

MARKING KEY

DRAFT (WEB VERSION ONLY)

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SECTION ONE: MULTIPLE CHOICE

[20 marks]

Question	Answer
1	C
2	C
3	D
4	C
5	A
6	C
7	B
8	C
9	A
10	D
11	B
12	D
13	A
14	B
15	C
16	A
17	B
18	B
19	B
20	A

1 mark for each correct answer

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SECTION TWO: APPLICATION AND RESPONSE

[180 marks]

Question 1

Peter Smith owns a Pet Shop called Pete's Pets. He has built a very successful business over a five year period. Peter diligently completes his financial statements every two months. The balance sheets of Pete's Pets indicate that all non-current assets have correctly been recorded at their purchase price. Peter conducts many business transactions with businesses in Singapore to purchase cheaper pet food. He always remembers to record these transactions in Australian currency in his records. At the end of a busy week, Peter usually takes money from the week's income to pay for some of his home bills, which he has not had time to attend to. Peter records this by debiting his Drawings account and crediting the business Cash at Bank account.

Required

Identify **TWO (2)** Accounting assumptions which have been applied in the description of Pete's Pets. Explain each of these two accounting assumptions, providing examples from the information above. [6 marks]

ONLY TWO OF THE FOLLOWING ARE REQUIRED:

Description	Marks
GOING CONCERN	1
The life of the business is believed to be ongoing so non-current assets are recorded at their cost price.	1
The cost price and purchase price is one and the same so the business recording non-current assets at their purchase price has correctly applied the going concern assumption.	1
PERIOD	1
The life of the business is believed to be ongoing so is broken into time periods to calculate profit for decision make purposes.	1
This business has explained that its life is divided into bimonthly periods to produce financial statements – ultimately calculating profit.	1
MONETARY	1
All transactions are recorded in a common monetary unit.	1
This business converts Singaporean dollars into Australian dollars for recording purposes, thus ensuring that the overseas transactions have the same monetary unit as those within Australia.	1
ACCOUNTING ENTITY	1
The business is a separate body form the owner and business records must be kept separate from the owner.	1
The owner taking cash from the business was recorded as drawings because from the point of view of the business, money was paid to the owner for personal use and not business expenses.	1

Question 2

Fiona Mac, the owner of Fee’s Flowers, signed a contract with Victor’s Vehicles in February 2007 to purchase two new vans to use as delivery vehicles. The contract stated that Fee’s Flowers would make repayments of \$3 000 each month for two years to pay for the vans. The vans were delivered to Fee’s Flowers in March and the loan repayments commenced that same month.

Using the asset definition and the asset recognition criteria provided in the *Framework*, justify why Fee’s Flowers should record the vans as an asset in the balance sheet despite the fact that the business will not own them for two years. [10 marks]

Description	Marks
<p>DEFINITION:</p> <p><u>Future economic benefits</u> The item will provide financial benefit to the business. 1</p> <p>The vans will be used to deliver goods to customers who will pay for the delivered goods. Thus, the vans will provide financial benefits in the form of Income. 1</p> <p><u>Controlled by the entity</u> The item is for the exclusive use of the person in possession of the item. 1 Despite Fiona not owning the vehicles, she is using them each day – without any other business being able to use them without her permission. 1</p> <p><u>Past transaction/event</u> The item is as a result of something which has happened previously. 1 In this case, Fiona signed a contract with the vehicle salesman in February and they were delivered in March. Therefore, the signing of the contract and delivery of the vehicles were the past events. 1</p>	
<p>RECOGNITION CRITERIA:</p> <p><u>Probable that the event will occur</u> An asset is more than 50% likely to ensure that the future economic benefits eventuate. 1 The business is receiving orders to necessitate the purchase of the vehicles. It is therefore more than likely the business will receive financial benefits from the vehicles delivering goods to their customer for payment. 1</p> <p><u>Value can be reliably measured</u> The cost of the asset can be measured free from bias, error or persuasion. 1 The business signed a contract with an external agency for the vehicles. The terms of the contract outline equal repayments of \$3 000 each month for 2 years. Therefore, the value of the vehicles can be reliably stated as \$72 000. 1</p> <p>As the vehicles satisfy all of the asset recognition criteria, they can correctly be recorded by Fee’s Flowers as an asset in the business’ Balance Sheet.</p>	

Question 3

Two of the characteristics of a small proprietary company are continuity of existence and being a separate legal entity. Define and explain why these two characteristics are seen as an advantage for a small proprietary company business as compared to a sole trader. [4 marks]

