



South Australian
Certificate of Education

Accounting 2019

Question booklet

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

Examination information

Materials

- Question booklet
- Information booklet
- SACE registration number label

Instructions

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

Total time: 130 minutes

Total marks: 120

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Question 1 (30 marks)

Refer to page 3 of the information booklet when answering Question 1.

(a) Manjot has some concerns about the age of the refrigerator, which was purchased by the business in 2003 at a cost of \$32 000 and with a useful life of 20 years.

(i) What amount is recorded in the non-current asset ledger for the refrigerator that was purchased in 2003?

_____ (1 mark)

(ii) Which accounting concept is being applied by recording this amount in the non-current asset ledger?

_____ (1 mark)

(iii) State *one* limitation of the concept that you identified in part (a)(ii).

_____ (1 mark)

(iv) Outline the purpose of depreciating non-current assets.

_____ (1 mark)

(v) Identify and explain *one* social issue that should be taken into account when deciding whether to replace the refrigerator.

_____ (2 marks)

(b) Prepare the payment to creditors schedule for August and September.

BLOSSOM YOUR DAY
Payment to creditors schedule for August and September 2019

	Total purchases	August	September
June (actual)	30 000		
July (actual)	32 000		
August (expected)	35 000		
TOTAL			

(2 marks)

(c) Complete the cash budget for August and September.

BLOSSOM YOUR DAY
Cash budget for August and September 2019

	August	September
Estimated receipts		
Total estimated receipts		
Estimated payments		
Total estimated payments		
Surplus/deficit		
Opening bank balance		
Closing bank balance		

(9 marks)

(d) Purchasing a new refrigerator represents a large cash outflow for Blossom Your Day.

(i) With reference to the cash budget that you completed in part (c), explain whether the plan to purchase a new refrigerator in August is viable.

(2 marks)

(ii) Explain *one* benefit to Blossom Your Day of purchasing a new refrigerator.

(2 marks)

(e) With reference to the cash budget that you completed in part (c), discuss the short-term effect on the business of having to make an unexpected payment of \$24 000 in August.

(2 marks)

(f) (i) Identify *one* external user of the cash budget for Blossom Your Day.

(1 mark)

(ii) Outline *one* financial decision that this user could make based on the cash budget.

(1 mark)

(g) Manjot has not had time to complete a bank reconciliation for Blossom Your Day for June 2019. He has provided the following information for events that occurred in June:

- the bank statement for 30 June showed bank interest received of \$11
- two cheques did not appear on the bank statement: number 390 for \$1500 and number 392 for \$8000
- the bank statement for 30 June showed bank charges paid of \$5
- \$21 500 was deposited in the bank but did not appear on the bank statement
- the bank statement for 30 June showed an overdraft of \$855.

(i) Complete and *formally balance* the cash at bank account for Blossom Your Day.

Cash at bank account

1 Jun	Balance	3 044	30 Jun	Payments	28 905
30 Jun	Receipts	37 000			

(2 marks)

(ii) Prepare a bank reconciliation statement as at 30 June 2019.

BLOSSOM YOUR DAY
Bank reconciliation statement as at 30 June 2019

(2 marks)

(iii) Outline why it is important for a business to complete a bank reconciliation every month.

(1 mark)

End of Question 1

Question 2 (30 marks)

Refer to pages 4 and 5 of the information booklet when answering Question 2.

(a) Shari does not keep track of her drawings each year and wants to know her personal drawings from the business for 2019.

(i) Using the information provided on page 5 of the information booklet, calculate Shari's drawings for the year ended 30 June 2019.

(2 marks)

(ii) Outline why the accounting entity concept requires drawings to be recorded.

_____ (1 mark)

(b) Calculate the return on equity at 30 June 2019.

(2 marks)

(c) In March 2019, Shari contributed \$25000 capital to the business, for the purchase of additional karaoke machines.

(i) (1) Why might Shari have chosen to do this?

_____ (1 mark)

(2) How would it have affected the return on equity?

_____ (1 mark)

(ii) State *one* other source of finance that would have affected the gearing of the business.

_____ (1 mark)

- (d) Suggest *one* reason why some karaoke machines are listed as non-current assets rather than as inventory on the balance sheets on page 5 of the information booklet.

