# Applecross Senior High School

# Unit 1 ACCOUNTING AND FINANCE

### 2019 Semester One Examination

|  |  |  |  |
| --- | --- | --- | --- |
| **Student Name:** | **SOLUTIONS!** | **Teacher:** |  |

## TIME ALLOWED FOR THIS PAPER

Reading time before commencing work: Ten minutes

For working of paper: Two and a half hours

## MATERIAL REQUIRED/RECOMMENDED FOR THIS PAPER

*TO BE PROVIDED BY THE* *SUPERVISOR*

This Question/Answer Booklet

An insert with a repeat of some questions

Multiple-choice answer sheet

*TO BE PROVIDED BY THE CANDIDATE*

*Standard Items:* Pens, pencils, eraser or correction fluid, highlighter, ruler

*Special Items:* Calculators satisfying the conditions set by the School Curriculum and Standards Authority

## 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 notes or other items of a non-personal nature in the examination room. If you have any unauthorised material with you, hand it to the supervisor BEFORE reading any further.**

**STRUCTURE OF THIS PAPER**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Section** | **Suggested working time**  **(minutes)** | **No. of questions available** | **No. of questions to be attempted** | **Marks available** | **Weighting (%)** |
| Section One:  Multiple-choice | 25 | 15 | 15 | 15 | /15 |
| Section Two:  Short answer | 90 | 4 | 4 | 115 | /70 |
| Section Three:  Extended answer | 35 | 2 | 1 | 20 | /15 |
|  |  | **Total marks** | | 150 | /100 |

**INSTRUCTIONS TO CANDIDATES**

1. Answers should be written in the spaces provided in this Question/Answer Booklet using **blue or black ball-point or ink pen**. It is recommended that you **do not use pencil**.
2. Information for questions 18 and 19 has been reprinted on a removable sheet, which is inserted into the front of this booklet, so that you can refer more easily to the questions while answering.
3. Additional pages have been placed at the end of this booklet for use by students, if needed. If you need to use these pages, indicate in the original answer space where the answer is continued.
4. Marks will be awarded principally for the relevant accounting content of your answer, but some marks will also be awarded for presentation and English expression.

**Section One: Multiple-Choice 15 marks**

This section has **fifteen** questions. Attempt **all** questions.

Record your answer on the multiple-choice answer sheet provided. Read the instructions on the answer sheet carefully.

1. Financial institutions will consider which of the following ‘return’ factors when assessing loan approvals?
2. **Future business prospects and interest rates**
3. Collateral and guarantors
4. History and future business prospects
5. Future business prospects and collateral
6. The number of members of a partnership is usually limited to:
7. 10
8. 15
9. **20**
10. 50
11. Which of the following statements is correct?
12. A partnership has limited liability
13. **A small proprietary company is a separate legal entity**
14. A small proprietary company can raise funds from the public
15. A sole trader has an indefinite life
16. If liabilities total $25,000 and equity totals $72,000, what will total assets equal?
17. $47,000

A = L + Eq

A = 25,000 + 72,000

A = $97,000

1. **$97,000**
2. $25,000
3. $72,000
4. Which of the following business transactions will increase equity for a plumbing business?
5. Payment of monthly rent
6. **Receipt of plumbing fees**
7. Proceeds from a loan
8. Payment of interest on a loan
9. Equipment imported from the US costing $700,000 USD was recorded in the accounts of a local business owner at the equivalent value of $1,000,000 AUD. This demonstrates which of the following accounting principles and conventions?
10. Legal entity
11. Accounting period
12. **Monetary**
13. Going concern
14. What is the correct order to record financial transactions?
15. Journal, source document, trial balance, ledger
16. Ledger, source document, journal, trial balance
17. Ledger, source document, trial balance, journal
18. **Source document, journal, ledger, trial balance**
19. The correct journal entry to record a bad debt is:
20. credit Bad debts, debit Accounts payable
21. **debit Bad debts, credit Accounts receivable**
22. debit Accounts receivable, credit Bad debts
23. credit Accounts payable, debit Bad debts
24. An advantage of a mortgage is that it:
25. is finance suitable for the purchase of all non-current assets
26. **offers a lower interest rate than short term finance options**
27. does not require security of business or personal assets
28. involves no establishment costs
29. An Income Statement measures:
30. **financial performance**
31. financial position
32. financial liquidity
33. financial gearing
34. The periodic inventory method would:
35. **involve a physical stock take**
36. identify slow moving stock items on the shelf
37. require expensive computing technology
38. allow an income statement to be quickly generated
39. Advertising would be classified under which heading in the income statement?
40. Revenue
41. **Selling and distribution**
42. General and administration
43. Financial
44. Depending on the assets and liabilities held by a business, which of the following could be a correct representation of the accounting equation?
45. equity = current assets + current liabilities – non-current assets
46. equity = non-current assets + current assets + current liabilities
47. equity = current liabilities – current assets + non-current liabilities
48. **equity = non-current assets + current assets – non-current liabilities**
49. Which of the following errors would be disclosed by a trial balance?
50. $100 was debited to Bank account and credited to Office Supplies account
51. $250 was credited to Ping Pong account instead of Pong Ping account
52. **$250 was debited to Ping Pong account and debited to Pong Ping account**
53. $150 was debited to Ping Pong account and credited to Bank account, instead of the correct figure of $160
54. Closing entries are best described as general journal entries to:
55. **transfer income and expense balances to the profit and loss account**
56. close all accounts when the business is winding up
57. calculate asset and liability accounts balances at the end of the period
58. transfer balances owed by individuals to one accounts receivable account

