



Government
of South Australia

SACE | South Australian
Board of SA | Certificate of Education

Accounting 2017

Question Booklet

- Questions 1 to 4
- Answer **all** questions
- Write your answers in this question booklet

Examination information

Materials

- Question Booklet
- SACE registration number label

Reading time

- 10 minutes
- You may make notes on scribbling paper

Writing time

- 2 hours
- Use black or blue pen
- You may use a sharp dark pencil for calculations
- Approved calculators may be used

Total marks 120

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Supervisor check	Re-marked

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FINANCIAL ANALYSIS RATIOS

Profitability (Return)		Expressed as
For all entities:		
Return on equity	$\frac{\text{net profit}}{\text{owner's equity}^*}$	%
Return on total assets	$\frac{\text{net profit} + \text{interest expense}}{\text{total assets}^*}$	%
Net profit margin	$\frac{\text{net profit}}{\text{net sales}}$	%
Expense	$\frac{\text{individual expenses}}{\text{net sales}}$	%
Gross profit margin	$\frac{\text{gross profit}}{\text{net sales}}$	%
For companies:		
Earnings per ordinary share	$\frac{\text{net profit for ordinary shareholders}}{\text{number of ordinary shares}}$	\$
Earnings yield	$\frac{\text{earnings per ordinary share}}{\text{market price per ordinary share}}$	%
Dividend per ordinary share	$\frac{\text{total ordinary dividend}}{\text{number of ordinary shares}}$	\$
Dividend yield	$\frac{\text{dividend per ordinary share}}{\text{market price per ordinary share}}$	%
Financial Stability (Risk)		
Short Term (Liquidity)		
Quick asset (acid test) [†]	$\frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$	ratio
Working capital	$\frac{\text{current assets}}{\text{current liabilities}}$	ratio
Debtors' turnover	$\frac{\text{net credit sales}}{\text{debtors}^*}$	times
Inventory turnover	$\frac{\text{cost of goods sold}}{\text{inventory}^*}$	times
Long Term (Solvency)		
Total debt/total assets	$\frac{\text{total liabilities}}{\text{total assets}}$	%
Debt/equity	$\frac{\text{total liabilities}}{\text{owner's equity}}$	%
Times interest earned	$\frac{\text{net profit} + \text{interest expense}}{\text{interest expense}}$	times

*Averages are used for these values. However, the availability of information may necessitate the use of opening or closing values.

[†]It is acceptable also to deduct bank overdrafts from current liabilities when calculating this ratio, as appears in some textbooks and study guides.

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Question 1

Best Furniture is in its second year of operation. The owner, Sam, presents the following information on 30 June 2017, as well as comparative balance sheets for 2016 and 2017 (on page 6), to be used in the preparation of a statement of cash flows for the year ended 30 June 2017.

BEST FURNITURE
Income statement for year ended 30 June 2017

Revenue			
Sales		220 000	
Sales returns		(20 000)	200 000
Less cost of goods sold			
Opening inventory	12 000		
Purchases	44 500	56 500	
Closing inventory		(16 000)	40 500
Gross profit			159 500
Other revenue			
Discount revenue			4 450
Less expenses			
Advertising		4 000	
Wages		116 000	
Delivery expenses		700	
Depreciation on vehicle		3 500	
Office expenses		10 600	
Interest on loan		5 100	139 900
Profit			24 050

The information for Question 1 is continued on page 6.

BEST FURNITURE
Comparative balance sheets as at 30 June 2017 and 30 June 2016

	2017	2016
Current assets		
Cash at bank	0	8 250
Debtors	17 804	2 564
Inventory	16 000	12 000
Prepaid advertising	2 680	1 000
Prepaid delivery expenses	380	0
	36 864	23 814
Non-current assets		
Vehicle	14 000	0
Less accumulated depreciation	(3 500)	0
Equipment	9 000	9 000
Land and buildings	250 000	150 000
	269 500	159 000
Total assets	306 364	182 814
Current liabilities		
Overdraft	6 340	0
Creditors	6 100	5 200
Accrued wages	410	100
	12 850	5 300
Non-current liabilities		
Loan	135 000	35 000
Total liabilities	147 850	40 300
Owner's equity		
Capital	142 514	150 514
Net profit/loss	24 050	(8 000)
Drawings	(8 050)	0
Total owner's equity	158 514	142 514

More Information

- All sales and purchases were on credit.
- All acquisitions and disposals of non-current assets were for cash.
- All drawings were made in cash.

Question 1 (35 marks)

(a) (i) Calculate the debt/equity ratios for Best Furniture at 30 June 2016 and at 30 June 2017.

