# Applecross Senior High School

# Unit 1 ACCOUNTING AND FINANCE

### 2020 Semester One Examination

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| --- | --- | --- | --- |
| **Student Name:** |  | **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

**( /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:

|  |  |  |
| --- | --- | --- |
| 2020  June | 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**

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| **Cash at Bank A/c (A1)** | | | | | | | |
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| **GST Credits A/c (A2)** | | | | | | | |
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| **Office Furniture A/c (A3)** | | | | | | | |
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**Question 16 CONT**

**General Ledger for Slinky Designs** cont

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| **Computer Equipment A/c (A4)** | | | | | | | |
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| **Accounts Receivable A/c (A5)** | | | | | | | |
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| **GST Payable A/c (L1)** | | | | | | | |
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| **Loan – ScoMo Bank A/c (L2)** | | | | | | | |
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| **Accounts Payable A/c (L3)** | | | | | | | |
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**Question 16 CONT**

**General Ledger for Slinky Designs** cont

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| **Drafting Fees A/c (I1)** | | | | | | | |
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| **Office Rent A/c (Ex1)** | | | | | | | |
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| **Wages A/c (Ex2)** | | | | | | | |
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| **Electricity A/c (Ex3)** | | | | | | | |
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**Question 16 CONT**

**General Ledger for Slinky Designs** cont

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| **Profit & Loss A/c (S1)** | | | | | | | |
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| **Capital – S Dog A/c (Eq1)** | | | | | | | |
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| **Drawings A/c (-Eq2)** | | | | | | | |
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**( /41 marks)**

**Question 16 CONT**

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

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| **Slinky Designs**  **GST to be paid to/refunded by the ATO**  **For the month of June 2020** | | |
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**( /7 marks)**

1. Describe the purpose of preparing a Trial Balance.

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**( /3 marks)**

**Question 16 CONT**

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

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**( /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**

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**( /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**

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**( /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***

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***Bank Overdraft***

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***Mortgage***

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**( /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**

**Question 18 cont**

*Required:*

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

**General Journal for Woody’s Roundup**

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| --- | --- | --- | --- | --- | --- |
| **Date** | | **Particulars** | **F** | **Debit** | **Credit** |
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**Question 18 cont**

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

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| **Date** | | **Particulars** | **F** | **Debit** | **Credit** |
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**( /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)*.

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**( /2 marks)**

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

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**( /2 marks)**

**Question 18 cont**

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.

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**( /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 \_\_\_\_\_**

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**Additional answer page**

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