



South Australian
Certificate of Education

Accounting 2018

Question booklet

- Questions 1 to 5
- 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 begin writing during this time
- You may begin using an approved calculator during this time

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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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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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 1.

Question 1

Kane, the owner of Cookie Cafe, prepares cash budgets for periods of 3 months (quarters).

Kane has provided the following information to help with the preparation of a cash budget for the January–March and the April–June quarters 2019.

- Actual sales for the October–December quarter 2018 were \$92 000.
- Sales for the January–March quarter are expected to be \$80 000.
- Sales for the April–June quarter are expected to be \$110 000.
- 75% of sales are paid for in cash.
- 25% of sales are paid for on credit.
- Sales on credit are expected to be collected in the following manner:
 - 70% in the quarter of the sale
 - 28% in the quarter after the sale
 - 2% are written off as a bad debt.
- Purchases are paid for in the month after purchase.
- Purchases in December were \$8500 and are expected to be as follows:
 - January \$7000
 - February \$7000
 - March \$8000
 - April \$8000
 - May \$9000
 - June \$11 000.
- Wages are expected to increase by 15% in the April–June quarter; all other expenses for the January–March quarter and the April–June quarter are expected to be the same as they were for the October–December quarter.
- Expenses incurred by the business in the October–December quarter were:
 - wages \$50 000
 - delivery truck \$500
 - discount \$600
 - advertising \$2000
 - administration \$5500.
- Accrued advertising at the end of June is expected to be \$600.
- Kane plans to withdraw \$3000 cash in February and \$1000 inventory in June.
- Rent received from an investment property is \$400 each month.
- The business repays \$1500 per quarter off the principal of an interest-free loan.
- Kane will hire kitchen equipment for \$900 in June and will pay the account in July.

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Question 1 (25 marks)

(a) At the end of December 2018, Cookie Cafe's bank statement shows a balance of \$8140 credit.

When Kane checked the bank statement against the business's cash records, he noted the following differences:

- Government charges in the bank statement totalling \$75.
- Deposits not presented to the bank totalling \$800.
- Bank interest received totalling \$18.
- Cheques written for the month totalling \$3900, but only \$3200 of this total appears in the December bank statement.

Prepare a bank reconciliation statement as at 31 December 2018.

COOKIE CAFE
Bank reconciliation statement as at 31 December 2018

(2 marks)

- (b) Complete the collection from debtors schedule for the January–March quarter and the April–June quarter.

COOKIE CAFE
Collection from debtors schedule for January–March and April–June

| | Credit sales | January–March 2019 | April–June 2019 |
|-----------------------|--------------|--------------------|-----------------|
| October–December 2018 | 23 000 | | |
| January–March 2019 | 20 000 | | |
| April–June 2019 | 27 500 | | |
| TOTAL | | | |

(2 marks)

- (c) Complete the cash budget for the January–March quarter and the April–June quarter.

COOKIE CAFE
Cash budget for January–March and April–June

| | January–March 2019 | April–June 2019 |
|------------------------|--------------------|-----------------|
| Receipts | | |
| Total receipts | | |
| Payments | | |
| Total payments | | |
| Opening bank balance | | |
| Receipts less payments | | |
| Closing bank balance | | |

(12 marks)

(d) Kane uses vertical analysis to interpret the cash budgets for Cookie Cafe.

Explain the difference between vertical analysis and trend analysis.

(2 marks)

(e) After analysing the cash budget, Kane is considering investing funds from Cookie Cafe in McAll Sports Ltd. To aid in decision-making, he has provided the following financial information about McAll Sports Ltd as at 31 December 2018:

| | |
|------------------------------------------------------------|-----------|
| Profit | \$550 000 |
| Dividends to ordinary shareholders | \$540 000 |
| Number of ordinary shares | 200 000 |
| Market price per ordinary share | \$14.00 |
| Industry average (benchmark) — earnings per ordinary share | \$2.20 |
| Industry average (benchmark) — earnings yield | 16.10% |

(i) Calculate the earnings yield for McAll Sports Ltd as at 31 December 2018.

(2 marks)

(ii) Based on your result in part (e)(i), would you advise Kane to invest in McAll Sports Ltd? Give a reason for your answer.

(1 mark)

(iii) Why should Kane also consider the dividend yield when he is deciding whether or not to invest in McAll Sports Ltd?

(1 mark)

(f) Kane is intending to buy McAll Sports Ltd shares to the value of \$10 000 in March 2019.

