so that the GST bill doesn’t get so large that puts stress on the cash reserves.   Accept other valid and appropriate points. | |

1. Describe two consequences of a person being bankrupted as a result of a failed business. (4 marks)

|  |  |
| --- | --- |
| Describes two consequences of being a bankrupt | 4 |
| States one simple fact and describes one consequence of being a bankrupt | 3 |
| States two simple facts about being a bankrupt | 2 |
| States one simple fact about being a bankrupt | 1 |
| Answer could include:  Consequences of being a bankrupt (any two, two marks each)   * Excess income above what is needed to survive must be surrendered to pay off debts owed. * It may be difficult to find work with a history as a bankrupt as employers may not trust the person. * The period of bankruptcy prevents the person from starting a new business. * Getting access to finance with regular institutions may be challenging without additional conditions attached that may seem harsh. * Any savings made to purchase any new asset will be confiscated to pay off debts as this is may be considered in excess needed to survive. * Travelling overseas requires permission and often restricted with conditions attached to the travel if granted. * Your name will appear permanently on a public register called the National Personal Insolvency Index (NPII) * Bankruptcy will last for 3 years and 1 day.   Accept other valid and appropriate points. | |

1. Describe an appropriate source of finance to solve Bill’s liquidity issues in his business. Include an advantage and disadvantage in your discussion. (4 marks)

|  |  |
| --- | --- |
| Describes an appropriate source of finance for Bill and an advantage plus a disadvantage of the source. | 4 |
| Describes an appropriate source of finance for Bill and either an advantage or disadvantage of the source. | 3 |
| Identifies an appropriate source of finance for Bill and identifies an advantage or disadvantage. | 2 |
| Identifies an appropriate source of finance | 1 |
| Answer could include: (any one, four marks)   * A bank overdraft allows a bank account to be overdrawn to a certain limit. This facility is readily available to use for daily operations which does not have to be paid by a specified date. It does however charge very high interest on the amount overdrawn and should be used short term. or * Additional shareholder, up to 50 allowed, that could provide additional cash capital. Although it is fee free it would however reduce his control over the business and he may not know anyone who would be a good investor. * A term loan is money borrowed from the bank. The length of time can be varied as to the type of interest (fixed/variable). It does involve bank fees, ongoing repayments with interest. May also require security.   Accept other valid and appropriate points. | |

**Question 21 (26 marks)**

1. Describe two advantages and two disadvantages for Pieta and Payne’s partnership. (4 marks)

|  |  |
| --- | --- |
| Describes two advantages and two disadvantages of a partnership | 4 |
| Describes two advantages and one disadvantage or vice versa | 3 |
| Identifies one advantage and one disadvantage | 2 |
| Identifies one advantages or disadvantage | 1 |
| Answer could include:  **Two advantages:** (any two, one mark each)   * Each partner brings their own expertise to the business; both are chefs but Pieta also has management experience. * They both share any losses the business may have alleviating stress on one partner. * They both share the responsibility for running the business reducing workload. * Additional capital can be raised with up to 20 partners. * Each partner can act on behalf of the other requiring trust of each other to run the business – mutual agency. * They each pay income tax on their share of the profits instead on the whole profit. Which reduces individual tax obligations.   **Two disadvantages:** (any two, one mark each)   * They both share profits of the business which reduces returns to each partner. * They are jointly and severally liable for all business debts. * They both act on behalf of the other – mutual agency - that may incur losses or disadvantage the business. * They cannot include another partner without the other’s permission which can dissolve the business. * The partnership dissolves if one of the partners leaves the business because there is no continuity of existence. * The Partnership Act overrides the Partnership agreement if a matter is not addressed in the agreement which may not be agreeable to both partners * Partners may be prone to disagreements which makes it difficult resolve or continue the business.   Accept other valid and appropriate points. | |

1. Define the term liquidity and explain two clear reasons for Kebabland’s liquidity situation. (4 marks)

|  |  |
| --- | --- |
| Explains one to two reasons for the business’s liquidity situation | 2 |
| States one to two reasons for the business’s liquidity | 1 |
| **Subtotal** | 2 |
| Defines the term liquidity | 2 |
| **Subtotal** | **2** |
| Answer could include:   * The term liquidity means the business’s ability to generate cash to meet debt commitments when they fall due. (2)   **Liquidity situation:** The liquidity of the business is not favourable because of the following situations in the business:   * The business is having difficulties paying its suppliers and ATO on time because they are receiving overdue notices meaning they do not have enough cash to pay their accounts on time. (2) * Payne makes regular large cash withdrawals of $1,500 which is impacting on the bank balance and therefore the amount of cash that is available when the bills are due. (2) * The financial stability of the business is marginal meaning that outsiders are gaining more control of the business than the partners because they are not paying their debts on time due to cash shortages. (2)   Accept other valid and appropriate points. | |

