**2022 Semester One Examination**

WSHS

**ACCOUNTING**

**AND FINANCE**

**ATAR**

**Unit 1**

**Marking Key**

|  |
| --- |
| This is a provisional marking key developed by BEWA that can be reviewed and modified by the teacher as necessary.  This marking key is a guide for markers to allocate marks for differing performance levels, as indicated in the shelves above possible answers. These performance level shelves should be read in conjunction with suggested answers to discriminate between student performances.  The suggested answers are not exhaustive and markers may need to exercise professional judgement in awarding marks to some answers.  **This Marking Key may not be released to students until Term 2 Week 7 for the security of the examination being done by other schools up until this time.**  **However, teachers may give students their exam papers back to discuss with this marking key as soon as they wish following the examination. We ask that you then collect them back and keep them until they are finally released to students in Week 7.** |

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

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

**Section Two: Short answer 70% (96 Marks)**

**Question 16 (36 Marks)**

Prepare General Journal entries to record the March transactions. narrations are required.

**Workings:**

Discount received: 5,500 x 0.02 = 110 110 ÷ 11 = 10 GST 110-10 =100 5,500 – 110 = 5,390

**General Journal**

**Schwartz Ceramics**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** | **Marks** |
| 2022 |  |  |  |  |
| Mar 6 | Bank | 50,000 |  | 1 |
|  | Capital |  | 50,000 | 1 |
|  | *Commenced business with a cash deposit* |  |  |  |
| 10 | Inventory | 5,000 |  | 1 |
|  | GST Receivable | 500 |  | 1 |
|  | Accounts Payable – Italian Tiles |  | 5,500 | 1 |
|  | *Purchased inventory on credit* |  |  |  |
| 14 | Trailer | 1,800 |  | 1 |
|  | GST Receivable | 180 |  | 1 |
|  | Accounts payable – Trailer Galore |  | 1,980 | 1 |
|  | *Purchased trailer on credit terms* |  |  |  |
| 19 | Wages | 2,000 |  | 1 |
|  | Phone Costs | 591 |  | 1 |
|  | GST Receivable | 59 |  | 1 |
|  | Bank |  | 2,650 | 1 |
|  | *Paid expenses* |  |  |  |
| 28 | Bank | 1,100 |  | 1 |
|  | Sales |  | 1,000 | 1 |
|  | GST Payable |  | 100 | 1 |
|  | *Cash sales* |  |  |  |
|  | Cost of sales | 700 |  | 1 |
|  | Inventory |  | 700 | 1 |
|  | *Cost of sale* |  |  |  |
|  | Accounts Receivable – SM Low | 1,694 |  | 1 |
|  | Sales |  | 1,540 | 1 |
|  | GST Payable |  | 154 | 1 |
|  | *Credit sales* |  |  |  |
|  | Cost of sales | 800 |  | 1 |
|  | Inventory |  | 800 | 1 |
|  | *Cost of sale* |  |  |  |
| 30 | Accounts Payable – Italian Tiles | 5,500 |  | 1 |
|  | Discount Received |  | 110 | 1/2 |
|  | Bank |  | 5,390 | 1 |
|  | *Paid creditor after receiving a 2% discount*  Discount received  GST credit  *GST adjustment on discount* | 10 | 10 | ½  2 |
| 31 | Sales returns | 250 |  | 1 |
|  | GST Payable | 25 |  | 1 |
|  | Accounts Receivable – SM Low |  | 275 | 1 |
|  | *Sale return due to damaged tiles* |  |  |  |
|  | Inventory | 120 |  | 1 |
|  | Cost of sales |  | 120 | 1 |
|  | *Cost of sale return* |  |  |  |
|  | Bank | 24 |  | 1 |
|  | Interest Income |  | 24 | 1 |
|  | *Received interest* |  |  |  |
| Subtotal | | | | 34 |
| Narrations max  Dates | | | | 2  -2 |
| **Total** | | | |  |

**Question 17 (27 Marks)**

1. The following Trial balance has been prepared incorrectly. Rewrite the balances in the correct debit and credit columns. (15 marks)