With reference to the cash budget that you completed in part (c) on page 8, state *one* factor that might influence his decision.

_____ (1 mark)

(g) Kane applies the concept of consistency when preparing his financial reports.

(i) State *one* advantage of applying the concept of consistency.

_____ (1 mark)

(ii) State *one* disadvantage of applying the concept of consistency.

_____ (1 mark)

End of Question 1

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 2.

Question 2

Liana owns the sole-trader business Seaside Essentials, which sells a wide variety of beach products.

Liana provided the following information about the business:

SEASIDE ESSENTIALS
Debtors' ageing analysis at 30 September 2018

| Debtor | Current | 30 days | 60 days | 90+ days | Total |
|--------------|------------|------------|-------------|------------|-------------|
| L Blake | 400 | 240 | | | 640 |
| F Coro | 500 | | 70 | | 570 |
| M Lu | | | | 400 | 400 |
| S Johnson | | 670 | 1120 | | 1790 |
| TOTAL | 900 | 910 | 1190 | 400 | 3400 |

Liana also provided the following information for October 2018:

| | |
|----------------------------------|------|
| Cash receipts journal | |
| Cash sales, cost price | 2800 |
| Cash sales, selling price | 5400 |
| Discount allowed | 350 |
| Receipts from debtors | 6300 |
| Cash payments journal | |
| Cash purchases | 1800 |
| Payment to creditors | 4460 |
| Discount received | 220 |
| Sales journal | |
| Cost price | 4000 |
| Selling price | 8670 |
| Sales returns journal | |
| Cost price | 350 |
| Selling price | 840 |
| Purchases journal | 5000 |
| Purchases returns journal | 780 |

Other information

- The account of M Lu is to be written off as a bad debt.
- Debtor S Johnson is to be charged \$70 interest.

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Question 2 (15 marks)

(a) Using the information on page 11 (the tear-out sheet), complete the general journal entry to record the interest charged to S Johnson for October. *A narration is required.*

GENERAL JOURNAL

| Date | Details | Debit | Credit |
|------|---------|-------|--------|
| | | | |

(2 marks)

(b) Using the information on page 11 (the tear-out sheet), complete and formally balance the debtors' control account for Seaside Essentials for 31 October 2018.

Debtors' control account

| | |
|--|--|
| | |
| | |

(4 marks)

(c) What stage of the accounting process has been undertaken in completing the debtors' control account?

(1 mark)

(d) State *two* advantages of maintaining a debtors' ageing analysis.

(i) _____
_____ (1 mark)

(ii) _____
_____ (1 mark)

(e) Provide *one* piece of evidence from the information on page 11 (the tear-out sheet) that indicates why Liana should be concerned about the way she manages her debtors.

_____ (1 mark)

(f) Liana wants to expand the business by producing and selling beach umbrellas, and she provides the following information:

- Monthly hire of a machine to cut and stitch umbrella fabric \$200.
- Variable costs of materials \$20 for each umbrella.
- Selling price for umbrellas \$55 each.
- Additional monthly rent for manufacturing space \$600.

(i) Calculate the monthly break-even point.

(2 marks)

(ii) Calculate what the business's profit or loss would be if Liana were to produce and sell 300 beach umbrellas in the 12 months following the expansion.

(2 marks)

(iii) Identify *one* factor that could result in a loss on the production and sale of the beach umbrellas in the 12 months following the expansion.

_____ (1 mark)

End of Question 2

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

José is the owner of José's Office Products, a small retailer that sells office products and does printing for businesses. The following trial balance (extract) for the business was prepared as at 30 June 2018.

JOSÉ'S OFFICE PRODUCTS
Extract from the trial balance as at 30 June 2018

| <i>Account</i> | <i>Debit</i> | <i>Credit</i> |
|-------------------------------------------|--------------|---------------|
| Bank | | 5 400 |
| Debtors | 26 400 | |
| Allowance for doubtful debts | | 1 200 |
| Printing equipment | 96 000 | |
| Credit sales | | 136 000 |
| Cash sales | | 50 000 |
| Credit sales returns | 2 400 | |
| Inventory (1 July 2017) | 58 000 | |
| Manager's car | 32 000 | |
| Accumulated depreciation on manager's car | | 9 600 |
| Staff wages | 53 000 | |
| Purchases | 68 000 | |
| Interest expense | 3 900 | |
| Office electricity expense | 18 000 | |
| Loan | | 30 000 |
| Prepaid office rent | 18 000 | |
| Printing equipment maintenance expenses | 13 200 | |
| Drawings | 6 000 | |
| Mortgage (due 2048) | | 90 000 |