(2 marks)

(ii) Comment on your results in part (a)(i) and on what these results mean for the business.

(2 marks)

(iii) (1) Identify an external user of the debt/equity ratios that you found in part (a)(i).

(1 mark)

(2) Outline a specific decision that this user would make based on this information.

(1 mark)

(b) Give *one* specific example of where *each* of the following concepts is being used in the financial statements on pages 5 and 6 (the tear-out sheet).

Historical cost.

Lower of cost or net realisable value.

Duality.

Accounting period.

(2 marks)

- (c) Complete the following calculations in order to prepare a statement of cash flows for Best Furniture for the year ended 30 June 2017.

Cash received from customers.

Cash paid to suppliers.

Cash paid for advertising.

Cash paid for wages.

(6 marks)

Use the space below for other calculations.

(e) Comment on the results from the operating and investing activities for Best Furniture, and state whether or not Sam should be concerned.

(3 marks)

(f) As Best Furniture is only in its second year of business, Sam is confused about the fact that in 2017 the business had a negative bank balance and yet had recorded a profit. Analysing the statement of cash flows, explain why this happened.

(2 marks)

(g) State *one* possible reason why Sam decided to take *no* drawings in 2016 and then take drawings in 2017.

(1 mark)

(h) Sam is concerned about the liquidity of the business.

(i) Calculate the quick asset ratio at 30 June 2017.

(2 marks)

(ii) Calculate the working capital ratio at 30 June 2017.

(1 mark)

(iii) What do the ratios in parts (h)(i) and (ii) tell Sam about the liquidity of the business?

(2 marks)

(i) Sam has experienced a rise in profits as a result of outsourcing work to a factory in another country that has a record of unsafe working conditions.

(i) Identify *one* social issue relating to Sam's outsourcing.

(1 mark)

(ii) Identify *one* ethical issue relating to Sam's outsourcing.

(1 mark)

End of Question 1

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Question 2

Sarah Peak is the owner of Mountain Peak Clothing, and she uses the perpetual method of recording inventory. The following trial balance (extract) as at 30 June 2017 has been provided to help with the preparation of reports.

MOUNTAIN PEAK CLOTHING
Extract from the trial balance as at 30 June 2017

<i>Account</i>	<i>Debit</i>	<i>Credit</i>
Cash at bank	?	
Sales returns	1 300	
Capital		341 000
Cost of goods sold	215 000	
Dividends received		2 400
Sales		370 000
Debtors	40 000	
Bad debts	900	
Fixtures and fittings	30 000	
Accumulated depreciation on fixtures and fittings		13 000
Inventory control	53 000	
Office expenses	44 500	
Prepaid insurance	16 000	
Drawings	7 000	
Interest on loans	12 490	
Creditors		42 260
Wages	85 000	
Stationery expenses	1 500	
Loan (due May 2018)		3 200
Allowance for doubtful debts		800
Discount allowed	200	
Buildings	485 000	
Mortgage		200 000

More Information as at 30 June 2017

- Fixtures and fittings were bought on 1 March 2017 for \$2400. This transaction has already been recorded.
- Fixtures and fittings are depreciated at 10% per annum, using the straight-line method.
- \$1750 in wages was owing at 30 June.
- Insurance expense for the period was \$11 600.
- Included in sales is \$1000 received for pre-orders of a new style of jacket that will be available in July.
- An allowance for doubtful debts at 5% of debtors is required.
- A stocktake revealed inventory on hand totalling \$51 600.

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Question 2 (40 marks)

(a) Before completing the financial statements, Sarah needs to prepare a bank reconciliation statement. The cash at bank balance before the reconciliation is \$500 debit. When Sarah checked the bank statement against the business's cash records, she noted the following outstanding amounts:

- Bank charges totalling \$45.
- Unpresented cheques totalling \$800.
- \$500 has been received and recorded by the company but has not yet been deposited in the bank.
- Bank interest received totalling \$245.
- The bank statement on 30 June 2017 shows a credit balance of \$1000.

Prepare a bank reconciliation statement at 30 June 2017.

MOUNTAIN PEAK CLOTHING
Bank reconciliation statement at 30 June 2017

(2 marks)

(b) Show the calculation for the depreciation on fixtures and fittings.

(2 marks)

(c) Using the information on page 13 (the tear-out sheet), complete the general journal entries to record the adjustments shown.

GENERAL JOURNAL

Date	Particulars	Debit	Credit
	Recording insurance expense		
	Recording pre-order of sales		

(2 marks)

(d) Complete the allowance for doubtful debts ledger.