**Pompol Designs**

**Trial Balance**

**as at 30 June 2022**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars** | **Debit** | **Credit** | **Debit** | **Credit** | **Marks** |
| Stationery | 1,360 |  | 1,360 |  | 1 |
| Prepaid insurance |  | 3,240 | **3,240** |  | 1 |
| Investments |  | 40,200 | **40,200** |  | 1 |
| Superannuation |  | 10,000 |  | 10,000 | 1 |
| Bad debts |  | 220 | **220** |  | 1 |
| Cash at bank | 11,860 |  | 11,860 |  | 1 |
| Furniture |  | 29,400 | **29,400** |  | 1 |
| Discount allowed |  | 110 | **110** |  | 1 |
| Utilities | 7,200 |  | 7,200 |  | 1 |
| Interest on investments | 2,000 |  |  | **2,000** | 1 |
| Fees | 90,980 |  |  | **90,980** | 1 |
| GST receivable |  | 11,490 | **11,490** |  | 1 |
| GST payable | 2,100 |  |  | **2,100** | 1 |
|  | 115,500 | 94,660 | **105,080** | **105,080** | **1 + 1** |
| **Total** | | | | | **13** |

1. Using the above balances, prepare the Profit and Loss ledger account for the period ending   
   30 June 2022. (8 marks)

**Pompol Designs**

**General Ledger**

**Profit and Loss Account**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Details** | **Amount** | **Date** | **Details** | **Amount** | **Marks** |
| 30/6/22 | Stationery | 1,360 | 30/6/22 | Interest on Investment | 2,000 | 1+1 |
|  | Bad debts | 220 |  | Fees | 90,980 | 1+1 |
|  | Disc allowed | 110 |  |  |  | 1 |
|  | Utilities | 7,200 |  |  |  | 1 |
|  | Profit/capital | 84,090 |  |  |  | 1 |
|  |  | 92,980 |  |  | 92,980 |  |
| SubTotal | | | | | | 7 |
| Dates | | | | | | 1 |
| **Total** | | | | | | **8** |

1. Define the goods and services tax (GST) and then distinguish between input-taxed   
   supplies and GST-free supplies, giving an example of each. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Defines the GST and distinguishes between input-taxed supplies and GST-free supplies with an example of each. | 4 |
| Defines the GST, distinguishes between input-taxed supplies and GST-free supplies. | 3 |
| Distinguishes between input-taxed supplies and GST-free supplies | 2 |
| Provides an example of input-taxed supplies and GST-free supplies | 1 |
| **Total** | **4** |
| Answer could include:  Goods and Services Tax is a Federal consumption tax on all goods and services that attract the 10% GST. (1 mark)  Input-taxed supplies are goods or services that do not attract the 10% GST on consumption and where the GST cannot be claimed as a GST Receivable. For example interest on loan or wages, residential rent, bank fees. (1.5 marks)  GST-free Supplies are goods or services that do not attract the 10% GST but where GST Receivable can be claimed on the supply of the goods or services. For example, fresh vegetables or childcare services. (1.5 marks)  Accept other valid and appropriate points. |  |

**Question 18 (31 Marks)**

1. Prepare a classified income statement for the year ended 30 June, 2022. (14 marks)

**Morteous Florists**

**Income Statement**

**for the year ended 30 June, 2022**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Income** | $ | $ | $ | **Marks** |
| Sales |  | 500,000 |  | 1 |
| Less Sales Returns |  | 6,800 |  | 1 |
| Total Sales |  |  | 493,200 |  |
| Less Cost of Sales |  | 224,000 |  | 1 |
| Less Discount Received |  | 1,120 |  | 1 |
| Total Cost of Sales |  |  | 222,880 |  |
| Gross Profit |  |  | 270,320 | 1 |
| **Add Other Income** |  |  |  |  |
| Interest Income |  | 600 | 600 | 1 |
| Total Income |  |  | 270,920 |  |
| **Less Operating Expenses** |  |  |  |  |
| ***Selling and Distribution*** |  |  |  |  |
| Promotion Costs | 16,800 | 16,800 |  | 1 |
| ***General and Administration*** |  |  |  |  |
| Rent | 140,000 |  |  | 1 |
| Insurance | 4,600 |  |  | 1 |
| Office Wages | 165,000 | 309,600 |  | 1 |
| ***Financial*** |  |  |  |  |
| Bank Charges | 400 |  |  | 1 |
| Interest on Loan | 2,400 | 2,800 | 329,200 | 1 |
| Loss |  |  | 58,280 | 1 + 1 |
| **Total** | | | | **14** |