1. With reference to Kebabland, explain three GST legal requirements. (6 marks)

|  |  |
| --- | --- |
| For each of the three GST legal requirements: |  |
| Explains the GST fact to Kebabland | 2 |
| States a fact about GST legal requirements | 1 |
| **Subtotal** | **6** |
| Answer could include: (Any three, two marks each)   * A business must register if it is turning over more than $75,000 in a financial year. Kebabland is in fact turning over more than this with $95,000 in its first year of operation. * Kebabland is selling gourmet kebabs which is a taxable supply that is consumed in Australia. They must charge 10% GST in their prices, as their kebab price is $18.70 which includes GST of $1.70. * It is required to keep records of GST credits and GST payable so that it can complete a business activity statement to send to the ATO. The business seems to be outstanding on this matter as they are receiving overdue notices from the ATO which supports the business’s GST obligations. * On each gourmet kebab sale, the business needs to charge the customer 10% GST and state it on their tax invoice receipts to inform the customer of the GST charge. Their kebab price is $18.70 which include GST of $1.70.   Accept other valid and appropriate points. | |

1. 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)

|  |  |
| --- | --- |
| Outlines one to four relevant controls over cash | 1-4 |
| **Subtotal** | **4** |
| Outlines one to two relevant control over accounts payable | 1-2 |
| **Subtotal** | **2** |
| Answer could include:  **Control over cash:** (any four, one mark each)   * Ensure withdrawals by Payne is documented (eg. cheque) * Banking should not be left to Fridays only, but rather banked every day to avoid built up of cash and to reduce temptation to withdraw large amounts of cash. * Check bank statements daily to monitor cash balance online. * Take turns in banking so that Payne is not tempted to withdraw without notice. * Reconcile all cash receipts with bank statement and cash register records. * Ensure the handling and recording of cash is not all done by Payne. * Make an amendment to the partnership agreement by including limits or penalties or compensations by the partner regarding excessive cash withdrawals from the business. * Insist on open dialogue about activities that could impact cash and debt levels.   **Control over accounts payable:** (any two, one mark each)   * Maintain dialogue with accounts payable to gain an extension on accounts that are due to avoid penalties. * Insist dialogue with partner to ensure any supplier orders are known and recorded. * Check all orders made are consistent with invoices received. * Set limits on orders to avoid large invoice bills that can cause strain on cash reserves. * Arrange new term agreements with suppliers that are sustainable and have all orders directed to Pieta for processing and management. * Set up monthly GST BAS statements so that the GST bill doesn’t get so large that puts stress on the cash reserves. * Set up reorder points on their accounts system to alert low stock levels to manageable amounts. * Ensure stock levels needed are purchased in bulk from suppliers to gain the best price possible.   Accept other valid and appropriate points. | |

1. Define the term materiality and explain whether Payne’s withdrawals from the business is regarded as material. (4 marks)

|  |  |
| --- | --- |
| Defines materiality fully | 2 |
| Defines materiality simply | 1 |
| **Subtotal** | **2** |
| Provides a decision as to whether drawings should be recorded or not and explains with reasons why. | 2 |
| Provides a decision as to whether drawings should be recorded or not | 1 |
| **Subtotal** | **2** |
| Answer could include:  **Materiality** (two marks)  Materiality is the principle of disclosing information in financial reports (1) that is important and relevant to decision making. (1)  **Explanation**  YES, cash withdrawals is material information that should be recorded in the accounting system because: (1) (any two below, one mark each)   * once drawings account is recognized in the system, it will appear in the balance sheet under equity which will illustrate equity changes from the start of February important for the partners to understand what has impacted on their financial stability. (1) * cash drawings is one of the reasons why the business is liquidity difficulties and interested parties including the partners need to assess the business’s liquidity with all information that has impacted on it. (1) * cash drawings of $1,500 per week is the equivalent to $78,000 a year – a significant amount that would affect decision making.(1) * to improve liquidity, all information about drawings needs to be disclosed so that control systems can be put in place to monitor them. (1)   Accept other valid and appropriate points. | |

1. 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)

|  |  |
| --- | --- |
| Describes one risk factor that a financial institution would consider. | 2 |
| Identifies a factor | 1 |
| Answer could include:  The financial institution could consider the following risk factor:   * Liquidity will be assessed to see if the business has enough cash to pay impending repayments on a loan sought. or * Collateral will be assessed to see what assets are available in the business to the value of the loan sought as security for the loan if non-payment occurs. or * History could be assessed regarding the partner’s individual credit rating and ability to pay back debts – as the business has only been in operation for five months, it can only go on the business’s ability to pay their suppliers and ATO. or * Guarantors could be requested from the partner’s family and friends, although not usually likely in a partnership arrangement.   Accept other valid and appropriate points. | |