More information as at 30 June 2018

- The manager's car has a trade-in value of \$12 000. The car is to be depreciated at 30% per annum, using the diminishing-balance method.
- Printing equipment was purchased on 1 November 2017. The equipment has a useful life of 1 000 000 prints and a scrap value of \$6000. Since it was purchased, it has completed 120 000 prints.
- Prepaid office rent covers the 12-month period from 1 April 2018 to 31 March 2019.
- 10% of the loan principal is due to be paid off in the next 12 months; the remainder is due before 30 June 2024.
- An allowance for doubtful debts at 5% of debtors is required. No bad debts were written off during the 12 months to 30 June 2018.
- \$1600 is owing for office electricity; this amount has not been paid or recorded.
- A stocktake on 30 June 2018 revealed inventory on hand totalling \$56 200.

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Question 3 (30 marks)

(a) (i) Show the calculation for depreciation on the manager's car.

(2 marks)

(ii) Show the calculation for depreciation on printing equipment.

(2 marks)

(b) Using the information on page 15 (the tear-out sheet), complete the general journal entries to record the adjustments shown.

GENERAL JOURNAL

| Date | Details | Debit | Credit |
|------|--------------------------------------|-------|--------|
| | Recording rent expense | | |
| | Recording the doubtful debts expense | | |

(3 marks)

(c) Using the information on page 15 (the tear-out sheet), prepare a fully classified income statement for José's Office Products for the year ended 30 June 2018.

JOSÉ'S OFFICE PRODUCTS
Income statement for year ended 30 June 2018

| | |
|---------------------------|--|
| Revenue | |
| | |
| Cost of goods sold | |
| | |
| Gross profit | |
| Expenses | |
| Selling | |
| | |
| Administrative | |
| | |
| Financial | |
| | |
| Profit/loss | |

(8 marks)

- (d) Using the information on page 15 (the tear-out sheet), complete the balance sheet (extract) for José's Office Products as at 30 June 2018.

JOSÉ'S OFFICE PRODUCTS
Extract from the balance sheet as at 30 June 2018

| | |
|--------------------------------|----------------|
| Total assets | 153 260 |
| | |
| Current liabilities | |
| | |
| | |
| | |
| Non-current liabilities | |
| | |
| | |
| | |
| Total liabilities | |
| | |
| Net assets | |

(4 marks)

- (e) Identify *one* example of the concept of the accounting entity in the trial balance (extract) on page 15 (the tear-out sheet).

_____ (1 mark)

(f) At present José's customers pay for their products at checkouts operated by sales staff. José has decided to purchase some self-service checkouts, which will not be operated by sales staff.

(i) Identify *one* social issue relating to José's decision.

_____ (1 mark)

(ii) Suggest *one* way that José could reduce the impact of his decision.

_____ (1 mark)

(g) Identify *two* potential sources of finance that José could use to fund the acquisition of the self-service checkouts.

(i) _____

_____ (1 mark)

(ii) _____

_____ (1 mark)

(h) Using the information in the balance sheet (extract) on page 19, calculate the total debt / total assets ratio for José's Office Products.

(1 mark)

(i) Discuss how your result in part (h) might impact on the likelihood of José obtaining finance from an external source.

_____ (2 marks)

(j) Using the information in the income statement on page 18, calculate the times interest earned ratio for José's Office Products for 2018.

(1 mark)

(k) Explain what your result in part (j) indicates about the financing of the business. *The current industry average is 3.2 times.*

(2 marks)

End of Question 3

Question 4 (30 marks)

(a) Hung owns and operates Illuminate, a fashion jewellery business. The following transactions were recorded for necklaces during January 2018:

- 2 January Purchased 20 necklaces on credit for \$10 each.
- 5 January Sold 18 necklaces at \$16 each for cash.
- 7 January Returned 2 broken necklaces to the supplier.
- 11 January Purchased 10 necklaces on credit for \$11 each.
- 17 January Sold 13 necklaces at \$16 each for cash.
- 28 January 1 necklace was returned to Illuminate by a customer.
- 31 January A stocktake revealed 5 necklaces on hand.

Complete the following inventory card for January 2018, using the first-in first-out method of recording inventory. Include the inventory adjustment.

