# Applecross Senior High School

# Unit 1 ACCOUNTING AND FINANCE

### 2020 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 | 130 | /70 |
| Section Three:Extended answer  | 35 | 2 | 1 | 20 | /15 |
|  |  | **Total marks** | 165 | /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. An asset, fixtures and fittings, was purchased on credit for $8,000. The value of equity due to the accounting equation has
	1. increased.
	2. **remained unchanged.**
	3. decreased.
	4. none of the above.
2. An error disclosed by a trial balance would include entries of
	1. an incorrect amount posted to both sides of the ledger.
	2. an amount made to the wrong side of both ledger accounts.
	3. omission from the general ledger.
	4. **an incorrect amount entered on one side of the ledger.**
3. The closing entry to transfer a loss to capital is
	1. **DR Capital CR Profit and Loss**
	2. DR Capital CR Drawings
	3. DR Drawings CR Profit and Loss
	4. DR Profit and Loss CR Capital
4. **Disney Plus Pty Ltd** is a
	1. separate accounting entity.
	2. separate legal entity.
	3. **separate accounting entity and a separate legal entity.**
	4. neither a separate accounting entity nor a separate legal entity.
5. A manufacturing business
	1. purchases inventory for resale at a profit.
	2. provides a service in return for a fee.
	3. **converts raw materials into finished goods for resale at a profit.**
	4. sells goods and services to retailers.
6. Al McWhiggin owns and operates **Al’s Toy Barn**. Whilst reviewing the businesses activities you discover the following transaction was recorded when Al withdrew $1,500 from his business to purchase a birthday gift for his wife.

DR Administration Expenses $1,500

CR Cash at Bank $1,500

This accounting entry breaches which accounting principle or convention?

* 1. accounting period
	2. **accounting entity**
	3. monetary
	4. going concern
1. Liabilities would be best defined as
	1. amounts due for repayment after 12 months.
	2. **amounts owing by a business.**
	3. money borrowed from financial institutions.
	4. amounts owing for inventory purchases.
2. The principle of materiality
	1. refers to the relative importance of an item or event to users of accounting information in accounting reports.
	2. is where an omission or misstatement of an item in the financial reports will influence the decisions of users.
	3. depends largely on the judgement of the accountant and the size of the business.
	4. **includes consideration of all of the above.**
3. Which of the following would not be characterised as a service provider?
	1. law firm
	2. school
	3. hairdresser
	4. **car dealership**
4. Which of the following is an example of an input taxed supply?
	1. flavoured milk
	2. childcare
	3. **residential rent**
	4. fresh fruit
5. A credit balance in the business’s Cash at Bank ledger account means that the account
	1. has funds available for use.
	2. has a zero balance.
	3. is an asset to the bank.
	4. **is overdrawn.**
6. Which of the following is correct?
	1. Sole traders have limited liability and a limited life.
	2. Partnerships can have 2 to 50 members.
	3. **Partnerships under the *Partnership Act 1895 (WA)*, will cease on the death of a partner.**
	4. Proprietary companies can sell shares on the Australian Securities Exchange.
7. **Sunnyside Traders** sold inventory on credit to Twitch for $7 800 + $780 GST. Details of this transaction would first be recorded
	1. in the General journal.
	2. in the General ledger.
	3. on a credit/adjustment note.
	4. **on a tax invoice.**
8. The best source of finance for the purchase of non-current assets such as land and buildings would be
	1. term loan
	2. **mortgage**
	3. personal loan
	4. bank overdraft
9. Using the accounting equation, calculate the current liabilities given the following:

|  |  |
| --- | --- |
| **Element** | **$** |
| Non Current Assets | 100,000 |
| Capital | 80,000 |
| Non Current Liabilities | 20,000 |
| Current Assets | 20,000 |

* 1. **$20,000**
	2. $40,000
	3. $100,000
	4. $160,000

**✓ 1 mark each ( /15 marks)**

**End of Section One**

**Section Two: Short Answer 130 marks**

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

Write your answers in the space provided.