Description	Marks
CONTINUITY OF EXISTENCE: Continuity of existence refers to whether a business will continue to trade with the death, bankruptcy or withdrawal of the owner.	1
A company <u>does not</u> dissolve with the death or other departure of a shareholder/owner, whereas a sole trader usually <u>does</u> dissolve with the departure of the owner.	1
SEPARATE LEGAL ENTITY: A separate legal entity refers to a business having an identity which is separate and distinct from that of its owner/s.	1
A company <u>is</u> a separate legal entity meaning the company can own assets, the company can be sued and the company pays tax on profits, whereas a sole trade is <u>not</u> a separate legal entity and therefore it is the owner of the business who owns the assets, is sued and pays tax on profits.	1

Question 4

[Adapted from: Tasmanian Qualifications Authority, 2006]

Apple Cider Juice owned by Redford Grand, is a juice and fruit store with a balance date for the financial year of 30 June 2007. At this business the perpetual inventory system is used.

The following is an extract of transactions related to the financial year ended 30 June 2007.

Date	Transaction
2 April 2007	Redford started his business with \$41 000. (He put \$25 000 he had saved into the business bank account to start his business. He also contributed a motor vehicle to the value of \$16 000).
2 April 2007	Paid quarterly insurance premium \$1 350, cheque no. 000101.
4 April 2007	Redford bought a computer system on credit from <i>Compsyche Computers</i> \$6 600 (GST inclusive).
12 April 2007	Cash sales were \$1 200. Cost price of the fruit was \$400. (Fruit is GST free.)
29 April 2007	Redford took for personal use \$200 cash and fruit to the value of \$75. (Fruit is GST free.)
8 May 2007	\$10 000 was borrowed from AusBank and placed in the business bank account.
31 May 2007	It was found that the payment of wages of \$240 had been entered into the cleaning expenses account by mistake.
30 June 2007	The end of period stocktake indicated a shortage of \$42.
30 June 2007	The vehicle valued at \$16 000 is to be depreciated at the rate of 20% per annum straight line for the three months the business has been operating.

Required**(a) Provide General Journal entries for the transactions shown above. [27 marks]**

1 mark for each correct debit/credit entry = 25 marks

1 mark for correct dates

1 mark for correct narrations

Apple Cider Juice General Journal			
Date	Details	Debit	Credit
2007 April 2	Cash at bank Motor Vehicle Capital Owner commenced business with assets	\$25 000(1) 16 000(1)	\$41 000(1)
2	Prepaid insurance GST Credits received Cash at bank Paid quarterly insurance premium cheque no. 000101	1 227(1) 123(1)	1 350(1)
4	Computer systems GST credits received Compsyche Computers Purchased new computer system on credit	6 000(1) 600(1)	6 600(1)
12	Cash at bank Sales Sold GST free goods for cash	1 200(1)	1 200(1)
	Cost of sales Inventories control Cost of sales	400(1)	400(1)
29	Drawings Inventories control Cash at bank Owner withdrew inventories and cash for personal use	275(1)	75(1) 200(1)
May 8	Cash at bank Ausbank Bank loan	10 000(1)	10 000(1)
31	Wages Cleaning expenses correcting entry	240(1)	240(1)
June 30	Inventory adjustment Inventory control Inventory shortage as per stocktake	42(1)	42(1)
30	Depreciation of vehicle Accumulated depreciation of vehicle Straight line depreciation at 20% for three months	*800(2)	*800(1)

* Calculation of depreciation: $[\$16\ 000 \times 20\%] (1) \times 3/13 (1) = \800 – no penalty for consequential error

(b) Examine the following accounts from the General Ledger of Gobsmacked, the supplier of fresh fruit to Apple Cider Juice.

Office Equipment					
2007			2007		
June	1	Balance b/d	9 100	June 25	Drawings (B) 1 240
	22	Gosnells Office Warehouse (A)	4 000		

Gosnells Office Warehouse					
2007			2007		
June	11	Cash at Bank (C)	6 500	June 1	Balance b/d 6 500
					Office Equipment (D) 4 400

Explain the entries marked (A), (B), (C) and (D). [8 marks]

Description	Marks
A. Gobsmacked bought office equipment on credit from Gosnells Office Warehouse with a net value of \$4 000.	2 marks for complete explanation of the entry, 1 mark if incomplete.
B. The owner of Gobsmacked withdrew office equipment to the value of \$1 240 for personal use.	
C. Gobsmacked paid \$6 500 to Gosnells Office Warehouse. This was the amount owing to Gosnells Office Warehouse at the beginning of the month.	
D. Gobsmacked incurred a debt with Gosnells Office Warehouse of \$4 400 for office equipment bought on credit (\$4 000 + \$400 GST).	

