# Applecross Senior High School

# Unit 1 ACCOUNTING AND FINANCE

### 2021 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 | 3 | 3 | 140 | /70 |
| Section Three:  Extended answer | 35 | 2 | 1 | 20 | /15 |
|  |  | **Total marks** | | 175 | /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 16, 17 and 18 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. Mr Panther runs a martial arts centre that has lots of old punching bags he wants to replace. He decides to take them all home. Which of the following journal entry would be correct?

(a) Dr drawings, Cr inventory

(b) Dr equipment, Cr capital

**(c) Dr drawings, Cr equipment**

(d) Dr equipment, Cr drawings

1. Historical cost requires
2. annual review of the value of the elements of accounting reports.
3. an accurate measurement of the value of an asset.
4. **assets to be reported at the price the business paid for them.**
5. the cost of an asset to be adjusted to its current market price.
6. Which of the following is considered a disadvantage of being a sole trader?
7. **The owner is accountable for all debts of the business.**
8. The owner may choose to keep all of the profits.
9. There is a flexibility in selecting working hours.
10. The owner must make all of the decisions on their own.
11. Which of the following documents provides evidence of a credit transaction?
12. cheque
13. **invoice**
14. receipt
15. fax
16. Legislation relating to GST in the formation of sole traders and partnerships is important because it
17. provides information required by the state government.
18. **is required for the setting up of accounting records.**
19. is relevant for all businesses to state their liability.
20. outlines how small businesses can minimise tax.
21. Determine the value of drawings from the following information:

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

1. $2,000

**A = L + Eq**

**11,000 + 7,500 = 6,500 + 10,000 + 2,500 + 5,000**

**18,500 = 24,000 – Drawings (5,500)**

1. $2,500
2. **$5,500**
3. $7,500
4. Jimmy Points is an electrician who operates his own business. He purchased a van for $65,000 using the business credit card. What would be the effect on the balance sheet?
5. equity would increase by $65,000 and decrease assets by $65,000
6. assets would increase by $65,000 and increase equity by $65,000
7. assets would decrease by $65,000 and assets would increase by $65,000
8. **liabilities would increase by $65,000 and assets would increase by $65,000**

8. Advertising would be classified under which heading in the income statement?

* 1. revenue
  2. **selling and distribution**
  3. general and administration
  4. financial

9. Current liabilities could include

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

10. A business without an ABN number may

1. not be able to pay GST to their suppliers.
2. **not be able to claim GST credits.**
3. be identified as an illegal business under state law.
4. both a & b.

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

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

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

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

13. Equity refers to

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

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

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

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

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

**End of Section One**

**Section Two: Short Answer 140 marks**

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

Write your answers in the space provided.

**Question 16 56 marks**

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

2021

June

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

5 Equipment was purchased on credit from Trainer Warehouse for $4,400 **including** GST.

10 Paid $800 **plus** GST for the business phone bill and the owner withdrew $220.

14 Received fees of $1,200 **plus** GST.

26 Paid $1,800 to Trainer Warehouse and wages of $400 to trainer, Mel Burton.

27 Received fees of $1,089 **including** GST.

**Required:**

1. Enter the above transactions into the General Ledger. Close and balance required accounts on 30 June 2021. **(42 marks)**

**Workings**

**Question 16 CONT**

*Required:*

1. Record the transactions for June 2021 in the following general ledger accounts. **Balancing** and **closing** entries are required.

**Workings:**

Jun 1 capital open balance 8,000 + 6,000 – 10,000= $4,000 (2)

**General Ledger**

**Cash at Bank**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **2021**  **Jun 1** | **Balance (1)** | **8,000** | **2021 Jun 10** | **Drawings (1)** | **220** |
| **14** | **Fees (1)** | **1,200** | **26** | **Telephone (1)** | **800** |
|  | **GST Payable (1)** | **120** |  | **GST Credits (1)** | **80** |
| **27** | **Fees (1)** | **9990** |  | **Account Payable (1)** | **1,800** |
|  | **GST Payable (1)** | **99** |  | **Wages (1)** | **400** |
|  |  |  | **30** | **Balance c/d** | **7,109** |
|  |  | **10,409** |  |  | **10,409** |
| **Jul 1** | **Balance b/d** | **7,109** |  |  |  |

**Loan – Western Bank**

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

**Accounts Payable – Trainers Plus**

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

**Capital**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Jun 30** | **Drawings (1)** | **220** | **Jun 1** | **Balance (1)+(2)** | **4,000** |
|  | **Balance c/d** | **4,770** | **30** | **Profit and Loss (1)** | **990** |
|  |  | **4,990** |  |  | **4,990** |
|  |  |  | **Jul 1** | **Balance b/d** | **4,770** |