**Question 16 54 marks**

Slinky Dog opened an architectural drafting practice on 1 June 2020 trading as **Slinky Designs**. He has registered the business for GST. The following transactions relate to the month of June:

|  |  |  |
| --- | --- | --- |
| 2020June | 1 | Slinky contributed $20,000 cash to the business.Paid $2,000 + $200 GST for office rent. |
|  | 5 | Acquired a $15,000 loan from ScoMo Bank. It is to be paid back within five years.Bought office furniture amounting to $4,000 + $400 GST from Hamm Supplies, payable within 30 days. |
|  | 7 | Purchased for cash $18,000 + $1,800 GST worth of computer equipment. |
|  | 12 | Charged drafting fees and received immediate payment of $2,900 + $290 GST. |
|  | 14 | Paid wages to employees amounting to $1,600. |
|  | 28 | Sent an invoice to Mr Potato Head for drafting fees due - $10,000 + $1,000 GST. |
|  | 30 | Slinky withdrew $1,000 cash for personal use.Paid Synergy for electricity costs of $250 + $25 GST. |

**Workings**

**Question 16 CONT**

*Required:*

1. Record the transactions for June 2020 in the following general ledger accounts. Balancing and **closing** entries are required.

**General Ledger for Slinky Designs**

|  |
| --- |
| **Profit & Loss A/c (S1)** |
| 2020 |  |  |  | 2020 |  |  |  |
| Jun 30 | Office rent |  | 2,000**✓** | Jun 30 | Drafting fees |  | 12,900**✓** |
|  | Wages |  | 1,600**✓** |  |  |  |  |
|  | Electricity |  | 250**✓** |  |  |  |  |
|  | Capital – Profit |  | 9,050**✓** |  |  |  |  |
|  |  |  | $12,900 |  |  |  | $12,900 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **Capital – S Dog A/c (Eq1)** |
| 2020 |  |  |  | 2020 |  |  |  |
| Jun 30 | Drawings |  | 1,000**✓** | Jun 1 | Cash at bank |  | 20,000**✓** |
|  | Balance c/d |  | 28,050 |  30 | Profit & loss (Pr) |  | 9,050**✓** |
|  |  |  | $29,050 |  |  |  | $29,050 |
|  |  |  |  | Jul 1 | Balance b/f |  | 28,050 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **Drawings A/c (-Eq2)** |
| 2020 |  |  |  | 2020 |  |  |  |
| Jun 30 | Cash at bank |  | 1,000**✓** | Jun 30 | Capital – S Dog |  | 1,000**✓** |
|  |  |  |  |  |  |  |  |

**Question 16 CONT**

**General Ledger for Slinky Designs** cont

|  |
| --- |
| **Cash at Bank A/c (A1)** |
| 2020 |  |  |  | 2020 |  |  |  |
| Jun 1 | Capital – S Dog |  | 20,000**✓** | Jun 1 | Office rent/GST cr |  | 2,200**✓** |
|  5 | Loan – ScoMo Bk |  | 15,000**✓** |  7 | Office furniture |  | 19,800**✓** |
|  12 | Drafting fees |  | 3,190**✓** |  14 | Wages |  | 1,600**✓** |
|  |  |  |  |  30 | Drawings |  | 1,000**✓** |
|  |  |  |  |  | Electricity/GST cr |  | 275**✓** |
|  |  |  |  |  | Balance c/d |  | 13,315 |
|  |  |  | $38,190 |  |  |  | $38,190 |
| Jul 1 | Balance b/d |  | 13,315**✓** |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **GST Credits A/c (A2)** |
| 2020 |  |  |  | 2020 |  |  |  |
| Jun 1 | Cash at bank |  | 200**✓** | Jun 30 | Balance c/d |  | 2,425 |
|  5 | Accounts payable |  | 400**✓** |  |  |  |  |
|  7 | Cash at bank |  | 1,800**✓** |  |  |  |  |
|  30 | Cash at bank |  | 25**✓** |  |  |  |  |
|  |  |  | $2,425 |  |  |  | $2,425 |
| Jul 1 | Balance b/d |  | 2,425**✓** |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **Office Furniture A/c (A3)** |
| 2020 |  |  |  |  |  |  |  |
| Jun 5 | Accounts payable |  | 4,000**✓** |  |  |  |  |
|  |  |  |  |  |  |  |  |