Question 5

Delta Dawn has a small service business called Delta's Detailing which specialises in the interior cleaning and restoration of limousines. She has provided the following incomplete trial balance as at 30 June 2009. Delta has asked you to use the information below to prepare financial statements for Delta's Detailing.

	Debit	Credit
Fees income		\$45 260
Advertising expense	\$3 273	
Cash at bank	13 211	
Creditor—G Geranium		1 558
Debtor—S Slick	2 158	
Office salaries expense	5 540	
Interest expense	1 900	
Office furniture and equipment	29 800	
Rent expense	14 060	
Drawings	1 000	
Telephone expense	1 216	
Loan from NE Bank (repayable on 1 July 2017)		10 000
Stationery expense	1 000	
Electricity expense	2 660	
Capital—D Dawn		?

Additional information

- i. Included in the rent expense account is an amount of \$4 060 which was received for rent but which was incorrectly credited to the rent expense account instead of the rent income account.
- ii. Included in the interest expense account is an amount of \$87 for bank charges which was incorrectly debited to the interest expense instead of the bank charges account.
- iii. Insurance of \$250 was paid in June but not recorded.

Required

- (c) Select an appropriate format and prepare a classified financial statement for the period ending 30 June 2009 that will indicate the profit for the year of Delta's Detailing.
[18 marks]

Workings:

Interest Expense
 $\$1\,900 - \$87 = \$1\,813$

Bank Charges
 = \$87

Insurance Expenses
 = \$250

Rent Expense
 $\$14\,060 + \$4\,060 = \$18\,120$

Rent Income
 = \$4 060

Delta's Detailing

Income Statement for Period Ending 30 June 2009 (1)

INCOME

Fees		\$45 260 (1)	
Rent (1)		4 060 (1)	\$49 320
			<hr/>

EXPENSES

General Costs

Advertising	\$3 273 (1)	
Telephone	1 216 (1)	
Stationery	1 000 (1)	
Electricity	2 660 (1)	
Insurance (1)	250 (1)	8 399
		<hr/>

Finance Costs

Interest	1 813 (2)	
Bank Charges	87 (1)	1 900
		<hr/>

Employee Costs

Office Salaries	5 540 (1)	5 540
		<hr/>

Other Costs

Rent	18 120 (2)	18 120	33 959
			<hr/>

PROFIT			<hr/> 15 361 <hr/>
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+ 2 marks for correct classification and format
-1 mark for each foreign item; maximum of 2

(d) Select an appropriate format and prepare a classified financial statement for the period ending 30 June 2009 showing the assets, liabilities and equity of Delta's Detailing. [13 marks]

Workings:

Description	Marks
Cash at Bank 13 211(Balance) + 250 (Insurance) = \$12 961	2
Capital (calculated from trial balance) Debit balances \$75 818 – Credit balances \$56 818 = \$19 000	2

Delta's Detailing*Balance Sheet as at 30 June 2009 (1)***CURRENT ASSETS**

Cash at bank (2)	\$12 961	
Debtor—S Slick (1)	<u>2 158</u>	\$15 119

NON-CURRENT ASSETS

Office furniture and equipment (1)	<u>29 800</u>	29 800
Total Assets		<u>44 919</u>

CURRENT LIABILITIES

Creditor—J Flower (1)		1 558
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NON-CURRENT LIABILITIES

Loan from N E Bank (repayable on 1 July 2017) (1)	<u>10 000</u>	
Total Liabilities	<u>11 558</u>	
Net Assets		<u><u>\$33 361</u></u>

EQUITY

Capital—D Dawn (2)		19 000
less drawings (1)		1 000
add profit (1)		<u>15 361</u>
Total Equity		<u><u>\$33 361</u></u>

+ 2 marks for correct classification and format
-1 mark for each foreign item; maximum of 2

- (e) Delta uses a range of principles of internal control in her business including authorisation, separation of duties, adequate documentation, physical controls and verification. Select TWO of these principles and elaborate on their meaning. Apply your understanding of the two selected principles to ONE of the following: management of cash or inventory. [6 marks]

Students may include any of the following principles.