**✓ 1 mark each ( /15 marks)**

**End of Section One**

**Section Two: Short Answer 115 marks**

This section has **four** questions. Attempt **all** questions.

Write your answers in the space provided.

**Question 16 25 marks**

Pete Maverick has started a new business providing flying instructions and joy flights over Perth. Pete named the business **Top Gun Experiences**. The business is registered for GST.

|  |  |  |
| --- | --- | --- |
| 2019  March | 1 | Pete contributed $30,000 of his own funds and his own aeroplane valued at $250,000 to the business.  A loan of $15,000 was obtained from NZA Bank to help meet day-to-day running expenses of the business. |
|  | 2 | The business purchased new computer equipment on credit from Officeworks for $1,500 plus GST. The business negotiated 30-day credit terms with Officeworks. |
|  | 15 | Paid amount owing to Officeworks. |
|  | 20 | Pete withdrew $1,000 cash to pay his home insurance. |
|  | 31 | Paid rent for the month of April $1,820 plus GST. |

**Workings**

Mar 2 1,500 x 10% = $150 GST

Mar 31 1,820 x 10% = $182 GST

**Question 16 CONT**

*Required:*

1. Record the transactions for March 2019 in the general journal.

**General Journal for Top Gun Experiences**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | | **Particulars** | **F** | **Debit** | **Credit** |
| 2019 |  |  |  |  |  |
| March | 1 | Cash at bank | A | 30,000**✓** |  |
|  |  | Aeroplane | A | 250,000**✓** |  |
|  |  | Capital – P Maverick | Eq |  | 280,000**✓** |
|  |  | Assets contributed to start business |  |  |  |
|  | 1 | Cash at bank | A | 15,000**✓** |  |
|  |  | Loan – NZA Bank | L |  | 15,000**✓** |
|  |  | Borrowed money from NZA bank |  |  |  |
|  | 2 | Computer equipment | A | 1,500**✓** |  |
|  |  | GST credits | A | 150**✓** |  |
|  |  | Accounts payable | L |  | 1,650**✓** |
|  |  | Purchased computer equipment on |  |  |  |
|  |  | credit from Officeworks |  |  |  |
|  | 15 | Accounts payable | L | 1,650**✓** |  |
|  |  | Cash at bank | A |  | 1,650**✓** |
|  |  | Paid Officeworks |  |  |  |
|  | 20 | Drawings | -Eq | 1,000**✓** |  |
|  |  | Cash at bank | A |  | 1,000**✓** |
|  |  | Withdrew cash for personal use |  |  |  |
|  | 31 | Rent | Ex | 1,820**✓** |  |
|  |  | GST credits | A | 182**✓** |  |
|  |  | Cash at bank | A |  | 2,002**✓** |
|  |  | Paid rent |  |  |  |
|  |  |  |  |  |  |
|  |  | * dates |  |  |  |
|  |  | * narrations |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**✓ 1 mark each ( /17 marks)**

**Question 16 CONT**

1. Define the accounting entity principle and provide an example from the records of **Top Gun Experiences** which demonstrates how this principle is being applied.

The **accounting entity convention** regards a business as having a separate existence from that of the owner for accounting purposes. This means that a business’s transactions are recorded separately from the private transactions of the owner. **✓**

In **Top Gun Enterprises** the cash used by Pete to pay for his home insurance is recorded as Drawings rather than the expense Insurance. **✓**

**✓ 1 mark each ( /2 marks)**

1. Provide a definition and example of GST taxable supplies, GST-free supplies and input taxed supplies. (You do **not** need to use examples from **Top Gun Experiences**).