**Question 16 CONT**

**General Ledger for Slinky Designs** cont

|  |
| --- |
| **Computer Equipment A/c (A4)** |
| 2020 |  |  |  |  |  |  |  |
| Jun 7 | Cash at bank |  | 18,000**✓** |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **Accounts Receivable A/c (A5)** |
| 2020 |  |  |  |  |  |  |  |
| Jun 28 | Drafting fees/ GST py |  | 11,000**✓** |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **GST Payable A/c (L1)** |
| 2020 |  |  |  | 2020 |  |  |  |
| Jun 30 | Balance c/d |  | 1,290 | Jun 12 | Cash at bank |  | 290**✓** |
|  |  |  |  |  28 | Accounts receivable |  | 1,000**✓** |
|  |  |  | $390 |  |  |  | $1,290 |
|  |  |  |  | Jul 1 | Balance b/d |  | 1,290**✓** |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **Loan – ScoMo Bank A/c (L2)** |
|  |  |  |  | 2020 |  |  |  |
|  |  |  |  | Jun 5 | Cash at bank |  | 15,000**✓** |
|  |  |  |  |  |  |  |  |
| **Accounts Payable A/c (L3)** |
|  |  |  |  | 2020 |  |  |  |
|  |  |  |  | Jun 5 | Office furn/GST cr |  | 4,400**✓** |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

**Question 16 CONT**

**General Ledger for Slinky Designs** cont

|  |
| --- |
| **Drafting Fees A/c (I1)** |
| 2020 |  |  |  | 2020 |  |  |  |
| Jun 30 | Profit & loss |  | 12,900**✓** | Jun 12 | Cash at bank |  | 2,900**✓** |
|  |  |  |  |  28 | Accounts receivable |  | 10,000**✓** |
|  |  |  | $12,900 |  |  |  | $12,900 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **Office Rent A/c (Ex1)** |
| 2020 |  |  |  | 2020 |  |  |  |
| Jun 1 | Cash at bank |  | 2,000**✓** | Jun 30 | Profit & loss |  | 2,000**✓** |
|  |  |  |  |  |  |  |  |
| **Wages A/c (Ex2)** |
| 2020 |  |  |  | 2020 |  |  |  |
| Jun 14 | Cash at bank |  | 1,600**✓** | Jun 30 | Profit & loss |  | 1,600**✓** |
|  |  |  |  |  |  |  |  |
| **Electricity A/c (Ex3)** |
| 2020 |  |  |  | 2020 |  |  |  |
| Jun 30 | Cash at bank |  | 250**✓** | Jun 30 | Profit & loss |  | 250**✓** |
|  |  |  |  |  |  |  |  |

**-1 mark foreign entry (max. 4 marks)**

**up to -2 incorrect dates**

**✓ 1 mark each ( /41 marks)**

**Question 16 CONT**

1. Calculate the amount of GST owing to/refundable by the ATO for June 2020 using the accrual method.

|  |
| --- |
| **Slinky Designs** **GST to be paid to/refunded by the ATO****For the month of June 2020** |
| **GST Payable** |  |  |
| GST on cash drafting fees | 290**✓** |  |
| GST on tax invoice to Mr Potato Head | 1,000**✓** | 1,290 |
| *Less* |  |  |
| **GST Input Tax Credits** |  |  |
| GST on office rent | 200**✓** |  |
| GST on office furniture | 400**✓** |  |
| GST on computer equipment | 1,800**✓** |  |
| GST on electricity | 25**✓** | 2,425 |
| **GST to be refunded by the ATO** |  | $1,135**✓** |
|  |  |  |

**✓ 1 mark each ( /7 marks)**

1. Describe the purpose of preparing a Trial Balance.

A trial balance is prepared to:

* check the arithmetic accuracy of the ledger **✓**
* ensure that double entry has taken place **✓**
* provide a list of the general ledger account balances from which financial reports, such as the balance sheet, are prepared **✓**

**✓ 1 mark each ( /3 marks)**

1. Explain the consequences if a business does not register for GST.

If a business does not register for GST, it will still pay GST for any goods or services purchased for the business. **✓** The owner will not charge GST to their customers, **✓** so it will not lodge Business Activity Statements or collect GST on behalf of the government. **✓**

**✓ 1 mark each ( /3 marks)**

**Question 17 34 marks**

The following is the trial balance for **Lightyear Enterprises** taken from the financial records as at 30 June 2020.

