**Unit 1 – Simple Financial Statements**

***Practice Assessment***

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

**Time allowed:** 1 hour

**Material required/recommended for this assessment**

To be provided by the supervisor

This Question/Answer Booklet

To be provided by the candidate

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

*Special Items:* Non-programmable calculators satisfying the conditions set by the

School Curriculum and Standards Authority for this course

**Marking Key**

|  |  |  |
| --- | --- | --- |
| Question | **Marks Allocated** | **Marks**  **Gained** |
| **Multiple Choice** | 5 |  |
| **6** | 24 |  |
| **7** | 6 |  |
| **8** | 23 |  |
| **9** | 7 |  |
| **Total** | **65** |  |

**Multiple Choice**

Each question has only one correct response. Signify your answer by circling the label (**a**, **b**, **c** or **d**) of the correct response. If you change your answer, completely erase your original answer. Questions where two or more responses are selected will score no marks.

1. Which of the following business transactions will increase equity for a plumbing business?
2. payment of monthly rent
3. **receipt of plumbing fees**
4. proceeds from a loan
5. payment of interest on a loan
6. An Income Statement measures:
7. financial liquidity
8. financial position
9. **financial performance**
10. financial gearing
11. Advertising would be classified under which heading in the income statement?
12. income
13. **selling and distribution**
14. general and administration
15. financial
16. Closing entries are best described as general journal entries to:
17. **transfer income and expense balances to the profit and loss account**
18. close all accounts when the business is winding up
19. calculate asset and liability accounts balances at the end of the period
20. transfer balances owed by individuals to one accounts receivable account
21. How would an amount owing by a customer to a business be classified in the balance sheet?
22. **current asset**
23. current liability
24. non-current asset
25. non-current liability

**✓ 1 mark each ( /5 marks)**

**Application Questions**

1. Ernie Dingo owns a block of holiday flats in Broome. There are 15 flats in the block. The business is registered under the business name of **Pearl Flats**. The following information was extracted from the accounting records:

**Pearl Flats**

**Trial Balance**

**As at 30 June 2020**

|  |  |  |
| --- | --- | --- |
|  | **Debit**  **$** | **Credit**  **$** |
| Accountant’s Fees | 278 |  |
| Advertising | 392 |  |
| Bad Debts | 252 |  |
| Capital – E Dingo |  | 200,000 |
| Cash at Bank | 2,105 |  |
| Cleaning | 1,200 |  |
| Creditors |  | 217 |
| Debtors | 2,800 |  |
| Drawings | 13,000 |  |
| Furniture & Fittings | 27,000 |  |
| Interest on Loan | 6,100 |  |
| Land & Buildings | 260,000 |  |
| Loan – Bankwest |  | 61,000 |
| Maintenance Costs | 1,600 |  |
| Office Wages | 5,200 |  |
| Postage & Stationery | 190 |  |
| Rates | 2,500 |  |
| Rental Fees |  | 64,000 |
| Repairs | 2,340 |  |
| Telephone | 260 |  |
|  | $325,217 | $325,217 |

*You are required to:*

1. Explain what type of business Pearl Flats would be classified as.

Pearl Flats is a **service** business. ✓This is a business which provides a service (accommodation) to customers in exchange for a fee (rent). ✓

**✓ 1 mark each ( /2 marks)**

1. cont
2. prepare the necessary general journal entries for the calculation of Profit/Loss and to finalise the Capital A/c for the year ended 30 June 2020.

**General Journal for Pearl Flats**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **F** | **Debit** | **Credit** |
| 2020 |  |  |  |  |
| June 30 | Rental fees |  | 64,000**✓** |  |
|  | Profit & loss |  |  | 64,000**✓** |
|  | Balance transferred |  |  |  |
| 30 | Profit & loss |  | 20,312**✓** |  |
|  | Accountant’s fees |  |  | 278**✓** |
|  | Advertising |  |  | 392**✓** |
|  | Bad debts |  |  | 252**✓** |
|  | Cleaning |  |  | 1,200**✓** |
|  | Interest on loan |  |  | 6,100**✓** |
|  | Office wages |  |  | 5,200**✓** |
|  | Maintenance costs |  |  | 1,600**✓** |
|  | Postage & stationery |  |  | 190**✓** |
|  | Rates |  |  | 2,500**✓** |
|  | Repairs |  |  | 2,340**✓** |
|  | Telephone |  |  | 260**✓** |
|  | Balances transferred |  |  |  |
| 30 | Profit & loss |  | 43,688**✓** |  |
|  | Capital – E Dingo |  |  | 43,688**✓** |
|  | Profit transferred |  |  |  |
| 30 | Capital – E Dingo |  | 13,000**✓** |  |
|  | Drawings |  |  | 13,000**✓** |
|  | Drawings transferred |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

**✓ 1 mark each ( /18 marks)**

6. cont

1. Complete the Capital A/c as at 30 June 2020.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Capital – E Dingo A/c (Eq1)** | | | | | | | |
| 2020 |  |  |  | 2020 |  |  |  |
| Jun 30 | Drawings |  | 13,000**✓** | Jun 30 | Balance |  | 200,000**✓** |
|  | Balance c/d |  | 230,688 |  | Profit & loss (Pr) |  | 43,688**✓** |
|  |  |  | $243,688 |  |  |  | $243,688 |
|  |  |  |  |  |  |  | 230,688**✓** |
|  |  |  |  |  |  |  |  |

**✓ 1 mark each ( /3 marks)**

1. In each of the following groups of items there is **one (1)** item that is different from the others. Identify the item that is different from the other three and give a reason for your answer.