**Taxable supplies** are those goods and services that are subject to the GST. **✓**

Examples of taxable supplies include: furniture, clothing, electricity, insurance, commercial rent, taxi fares, telephone costs and food eaten in a restaurant. **any suitable example ✓**

**GST-free supplies** are those that are not taxed. Most basic foods, some education courses and some medical, health and care products and services are exempt from GST. **✓**

Examples of other of GST-free supplies include: some childcare services; supplies of accommodation and meals to residents of retirement villages by certain operators; water, sewerage and drainage; international transport and related matters; precious metals; sales through duty-free shops; farmland; exports and sales of businesses as going concerns.

**any suitable example ✓**

**Input taxed supplies** are sales of goods and services that don't include GST in the price. **✓**

The most common input taxed sales are financial supplies (such as lending money or the provision of credit for a fee) and selling or renting out residential premises. **any suitable example ✓**

**✓ 1 mark each ( /6 marks)**

**Question 17 21 marks**

The following is the trial balance for **Executive Furniture Store** taken from the financial records as at 30 June 2019.

**Executive Furniture Store**

**Trial Balance**

**As at 30 June 2019**

|  |  |  |
| --- | --- | --- |
| **Account** | **Dr** | **Cr** |
| Accounts payable |  | 15,500 |
| Accounts receivable | 17,200 |  |
| Advertising | 3,700 |  |
| Bad debts | 750 |  |
| Bank overdraft |  | 2,500 |
| Buildings | 350,000 |  |
| Capital –T Abell |  | 428,650 |
| Cartage in | 2,500 |  |
| Cartage out | 3,500 |  |
| Cost of sales | 125,000 |  |
| Discount allowed | 750 |  |
| Discount received |  | 950 |
| Drawings | 2,000 |  |
| Electricity | 4,100 |  |
| GST credits/receivable | 10,500 |  |
| GST payable/collected |  | 9,800 |
| Insurance | 4,500 |  |
| Interest | 2,000 |  |
| Inventory | 75,000 |  |
| Land | 150,000 |  |
| Mortgage (repayable 2032) |  | 45,000 |
| Office Salaries | 50,900 |  |
| Sales |  | 350,000 |
| Sales salaries | 50,000 |  |
|  | $852,400 | $852,400 |

**Question 17 cont**

*Required:*

1. Prepare the classified Income Statement for **Executive Furniture Store** for the year ended 30 June 2019

**Executive Furniture Store**

**Income Statement**

**For the year ending 30 June 2019**

|  |  |  |  |
| --- | --- | --- | --- |
| **Income** |  |  |  |
| Sales |  | 350,000**✓** |  |
| *less* Discount allowed |  | 750**✓** |  |
| **Net Sales** |  |  | 349,250 |
| *less* Cost of sales | 125,000**✓** |  |  |
| Cartage in | 2,500**✓** | 127,500 |  |
| *less* Discount Received |  | 950**✓** | 126,550 |
| **Gross Profit ✓** |  |  | 222,700 |
| *less* **Other****Expenses** |  |  |  |
| ***Selling & Distribution*** |  |  |  |
| Advertising | 3,700**✓** |  |  |
| Bad debts | 750**✓** |  |  |
| Cartage out | 3,500**✓** |  |  |
| Sales salaries | 50,000**✓** | 57,950 |  |
| ***General & Administrative*** |  |  |  |
| Electricity | 4,100**✓** |  |  |
| Insurance | 4,500**✓** |  |  |
| Office salaries | 50,900**✓** | 59,500 |  |
| ***Financial*** |  |  |  |
| Interest | 2,000**✓** | 2,000 | 119,450 |
| **Profit for the period** |  |  | $103,250 |
|  |  |  |  |
| **up to -2 for poor layout** |  |  |  |
| **up to -1 for poor calculation** |  |  |  |

**✓ 1 mark each ( /14 marks)**

**Question 17 cont**

1. What type of inventory system does **Executive Furniture Store** use? List three (3) advantages of the inventory system.

Executive Furniture Storeuses the **perpetual inventory system**, generally recognised to be the best. **✓**

Advantages of the perpetual inventory system:

* Short term income statements can be prepared as the cost of sales is known at all times. **✓**
* The possibility of running out of inventory is reduced as the business owner knows how much trading stock is left after each sale. **✓**
* Fast and slow moving inventory lines can be easily identified. **✓**

**any other reasonable advantage**

**✓ 1 mark each ( /4 marks)**

1. During the financial year, the bookkeeper at **Executive Furniture Store** discovered there had been an error in one of the postings. The bookkeeper found that the purchase of inventory costing $500 had been debited to the insurance account in error. Prepare the journal entry to correct on 30 September 2018.