**Lightyear Enterprises**

**Trial Balance**

**As at 30 June 2020**

|  |  |  |
| --- | --- | --- |
| **Account** | **Dr** | **Cr** |
| Accounts payable |  | 52,322 |
| Accounts receivable | 39,066 |  |
| Advertising | 4,000 |  |
| Capital – B Lightyear |  | 221,967 |
| Cash at bank | 5,850 |  |
| Cost of sales | 194,945 |  |
| Discount allowed | 1,115 |  |
| Discount received |  | 1,300 |
| Drawings | 13,277 |  |
| Freight inwards | 695 |  |
| Freight outwards | 4,945 |  |
| GST credits | 5,275 |  |
| Insurance | 6,200 |  |
| Interest on loan | 7,640 |  |
| Interest received |  | 2,400 |
| Inventory | 54,685 |  |
| Investments (maturing in 2025) | 36,800 |  |
| Land and buildings | 204,710 |  |
| Loan (repayable in 2024) |  | 18,500 |
| Mortgage |  | 48,250 |
| Office equipment | 21,370 |  |
| Office salaries | 63,065 |  |
| Rates and taxes | 31,924 |  |
| Sales |  | 438,470 |
| Sales salaries | 83,937 |  |
| Stationery and postage | 3,710 |  |
|  | $783,209 | $783,209 |

**Question 17 cont**

*Required:*

1. Prepare the classified Income Statement for **Lightyear Enterprises** for the year ended 30 June 2020.

**Lightyear Enterprises**

**Income Statement**

**For the year ending 30 June 2020**

|  |  |  |  |
| --- | --- | --- | --- |
| Sales |  | 438,470**✓** |  |
| *Less* Discount allowed |  | 1,115**✓** |  |
| **Net Sales** |  |  | 437,355 |
| *Less* Cost of sales | 194,945**✓** |  |  |
|  Freight inwards | 695**✓** | 195,640 |  |
| *Less* Discount received |  | 1,300**✓** |  |
| **Total Cost of Sales** |  |  | 194,340 |
| **Gross Profit** |  |  | 243,015 |
| *Add* **Other Income** |  |  |  |
| Interest received |  |  | 2,400**✓** |
| **Total Income** |  |  | 245,415 |
| *Less* **Other Expenses** |  |  |  |
| ***Selling and Distribution*** |  |  |  |
| Advertising | 4,000**✓** |  |  |
| Freight outwards | 4,945**✓** |  |  |
| Sales salaries | 83,937**✓** | 92,882 |  |
| ***General and Administrative*** |  |  |  |
| Insurance | 6,200**✓** |  |  |
| Office salaries | 63,065**✓** |  |  |
| Rates and taxes | 31,924**✓** |  |  |
| Stationery and postage | 3,710**✓** | 104,899 |  |
| ***Financial*** |  |  |  |
| Interest on loan |  | 7,640**✓** | 205,421 |
| **Profit for the period** |  |  | $39,994 |
|  |  |  |  |

**up to -1 calculation error**

**-1 foreign entry (up to a max. of 4)**

**✓ 1 mark each ( /14 marks)**

**Question 17 cont**

1. Prepare a fully classified Balance Sheet (in the narrative format) for **Lightyear Enterprises** as at 30 June 2020.

**Lightyear Enterprises**

**Balance Sheet**

**As at 30 June 2020**

|  |  |  |  |
| --- | --- | --- | --- |
| **Current Assets** |  |  |  |
| Accounts receivable |  |  | 39,066**✓** |
| Cash at bank |  |  | 5,850**✓** |
| GST credits |  |  | 5,275**✓** |
| Inventory |  |  | 54,685**✓** |
| **Non-Current Assets** |  |  |  |
| Investments (maturing in 2025) |  |  | 36,800**✓** |
| Land and buildings |  |  | 204,710**✓** |
| Office equipment |  |  | 21,370**✓** |
| **Total Assets** |  |  | 367,756 |
| **Current Liabilities** |  |  |  |
| Accounts payable  |  |  | 52,322**✓** |
| **Non-Current Liabilities** |  |  |  |
| Loan |  |  | 18,500**✓** |
| Mortgage |  |  | 48,250**✓** |
| **Total Liabilities** |  |  | 119,072 |
| **Net Assets** |  |  | $248,684**✓** |
|  |  |  |  |
| **Equity** |  |  |  |
| Capital – B Lightyear |  |  | 221,967**✓** |
| Profit |  |  | 39,994**✓** |
|  |  |  | 288,678 |
| Drawings |  |  | (13,277) **✓** |
| **Total Equity** |  |  | $248,684 |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

**up to -1 calculation error**

**-1 foreign entry (up to a max. of 4)**

**✓ 1 mark each ( /14 marks)**

**Question 17 cont**

1. Define each of the following sources of finance available to a small business. Provide an example of an appropriate use for each.