**Fees Income**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Jun 30** | **Profit and Loss (2)** | **2,190** | **Jun 14** | **Cash at bank (1)** | **1,200** |
|  |  |  | **27** | **Cash at bank (1)** | **990** |
|  |  | **2,190** |  |  | **2,190** |
|  |  |  |  |  |  |

**GST Payable**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Jun 30** | **Balance c/d** | **219** | **Jun 14** | **Cash at bank (1)** | **120** |
|  |  |  | **27** | **Cash at bank (1)** | **99** |
|  |  | **219** |  |  | **219** |
|  |  |  | **Jul 1** | **Balance b/d** | **219** |

**GST Credits**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Jun 5** | **A/c Payable (1)** | **400** | **Jun 30** | **Balance c/d** | **480** |
| **10** | **Cash at bank (1)** | **80** |  |  |  |
|  |  | **480** |  |  | **480** |
| **Jul 1** | **Balance b/d** | **480** |  |  |  |

**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** | **10,000** |  |  |  | |

**Drawings (2)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Jun 10** | **Cash at bank (1)** | **220** | **Jun 30** | **Capital (2)** | **220** |
|  |  |  |  |  |  |

**Wages (2)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Jun 26** | **Cash at bank (1)** | **400** | **Jun 30** | **Profit and loss (2)** | **400** |
|  |  |  |  |  |  |

**Telephone (2)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Jun 10** | **Cash at bank (1)** | **800** | **Jun 30** | **Profit and loss (2)** | **800** |
|  |  |  |  |  |  |

**Profit and Loss (4)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Jun 30** | **Telephone (1)** | **800** | **Jun 30** | **Fees (1)** | **2,190** |
|  | **Wages (1)** | **400** |  |  |  |
|  | **Capital - Profit (1)** | **990** |  |  |  |
|  |  | **2,190** |  |  | **2,190** |
|  |  |  |  |  |  |

**Up to -2 poor balancing of accounts**

**Up to -2 for dates**

**( /42 marks)**

**Question 16 CONT**

1. Prepare the Trial Balance as at 30 June 2021.

**Trial Balance**

**as at 30 June 2021**

|  |  |  |  |
| --- | --- | --- | --- |
| **Ledger Accounts** | **Debit** | **Credit** |  |
| **Cash at bank** | **7,109** |  |  |
| **Loan** |  | **10,000** |  |
| **Accounts payable – Trainers Plus** |  | **2,600** |  |
| **Capital** |  | **4,770** |  |
| **Equipment** | **10,000** |  |  |
| **GST credits** | **480** |  |  |
| **GST payable** |  | **219** |  |
|  | **$17,589** | **$17,589** |  |

**-1 for no totals**

**-1 for each error and foreign item**

**( /6 marks)**

1. State three errors not disclosed by a Trial Balance.

|  |  |
| --- | --- |
| **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.** |  |

**( /3 marks)**

**Question 16 CONT**

1. Being new to business, the owner of **Freak Trainers** seeks clarification on a few matters.
2. Distinguish between a GST free supply and a taxable supply

|  |  |
| --- | --- |
| **States that no Goods and Services Tax is charged on a GST free supply but a taxable supply attracts a 10% GST and explains for both of them if they GST can/cannot be claimed in relation to that supply.** | 3 |
| **States that no GST is charged on a GST free supply but is charged on a taxable supply and explains for one of them if they GST can/cannot be claimed in relation to that supply.** | 2 |
| **States that no GST is charged on a GST free supply but is charged on a taxable supply.** | 1 |
| **Sub Total** | **3** |
| **Answer could include:**  **No GST is charged on a GST free supply, (1) however with a GST taxable supply the seller *can* still claim and must collect any GST incurred in relation to that supply. (1) With a GST free supply the seller cannot claim or collect any GST. (1)**  **Accept other valid and appropriate points.** |  |

**( /3 marks)**

1. Outline the purpose of the Accounting Period Assumption

|  |  |
| --- | --- |
| **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.** |  |

**( /2 marks)**

**Question 17 54 marks**

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

2021

June

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

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

Paid advertising of $1,980, **including** GST, for July’s newspaper campaign.

7 Returned damaged hair products to Hair Products Australia, $110 **including** GST.

Owner withdrew $1,500 cash for own use.