**General Journal for Executive Furniture Store**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | | **Particulars** | **F** | **Debit** | **Credit** |
| 2018 |  |  |  |  |  |
| Sept | 30 | Inventory | A | 500**✓** |  |
|  |  | Insurance | Ex |  | 500**✓** |
|  |  | Correction of error **✓** |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**✓ 1 mark each ( /3 marks)**

**Question 18 28 marks**

Rick Heat runs a stationery supply business called **Jester Stationery Supplies**. The trial balance as at 30 June 2019 is shown below:

**Jester Stationery Supplies**

**Trial Balance**

**as at 30 June 2019**

|  |  |  |
| --- | --- | --- |
| **Account** | **Dr** | **Cr** |
| Accounts payable |  | 10,200 |
| Accounts receivable | 12,500 |  |
| Advertising | 2,350 |  |
| Bad debts | 450 |  |
| Capital – R Heat |  | 53,705 |
| Cash at Bank | 24,600 |  |
| Cash on hand | 500 |  |
| Cost of sales | 157,000 |  |
| Donations | 500 |  |
| Drawings | 5,500 |  |
| GST credits | 750 |  |
| Insurance | 7,250 |  |
| Interest on loan | 2,500 |  |
| Interest received |  | 1,200 |
| Loan from ABC Bank (repayable 2021) |  | 45,000 |
| Office equipment | 25,000 |  |
| Rent | 52,000 |  |
| Sales |  | 275,245 |
| Sales returns | 1,750 |  |
| Sales salaries | 60,000 |  |
| Shop fixtures and fittings | 32,000 |  |
| Telephone and internet | 700 |  |
|  | $385,350 | $385,350 |

**Question 18 cont**

*Required:*

1. Prepare the following ledger accounts, including balancing and closing entries, for the business as at 30 June 2019.

**General Ledger for Jester Stationery Supplies**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Profit & Loss A/c (S1)** | | | | | | | |
| 2019 |  |  |  | 2019 |  |  |  |
| Jun 30 | Advertising |  | 2,350**✓** | Jun 30 | Interest received |  | 1,200**✓** |
|  | Bad debts |  | 450**✓** |  | Sales |  | 275,245**✓** |
|  | Cost of sales |  | 157,000**✓** |  | Capital - loss |  | 8,055**✓** |
|  | Donations |  | 500**✓** |  |  |  |  |
|  | Insurance |  | 7,250**✓** |  |  |  |  |
|  | Interest on loan |  | 2,500**✓** |  |  |  |  |
|  | Rent |  | 52,000**✓** |  |  |  |  |
|  | Sales returns |  | 1,750**✓** |  |  |  |  |
|  | Sales salaries |  | 60,000**✓** |  |  |  |  |
|  | Telephone & int |  | 700**✓** |  |  |  |  |
|  |  |  | $284,500 |  |  |  | $284,500 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **Capital – R Heat A/c (Eq1)** | | | | | | | |
| 2019 |  |  |  | 2019 |  |  |  |
| Jun 30 | Profit & loss |  | 8,055**✓** | Jun 30 | Balance |  | 53,705**✓** |
|  | Drawings |  | 5,500**✓** |  |  |  |  |
|  | Balance c/d |  | 40,150 |  |  |  |  |
|  |  |  | $53,075 |  |  |  | $53,075 |
|  |  |  |  | Jul 1 | Balance b/d |  | 40,150**✓** |
|  |  |  |  |  |  |  |  |
| **Drawings A/c (-Eq2)** | | | | | | | |
| 2019 |  |  |  | 2019 |  |  |  |
| Jun 30 | Balance |  | 5,500**✓** | Jun 30 | Capital – R Heat |  | 5,500**✓** |
|  |  |  |  |  |  |  |  |

**-1 incorrect dates**

**✓ 1 mark each ( /19 marks)**

**Question 18 cont**

1. Prepare the assets and liabilities sections **only** of a fully classified balance sheet (in narrative format) for **Jester Stationery Supplies** as at 30 June 2019.