***Trade Credit***

**Trade credit** is given by a supplier to a business usually on 30-day terms. **✓** Used primarily when purchasing items such as raw materials and inventory. **✓**

***Bank Overdraft***

A **bank overdraft** is an agreement with a bank to be allowed to withdraw more money from a bank account than has been deposited. **✓** It helps a business to make timely payments and avoid late payments penalties when experiencing a temporary cash shortage. **✓**

***Mortgage***

A **mortgage** is a special type of loan where monthly payments are spread over 20 to 30 years. **✓** Used primarily for buying property. **✓**

**✓ 1 mark each ( /6 marks)**

**Question 18 42 marks**

Sheriff Woody operates **Woody’s Roundup**, a small business selling country clothes and accessories. The assets and liabilities of the business at 1 May 2020 were as follows:

|  |  |
| --- | --- |
| **Account** | **$** |
| Cash at Bank | 5,200 |
| Inventory | 21,500 |
| Accounts Receivable – Sarge | 330 |
| GST Credits | 2,310 |
| Furniture | 1,600 |
| Accounts Payable | 2,500 |

The following transactions took place in the first fortnight in May:

|  |  |  |
| --- | --- | --- |
| 2020 |  |  |
| May | 1 | Sold goods on credit $800 + $80 GST to Jessie. The cost price of the goods was $355. Offered a 5% discount if paid within 7 days. |
|  | 4 | Purchased $2,500 + $250 GST worth of goods on credit from Bo Beep. Credit terms were 7 days to take advantage of a 2% discount. |
|  | 5 | Received full amount owing from Jessie with discount applied. Recorded the GST write back.Purchased inventory for $210 + $21 GST cash. |
|  | 6 | Sold goods on credit to Rocky Gibraltar $430 + $43 GST. The cost price of the goods sold was $215. |
|  | 7 | Sent adjustment note to Rocky Gibraltar amounting to $165 (GST inclusive) after returning items which were unsuitable. The cost of the items returned was $80.Paid Bo Peep the full amount owing with discount applied. Recorded the GST credits write back. |
|  | 8 | Wrote off an amount owing from March from Sarge as a bad debt amounting to $330 (GST inclusive).  |

**Workings**

Disc allowed 880 x 5% = $44 (includes $4 write back)

 880 – 44 = $836

Sales returns 165 ÷ 11 = $15 (write back)

Disc received 2,750 x 2% = $55 (includes $5 write back)

 2,750 – 55 = $2,695

Bad debts 330 ÷ 11 = $30

**Question 18 cont**

*Required:*

1. Prepare the General Journal entries to record the May transactions.

**General Journal for Woody’s Roundup**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **F** | **Debit** | **Credit**  |
| 2020 |  |  |  |  |  |
| May | 1 | Accounts receivable |  | 880**✓** |  |
|  |  |  Sales |  |  | 800**✓** |
|  |  |  GST payable |  |  | 80**✓** |
|  |  | Sold goods on credit to Jessie |  |  |  |
|  | 1 | Cost of sales |  | 355**✓** |  |
|  |  |  Inventory |  |  | 355**✓** |
|  |  | Cost price of goods sold |  |  |  |
|  | 4 | Inventory |  | 2,500**✓** |  |
|  |  | GST credits |  | 250**✓** |  |
|  |  |  Accounts payable |  |  | 2,750**✓** |
|  |  | Purchased goods on credit from  |  |  |  |
|  |  | Bo Peep |  |  |  |
|  | 5 | Cash at bank |  | 836**✓** |  |
|  |  | Discount allowed |  | 44**✓** |  |
|  |  |  Accounts receivable |  |  | 880**✓** |
|  |  | Received payment from Jessie |  |  |  |
|  | 5 | GST payable |  | 4**✓** |  |
|  |  |  Discount allowed |  |  | 4**✓** |
|  |  | Write back of GST |  |  |  |
|  | 5 | Inventory |  | 210**✓** |  |
|  |  | GST credits |  | 21**✓** |  |
|  |  |  Cash at bank |  |  | 231**✓** |
|  |  | Purchased goods for cash |  |  |  |
|  | 6 | Accounts receivable |  | 473**✓** |  |
|  |  |  Sales |  |  | 430**✓** |
|  |  |  GST payable |  |  | 43**✓** |
|  |  | Sold goods on credit to Rocky |  |  |  |
|  |  | Gibraltar |  |  |  |