(1 mark)

- (e) Complete the following calculations in order to prepare a statement of cash flows for Notes for the year ended 30 June 2019.

Cash received from debtors.

Cash paid to creditors.

Cash paid for van registration and insurance.

Cash paid for advertising.

(6 marks)

Use the space below for other calculations.

(f) Prepare a statement of cash flows for Notes for the year ended 30 June 2019.

NOTES
Statement of cash flows for year ended 30 June 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash flows from operating activities

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash flows from investing activities

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash flows from financing activities

NET INCREASE/DECREASE IN CASH HELD

CASH AT BEGINNING OF YEAR

CASH AT END OF YEAR

(8 marks)

- (g) Explain how it was possible for Notes to achieve a profit of \$210840 in 2018 while having a decrease in cash held over the same period.

(2 marks)

- (h) Shari is considering investing her own money into a business called Songs Pty Ltd. Songs Pty Ltd provided the following information at 30 June 2019.

Profit	\$320 000
Ordinary dividend	\$350 000
Number of ordinary shares	1 000 000
Market price per ordinary share	\$4.50

- (i) Calculate the dividend per ordinary share for Songs Pty Ltd.

(1 mark)

- (ii) Calculate the dividend yield for Songs Pty Ltd.

(1 mark)

- (iii) Outline how Songs Pty Ltd can pay \$350 000 in dividends to its shareholders when it only earned a profit of \$320 000.

(1 mark)

- (iv) Compare the dividend yield that you calculated for Songs Pty Ltd in part (h)(ii) with the return on equity that you calculated for Notes in part (b).

Would you recommend that Shari invest in Songs Pty Ltd or invest additional capital in her own business, Notes? Give a reason for your answer.

(2 marks)

End of Question 2

Question 3 (40 marks)

Refer to page 7 of the information booklet when answering Question 3.

(a) A trial balance shows that the total of the debit entries equals the total of the credit entries.

(i) Which convention requires the debit and credit totals in a trial balance to be equal?

_____ (1 mark)

(ii) Apart from a calculation error, give *one* reason why a trial balance may not balance.

_____ (1 mark)

(iii) State *one* reason why a trial balance may be incorrect, even if the debit and credit totals are equal.

_____ (1 mark)

(b) What information in the trial balance of Cake and Crumble identifies the inventory recording system that the business uses?

_____ (1 mark)

(c) State *two* advantages of operating a business as a partnership rather than as a sole trader.

_____ (2 marks)

(d) Angela is a shareholder of Mac Industries Ltd.

State the legal entity for:

(i) Cake and Crumble _____ (1 mark)

(ii) Mac Industries Ltd _____ (1 mark)

(e) (i) Show the calculation for depreciation on equipment for 2019.

(2 marks)

(ii) Show the calculation for depreciation on shop fixtures and fittings for 2019.

(1 mark)

(f) Complete the general journal entries to record the adjustments shown.

GENERAL JOURNAL

Date	Details	Debit	Credit
	Recording depreciation on equipment		
	Recording insurance expense		

(2 marks)

(g) Complete and *formally balance* the allowance for doubtful debts account.

Allowance for doubtful debts account

	1 Jun	Opening balance	950
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(3 marks)

(h) Complete the balance sheet for Cake and Crumble.

CAKE AND CRUMBLE
Balance sheet as at 30 June 2019

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

(12 marks)

- (i) State the amount, after adjustments, for the following expenses in the 2019 financial year, and classify the expenses as administrative, finance, or selling expenses.

	Amount (\$)	Classification
Depreciation on shop fixtures and fittings		
Doubtful debts		
Promotion expenses		
Wages		

(4 marks)

- (j) (i) Calculate the quick asset ratio for the business at 30 June 2019.

(1 mark)

- (ii) Comment on the liquidity of Cake and Crumble at 30 June 2019.

(2 marks)

- (k) (i) Define the prudence assumption.

(2 marks)

- (ii) Identify *two* examples of the prudence assumption in the balance sheet that you completed in part (h).

(1) _____
 _____ (1 mark)

(2) _____
 _____ (1 mark)

(I) What type of analysis compares the figures for prepaid insurance for 2019 with those for 2018?

(1 mark)

End of Question 3

Question 4 (20 marks)

Refer to page 8 of the information booklet when answering Question 4.