Allowance for doubtful debts

	1 July	Opening balance	800
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(3 marks)

(e) Using the information on page 13 (the tear-out sheet), prepare the balance sheet for Mountain Peak Clothing as at 30 June 2017.

MOUNTAIN PEAK CLOTHING
Balance sheet as at 30 June 2017

Owner's equity
Current assets
Non-current assets
Total assets
Current liabilities
Non-current liabilities
Total liabilities
Net assets

(12 marks)

- (f) Using the information on page 13 (the tear-out sheet), complete the extract from the income statement for Mountain Peak Clothing for the month ended 30 June 2017. (Include any inventory adjustment in the calculation of gross profit.)

MOUNTAIN PEAK CLOTHING
Extract from income statement for month ended 30 June 2017

Revenue	
Cost of goods sold	
Gross profit	

(4 marks)

- (g) The concept of prudence states that care and caution should be practised when dealing with uncertainties.

(i) State how the concept of prudence is being applied when allowing for doubtful debts.

_____ (1 mark)

(ii) Outline why the concept of prudence does not apply when depreciating non-current assets.

_____ (1 mark)

- (h) Discuss the appropriateness of using the straight-line method to calculate depreciation on fixtures and fittings.

_____ (2 marks)

(i) (i) Define the term 'going concern'.

_____ (1 mark)

(ii) Outline why it is inappropriate to use the concept of going concern to prepare reports for a business that is failing.

_____ (1 mark)

(j) State *two* ways in which the income statement of a retail business is different from the income statement of a service firm.

_____ (2 marks)

(k) State when revenues are recorded under:

(i) the cash accounting system of profit determination.

_____ (1 mark)

(ii) the accrual accounting system of profit determination.

_____ (1 mark)

(l) For each of the following expenses, identify the appropriate category: selling, administrative, or finance expenses.

Depreciation on fixtures and fittings: _____

Interest on mortgage: _____

Wrapping paper: _____

Rates and taxes: _____

(2 marks)

(m) Mountain Peak Clothing records the following transaction:

- Sold goods on credit for \$400 (cost \$250).

Show the effect of this transaction on the accounting equation and the income statement.

Accounting equation

Assets	Liabilities	Owner's equity

Income statement

Revenue	Cost of goods sold	Selling expenses	Administrative expenses	Financial expenses

(2 marks)

(n) The following information relates to a piece of machinery purchased by the business during the year:

- Current market value \$150 000.
- Depreciation for current year \$11 700.
- Installation fees \$4900.
- Original cost \$155 000.
- Repairs \$3850.
- Replacement value \$140 000.

Applying the concept of historical cost, state the amount that would be recorded in the balance sheet for Machinery.

Machinery: _____ (1 mark)

End of Question 2

You may remove this page from the booklet by tearing along the perforations, so that you can refer to the following information when you write your answers to Question 3.

Question 3

Hong's Ballet School has been operating successfully for the past 10 years. Hong, the owner, wants to expand the business by offering ballroom dancing lessons.

Hong has provided the following information to help with the preparation of a cash budget for July, August, and September.

- \$15 000 in fees is charged on credit each month. Credit terms are 30 days.
- Fees on credit are expected to be collected:
 - 80% in the month of sale
 - 20% in the month after sale.
- It is projected that the new ballroom dancing lessons will start in July and will increase fees to \$17 000 per month.
- The ballet school is presenting a performance in September, and students will pay for their own costumes; \$70 000 will be charged for costumes, and it is expected that 50% will be received from students in July and 50% in August.
- Monthly expenses incurred by the business are:
 - rent \$1500
 - depreciation on sound equipment \$600
 - teachers' wages \$9700
 - telephones \$490
 - advertising \$1750
 - website upkeep \$50.
- When the ballroom dancing lessons commence in July:
 - rent will increase by \$250 per month
 - teachers' wages will increase by \$640 per month
 - it is projected that for July and for August advertising expenses will be \$800 more than the usual monthly advertising expense
 - all other expenses will remain unchanged.
- In July the business will pay \$62 000 to its supplier for costumes.
- Balance at bank as at 30 June 2017 is \$22 500.

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Question 3 (20 marks)

(a) Complete the collection from debtors schedule for July, August, and September.

HONG'S BALLETS SCHOOL
Collection from debtors schedule for July, August, and September

	Fees charged	July	August	September
June				
July				
August				
September				
TOTAL				

(3 marks)

(b) Complete the cash budget for July, August, and September.