**Question 18 cont**

**General Journal for Woody’s Roundup** cont

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **F** | **Debit** | **Credit**  |
| 2020 |  |  |  |  |  |
| May | 6 | Cost of sales |  | 215**✓** |  |
|  |  |  Inventory |  |  | 215**✓** |
|  |  | Cost price of goods sold |  |  |  |
|  | 7 | Sales returns |  | 150**✓** |  |
|  |  | GST payable |  | 15**✓** |  |
|  |  |  Accounts receivable |  |  | 165**✓** |
|  |  | Inventory returned to us by Rocky |  |  |  |
|  |  | Gibraltar |  |  |  |
|  | 7 | Inventory |  | 80**✓** |  |
|  |  |  Cost of sales |  |  | 80**✓** |
|  |  | Cost price of inventory returned |  |  |  |
|  | 7 | Accounts payable |  | 2,750**✓** |  |
|  |  |  Cash at bank |  |  | 2,695**✓** |
|  |  |  Discount received |  |  | 55**✓** |
|  |  | Paid Bo Peep |  |  |  |
|  | 7 | Discount received |  | 5**✓** |  |
|  |  |  GST credits |  |  | 5**✓** |
|  |  | Write back of GST |  |  |  |
|  | 8 | Bad debts |  | 300**✓** |  |
|  |  | GST payable |  | 30**✓** |  |
|  |  |  Accounts receivable |  |  | 330**✓** |
|  |  | Bad debt written off |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**-1 missing/incorrect narration (up to a max. of 4)**

**-1 missing/incorrect date (up to a max. of 2)**

**✓ 1 mark each ( /34 marks)**

**Question 18 cont**

1. Outline the requirements for Sheriff Woody to register his business name according to the *Business Name Registration Act 2011 (Cth)*.

Woody is **not** required to register his business name according to the *Business Name Registration Act 2011*. **✓** This is because his business name contains his given name, Woody. **✓**

**✓ 1 mark each ( /2 marks)**

1. Is **Woody’s Roundup** a *service*, *trading* or *manufacturing* business? Justify your response.

Woody’s Roundup is a **trading** business, ie a business that generates profit by purchasing stock and reselling it at a higher price. **✓** The evidence is the transactions indicating the purchase and sale of inventory. **✓**

**✓ 1 mark each ( /2 marks)**

1. **Woody’s Roundup** operates as a sole trader. Define this type of business ownership structure and discuss the legal liability of the owner with operating as a sole trader.

A **sole trader** is a business owned by one person. **✓** This type of 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. **✓**

**✓ 1 mark each ( /4 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 19**

Giggles McDimples owns and operates a suburban bookshop. Inventory is bought and sold for cash and credit and recorded using the periodic method.

Giggles does her own bookkeeping and manually prepares an Income Statement and Balance Sheet at the end of each quarter. Shop fixtures and fittings are recorded in the financial reports at their original cost and a physical stocktake is conducted by Giggles every three months. Business has been steady, with profitability increasing slightly during the last financial year.

Giggles has met recently with her accountant as she is hoping to outsource some of the bookkeeping duties. The accountant has suggested Giggles invests in a computerised accounting package that includes the perpetual inventory system costing $8,000. Giggles will need to get a bank loan to pay for the accountant’s suggestion and is rather reluctant to go into debt because she is unsure if the benefits will outweigh the associated costs.

*Required:*

Help Giggles with her business by answering the following questions.

1. Identify and explain two (2) accepted accounting principles and conventions which Giggles has applied in preparing the financial statements.

**(4 marks)**

1. Outline three (3) principles of the perpetual inventory system.

 **(3 marks)**

1. Explain two (2) major financial reports used by business and outline the purpose of each.

**(5 marks)**

1. Discuss the factors considered by financial institutions when approving finance.

**(8 marks)**

**OR**

**Question 20**

Ducky and his partner Bunny have been operating their fishing charter business, **Carnival Tours**, for a number of years at a loss and they are worried about bankruptcy. One of their employees who looked after the bookings and handled the bookkeeping was recently imprisoned for stealing from the business. During court proceedings it was discovered he had previously been charged and convicted of theft from his last place of employment. Ducky and Bunny were devastated with the findings.