(a) Explain the entry made on 31 October and suggest a reason why it was necessary.

(2 marks)

(b) Identify *one* disadvantage of performing a stocktake.

(1 mark)

(c) (i) Complete the cost of goods sold account. *Formal balancing is not required.*

Cost of goods sold account

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(2 marks)

(ii) Fran's Appliances sells the steam irons for \$39 each.
Calculate the gross profit for October, including any inventory discrepancy.

(3 marks)

(d) Show how the cost of goods sold can be calculated without using an inventory card. *Calculations are not required.*

(2 marks)

(e) (i) In addition to the selling price of \$39, Francesca has determined that the variable cost of each steam iron is \$26.

If Francesca wanted to set up a pop-up store with rental costs of \$900 per month, how many steam irons would she need to sell in order to break even? Show your working.

(2 marks)

(ii) In October, a total of 31 steam irons were sold and Fran's Appliances made a gross profit on this stock line.

Given the break-even point that you calculated in part (e)(i), how is this profit possible?

(2 marks)

The following transactions occurred during October 2019 for Fran's Appliances:

- 2 October Purchased goods on credit \$400.
- 5 October Sold goods to Alphonse on credit \$580 (cost \$340), and charged him \$25 delivery.
- 7 October Returned \$40 of goods to the supplier.
- 11 October Purchased goods for \$220 cash.
- 17 October Sold goods for \$480 cash (cost \$266).
- 19 October Received \$350 from Alphonse, allowing for \$30 discount.

(f) (i) Complete the general journal entry to record the discount provided to Alphonse on 19 October.

GENERAL JOURNAL

Date	Details	Debit	Credit
	Discount allowed		

(2 marks)

(ii) Record the transactions related to Alphonse in a subsidiary ledger account.

Subsidiary ledger account — Alphonse

1 Oct	Opening balance	380	
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(2 marks)

- (g) (i) Outline why it is important to maintain subsidiary ledger accounts for customers, even though all of the relevant information is in the control account.

(1 mark)

- (ii) How is the information in subsidiary ledger accounts linked to the control account?

(1 mark)

End of Question 4



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Accounting 2019

Information booklet

- Refer to the information in this booklet when answering Questions 1 to 4
- Write your answers in the question booklet



Refer to this page, where appropriate, when answering Questions 1 to 4.

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.

Question 1

Blossom Your Day, a florist, is a sole-trader business that is owned and operated by Manjot Sharma. Manjot is planning to purchase a new, energy-efficient, industrial refrigerator in August 2019 to replace the refrigerator that was purchased in 2003, when the business began.

Manjot provided the following information at the end of July 2019 to help with the preparation of a cash budget for August 2019 and September 2019:

BLOSSOM YOUR DAY **Collection from debtors schedule for August and September 2019**

	Cash sales	Credit sales	August	September
June (actual)	22 500	27 500	5 500	—
July (actual)	28 000	30 000	22 800	6 000
August (expected)	30 500	32 500	—	24 700
September (expected)	37 000	35 000	—	—
TOTAL			28 300	30 700

- All purchases are made on credit:
 - 80% are paid in the month after the purchase in order to receive a 5% discount on the amount paid
 - 20% are paid in the second month after the purchase.
- Purchases were \$30 000 in June and \$32 000 in July, and are expected to be \$35 000 in August and \$36 000 in September.
- The new refrigerator will cost Blossom Your Day \$40 000 and must be paid for in cash in August.
- The cash at bank on 31 July was \$25 000.
- Manjot withdraws \$1300 from the business each month.
- Other expenses (usually paid for in cash during the month incurred):
 - electricity is currently \$1500 per month. From September, electricity is expected to decrease by \$500 per month because of the new, energy-efficient refrigerator
 - depreciation is \$12 000 per year
 - insurance will be \$400 in August, and will increase by 10% in September
 - shop rent is \$10 000 per month; \$2000 of the rent for September will be paid in October
 - advertising in September will cost \$250
 - loss of stock due to spoilage costs \$200 per month.

Question 2

Shari Gredan is a sole trader who owns and operates Notes, a business that hires out, as well as sells, karaoke machines. She provided the following income statement for the year ended 30 June 2019, as well as comparative balance sheets for 2018 and 2019.