**Jester Stationery Supplies**

**Balance Sheet**

**as at 30 June 2019**

|  |  |  |
| --- | --- | --- |
| **Current Assets** |  |  |
| Accounts receivable |  | 12,500**✓** |
| Cash at bank |  | 24,600**✓** |
| GST credits |  | 750**✓** |
| Cash on hand |  | 500**✓** |
| **Total current assets** |  | 38,350 |
| **Non-Current Assets** |  |  |
| Office equipment |  | 25,000**✓** |
| Shop fixtures and fittings |  | 32,000**✓** |
| **Total non-current assets** |  | 57,000 |
| **Total assets** |  | 95,350 |
|  |  |  |
| **Current Liabilities** |  |  |
| Accounts payable |  | 10,200**✓** |
| **Total current liabilities** |  | 10,200 |
| **Non-Current Liabilities** |  |  |
| Loan from ABC Bank (repayable 2021) |  | 45,000**✓** |
| **Total non-current liabilities** |  | 45,000 |
| **Total liabilities** |  | 55,200 |
| **Net Assets** |  | $40,150**✓** |
|  |  |  |
|  |  |  |
|  |  |  |
| **-1 total lines not rules** |  |  |
|  |  |  |
|  |  |  |

**✓ 1 mark each ( /9 marks)**

**Question 19 41 marks**

Alex Owens just commenced an online ballet shoe and clothing supply business called

**Flashdance Ballet Accessories** on 1 April 2019. On that day, she contributed $50,000 of her own funds and a computer/printer valued at $2,500. The business is registered for GST.

The following transactions occurred in the first month of trading:

|  |  |  |
| --- | --- | --- |
| 2019 |  |  |
| April | 5 | Purchased inventory for $10,500 (plus GST) on credit from Crazy Legs Ballet Supplies. A 1.5% discount is available if payment made within 14 days. |
|  | 8 | Sold $550 (inc GST) worth of ballet supplies for cash. The cost price of the inventory was $120. |
|  | 10 | Sold $5,200 (ex GST) worth of ballet supplies to New York Ballet School on credit. The cost price of the inventory was $2,500. |
|  | 12 | Received an adjustment notice from Crazy Legs Ballet Supplies after returning ballet shoes which arrived damaged. The cost of the ballet shoes was $550 (inc GST). |
|  | 13 | Paid the amount owing to Crazy Legs Ballet Supplies less discount allowed. |
|  | 21 | Received amount owing from New York Ballet School. |

**Workings**

Crazy Legs 10,500 x 10% = $1,050 GST

10,500 + 1,050 = $11,550 GST inc

11,550 – 550 = $11,000 adj notice

11,000 x 1.5% = $165 disc

11,000 – 165 = $10,835 cash paid

165 ÷ 11 = $15 GST adj

New York 5,200 x 10% = $520 GST

5,200 + 520 = $5,720 amt due

**Question 19 cont**

*Required:*

1. Post the transactions to the ledger of **Flashdance Ballet Accessories** for April 2019. Balance the accounts where appropriate on 30 April 2019. (Closing entries are **not** required)

**General Ledger for Flashdance Ballet Accessories**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Cash at Bank A/c (A1)** | | | | | |
| 2019 |  |  | 2019 |  |  |
| April 1 | Balance | 50,000 | April 13 | Accounts payable | 10,835**✓** |
| 5 | Sales/GST payable | 550**✓** | 30 | Balance c/d | 45,435 |
| 21 | Accounts receivable | 5,720**✓** |  |  |  |
|  |  | $56,270 |  |  | $56,270 |
| May 1 | Balance b/d | 45,435**✓** |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

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| --- | --- | --- | --- | --- | --- |
| **Computer & Printer A/c (A2)** | | | | | |
| 2019 |  |  |  |  |  |
| April 1 | Balance | 2,500 |  |  |  |
|  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Inventory A/c (A3)** | | | | | |
| 2019 |  |  | 2019 |  |  |
| Apr 5 | Accounts payable | 10,500**✓** | Apr 8 | Cost of sales | 120**✓** |
|  |  |  | 10 | Cost of sales | 2,500**✓** |
|  |  |  | 12 | Accounts payable | 500**✓** |
|  |  |  | 30 | Balance c/d | 7,380 |
|  |  | $10,500 |  |  | $10,500 |
| May 1 | Balance b/d | 7,380**✓** |  |  |  |
|  |  |  |  |  |  |