They have recently been approached by one of their best customers, Harmony, who has indicated she would like to go into business with them by forming a small proprietary company. Harmony has twenty years of management experience in the hospitality industry and suggested several ways to substantially increase the profitability of the 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. Describe the characteristics of a small proprietary company in relation to:
* legal entity
* number of owners
* ability to raise capital or borrow funds
* continuity of existence

**(8 marks)**

1. Discuss the main advantage of operating as a small proprietary company rather than a partnership .

**(4 marks)**

1. An alternative to inviting Harmony to form a small propriety company is to apply for finance. Explain the term *external finance*. Describe two (2) suitable sources of external finance that Ducky and Bunny might consider.

**(5 marks)**

**Question 19**

**Accounting principles and conventions (4 marks)**

The **accounting period convention** requires that the life of a business be divided into equal periods of time for reporting purposes. **✓** Giggles manually prepares an Income Statement and Balance Sheet at the end of each quarter. **✓**

The **historical cost convention** assumes that business transactions are recorded in terms of their cost at the time the transaction occurred. This means that all transactions record the original monetary value of the item, and no adjustments are made for inflation or for loss of value. **✓** Giggles has recorded her shop fixtures and fittings at their original cost in the financial reports. **✓**

**The perpetual inventory system (3 marks)**

Three (3) principles of the perpetual inventory system are:

1. The perpetual system keeps an exact record of the number of items of each product that the business has on hand at any one time. **✓**
2. The profit and the cost of sale can be calculated for every sale. Computers and cash registers that scan barcodes make it possible for almost any business to use this system. **✓**
3. The purpose of a stocktake under this system is to check for inventory loss through spoilage or theft. **✓**

**Major financial reports (5 marks)**

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. **✓**

**Factors affecting approval of finance (8 marks)**

***Risk***

Analysing financial risk involves assessing if a business will be able to meet its financial obligations. **✓** This assessment will consider the following:

* 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. **✓**

***Return***

Financial returns refer to the amount a financial institution has calculated it can earn from lending funds to a business. **✓** A lending institution will consider:

* Interest rates – are basically the cost of borrowing money. The borrower will need to repay the loan in addition to the interest charged. **✓**
* Future business – assessing a borrower’s potential to repay the loan amount by reviewing the business’s sales projections and budgets. **✓**

**OR Question 20**

**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 a small proprietary company (8 marks)**

***Legal entity***

Small propriety companies have a separate legal existence from its owners. **✓** They can enter into contracts, sue and be sued in their own name. **✓**

***Number of owners***

They must have at least one shareholder **✓**and a maximum of 50 non-employee shareholders. **✓**

***Ability to raise capital or borrow funds***

It is generally easier to raise capital because there are more potential owners. **✓** This is achieved up issuing shares to up to 50 shareholders. **✓**

***Continuity of existence***

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. **✓**

**Main advantage of a small proprietary company (4 marks)**

A partnership has **unlimited liability** **✓** which means the partners are jointly and severally liable for all the debts of the partnership and may have their personal assets seized to cover outstanding commitments. **✓**

Shareholders of a small proprietary company have **limited liability ✓** usually to the value of their shares leaving personal assets safe should the company get into financial difficulty. **✓**

**External sources of finance (5 marks)**

**External finance** is found from sources outside the business. **✓** These include:

* Credit card – a plastic card issued by a bank or other financial institution allowing the holder to purchase goods or services on credit.
* Trade credit – given by a supplier to a business when purchasing items such as raw materials and inventory
* Bank overdraft – an agreement with a bank to be allowed to withdraw more money from their bank account than has been deposited
* Leasing – an agreement to rent an item for a fixed number of months or years, at the end of which there may be an option to buy
* Term loan – a sum of money borrowed from a bank or other financial institution which will be paid back over an agreed number of years
* Mortgage – a special type of loan for buying property where monthly payments are spread over a number of years
* Asset loan – a finance option where the asset is used as security for the loan amount
* Grant – a sum of money given from charities or the government to help businesses get started
* Loan from family and friends – money borrowed from other family members or from a friend
* Crowdfunding – raising funds online through social medial or dedicated crowdfunding websites

**any 2 ✓ name ✓ description**

**( /20 marks)**