NOTES Income statement for year ended 30 June 2019

	\$	\$	\$
Revenue			
Cash sales		240 000	
Credit sales		55 000	295 000
Less cost of goods sold			
Opening stock		2 750	
Credit purchases	81 500		
Credit purchases returns	(500)	81 000	
Closing stock		(700)	83 050
Gross profit			211 950
Less expenses			
Advertising	7 000		
Sales staff wages	82 000		
Depreciation on van	10 000		
Depreciation on karaoke machines	8 300		
Van registration and insurance	4 000		
Rent	2 300		
Bad debts	5 600		
Interest on loan	9 000		128 200
Profit			83 750

NOTES
Comparative balance sheets as at 30 June 2019 and 30 June 2018

	2019		2018	
ASSETS				
Current assets				
Bank	4 400		0	
Debtors	32 000		18 000	
Inventory	700		2 750	
Prepaid registration and insurance	210	37 310	190	20 940
Non-current assets				
Van	60 000		60 000	
Less accumulated depreciation	(30 000)	30 000	(20 000)	40 000
Karaoke machines	152 350		40 000	
Less accumulated depreciation	(13 400)	138 950	(5 100)	34 900
Land and buildings		1 000 000		1 000 000
Total assets		1 206 260		1 095 840
LIABILITIES				
Current liabilities				
Overdraft	0		6 200	
Creditors	23 200		11 800	
Accrued advertising	0	23 200	320	18 320
Non-current liabilities				
Loan		10 000		0
Mortgage		500 000		500 000
Total liabilities		533 200		518 320
Owner's equity				
Capital		577 520		443 000
Additional capital		25 000		0
Profit/loss		83 750		210 840
Drawings		?		?
Total equity		673 060		577 520

More information

- All acquisitions and disposals of non-current assets were paid for in cash.
- All drawings were taken as cash.

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Question 3

Angela and Malcolm McKenzie are joint owners of Cake and Crumble bakery. They provided the following trial balance for the business for the preparation of the financial statements as at 30 June 2019.

CAKE AND CRUMBLE
Trial balance as at 30 June 2019

<i>Account</i>	<i>Debit</i>	<i>Credit</i>
Capital		305 200
Shop fixtures and fittings	30 000	
Accumulated depreciation on shop fixtures and fittings		6 500
Promotion expenses	9 000	
Premises	375 000	
Drawings	8 000	
Inventory	22 000	
Mortgage		135 000
Interest on mortgage	8 700	
Equipment	65 000	
Accumulated depreciation on equipment		12 000
Net sales		281 050
Prepaid insurance	14 000	
Bad debts	1 100	
Creditors		13 500
Debtors	18 000	
Cash at bank		3 100
Cost of goods sold	113 000	
Wages	89 000	
Allowance for doubtful debts		950
General expenses	4 500	
	757 300	757 300

More information

- On 1 February 2019, the business purchased \$15 000 of equipment. (This transaction has been recorded.)
- Equipment is depreciated at 8% per annum, using the diminishing-balance method.
- Shop fixtures and fittings are depreciated at a rate of 6% per annum, using the straight-line method.
- Allowance for doubtful debts is to be adjusted to 5% of the closing debtors balance on 30 June 2019.
- Wages of \$2 500 were accrued and not paid as of 30 June 2019.
- On 1 May 2019, \$1 800 of promotion expenses were paid in advance for May, June, and July.
- Insurance expense for the year ended 30 June 2019 was \$9 000.
- The closing inventory on 30 June 2019 was \$21 600.

Question 4

Francesca White owns and operates a small business, Fran's Appliances. Francesca has provided the following inventory card for one of her stock lines in October 2019: steam irons.

INVENTORY CARD

Date	Details	In			Out			Balance		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Oct	Balance							10	18	180
2 Oct	Purchases	20	20	400				10	18	180
								20	20	400
5 Oct	Sales				10	18	180			
					8	20	160	12	20	240
7 Oct	Purchase returns	(2)	20	40				10	20	200
11 Oct	Purchases	10	22	220				10	20	200
								10	22	220
17 Oct	Sales				10	20	200			
					3	22	66	7	22	154
28 Oct	Sales returns				(1)	22	22	8	22	176
31 Oct	Inventory adjustment				3	22	66	5	22	110