INVENTORY CARD

| Date | Details | In | | | Out | | | Balance | | | |
|-------|---------|-----|------|-------|-----|------|-------|---------|---------------|-------|--|
| | | Qty | Cost | Total | Qty | Cost | Total | Qty | Cost | Total | |
| 1 Jan | Balance | | | | | | | 10 | 9 | 90 | |
| | | | | | | | | | FINAL BALANCE | | |

(7 marks)

(b) Using the information in the inventory card on page 22, complete the cost of goods sold account.

Cost of goods sold account

| | |
|--|--|
| | |
|--|--|

(2 marks)

(c) Give *one* reason why Hung has chosen the first-in first-out method of recording inventory.

(1 mark)

(d) Record the inventory adjustment for January in the general journal. *A narration is required.*

GENERAL JOURNAL

| Date | Details | Debit | Credit |
|------|---------|-------|--------|
| | | | |

(2 marks)

(e) What measures could Hung take to address the inventory discrepancy?

(1 mark)

(f) State *two* impacts of the inventory adjustment in part (d) on Illuminate's financial statements.

(i) _____
_____ (1 mark)

(ii) _____
_____ (1 mark)

(g) Using the information on page 22, prepare the extract from the income statement for Illuminate for the month ended 31 January 2018. Include the inventory adjustment.

ILLUMINATE
Extract from income statement for month ended 31 January 2018

| |
|--------------------|
| Revenue |
| |
| |
| |
| |
| Cost of goods sold |
| |
| |
| |
| |
| |
| Gross profit |

(2 marks)

(h) (i) State *one* impact of the rising purchase price of necklaces on Illuminate's gross profit figure.

_____ (1 mark)

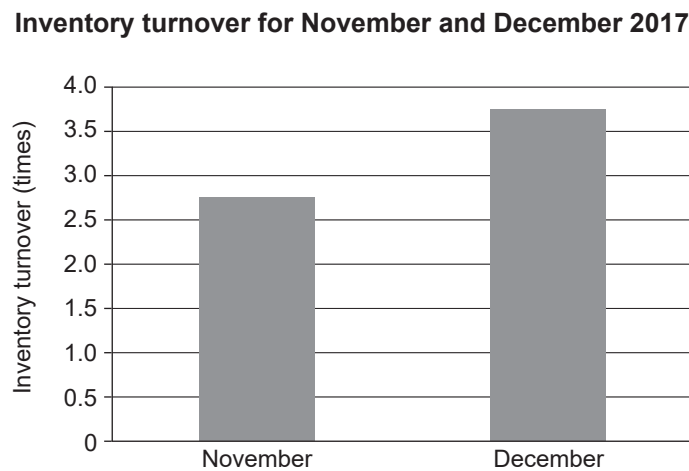
(ii) With reference to your answer in part (h)(i), suggest a change that Hung could make in order to increase profitability.

_____ (1 mark)

- (i) Using the information in part (a) on page 22, calculate the inventory turnover for Illuminate for the month ended 31 January 2018.

(2 marks)

- (j) Hung has provided the following bar graph of inventory turnover for November and December 2017:



Using the graph and the inventory turnover that you calculated in part (i) above:

- (i) comment on the inventory turnover trend.

(1 mark)

- (ii) suggest a possible reason for this trend.

(1 mark)

- (k) Hung purchased 100 bracelets for \$5.50 each, and he is now selling them for \$4 each.

What value should Hung record in the financial statements for these bracelets? Give a reason for your answer.

(1 mark)

(l) Hung has provided the following information about the performance of Illuminate during January:

| | 1 January 2018 | 31 January 2018 |
|-------------|----------------|-----------------|
| Assets | 235 000 | 236 000 |
| Liabilities | 92 000 | 94 500 |

If Hung withdrew inventory to the value of \$6000 during January, what was Illuminate's net profit for January?

(2 marks)

(m) Hung is introducing online sales, so he wants to purchase a delivery vehicle.

(i) Using the information in part (l), calculate a ratio that would help Hung to decide whether or not to contribute capital to the business.

(1 mark)

(ii) On the basis of your result in part (m)(i), would you advise Hung to contribute capital to the business in order to purchase a delivery vehicle? Give a reason for your advice.

_____ (1 mark)

(n) In deciding whether or not to purchase a delivery vehicle, Hung will consider qualitative data and quantitative data.

(i) Give *one* example of a piece of qualitative data that he should consider.

_____ (1 mark)

(ii) Give *one* example of a piece of quantitative data that he should consider.

_____ (1 mark)

End of Question 4

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 5.

Question 5

Naeem is the sole trader of Dressed Up, a business that sells costumes. She has provided the following information on 30 June 2018, as well as comparative balance sheets for 2017 and 2018 (on page 28), to be used in the preparation of a statement of cash flows for the year ended 30 June 2018.