14 Paid Hair Products Australian in full after a 2% discount.

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

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

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

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

**Required:**

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

**(43 marks)**

**Workings:**

**Question 17 cont**

**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)**

**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*** |  |  |  |
|  | **Prepaid Advertising** | **1,800** |  | **(1)** |
|  | **GST Credits** | **180** |  | **(1)** |
|  | **Bank** |  | **1,980** | **(1)** |
|  | ***Paid advertising in advance*** |  |  |  |
| **7** | **Accounts payable - Hair Products Australia** | **110** |  | **(1)** |
|  | **GST Credits** |  | **10** | **(1)** |
|  | **Inventory** |  | **100** | **(1)** |
|  | ***Returned damaged stock (purchase returns)*** |  |  |  |
|  | **Drawings** | **1,500** |  | **(1)** |
|  | **Bank** |  | **1,500** | **(1)** |
|  | ***Cash drawings*** |  |  |  |
| **14** | **Accounts payable – Hair Products Australia** | **3,300** |  | **(2)** |
|  | **Bank** |  | **3,234** | **(1)** |
|  | **Discount received** |  | **66** | **(2)** |
|  | ***Paid creditor in full after a 2% discount*** |  |  |  |
|  | **Discount received** | **6** |  | **(1)** |
|  | **GST Credits** |  | **6** | **(1)** |
|  | ***GST adjustment or write back of discount*** |  |  |  |
| **18** | **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 Interest and made a repayment on the loan*** |  |  |  |
| **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 sales return*** |  |  |  |
| **21** | **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 or write back of discount*** |  |  |  |
| **-1 mark for each incorrect narration to maximum of 4.**  **-1 mark for each incorrect date to maximum of 2** | | | |  |

**( /43 marks)**

1. Prepare **closing** general journal entries to the Profit and Loss ledger account **only**   
   on 30 June 2021. **(11 marks)**

**Workings:**

**Cost of sales 90 (1) + 500 (1) – 40 (1) returns = 550**

**Sales 400 (1) + 9,000 (1) = 9,400**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| **June 30** | **Profit and loss** | **1,290** |  | **(1)** |
|  | **Cost of sales** |  | **550** | **(3)** |
|  | **Interest on loan** |  | **100** | **(1)** |
|  | **Sales returns** |  | **200** | **(1)** |
|  | **Discount allowed** |  | **440** | **(1)** |
|  | ***Closing entry*** |  |  |  |
|  | **Sales** | **9,400** |  | **(2)** |
|  | **Discount received** | **60** |  | **(1)** |
|  | **Profit and loss** |  | **9,460** | **(1)** |
|  | ***Closing entry*** |  |  |  |

**General Journal**

**-1 for each incorrect addition to maximum of 2**

**-1 for incorrect or absent narration to maximum of 1**

**-1 for incorrect or absent date to maximum of 1**

**NB\* If a sales returns account is not used, then a net sales result for the sales account is acceptable and 3 marks will be awarded to the account.**

**Sales (net) 400 (1) + 9,000 (1) = 9,400 – 109 returns (1) = 9291**

**( /11 marks)**

**Question 18 30 marks**

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

**Puff Cakes**

**Account Balances**

**as at 31 March 2021**

|  |  |
| --- | --- |
|  | $ |
| Accounts payable | 17,100 |
| Accounts receivable | 5,220 |
| Advertising | 560 |
| Bad debts | 90 |
| Capital | 40,000 |
| Cartage inwards | 3,400 |
| Cash at bank | 1,040 |
| Cleaning | 150 |
| Cost of sales | 61,800 |
| Delivery van | 65,000 |
| Delivery van petrol | 320 |
| Discount allowed | 340 |
| Discount received | 70 |
| Electricity | 2,800 |
| GST credits | 320 |
| GST payable | 1,200 |
| Interest on investments | 130 |
| Interest on loan | 1,500 |
| Inventory | 4,800 |
| Investments (matures 2021) | 7,000 |
| Loan (long term) | 20,000 |
| Cash on hand | 180 |
| Rent paid | 2,000 |
| Sales | 87,500 |
| Sales returns | 20 |
| Store fittings and fixtures | 3,200 |
| Wages – sales staff | 6,000 |

**Question 18 cont**

1. Prepare a fully classified Income Statement for **Puff Cakes** for the year ended

31 March 2021.

**Puff Cakes**

**Income Statement**

**for the month ended 31 March 2021**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Income** | $ | $ | $ |  |
| **Sales** |  | **87,500** |  | **(1)** |
| **Less Sales returns** |  | **20** |  | **(1)** |
|  |  | **87,480** |  |  |
| **Less Discount allowed** |  | **340** |  | **(1)** |
| **Net sales** |  |  | **87,140** |  |
| **Less Cost of sales** | **61,800** |  |  | **(1)** |
| **Cartage inwards** | **3,400** | **65,200** |  | **(1)** |
| **Less Discount received** |  | **70** |  | **(1)** |
| **Cost of sales** |  |  | **65,130** |  |
| **Gross Profit** |  |  | **22,010** |  |
| **Add Other Income** |  |  |  |  |
| **Interest on investments** |  |  | **130** | **(1)** |
| **Total Income** |  |  | **22,140** |  |
| **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 paid** | **2,000** | **4,950** |  | **(1)** |
| ***Financial*** |  |  |  |  |
| **Interest on loan** |  | **1,500** | **13,420** | **(1)** |
| **Profit for the period** |  |  | **$8,720** |  |
|  |  |  |  |  |