**Question 19 cont**

**General Ledger for Flashdance Ballet Accessories** cont

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **GST Credits A/c (A4)** | | | | | |
| 2019 |  |  | 2019 |  |  |
| April 5 | Accounts payable | 1,050**✓** | April 12 | Accounts payable | 50**✓** |
|  |  |  | 13 | Discount received | 15**✓** |
|  |  |  | 30 | Balance c/d | 985 |
|  |  | $1,050 |  |  | $1,050 |
| May 1 | Balance b/d | 985**✓** |  |  |  |
|  |  |  |  |  |  |
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| --- | --- | --- | --- | --- | --- |
| **Accounts Receivable – New York Ballet School A/c (A5)** | | | | | |
| 2019 |  |  | 2019 |  |  |
| April 10 | Sales/GST payable | 5,720**✓** | April 21 | Cash at bank | 5,720**✓** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Accounts Payable – Crazy Legs Ballet Supplies A/c (L1)** | | | | | |
| 2019 |  |  | 2019 |  |  |
| April 12 | Inventory/GST cred | 550**✓** | April 5 | Inventory/GST cred | 11,550**✓** |
| 13 | Cash at bank/disc rec | 11,000**✓** |  |  |  |
|  |  | $11,500 |  |  | $11,500 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
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|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **GST Payable A/c (L2)** | | | | | |
| 2019 |  |  | 2019 |  |  |
| April 30 | Balance c/d | 570 | April 8 | Cash at bank | 50**✓** |
|  |  |  | 10 | Accounts receivable | 520**✓** |
|  |  | $570 |  |  | $570 |
|  |  |  | May 1 | Balance b/d | 570**✓** |
|  |  |  |  |  |  |

**Question 19 cont**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Sales A/c (I1)** | | | | | |
| 2019 |  |  | 2019 |  |  |
| April 30 | Balance c/d | 5,700 | April 8 | Cash at bank | 500**✓** |
|  |  |  | 10 | Accounts receivable | 5,200**✓** |
|  |  | $5,700 |  |  | $5,700 |
|  |  |  | May 1 | Balance b/d | 5,700**✓** |
|  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Discount Received A/c (I2)** | | | | | |
| 2019 |  |  | 2019 |  |  |
| April 13 | GST credits | 15**✓** | April 13 | Accounts payable | 165**✓** |
| 30 | Balance c/d | 150 |  |  |  |
|  |  | $165 |  |  | $165 |
|  |  |  | May 1 | Balance b/d | 150**✓** |
|  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Cost of Sales A/c (Ex1)** | | | | | |
| 2019 |  |  | 2019 |  |  |
| April 8 | Inventory | 120**✓** | April 30 | Balance c/d | 2,620 |
| 10 | Inventory | 2,500**✓** |  |  |  |
|  |  | $2,620 |  |  | $2,620 |
| May 1 | Balance b/d | 2,620**✓** |  |  |  |
|  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Capital – A Owens A/c (Eq1)** | | | | | |
|  |  |  | 2019 |  |  |
|  |  |  | April 1 | Balance | 52,500 |
|  |  |  |  |  |  |

**✓ 1 mark each ( /30 marks)**

**Question 19 cont**

1. Prepare a trial balance for **Flashdance Ballet Accessories** as at 30 April 2019.

**Flashdance Ballet Accessories**

**Trial Balance**

**as at 30 April 2019**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account** | **A/c No** | **Debit**  **$** | **Credit**  **$** |
| Cash at bank | A1 | 45,435**✓** |  |
| Computer & printer | A2 | 2,500**✓** |  |
| Inventory | A3 | 7,380**✓** |  |
| GST credits | A4 | 985**✓** |  |
| Accounts receivable – New York Ballet School | A5 | -**✓** |  |
| Accounts payable – Crazy Legs Ballet Supplies | L1 |  | -**✓** |
| GST payable | L2 |  | 570**✓** |
| Sales | I1 |  | 5,700**✓** |
| Discount received | I2 |  | 150**✓** |
| Cost of sales | Ex1 | 2,620**✓** |  |
| Capital – A Owens | Eq1 |  | 52,500**✓** |
|  |  | $58,920 | $58,920 |
|  |  |  |  |
| **-1 totals not done** |  |  |  |

**✓ 1 mark each ( /11 marks)**

**End of Section Two**

**Section Three: Extended Answer 20 marks**

This section has **two** questions. You must answer **one** question only.

Write your answer in the space provided.

**Question 20**

Keri Russell is the sole owner of a café in a busy shopping centre in Southern River, a suburb in the south east of Perth. Keri has named her cafe, **Felicity’s**.

Keri is considering purchasing new signage for the café to update its appearance and hopefully attract more customers. The signage will be professionally designed and manufactured and include menu boards and display signs with the café name. The total cost is expected to be $10,000.

Keri will need to finance the cost of the new signage but hopes to repay the finance within three months. She will be speaking with her bank manager about the best type of finance for the purchase of the new signage.