DRESSED UP
Income statement for year ended 30 June 2018

| | | |
|----------------------------------------|----------|---------------|
| Revenue | | |
| Cash sales | 55 300 | |
| Credit sales | 143 700 | |
| | | 199 000 |
| Cost of goods sold | | |
| Opening inventory | 65 000 | |
| Credit purchases | 100 000 | |
| Credit purchases returns | (3 000) | 97 000 |
| Closing inventory | (55 000) | |
| | 107 000 | |
| Gross profit | | 92 000 |
| Other revenue | | |
| Discount revenue | 3 500 | 95 500 |
| Less expenses | | |
| Advertising | 2 500 | |
| Bad debts | 1 300 | |
| Discount allowed | 3 300 | |
| Depreciation on furniture and fittings | 7 000 | |
| General expenses | 10 000 | |
| Interest on loan | 1 500 | |
| Salaries | 37 800 | 63 400 |
| Profit | | 32 100 |

The information for Question 5 is continued on page 28.

DRESSED UP
Comparative balance sheets as at 30 June 2018 and 30 June 2017

| | 2018 | | 2017 | |
|--------------------------------|----------|----------------|----------|----------------|
| Owner's equity | | | | |
| Opening capital | 482 725 | | 500 725 | |
| Additional capital | 10 000 | | 12 000 | |
| Net profit | 32 100 | | 0 | |
| Drawings | (35 000) | 489 825 | (30 000) | 482 725 |
| Current assets | | | | |
| Cash at bank | 122 300 | | 150 625 | |
| Debtors | 113 000 | | 100 000 | |
| Inventory | 55 000 | | 65 000 | |
| Prepaid advertising | 6 150 | 296 450 | 3 200 | 318 825 |
| Non-current assets | | | | |
| Land and buildings | | 162 000 | | 107 000 |
| Furniture and fittings | 90 000 | | 90 000 | |
| Accumulated depreciation | (28 000) | 62 000 | (21 000) | 69 000 |
| Investments | | 0 | | 25 000 |
| Total assets | | 520 450 | | 519 825 |
| Current liabilities | | | | |
| Creditors | 25 125 | | 20 900 | |
| Accrued salaries | 5 500 | 30 625 | 1 200 | 22 100 |
| Non-current liabilities | | | | |
| Mortgage | | 0 | | 15 000 |
| Total liabilities | | 30 625 | | 37 100 |
| Net assets | | 489 825 | | 482 725 |

More information

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

Question 5 (20 marks)

(a) Using the information on page 28, calculate the working capital ratio for Dressed Up as at 30 June 2018.

(1 mark)

(b) Comment on what your result in part (a) means for the business.

(1 mark)

Question 5 continues on page 30.

- (c) Complete the following calculations in order to prepare a statement of cash flows for Dressed Up for the year ended 30 June 2018.

Cash received from debtors.

Cash paid to creditors.

Cash paid for advertising.

Cash paid for salaries.

(6 marks)

Use the space below for other calculations.

(d) Prepare a statement of cash flows for Dressed Up for the year ended 30 June 2018.

DRESSED UP
Statement of cash flows for year ended 30 June 2018

| |
|-------------------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES |
| Inflows |
| |
| Outflows |
| |
| <i>Net cash flows from operating activities</i> |
| CASH FLOWS FROM INVESTING ACTIVITIES |
| Inflows |
| |
| Outflows |
| |
| <i>Net cash flows from investing activities</i> |
| CASH FLOWS FROM FINANCING ACTIVITIES |
| Inflows |
| |
| Outflows |
| |
| <i>Net cash flows from financing activities</i> |
| NET INCREASE/DECREASE IN CASH HELD |
| CASH AT BEGINNING OF YEAR |
| CASH AT END OF YEAR |

(8 marks)

- (e) Comment on whether or not Naeem's actions relating to investing activities for Dressed Up were justified.

(2 marks)

- (f) During a recent winter sale, Naeem advertised that a bear costume 'was \$200' and is 'now \$150', even though the store had never offered the costume for sale at \$200.

State the ethical issue relating to Naeem's advertisement.

(1 mark)

- (g) Identify the accounting entity and the legal entity of Dressed Up. Tick the appropriate boxes to indicate your answer.

| | Accounting entity | Legal entity |
|------------|-------------------|--------------|
| Naeem | | |
| Dressed Up | | |

(1 mark)

End of Question 5