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

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

**(15 marks)**

**Question 18 cont**

1. Prepare an extract of the Current Assets section **only** of the Balance Sheet for

**Puff Cakes** as at 31 March 2021.

**Puff Cakes**

**Balance Sheet (extract)**

**As at 31 March 2021**

|  |  |  |
| --- | --- | --- |
| **Current Assets** | **$** |  |
| **Accounts receivable** | **5,220** |  |
| **Cash at bank** | **1,040** |  |
| **Inventory** | **4,800** |  |
| **Investments** | **7,000** |  |
| **Cash on hand** | **180** |  |
| **GST credits** | **320** |  |
| **Total Current Assets** | **18,560** |  |

**-1 mark for each missing item**

**- 1 mark for no headings/totals**

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

**(5 marks)**

1. Explain how your Gross Profit result in **Part a** illustrates the business’s performance.

|  |  |
| --- | --- |
| Explains why gross profit illustrates business’s performance with reasons | 3 |
| Provides a description of gross profit and states how it is calculated | 2 |
| States a fact about gross profit | 1 |
| **Sub Total** | **3** |
| Answer could include:  Gross profit illustrates performance because it is the result of making profit from the sale of inventory. (1) This is expressed as net sales less cost of sales. As net sales are greater than the cost of sales, then the business has made a profit of $22,010. (1) This means that the business has been able to keep the cost of inventory down in relation to its sales to produce a positive result or selling price is sufficient. (1)  Accept other valid and appropriate points. |  |

1. Describe the term income using Sales as your example for Puff Cakes.

|  |  |
| --- | --- |
| **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)**  **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?

|  |  |
| --- | --- |
| **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.** |  |

**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 19**

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

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

Prepare responses to the following questions:

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

|  |  |
| --- | --- |
| **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.** | |

**(4 marks)**

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

|  |  |
| --- | --- |
| **Describes two consequences for not adhering to the principle** | **4** |
| **States two consequences and describes only one of the consequences for not adhering to the principle** | **3** |
| **States simply two consequences or describes one consequence for not adhering to the principle** | **2** |
| **States simply, one consequence for not adhering to the principle** | **1** |
| **Subtotal** | **4** |
| **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 not be accurate and may present false profitability and financial stability of the business.** * **Incorrect tax assessment based on false profit results is a type of fraud that may land Bill in legal difficulties if investigated.** * **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.** * **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.**   **Accept other valid and appropriate points.** | |

**(6 marks**)

1. Describe two consequences of being bankrupt as a sole trader.

|  |  |
| --- | --- |
| **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.** | |

**(4 marks)**

1. Describe two appropriate sources of finance to solve Bill’s liquidity issues in his business. Include an advantage and disadvantage in your discussion.

|  |  |
| --- | --- |
| **Describes two appropriate source of finance for Bill and an advantage plus a disadvantage of the source of each.** | 6 |
| **Describes two appropriate source of finance for Bill and either an advantage or disadvantage of the source.** | 4 |
| **Identifies one appropriate source of finance for Bill and identifies an advantage or disadvantage.** | 3 |
| **Identifies two appropriate source of finance** | 2 |
| **Answer could include: (any two, six 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.** | |

**(6 marks)**

**OR**

**Question 20**

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

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

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

Prepare responses to the following questions:

1. Describe two advantages and two disadvantages for Pieta and Payne’s partnership.

|  |  |
| --- | --- |
| **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.** | |

**(4 marks)**

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

|  |  |
| --- | --- |
| **Explains one to two reasons for the business’s liquidity situation** | 3-4 |
| **States one to two reasons for the business’s liquidity** | 1-2 |
| **Subtotal** | 4 |
| **Defines the term liquidity** | 1 |
| **Subtotal** | **1** |
| **Answer could include:**   * **The term liquidity means the business’s ability to generate cash to meet debt commitments when they fall due. (1)**   **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**. | |

**(5 marks)**

1. With reference to Kebabland, explain two GST legal requirements.

|  |  |
| --- | --- |
| For each of the two GST legal requirements: |  |
| Explains GST facts to Kebabland | 3 |
| States a fact about GST legal requirements | 1 |
| **Subtotal** | **4** |
| **Answer could include: (Any three, one mark 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.** | |

**(4 marks)**

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

|  |  |
| --- | --- |
| **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.** | 3 |
| **Provides a decision as to whether drawings should be recorded or not and states a reason why.** | 2 |
| **Provides a decision as to whether drawings should be recorded or not** | 1 |
| **Subtotal** | **3** |
| **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.** | |

**(5 marks)**

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.

|  |  |
| --- | --- |
| **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**. | |

**(2 marks)**