*Required:*

Help Keri with her business by answering the following questions.

1. Is **Felicity’s** a service, trading or manufacturing business? Explain.

**(3 marks)**

1. Outline two (2) advantages and two (2) disadvantages for both a sole trader and small proprietary company.

**(8 marks)**

1. Explain two (2) possible sources of finance suitable for the purchase of the new signage. Which would you recommend? Give a reason for your choice.

**(5 marks)**

1. List and explain four (4) risk factors Keri’s bank will consider before providing finance to purchase the new signage.

**(4 marks)**

**OR**

**Question 21**

Brandon Walsh and Kelly Taylor are skilled at a variety of crafts and are investigating an idea they have to open up an art and craft store they want to call **Beverley Hills Crafts**. Their idea includes selling art and craft supplies plus setting up a teaching workshop at the rear of their shop.

Neither Brandon nor Kelly has ever been in business and so they have no idea how they should establish their business relationship. They are considering a partnership but other friends have suggested a small proprietary company. They are also uncertain about GST and other legal requirements of starting a small business.

As you are a qualified accountant and a friend of Brandon and Kelly they have asked you to help them with information about starting up their business.

*Required:*

Prepare a written response to the following questions.

1. Provide a definition of a partnership as per the *Partnership Act 1895 (WA)* and explain the role of this Act in regulating partnerships.

**(3 marks)**

1. Compare four (4) characteristics of both a partnership and a small proprietary company.

**(8 marks)**

1. Provide information on the following legal matters:

* Will Brandon and Kelly need to register **Beverley Hills Crafts** under the *Business Names Registration Act 2011*? Explain why or why not. **(2 marks)**
* What is the purpose of an Australian Business Number (ABN) and under what circumstances must a business apply for an ABN? **(2 marks)**
* What is GST and under what circumstances will Brandon and Kelly need to register their business for GST? **(2 marks)**

1. Define bankruptcy. Explain two (2) options under the *Bankruptcy Act 1966* that are available to a person struggling to pay their debts.

**(3 marks)**

**Question 20**

**Type of business (3 marks)**

Felicity’s is a **service** business. **✓**

A service business generates profit by providing a service to its customers. **✓** The value and treatment of stock are not significant. **✓**

**Advantages and disadvantages of a sole trader (4 marks)**

The **advantages** of being a sole trader are:

* the owner is responsible for making all the decisions, they are their own boss
* the owner does not have to share the profit with other owners
* it is the easiest and least expensive form of business ownership to establish
* winding up the business is usually relatively simple if the owner wishes to cease operating

**any 2 ✓✓**

The **disadvantages** of being a sole trader are:

* the business is not a separate legal entity; therefore, the owner is liable for all of the debts and any losses cannot be shared
* the owner has unlimited liability so if the business assets are not sufficient to cover the business debts then the personal assets of the owner may be seized to cover any outstanding debts
* one person may not have enough money to start or expand a business
* should the owner become ill or need to be absent from the business, this could be problematic if there is no one available to replace them

**any 2 ✓✓**

**Advantages and disadvantages of a small proprietary company (4 marks)**

The **advantages** of being a small proprietary company are:

* they have a separate legal existence from its owners
* shareholders have limited liability usually to the value of their shares leaving personal assets safe should the company get into financial difficulty
* the continuity of the company is not dependent on any of the owners and can, therefore, continue to exist if a shareholder dies or decides to withdraw
* it is generally easier to raise capital because there are more potential owners

**any 2 ✓✓**

**Question 20** cont

The **disadvantages** of being a small proprietary company are:

* they are subject to greater regulation than is a sole trader or partnership
* set up, administration and running costs can be high
* the recordkeeping and reporting requirements are more demanding than for a sole trader or partnership
* they can be difficult to dissolve (wind up)
* **Note: having to share profits not acceptable as a proprietary company can have one owner. Similarly, with the regards to share of workload - not acceptable.**

**any 2 ✓✓**

**Sources of finance (5 marks)**

***Bank overdraft* ✓** – an agreement with a bank to be allowed to withdraw more money from their bank account than has been deposited. **✓**

***Short term loan* ✓** – a sum of money borrowed from a bank or other financial institution which will be paid back over an agreed time period. **✓**

*Reason if recommending bank overdraft*

* Ensures timely payments and avoidance of late payments penalties
* May be taken at any time and for any amount up to the limit allotted
* Interest is calculated only on the amount of funds used

*Reason if recommending short term loan*

* The loan is not repayable on demand and so available for the term of the loan
* Interest rates may be fixed for the term so a business will know the level of repayments throughout the life of the loan