**Deduct up to a max of 3 for poor setting out.**

**Deduct up to 3 for foreign items and up to 3 for incorrect classification.**

1. Prepare a classified Balance Sheet as at 30 June, 2022. (13 marks)

**Morteous Florists**

**Balance Sheet**

**as at 30 June, 2022**

|  |  |  |
| --- | --- | --- |
| **Current Assets** | $ | **Marks** |
| Bank | 36,080 | 1 |
| Inventory | 84,000 | 1 |
| Accounts Receivable | 20,900 | 1 |
| Fixed Term Deposit (maturing 1 October 2022) | 10,000 | 1 |
| Total Current Assets | 150,980 |  |
| Total Assets | 150,980 | 1 RE |
| **Current Liabilities** |  |  |
| Accounts Payable | 36,460 | 1 |
| Total Current Liabilities | 36,460 |  |
| **Non-Current Liabilities** |  |  |
| Loan -XYZ Bank (due February 2023) | 50,000 | 1 |
| Total Non-Current Liabilities | 50,000 |  |
| Total Liabilities | 86,460 | 1 RE |
| **Net Assets** | **64,520** | 1 |
| **Equity** |  |  |
| Capital | 160,000 | 1 |
| Less Loss | 58,280 | 1 |
|  | 101,720 |  |
| Less Drawings | 37,200 | 1 |
| **Total Equity** | **64,520** | 1 RE |
| **Total** | | **13** |

**Deduct up to a max of 3 for poor setting out.**

**Deduct up to 3 for foreign items.**

1. The bank account of Morteous Florists has an overdraft facility attached to the account.   
   Define the term “overdraft” and explain one advantage and one disadvantage of this source of finance for the owner of the business. (3 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explains an advantage and a disadvantage of an overdraft facility. | 3 |
| Describes an advantage OR a disadvantage of an overdraft facility. | 2 |
| Defines an overdraft facility only. | 1 |
| **Total** | **3** |
| Answer could include:  An overdraft facility is a type of loan when the bank account balance falls below a zero, the business is able to keep paying for its accounts using the bank’s money up to an agreed limit which must be replenished with funds back above zero balance.  An advantage of an overdraft is to enable the business to keep paying its commitments when they fall due. The facility enables the business to avoid overdue accounts that can affect future supplies and the business’s credit rating which could lead to financial difficulties.  A disadvantage of an overdraft is the high interest rate that is charged once the business uses its overdraft limit. If funds do not replenish the bank account, then the business will fall into debt with the bank and once the overdraft limit is reached, the bank can force the business to repay the overdraft thereby risking other business assets.  Accept other valid and appropriate points. |  |

1. Explain the purpose of the Balance Sheet. (3 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explains the purpose of the Balance Sheet. | 3 |
| Describes the Balance Sheet. | 2 |
| States one relevant fact about the Balance Sheet without elaboration. | 1 |
| **Total** | **3** |
| Answer could include:  The Balance Sheet is a financial report that illustrates the financial position of the business. The importance of the Balance Sheet is to illustrate claims on the assets of the business and to use the report to gain further finance from the owners or external parties. Without the Balance Sheet, it is difficult to ascertain the state of the business’s as a going concern in quantitative terms  Accept other valid and appropriate points. |  |

**Section Three: Extended answer 15% (30 Marks)**

**Question 19 (30 marks)**

1. Describe the **two** sources of finance gained by the company. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **For each source of finance** |  |
| Describes two sources of finance gained by the company. | 2 |
| States two simple facts about the sources of finance without elaboration. | 1 |
| **Subtotal** | **2** |
| **Total** | **4** |
| Answer could include:  **Government Grant**  A government grant is a sum of money issued by government to support a project that usually comes with conditions related to the project objectives but does have to repaid.  **Long-Term Loan**  A long-term loan is a sum of money granted by a financial institution that needs to be repaid with interest over the term of the loan and which is usually secured against the assets of the business.  Accept other valid and appropriate points. |  |