Description	Marks
<p>Authorisation—person or persons in authority or in a responsible position will validate a course of action. Proper authorisation must be obtained for things such as purchasing assets, paying bills or giving lines of credit in order for accurate/reliable/valid data to be entered into the system. Source documents are an example of where proper authorisation should be attained.</p> <p>Separation of duties—within an organisation duties related to the authorisation, recording and handling of assets should be separated or people rotated. The person who does the recording should not also be responsible for purchasing or handling of the asset. It is vital that the separation of duties takes place to help eliminate fraud, so that the person who obtains the asset is not able to change the records. If separation of duties is in place within an organisation, then two or more people would have to collaborate in order to commit a fraud. Employees should also be forced to take annual leave as it is often only when another person takes over someone’s job that errors, carelessness or dishonesty are found.</p> <p>Adequate documentation—inadequate documentation can cause control problems. Documents capture the information prior to it being entered into the system. Documents ensure the accuracy of recording. All documents should be prepared as the transaction takes place and be consecutively numbered. Devices such as barcode readers, cash registers and computers are used to ensure accuracy. Computer programs also ensure valid data.</p> <p>Physical controls—there are any number of controls that physically safeguard an entity’s assets. Ensuring employee identification can regulate control, as can overseeing who has access to keys, cash registers, safes, secure areas for storage of inventories and other assets. After-hours security, video surveillance and adequate insurance are other features of a good system.</p> <p>Verification—this area of control relates to checking the accuracy of accounting records by using an independent method. Bank reconciliation is a process, which verifies the entity’s records with the bank’s independent records. The petty cash book should be reconciled with the petty cash vouchers. A trial balance verifies that debits equal credits and if they don’t then an error has occurred. The physical asset should be compared with the accounting record that relates to it.</p> <p>Note: in relation to the principles selected, students should give relevant examples in their chosen control method. Students could give examples from the areas listed below.</p> <p>Cash—separation of duties, rotation of duties, independent record, safe place, daily banking, cash register secured and any other acceptable answers. Inventories—stock take, location, security, turnover, adequate documentation and any other acceptable answer.</p>	<p>2 x 2 marks for each principle of internal control elaborated on</p> <p>2 marks for using an example of cash or inventory in their explanation.</p>

Question 6

[Adapted from: Kirkwood, Ryan, Falt & Stanley, 1992]

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Workings:

Description	Marks
<u>Provision for Doubtful Debts</u> <ul style="list-style-type: none"> • close bad debts to provision (\$1 000) • calculate closing balance of provision account (\$100) and reconstruct the provision account to calculate the doubtful debts figure (\$1 020) 	 1 2
<u>Insurance Expense</u> $\$570 - \$70 = \$500$	2
<u>Rent income</u> $\$7\ 000 - \$200 = \$6\ 800$	2
<u>Depreciation of Building</u> $\$25\ 000 (1) \times 5\% (1)$ $= \$1\ 250$	2
<u>Depreciation of Delivery Vehicles</u> $[\$12\ 000 (1) - \$3\ 000 (1)] \times 30\% (1)$ $= \$2\ 700$	3

1 mark for correct debit/credit entry
1, 2 or 3 marks per figure (as indicated)

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+ 1 mark for correct narrations

DRAFT

Question 7

Paull's Plumbing has supplied you with the following information.

Balance sheet information as at 30 June

	2007	2006	2005
Cash at bank	\$5 000	\$27 000	\$25 000
Tools and Equipment	153 000	123 000	118 000
Vehicles	92 000	96 000	99 000
Accounts payable	22 000	23 000	24 000
Loan from bank (due 2011)	16 000	-	-
Capital	212 000	223 000	218 000

Income statement information for the year ending 30 June

	2007	2006	2005
Fees Income	\$215 000	\$216 000	\$205 000
Less: operating expenses			
Interest	4 200	-	-
Rent	25 000	20 000	20 000
Wages and salaries	65 000	33 000	33 000
Petrol and Motor Vehicle Expenses	69 000	67 200	
Advertising and Promotional Material	6 000	4 800	3 500
Other expenses	10 800	7 000	7 000
Total operating expenses	180 000	132 000	63 500
Profit	\$35 000	\$84 000	\$141 500

Additional information

(i) Currently accepted average ratios for this industry with this turnover range are:

Profit ratio	13%
Working capital ratio	2:1
Debt to Equity Ratio	0.8:1
Rate of Return on Assets ratio	1.5 times

(ii) Ratios calculated for the years 2005-2007 for Paul's Plumbing are shown below:

		2007	2006	2005
Profit Ratio:	$\frac{\text{Profit}}{\text{Income}}$	16.28%	38.89%	69.02%
Working Capital Ratio:	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.23:1	1.17:1	1.04:1
Debt to Equity Ratio:	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	0.18:1	0.10:1	0.11:1
Rate of Return on Assets Ratio:	$\frac{\text{Profit}}{\text{Average total assets}}$	0.14 times	0.34 times	0.58 times

Required

(a) Analyse and interpret the information provided for Paul's Plumbing in relation to the liquidity of the business over time. Use the industry ratios and actual figures from Paul's Plumbing to fully explain your analysis. [12 marks]

Description	Marks
Liquidity is the ability of a business to meet short term debts as they fall due. It is a measure of the business' ability to convert assets into cash.	1
<p>WORKING CAPITAL:</p> <ul style="list-style-type: none"> Working Capital ratio measures the business' liquidity by comparing the total number of current assets available to meet the total number of current liabilities Business figures indicate: <ul style="list-style-type: none"> 2005 - \$1.04 of assets for each \$1 of liabilities. 2006 - \$1.17 of assets for each \$1 of liabilities 2007 – 23c of assets for each \$1 of liabilities Drastic decline from 2006 to 2007. Business would be unable to meet liabilities as they fall due. Decline mainly because of a fall in Cash at Bank. The fall in Cash at Bank could possibly have been because of: <ul style="list-style-type: none"> Purchase of \$30 000 worth of tools and equipment possibly for cash Payment of an extra \$32 000 on wages and salaries Business also took a new \$16 000 loan, thus increasing liabilities for the period and necessitating principle repayments and interest payments in the period Industry average given was 2:1, or \$2 of assets for each \$1 of liabilities. Business is well below the desired industry level It is possible that the wages and tools situation may improve if a partner who is a plumber is acquired. It could be surmised that extra employees were hired in the new absence of the owner who had plumbing experience There was also a sharp incline in Advertising and other expenses that should be reviewed for 2008. 	+1 mark for any point (or any other reasonable point) – to a maximum of 6 marks

Description	Marks
<p>DEBT TO EQUITY:</p> <ul style="list-style-type: none"> • Debt to Equity ratio measures the gearing of the business by comparing the owner's contribution to the business with the indebtedness to outside parties, thus indicating the control the owner has of the business. • Business figures indicate: <ul style="list-style-type: none"> ○ 2005 – 11c of liabilities for each \$1 equity ○ 2006 – 10c of liabilities for each \$1 equity ○ 2007 – 18c of liabilities for each \$1 equity • Debt to outside parties, and therefore less owner control, has been increasing very slowly over the past 3 years. • However, it is well below the industry average of 80c of liabilities for each \$1 of equity, which is a positive sign. • The rise of liabilities in 2007 is mainly attributable to the \$16 000 loan. • Despite poor profits in 2007, capital is only \$11 000 less, showing the owner may: <ul style="list-style-type: none"> ○ Have contributed further capital ○ Wisely kept drawings to a minimum • To maintain the level of gearing, Veronica is advised to continue these practices. 	<p>+1 mark for any point (or any other reasonable point) – to a maximum of 6 marks</p>

(b) Briefly explain THREE (3) limitations in assessing the performance of Paull's Plumbing from the information that has been provided to you. [6 marks]

ONLY THREE OF THE FOLLOWING (or any other sensible suggestion/s) ARE REQUIRED:

Description	Marks
Insufficient amount of historical data.	1
Trends are difficult to establish with only 3 years information; especially with the potential of anomaly of 2007.	1
Limited disclosure of information.	1
The documents do not present information such as the depreciation of the assets, the interest rate of the loan, what the loan was used for etc so makes some decision making and conclusions difficult.	1
Absence of industry averages.	1
The industry averages presented are unclear as to whether they are an average of the three years or just one of the three years, and if the latter, which year? The absence of 3 years of industry averages is important, for example, if trying to establish if the working capital ratio had a sharp decline from 2006 to 2007 it can't be done without knowing which year and the same applies to the business.	1
Consistency of measurement.	1
Using industry ratios alone does not disclose other business' methods of measurement. For instance, assets may not all be recorded at cost, there is no information on whether the same method of depreciation of assets was used etc	1
Analysis based on historical data.	1
The information presented has already occurred in the past and it is difficult to use this as a future predictor when it would appear that the change of management has likely meant an abnormal performance in 2007.	1

Question 8

Simpson Proprietary Limited is a maker of refrigerators in Australia making a top of the range model called the Opal. The business has made very good profits in past years and liquidity is also very strong. The business currently has \$250 000 in excess cash which its managing director would now like to see gainfully invested. This could involve manufacturing a new product or investing in new assets.