HONG'S BALLETS SCHOOL
Cash budget for July, August, and September

	July	August	September
Receipts			
Total receipts			
Payments			
Total payments			
Opening bank balance			
Receipts less payments			
Closing bank balance			

(5 marks)

(c) (i) Describe the trend indicated in the cash budget for July, August, and September.

(1 mark)

(ii) What does the cash budget reveal about the plan to purchase and pay for the costumes in July?

(1 mark)

(iii) Explain how Hong can use the cash budget on page 23 to help decide whether to offer the ballroom dancing lessons.

(2 marks)

The cash budget gave Hong the confidence to proceed with her plan to offer the ballroom dancing lessons, which began in July.

The following information is provided to complete the debtors' control account for July:

- Fees totalling \$16 100 were charged.
- \$12 050 was received from debtors.
- Two students were each given \$200 discount on their fees.
- Three debtors were charged \$600 each for costumes.

The ballet school uses subsidiary ledgers to record debtors.

(d) Using the information above, complete and formally balance the debtors' control account for Hong's Ballet School for July 2017.

Debtors' control account

30 June	Opening balance	3 000	

(3 marks)

- (e) Hong is disappointed because fewer people than she had expected enrolled in the ballroom dancing lessons during July.

Using the information from the cash budget on page 23 and the debtors' control account:

- (i) state *two* reasons why the business should continue to offer the ballroom dancing lessons.

(2 marks)

- (ii) state *two* reasons why the business should **not** continue to offer the ballroom dancing lessons.

(2 marks)

- (f) Based on your responses in part (e)(i) and (ii), advise Hong to either continue to offer the ballroom dancing lessons or cancel them.

(1 mark)

End of Question 3

Question 4 (25 marks)

(a) Walk Time, a supplier of children’s shoes, is operated by Rory.

During June 2017, Walk Time recorded the following transactions for one particular style of shoe:

- 3 June Sold eight pairs of shoes on credit for \$35 each.
- 6 June Purchased four pairs of shoes on credit for \$19 each from Fancy Feet.
- 10 June Sold five pairs of shoes at \$35 each for cash.
- 19 June Returned two damaged pairs of shoes to Fancy Feet.
- 23 June Two pairs of shoes withdrawn for owner’s own use.
- 30 June A stocktake revealed six pairs of shoes on hand.

Complete the following inventory card for June 2017, using the first-in first-out method of recording inventory. Record any inventory discrepancy.

INVENTORY CARD

Date	Details	In			Out			Balance			
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total	
1 June	Balance							10	15	150	
								12	18	216	
									FINAL BALANCE		

(6 marks)

(b) Record the inventory adjustment for June in the general journal.

GENERAL JOURNAL

Date	Particulars	Debit	Credit
	Recording inventory adjustment for June		

(1 mark)

(c) Provide *one* possible reason — other than theft — why an inventory adjustment was recorded in June.

(1 mark)

(d) Using the information on page 26, complete and formally balance the inventory control account.

Inventory control account

1 June	Opening balance	

(5 marks)

- (e) (i) Using the information that you recorded in part (d) on page 27, calculate the inventory turnover for June.

(2 marks)

The inventory turnover for May was 3.2 times.

- (ii) Comment on *one* impact that this change might have on the business.

_____ (1 mark)

- (iii) State a possible reason for the change in the result for June.

_____ (1 mark)

- (f) Zamani is Rory's friend and the owner of Tough Toes Ltd, a shoe company that specialises in safety shoes and work boots.

- (i) Identify the accounting entity for:

- (1) Walk Time.

_____ (1 mark)

- (2) Tough Toes Ltd.

_____ (1 mark)

- (ii) Identify the legal entity for Tough Toes Ltd.

_____ (1 mark)

- (g) Tough Toes Ltd uses a periodic inventory system, but Zamani is concerned that some of his pairs of shoes are missing each month. Under the periodic inventory system, he cannot keep track of how many pairs of shoes are missing. After speaking with Rory, Zamani decides to use the perpetual inventory system for Tough Toes Ltd.

Outline *two* changes that Zamani needs to make to his accounting system, in order to use the perpetual inventory system.

(2 marks)

- (h) Zamani is considering selling a new style of work boot, imported from Canada. It is expected that this work boot will be sold for \$120 a pair. Each pair costs \$62, and it will cost \$8 to package each pair in a 'Tough Toes Ltd' shoebox. Zamani must pay the manufacturer a one-off fee of \$6000 to be allowed to sell the work boot.

Calculate the break-even point for selling this style of work boot.

(3 marks)

End of Question 4