*Sales Returns, Insurance, Salaries, Electricity*

**Sales Returns**.✓ The other three items are shown in the Expenses section of the Income Statement, Sales Returns will be included in the Income section. ✓

*Cost of Sales, Discount Received, Customs Duty, Freight Outwards*

**Freight Outwards.** ✓ The other three items all relate to the Cost of Sales and will appear in the Income section of the Income Statement, Freight Outwards will be included in the Expenses section. ✓

*Cash at Bank, Advertising, Accounts Receivable, Inventory*

**Advertising.** ✓ The other three items are all Current Assets and will go into the Balance Sheet. Advertising is an expense and will go into the Income Statement. ✓

**✓ 1 mark each ( /6 marks)**

1. Lisa Ho is a fashion designer who trades under the name **Exquisite Fashions**. She has provided you with the following trial balance:

**Exquisite Fashions**

**Trial Balance**

**As at 30 June 2020**

|  |  |  |
| --- | --- | --- |
| Account Name | Debit | Credit |
| Advertising | 10,500 |  |
| Bad debts | 500 |  |
| Bank |  | 10,000 |
| Capital – Lisa Ho |  | 76,750 |
| Commission revenue |  | 13,000 |
| Cost of sales | 17,300 |  |
| Creditors |  | 4,750 |
| Debtors | 12,500 |  |
| Delivery van | 30,000 |  |
| Delivery van expenses | 8,000 |  |
| Discount allowed | 500 |  |
| Discount received |  | 800 |
| Drawings | 13,000 |  |
| Fashion equipment | 35,000 |  |
| Freight inwards | 2,000 |  |
| General expenses | 4,000 |  |
| Insurance | 6,000 |  |
| Interest on loan | 500 |  |
| Interest received |  | 6,000 |
| Inventory | 15,500 |  |
| Investment (maturing in 2021) | 20,000 |  |
| Land & buildings | 100,000 |  |
| Loan from National Bank (repayable in 2026) |  | 20,000 |
| Mortgage (due 2035) |  | 50,000 |
| Sales |  | 98,000 |
| Sales returns | 3,000 |  |
| Stationery expense | 1,000 |  |
|  | $279,300 | $279,300 |

*You are required to:*

1. prepare an Income Statement for the year ended 30 June 2020

8. cont

**Exquisite Fashions**

**Income Statement**

**For year ended 30 June 2020**

|  |  |  |  |
| --- | --- | --- | --- |
| **Income** |  |  |  |
| Sales |  | 98,000**✓** |  |
| *less* Sales returns |  | 3,000**✓** |  |
| Discount allowed |  | 500**✓** |  |
| **Net Sales** |  |  | 94,500 |
| *less* Cost of sales | 17,300**✓** |  |  |
| Freight inwards | 2,000**✓** | 19,300 |  |
| *less* Discount received |  | 800**✓** | 18,500 |
| **Gross Profit** |  |  | 76,000 |
| *add* **Other Income** |  |  |  |
| Commission revenue |  | 13,000**✓** |  |
| Interest received |  | 6,000**✓** | 19,000 |
| **Total Income** |  |  | 95,000 |
| *less* **Other****Expenses** |  |  |  |
| ***Selling & Distribution*** |  |  |  |
| Advertising | 10,500**✓** |  |  |
| Bad debts | 500**✓** |  |  |
| Delivery van expenses | 8,000**✓** | 19,000 |  |
| ***General & Administrative*** |  |  |  |
| General expenses | 4,000**✓** |  |  |
| Insurance | 6,000**✓** |  |  |
| Stationery expense | 1,000**✓** | 11,000 |  |
| ***Financial*** |  |  |  |
| Interest on loan |  | 500**✓** | 30,500 |
| **Profit for the period** |  |  | $64,500 |
|  |  |  |  |

**-1 mark poor calculation**

**up to -2 marks poor layout**

**✓ 1 mark each ( /15 marks)**

8. cont

1. complete a balance sheet extract as at 30 June 2020 showing only the sections shown. (Note: you should **total** each section)

**Exquisite Fashions**

**Balance Sheet (extract)**

**As at 30 June 2020**

|  |  |  |
| --- | --- | --- |
| **Current Assets** |  |  |
| Debtors |  | 12,500**✓** |
| Inventory |  | 15,500**✓** |
| Investment (maturing 2021) |  | 20,000**✓** |
| **Total Current Assets** |  | $48,000 |
|  |  |  |
|  |  |  |
|  |  |  |
| **Current Liabilities** |  |  |
| Bank |  | 10,000**✓** |
| Creditors |  | 4,750**✓** |
| **Total Current Liabilities** |  | $14,750 |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| **Equity** |  |  |
| Capital – Lisa Ho | 76,750**✓** |  |
| Profit | 64,500**✓** |  |
| Drawings | (13,000) **✓** | $128,250 |
|  |  |  |
|  |  |  |
|  |  |  |

**-1 mark poor calculation**

**✓ 1 mark each ( /8 marks)**

1. What is the purpose of financial statements?

The objective of financial statements is to provide information about the financial position, performance and changes in financial position. **✓** The two main financial statements are the **income statement** and the **balance sheet** (also known as the *statement of financial position*).

An income statement shows how well a business is **performing** over a period of time. **✓** The report shows the profit or loss made by a business. The owner needs to know how the business is performing in order to make decisions about the future, such as how to allocate resources (funds) and/or where to try to reduce expenses. **✓**

The balance sheet shows the **financial position** of the business. **✓** It does this by individually displaying the assets, liabilities and equity of the owner.Potential lenders or investors will always want to look at these statements in order to determine the business’s ability to meet its financial obligations. **✓**

The balance sheet can be used to work out both the short-term and long-term stability of the business through measuring **liquidity**. **✓**  Liquidity is the ability of the business to meet its debts as they fall due in the short term, generally a 12-month period. **✓**

**✓ 1 mark each ( /7 marks)**

**End of Topic Test!**