Read the information below and answer the questions which follow

The Opal range of refrigerators has a break-even point of 5 200 units, a contribution margin of \$350 per unit and provides \$1 500 000 in annual profit. Its production manager has however suggested that a new low budget range called the Diamond be made and the following are the estimated costs associated with this new product:

Raw materials	\$300 per unit
Direct labour	\$150 per unit
Overheads	\$100 per machine hour
Machine time	30 minutes per refrigerator
Depreciation on machinery	\$200 000 per year
Other fixed overheads	\$400 000 per year
Administration costs	\$500 000 per year
Selling costs	\$200 000 per year

It is considered by the marketing manager that the selling price for the Diamond refrigerator should be \$800 per unit and it is anticipated that sales will be 8 500 during the year given the level of advertising proposed.

REQUIRED

- (a) In relation to the proposed new Diamond refrigerator calculate the break-even point in units. [3 marks]

Description	Marks
Fixed costs - \$200 000 + \$500 000 + \$200 000 + \$400 000 = \$1 300 000 Variable costs - \$300 + \$150 + (100/2) = \$500 per unit	
Equation method: Profit = SP(X) – VC(X) – FC 0 = \$800(X) - \$500(X) - \$1 300 000	2
Therefore X = 1 300 000/(800 – 500)	1
Break-even point in units is 4 334 units.	

- (b) What profit is expected from the new Diamond refrigerator? [1 mark]

Description	Marks
Profit = SP(X) – VC(X) – FC Profit = 800(8 500) – 500(8 500) – 1 300 000 Profit = \$1 250 000	1

(c) If the target profit for this new Diamond refrigerator is \$900 000 per year what dollar value of sales would need to be achieved per year? [4 marks]

Description	Marks
Contribution margin = $SP(X) - VC(X)$	1
Contribution margin = $800(X) - 500(X)$	
Contribution margin = \$300 per unit	
Contribution margin ratio = CM per unit/SP per unit	1
Contribution margin ratio = $300/800$	
Contribution margin ratio = 37.5%	
Required sales = Variable costs + Fixed costs + Target net profit $X = 0.625X + 1\ 300\ 000 + 900\ 000$ $0.375X = 2\ 200\ 000$ $X = \$5\ 866\ 667$	1 1

(d) The marketing manager has suggested that the level of advertising could be increased at a cost of an extra \$100 000 and that this would lead to an increase of 1 000 refrigerators during the year. Calculate the new break-even point in units and the new profit level. [3 marks]

Description	Marks
Profit = $SP(X) - VC(X) - FC$	1
$0 = 800(X) - 500(X) - 1\ 400\ 000$ $X = 1\ 400\ 000/300$ $X = 4\ 667$ units	
Profit = $800(9\ 500) - 500(9\ 500) - 1\ 400\ 000$	
Profit = \$1 450 000	1

(e) Considering the proposals from both the production manager and marketing manager do you consider that the manufacture of the new Diamond refrigerator is warranted? [2 marks]

Description	Marks
The proposal from the production manager to manufacture a new Diamond refrigerator will provide an extra profit of \$1 250 000 and the break-even point of 4 334 units is below that of the Opal range of 5 200 units. Therefore there is a slightly lower risk associated with the Diamond range although it does not provide as much profit as the Opal range of \$1 500 000.	1
The marketing managers suggestion to increase advertising will result in an increased break-even point of 4 667 units but profit will increase to \$1 450 000 so the suggestion is feasible.	1

Question 9

Part A

Fine China Supplies are using a computerised accounting package to keep their records. They record all their stock items using the perpetual inventory method. They are registered for GST using the accrual method and they also report their financials using the accrual method. The GST collected and paid is recorded into a liability account called Tax Payable.

The following transactions for Fine China Supplies occurred during the month of June.