**any suitable reason relevant to the source of finance ✓**

**Note: credit card is not suitable** **for finance over 55 days.**

**Risk Factors (4 marks)**

***Collateral*** - is a property or other asset that a borrower offers as a way for a lender to secure the loan. **✓**

***Liquidity*** – assesses the ability of a borrower to make regular repayments of a debt as they fall due. **✓**

***(Credit) History*** – is a record of a borrower's ability to repay debts and demonstrated responsibility in repaying debts. **✓**

***Guarantors*** - are people who guarantee to pay for someone else's debt if he/she should default on a loan obligation. **✓**

**Question 21**

**Definition of a partnership (3 marks)**

A partnership is a business, other than a company, that is owned by two or more persons. **✓** The number of members of a partnership is limited by law. The maximum size of most partnerships is 20 people. **✓**

The Partnership Act 1895 regulates the conduct of partnerships if there is no partnership agreement or if the partnership agreement does not cover one or more of the items set out in the Act. **✓**

**Characteristics of partnerships and small proprietary companies (8 marks)**

|  |  |  |
| --- | --- | --- |
| **Characteristic** | **Partnership** | **Small Proprietary Company** |
| Number of owners | 2 to 20 partners | 1 to 50 non-employee shareholders |
| Liability of owners | Unlimited.  Partners are jointly and severally liable for business debts.  If one partner is unable to meet their share of business debts, then the other partners are required to settle these. | Limited.  Shareholders’ investment is usually limited to the value of their shares leaving personal assets safe should the company get into financial difficulty |
| Ability to raise capital or borrow funds | Limited – but usually better than for a sole trader.  The more partners, the greater the ability to raise capital.  Ability to borrow funds reliant on personal assets of the owners. | Limited – but usually better than for a sole trader or partnership.  Increased ability to raise capital as there are more potential owners.  Ability to borrow funds reliant on assets of the business. |
| Distribution of profits | Profits shared amongst the partners as per the Partnership Agreement/Act. | Distribution of profits decided by a board of directors and issued via dividends. |
| Transfer of ownership | Partners cannot transfer their interest in the business unless there is a prior agreement with the other partners. | The constitution of a proprietary company can include a clause that restricts the right of shareholders to transfer their shares to a new owner. |
| Separate accounting entity | Yes | Yes |
| Separate legal entity | No | Yes |
| Continuity of existence | The death or retirement of a partner ends the partnership unless there is a prior arrangement that it will continue | A proprietary company can have an indefinite life. A change of ownership does not affect the continued existence of the company. Such companies cease to exist through deregistration. |

**any 4 characteristics ✓✓✓✓ partnership ✓✓✓✓ small proprietary companyQuestion 21** cont

**Legal Matters (6 marks)**

***Registering the business name***

Brandon and Kelly **will** have to register their business name. **✓**As their business name, **Beverley Hills Crafts**, does not consist of the owners’ names, under the *Business Names Registration Act 2011*. **✓**

***Australian Business Numbers***

The Australian Business Number (ABN) is a number that businesses must use so that the Australian Tax Office (ATO) can identify them in all their dealings. **✓** A business must have an ABN to be able to register for the GST. **✓**

***GST***

The Goods and Services Tax (GST) is a broad-based tax of 10% on the supply of most goods and services consumed in Australia. **✓**

Brandon and Kelly will only have to register for GST if their business has an annual turnover of over $75,000 or more. **✓**

**Bankruptcy (3 marks)**

A person is insolvent (bankrupt) if they cannot pay their debts when they become due. **✓**

Options for a person struggling to pay their debts include:

***Declaration of Intention to Present a Debtor’s Petition***

The aim of presenting a debtor’s petition is to give the debtor time to enter into an agreement with the creditors to repay the money owing and to avoid bankruptcy.

***Debt Agreement***

A debt agreement may provide that the debtor pays a lump sum that is less than the full amount owing or pays off the amount owing in instalments.

***Personal Insolvency Agreement***

A personal insolvency agreement is a contract between an individual and their creditors to repay part or all of the amount owing.

***Voluntary Bankruptcy***

A person who is unable to make a repayment agreement with his/her creditors can petition for bankruptcy. Once a person has become bankrupt the assets that they have will be sold to repay their debts.

***Involuntary Bankruptcy***

Involuntary bankruptcy occurs when a creditor applies to a court to have a person made bankrupt. Most of the assets of the debtor are then sold to repay the creditors.

**any 2 ✓✓**

**✓ 1 mark each ( /20 marks)**