1. Explain **two** risk factors considered by XYZ Bank in granting the company the long-term loan.

(6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **For each risk factor:** |  |
| Explains the risk factor considered by a bank granting a long-term loan. | 3 |
| Describes the risk factor considered by a bank granting a long-term loan. | 2 |
| Identifies a risk factors without elaboration. | 1 |
| **Subtotal** | **3** |
| **Total** | **6** |
| Answer could include: (Any two below)   * **guarantor** – a guarantor is someone that can step in to pay off a long-term loan if there is a default on repayments. This is required as a precaution to ensure the bank loan is repaid by someone who is reliable. Banks need to earn income so that the repayment can be loaned to another applicant. * **history** – an applicant’s repayment history is important in the granting of a long=term loan. Since the debt commitment is long-term, the bank needs reassurance that the applicant has been successful in the past in managing debts on a timely basis and for an extended period. As a result, an applicant’s income history is also important to maintain the debt commitment. * **collateral** – collateral are assets that are pledged to the same value of the loan that will be given up should the loan default. This is important because banks need to be repaid so that the funds can be loaned to other applicants. Collateral can be sold off to recoup the cash owed to the bank that secures that bank’s liquidity. * **liquidity** – liquidity is the ready cash available to meet debt commitments. All sources of cash need to be disclosed so that the bank can be assured of repayment when due and make an appropriate assessment of the applicant’s ability to meet debt commitments over the term of the loan.   Accept other valid and appropriate points. |  |

1. Describe **one** advantage and **two** disadvantages of a small proprietary company for the shareholders.

(6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **For each disadvantage of a small proprietary company:** |  |
| Describes a disadvantage of a small proprietary company for shareholders. | 2 |
| States a disadvantage of a small proprietary company | 1 |
| **Subtotal** | **4** |
| Describes an advantage of a small proprietary company for shareholders. | 2 |
| States an advantage of a small proprietary company. | 1 |
| **Subtotal** | **2** |
| **Total** | **6** |
| Answer could include:  **One Advantage**   * liability is limited – if all shares are fully paid, then the company is responsible for all debts not the shareholders.Or * dividends – shareholders gain a share of the profits in the form of dividends once declared and are dependent upon the number of shares held as to the size of the dividends.   **Two Disadvantages** (Any two below)   * separate legal entity – the management of the company is separated from the shareholders who do not control the day to day management of the company. * transfer of ownership – shares cannot easily be transferred to whomever. Shares can only be sold to individuals related to the industry or according to constitutional requirements. * number of owners limited – the number of shareholders permitted is a maximum of 50 which means the ability to raise funds through shares is limited. * limited funds – funds cannot be raised from the public like public companies. They are restricted to the maximum shareholders allowed and external sources of finance available to a sole trader.   Accept other valid and appropriate points. |  |

1. Explain **one** cost and **one** benefit of the sponsorship arrangement between Wagtail Pharmaceuticals and the state government. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Cost of sponsorship:** |  |
| Explains cost of the sponsorship arrangement between Wagtail Pharmaceuticals and the state government. | 3 |
| Describes a cost of the sponsorship arrangement between Wagtail Pharmaceuticals and the state government. | 2 |
| States a fact about a cost of sponsorship | 1 |
| **Subtotal** | **3** |
| **Benefit of sponsorship:** |  |
| Explains a benefit of the sponsorship arrangement between Wagtail Pharmaceuticals and the state government. | 3 |
| Describes a benefit of the sponsorship arrangement between Wagtail Pharmaceuticals and the state government. | 2 |
| States a fact about a benefit of sponsorship | 1 |
| **Subtotal** | **3** |
| **Total** | **6** |
| Answer could include:  **Cost**  Wagtail Pharmaceuticals will need to abide by the conditions set by the state government relating to the sponsorship. Conditions not met may deny the business future sponsorship arrangement and the company’s reputation may be tarnished. If the vaccine were not as effective as promised, there would be backlash from the community and the state government would also face adverse reaction from the community since the sponsorship advertises a cooperative link between it and the business.  **Benefit**  The benefits of the vaccine to the community would boost the company’s reputation and support for additional new medical research and funding. The state government would also gain voter benefits for supporting a business that supports community health during challenging times. The cooperative relationship can therefore benefit both parties as well as the community overall.    Accept other valid and appropriate points. |  |