- i. 2 June 2007 bought 10 milk jugs for cash for \$5.50 each at a total cost of \$55.00 (inclusive of GST).
- ii. 3 June 2007 sold 5 milk jugs for cash for \$12.65 each. A total cost of \$63.25 (inclusive of GST)
- iii. 5 June 2007 bought 10 milk jugs for cash at a cost of \$8.80 each. A total cost of \$88.00 (inclusive of GST).
- iv. 6 June sold 5 milk jugs for cash for \$13.75 each. A total cost of \$68.75. (inclusive of GST)

The Stock Valuation Detail report from Fine China Supplies is show below:

Required

(a) What is the stock asset value as at 6 June? [1 mark]

Description	Marks
The Stock Asset account as at 6 June 2007 has a \$70.00 debit balance.	1

(b) What is the average cost of the milk jugs on 3 June? [1 mark]

Description	Marks
The average cost of the milk jugs on 3 June is \$5.00.	1

(c) What is the average cost of the milk jugs on 6 June? [1 mark]

Description	Marks
The average cost of the milk jugs on 6 June is \$7.00.	1

(d) What is average cost and how is it calculated?

Description	Marks
Average cost is a calculated cost which takes into consideration the purchase and sales history of a particular stock item. The average cost is recalculated after each purchase or sale of an item. Each item It is calculated by taking the total Asset Value for that item divided by the quantity of that item.	2

(e) Explain why the average cost (Avg Cost) of the milk jugs has changed on the transaction on 5 June.

Description	Marks
In the Stock Valuation Detail report the average cost of the milk jugs has increased on 5 June because the total asset value has increased. The purchase on 2 June has a total cost of \$50.00, therefore the cost of each item is \$5.00 (10 items divided by \$50.00). In the sale on 3 June 5 items are sold therefore the Asset value is reduced by \$25.00. This leaves 5 Milk Jugs at a total asset value of \$25.00. The average cost is still \$5.00 per Milk Jug. On 5 June we purchased another 10 Milk Jugs but this time their net cost is \$80.00 so we now have 15 Milk Jugs at a total cost of \$105.00. The average cost is now \$7.00 (\$105.00 divided by 15).	3

(f) 6. Calculate the value which will be debited to the cost of sales account on the cash sale of 6 June. [1 mark]

Description	Marks
The cost of sales account will be debited with \$35.00. Five items have been sold with an average cost of \$7 each.	1

Part B

When 12 Dinner Sets are purchased on credit the accounts affected in a computerised system are as follows:

Required

Write down the analysis of the transaction that will be created when one of the dinner sets is sold on 14 May 2007 for \$550.00 cash. [5 marks]

Description				Marks
Date	Account	Dr	Cr	1 mark per entry
14 May	Cash at Bank	550.00		
	Income		500.00	
	Tax Payable		50.00	
	Stock Asset		360.00	
	Cost of Goods Sold	360.00		

Part C

**Which is the only journal used in double entry Computerised Accounting software?
Explain why the other journals are not used? [2 marks]**

Description	Marks
The double entry Computerised Accounting software only uses the General Journal.	1
When a transaction is entered into the software the entry posts directly to the ledger accounts therefore removing the need for the six remaining journals.	1

Question 10

A small newsagency is having difficulty selling a particular brand of cigarettes to its customers. The brand pays high commission percentages to the newsagent for the sales of cigarettes, called “Dynamic”. The newsagent has decided to lower the price of the Dynamic brand to be just below that of the other popular brands of cigarettes – the commission paid will still exceed the price reduction. The decision was made based on the fact that many in the age group of 18-21 years will be able to afford the Dynamic brand and, as it will be slightly less expensive than their usual brands, they may be enticed to purchase the Dynamic cigarettes. Explain the social and ethical responsibilities that this newsagent has to the community and the possible implications this type of action may have. [4 marks]

Description	Marks
<ul style="list-style-type: none"> • Lowering the cost may encourage young people to smoke cigarettes • Cheaper access to cigarettes could increase the frequency/amount young people purchases i.e. they can now afford 6 packets a week, instead of 4. This would create health issues, addiction, financial stress etc. • Public perception of putting commission (i.e. profits) before the welfare of customers/young people • Need to educate young people on the dangers of cigarette smoking 	+1 mark for each answer (or any other reasonable suggestion) for a maximum of 4 marks

Question 11

Briefly explain the differences between a partnership form of business and a small proprietary company. [6 marks]

Description	Marks
<p><u>PARTNERSHIP</u></p> <ul style="list-style-type: none"> • Between 2-50 owners to establish a partnership • Business is legally required to follow the Partnership Act • However, the business can create a legally binding document called the Partnership Agreement that can overrule some or all of the provisions of the Partnership Act. 	<p>+1 mark for each answer (or any other reasonable suggestion) for a maximum of 3 marks for Partnerships</p>
<p><u>COMPANY</u></p> <ul style="list-style-type: none"> • Need one shareholder to establish a company; however, cannot have more than 50 non-employee shareholders • Company is legally required to follow the Corporations Law • However, Corporations Law contains Replaceable Rules that company's can decide to overrule some or all of them by creating their own legally binding document called a Constitution. • To establish a small proprietary business, the company must satisfy 2 of the following: <ul style="list-style-type: none"> ○ Gross operating income must be less than \$10 million ○ Gross assets must be less than \$5 million ○ Employees must not exceed 50 • Company's require a name with Proprietary or Pty in their name • Small proprietary company is required to keep accounting records but not generally required to prepare audited financial reports. 	<p>+1 Mark for each answer (or any other reasonable suggestion) for a maximum of 3 Marks for companies</p>