1. Distinguish between a service and a manufacturing business. Which type of business is Wagtail Pharmaceuticals Pty Ltd*?* Justify your answer. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Distinguishes between a service and manufacturing business and justifies Wagtail Pharmaceuticals as a manufacturing business. | 4 |
| Describes a service and a manufacturing business only. | 3 |
| Describes a service Or a manufacturing business only. | 2 |
| Identifies the business as a manufacturing business only. | 1 |
| **Total** | **4** |
| Answer could include:  A service business is one that provides a service and charges a fee for that service whereas a manufacturing business converts raw materials into a product for sale either directly to the public or to a wholesaler.  Wagtail Pharmaceuticals Pty Ltd is identified as a manufacturing business because it produces vaccines for sale to the state government for distribution to the community.  Accept other valid and appropriate points. |  |

1. Wagtail Pharmaceuticals Pty Ltd is keenly aware of the high demand that the vaccine will have on the community, and it has put in place control measures to avoid supply shortages. Describe **two** limitations of internal control that could still disrupt supply. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **For each limitation:** |  |
| Describes limitation of internal control that could still disrupt supply of the vaccines. | 2 |
| States a relevant fact about a limitation of internal control without elaboration. | 1 |
| **Subtotal** | **2** |
| **Total** | **4** |
| Answer could include: (Any two below)  **Limitations**   * collusion – collusion between individuals responsible for distribution of the vaccines could occur where large quantities are held for personal use causing a shortage in the community. * poor segregation of duties – segregation of duties not put in place or ineffective measures create collusion, temptation for theft and errors in supply. * management override – management overriding the release and supply of vaccine quantities can cause shortage of supply in the community when excessive control over supply is allowed to occur without valid reasons. * computer system and production failures– computer and disruption failures can cause downtime related to supply of the vaccines. Even if all internal measures are implemented, poor maintenance of equipment can disrupt production and supply of the vaccines. * lack of workers – workers who may have succumb to COVID19 reduce reliable workers available to continue manufacture or distribution of the vaccines despite full internal control measures put in place for the stock of vaccines.   Accept other valid and appropriate points. |  |

**Question 20 (30 Marks)**

1. Explain continuity of existence. Describe **two** possible effects of introducing new partners to the continuity of the partnership. (7 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **For each possible effect:** |  |
| Describes the effect of introducing new partners to the continuity of the partnership. | 2 |
| States on relevant fact about introducing partners to an existing partnership without elaboration. | 1 |
| **Subtotal** | **4** |
| Explains continuity of existence | 3 |
| Describes continuity of existence | 2 |
| Defines continuity of existence | 1 |
| **Subtotal** | **3** |
| **Total** | **7** |
| Answer could include:  Continuity of existence is the relationship to the going concern of a business dependent upon its structure.  In a partnership business structure, the continuity of existence is readily affected by the introduction of new partners, when a partner dies or when a partner retires. These conditions mean the current partnership dissolves and a new one needs to be put in place. Since a partnership does not have a separate legal existence, the business in a partnership becomes more vulnerable to dissolution including the introduction of new partners.  Accept other valid and appropriate points. |  |

1. Describe **three** benefits of a partnership form of business. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **For each benefit:** |  |
| Describes a benefit of a partnership. | 2 |
| Identifies a benefit of a partnership | 1 |
| **Subtotal** | **2** |
| **Total** | **6** |
| Answer could include: (Any three below)  **Benefits of a partnership**   * greater capital – capital can easily be raised when a maximum of 20 partners can form a partnership for greater fund raising. * rostered holidays – holidays can be shared and rostered amongst the partners for regular breaks. * shared losses – losses can be shared amongst the partners without one partner carrying the burden. * shared workload – workload can be shared in the business with partners working their expertise and knowledge in the business.   Accept other valid and appropriate points. |  |