Question 12

Discuss the Goods and Services Taxation System. Include in your discussion:

- **an explanation of the goods and services tax**
- **who must register for GST**
- **an example of an item which is GST exempt**
- **how GST is collected**
- **an explanation of input tax credits**
- **an explanation of Business Activity Statements, including the meaning of 'tax period'.**

[10 marks]

Description	Marks
<p>GST AND EXAMPLE: GST is a broad-based tax of 10% on most goods, services and other items sold or consumed in Australia.</p>	1
<p>REGISTERING FOR GST: A business must register for GST if it's turnover is at or above the registration turnover threshold of \$75,000 per year.</p>	1
<p>GST EXEMPTIONS: Fresh food, education, water, most health, cars for use by disabled people, religious services or any other acceptable example. (1)</p>	1
<p>GST COLLECTION: Adequate explanation of collection of GST could include a diagram. Explanation should include GST being collected at the point of sale and remittance to ATO.</p>	2
<p>INPUT TAX CREDITS: GST may be included in the price of purchases a business makes.</p>	1
<p>If the business is registered for GST, it can generally claim a credit for any GST included in the price they pay for items to be used in the business.</p>	1
<p>BUSINESS ACTIVITY STATEMENTS (BAS): Businesses are required to pay the GST they collect to the Tax Office on a regular basis. The total amount they must pay the Tax Office is reduced by the amounts of GST credits they can claim for things bought for the business. Reporting and paying tax is done through a business activity statement.</p>	2
<p>The business accounts for their GST obligations on the business activity statement at the end of each tax period. A small business normally has quarterly tax periods (because GST turnover is less than \$20 million) but businesses can choose to have monthly tax periods. [Australian Taxation Office, 2007]</p>	1

ACKNOWLEDGEMENTS

SECTION B

- Question 4:** Adapted from: Tasmanian Qualifications Authority. (2006). Tasmanian Certificate of Education: Accounting Senior Secondary 5C: External assessment 2006 (pp. 4–5). Retrieved October, 2007, from http://www.tqa.tas.gov.au/4DCGI/WWW_doc/007807/RND01/ACC5C_Paper_06.pdf.
- Marking key adapted from: Tasmanian Qualifications Authority. (2006). *Tasmanian Certificate of Education: Accounting Senior Secondary 5C 2006: External assessment report* (p.3). Retrieved October, 2007, from http://www.tqa.tas.gov.au/4DCGI/WWW_doc/007898/RND01/ACC5C_Report_06.pdf.
- Question 6:** Adapted from: Kirkwood, K., Ryan, C., Falt, J., & Stanley, T. (1992). *Accounting: An introductory perspective* (3rd ed.). Melbourne, Vic: Longman Cheshire, p. 542.
- Question 12:** Australian Taxation Office. (2007). *GST for small business*. Canberra: Author, pp. 4, 6, 18, 29.
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Accounting and Finance
Sample external written examination
Stage 2
Mapping questions to content

Question No.	Financial Institutions and Systems		Recording, using and evaluating financial information		Government and the community	
	Financial Institutions	Financial systems and fundamental principles	Recording, processing and communicating financial information	Evaluating financial information for planning, coordination, control and	The role and influence of governments and other bodies	The influence of social, environmental and ethical factors
Section A - Multiple Choice						
1		✓B				
2		✓A				
3					✓B	
4		✓B				
5		✓B				
6					✓B	
7				✓A		
8				✓B		
9				✓B		
10		✓A				
11					✓B	
12		✓B				
13		✓B				
14					✓B	
15					✓B	
16					✓B	
17					✓B	
18					✓B	
19				✓B		
20				✓B		
Section B – Short/Extended Response						
1		✓A				
2		✓B				
3		✓A				
4				✓A		
5				✓B (a + b)	✓B (c)	
6				✓B		
7					✓B	
8					✓A	
9				✓B		
10						✓A
11					✓A	
12		✓A				