(c) Explain if introducing tropical plants for sale will affect resource conservation for the business and whether it would be an environmentally friendly initiative for customers in a hot dry climate. (3 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explains if introducing tropical plants will affect resource conservation and whether tropical plants are an environmentally friendly initiative. | 3 |
| Describes the effect of tropical plants on resource conservation Or describes whether tropical plants are an environmentally friendly initiative. | 2 |
| States one relevant fact about tropical plants affecting resource conservation Or whether tropical plants are an environmentally friendly initiative. | 1 |
| **Total** | **3** |
| Answer could include:   * Introducing tropical plants will have an increased effect on resource conservation such as water usage *because* maintaining waterwise plants for sale use less water than tropical plants which will result in increased costs, increased water usage and lower profits. * Tropical plants need a lot of care to maintain them in a hot dry climate. Customers will gain a greater range but will also incur greater water costs. Encouraging tropical plants encourages increase in water usage which is a limited resource and not a sustainable option for household gardens in a hot dry climate. Hot dry climate can burn tropical plants easily and will result in damaged plants and potentially unhappy customers.   Accept other valid and appropriate points. |  |

1. Describe **three** distinguishing characteristics between the periodic inventory system and the perpetual inventory system. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **For each distinguishing characteristic** |  |
| Describes a distinguishing characteristic between the periodic and perpetual inventory systems. | 2 |
| States a relevant fact about a characteristic of the periodic and/Or the perpetual inventory system without elaboration. | 1 |
| **Subtotal** | **2** |
| **Total** | **6** |
| Answer could include: (Any three below)  **Determining Gross Profit** – under the periodic system, a physical stocktake is required to determine the closing stock in order to calculate gross profit, *whereas* the gross profit is easily and readily calculated under the perpetual system due to a cost of sales account in the ledger that makes it readily available to calculate.  **Physical Stocktake** – under the periodic system a physical stocktake is necessary, and disruption to trade occurs to determine closing stock, *whereas* in the perpetual system, physical stocktake is necessary merely to confirm computer records without the need to disrupt trade.  **Stock Movements** – fast and slowing moving lines can easily be determined and monitored under the perpetual inventory system because inventory is continuously updated *whereas* under the physical inventory system this is not the case and only a physical stocktake will reveal the popularity of stock lines since the inventory account is not updated with every sale.  **Prices** – both the selling and cost prices of inventory are recorded under the perpetual inventory system which allows inventory to updated regularly whereas under the periodic system, the selling price is recorded only and the inventory account is not updated with every sale or purchase.  Accept other valid and appropriate points. |  |

1. Define the ‘historical cost’ principle and explain a circumstance when this principle is ignored.

(4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explains a circumstance when the historical cost can be Ignored. | 3 |
| Describes a circumstance when the historical cost can be ignored. | 2 |
| States a relevant fact about a circumstance where the historical cost principle can be ignored without elaboration, | 1 |
| **Subtotal** | **3** |
| Defines historical cost principle | 1 |
| **Total** | **4** |
| Answer could include:  Historical Cost principle is the principle that requires the value of financial transactions be recorded at the time of the transaction and not altered for current market values.  The only time when the historical cost is ignored is when it is certain that the business is no longer a going concern, and the business is up for sale. As a result, the value of all assets, liabilities and equity need to be updated to affect a sale of the business. The buyer needs to be aware of the actual financial position of the business to consider the purchase. If the historical cost principle is not ignored and the financial position not updated, then a false picture of the financial state of the business may occur which could either result in an overstated optimism about the financial state of the business or understate the potential of the business for the buyer which could result in legal consequences for the seller.  Accept other valid and appropriate points. |  |

1. Contrast the distribution of profits between a partnership form of business and a proprietary limited company such as OP Native Nursery. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Contrasts the distribution of profits between a partnership and a proprietary limited company. | 4 |
| Describes distribution of profits for a partnership **and** a proprietary limited company. | 3 |
| Describes distribution of profits for a partnership **or** a proprietary limited company. | 2 |
| States one fact, without elaboration, about the distribution of profit for a partnership and/or a proprietary limited company. | 1 |
| **Total** | **4** |
| Answer could include:  In a partnership, the distribution of profit is determined by the Partnership Act or Partnership Agreement. Profits typically do not go to just one partner because partners enter into a partnership with a view to making profits *whereas*, in a proprietary limited company, shareholders only gain access to company profits through the distribution of dividends once declared by the directors. The share of profits in the form of dividends is dependent upon the number of shares held by the shareholders and the discretion of the directors as to how much will be paid out as dividends per share.  Accept other valid and appropriate points. |  |