



2011 ACCOUNTING

**FOR OFFICE
USE ONLY**

SUPERVISOR
CHECK

RE-MARKED

**ATTACH SACE REGISTRATION NUMBER LABEL
TO THIS BOX**

Monday 14 November: 1.30 p.m.

Time: 2 hours

Pages: 33
Questions: 4

Examination material: one 33-page question booklet
one SACE registration number label

Approved dictionaries and calculators may be used.

Instructions to Students

1. You will have 10 minutes to read the paper. You must not write in your question booklet or use a calculator during this reading time but you may make notes on the scribbling paper provided.
2. This paper consists of four problem questions.
Answer **all** questions in the spaces provided in this question booklet.
3. The total mark is 115.
4. The financial analysis ratios are on page 3, which you may remove from this booklet before the examination begins.
5. Remove the tear-out information sheets on pages 5, 11, 17, and 27 from the booklet, so that you can refer to them when you write your answers.
6. Show all working in this booklet. (You are strongly advised **not** to use scribbling paper. Work that you consider incorrect should be crossed out with a single line.)
7. Use only black or blue pens for all work other than calculations, for which you may use a sharp dark pencil.
8. Attach your SACE registration number label to the box at the top of this page.

**STUDENT'S DECLARATION ON THE USE OF
CALCULATORS**

By signing the examination attendance roll I declare that:

- my calculators have been cleared of all memory
- no external storage media are in use on these calculators.

I understand that if I do not comply with the above conditions for the use of calculators I will:

- be in breach of the rules
- have my results for the examination cancelled or amended
- be liable to such further penalty, whether by exclusion from future examinations or otherwise, as the SACE Board of South Australia determines.

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

FINANCIAL ANALYSIS RATIOS

<i>Profitability (Return)</i>		<i>Expressed as</i>
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	$\frac{\text{dividend per ordinary share}}{\text{market price per ordinary share}}$	%
<i>Financial Stability (Risk)</i>		
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.

SACE
BOARD
OF SOUTH
AUSTRALIA

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 1.

QUESTION 1

Meadows Garden Supplies is a business that sells plants and gardening equipment. It uses subsidiary ledgers to record debtors and inventory. The following information was taken from the journals of Meadows Garden Supplies on 30 June:

CASH RECEIPTS JOURNAL

Date	Particulars	Discount	Debtors	Sales		Bank
				Cost Price	Selling Price	
30 June	Totals	120	4600	5400	11 800	16 400

CASH PAYMENTS JOURNAL

Date	Particulars	Wages	Creditors	Purchases	Bank
30 June	Totals	1650	2300	6950	10 900

SALES JOURNAL

Date	Particulars	Amount	
		Cost Price	Selling Price
30 June	Totals	2300	7450

SALES RETURNS JOURNAL

Date	Particulars	Amount	
		Cost Price	Selling Price
30 June	Totals	540	2100

PURCHASES JOURNAL

Date	Particulars	Amount
30 June	Totals	3400

GENERAL JOURNAL

Date	Particulars	Debit	Credit
30 June	Bad debts	560	
	Debtors' control — S. Smith		560
	Debtors' account written off as irrecoverable		

SACE
BOARD
OF SOUTH
AUSTRALIA

QUESTION 1

(a) Using the information on page 5, complete and formally balance the debtors' control account.

Debtors' Control Account

1 June	Balance	4000	
--------	---------	------	--

(6 marks)

(b) Using the information on page 5, complete and formally balance the inventory control account. A physical stocktake on 30 June showed \$9190 of inventory on hand.

Inventory Control Account

1 June	Balance	6000	
--------	---------	------	--

(6 marks)

(c) (i) Calculate the inventory turnover for June.

(3 marks)

(ii) The following table shows the inventory turnovers for the previous 5 months:

January	February	March	April	May	June
2.6 times	2.7 times	2.9 times	2.0 times	1.4 times	

(1) Name *one* possible cause of the trend in inventory turnover.

(1 mark)

(2) Explain whether or not the owners of Meadows Garden Supplies should be concerned about this trend.

(2 marks)

- (d) Meadows Garden Supplies makes an allowance for doubtful debts of 10% of closing debtors. Transfer the bad debt and then complete the allowance for doubtful debts account to reflect 10% of current closing debtors.

Allowance for Doubtful Debts Account

	1 June	Balance 400

(3 marks)

- (e) (i) Define the concept of prudence.

(2 marks)

- (ii) Explain how allowing for doubtful debts is an application of the concept of prudence in the balance sheet.

(2 marks)

TOTAL: 25 marks

End of Question 1

SACE
BOARD
OF SOUTH
AUSTRALIA

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 2.

QUESTION 2

Ruby's Formal Hire supplied the following information as at 30 June 2011:

RUBY'S FORMAL HIRE Balance Sheet as at 30 June 2011

Owner's Equity			
Capital (V. Thomas)		50 000	
Drawings		(10 000)	
Net profit		<u>15 000</u>	55 000
Current Assets			
Bank	2 000		
Debtors	3 000		
Inventories	<u>2 500</u>	7 500	
Non-current Assets			
Motor vehicles	60 000		
Less accumulated depreciation	<u>(6 000)</u>	54 000	
Office furniture	10 000		
Less accumulated depreciation	<u>(5 000)</u>	<u>5 000</u>	<u>59 000</u>
Total Assets			66 500
Current Liabilities			
Creditors	2 000		
Accrued wages	<u>500</u>	2 500	
Non-current Liabilities			
Loan		<u>9 000</u>	
Total Liabilities			11 500
Net Assets			55 000

SACE
BOARD
OF SOUTH
AUSTRALIA

QUESTION 2

(a) (i) Describe the concept of the accounting entity as it relates to this business.

(2 marks)

(ii) State the name of the accounting entity of this business.

(1 mark)

(iii) Describe the concept of the legal entity as it relates to this business.

(2 marks)

(iv) State the name of the legal entity of this business.

(1 mark)

(b) The balance sheet on page 11 shows that this business made a net profit of \$15 000.

Why would management want to see an income statement when it already knows how much profit was made?

(2 marks)

(c) The accounting process involves the collection, processing, and analysis of data, and the reporting of information to users for planning, control, and decision-making.

(i) Name *one* external user of this accounting information.

_____ (1 mark)

(ii) Name *one* internal user of this accounting information.

_____ (1 mark)

(iii) State *two* decisions that an *internal* user could make as a result of using the balance sheet on page 11.

(1) _____

(2) _____

(2 marks)

(iv) Describe how the balance sheet would be used in making each of the decisions you stated in part (c)(iii).

(1) _____

(2) _____

(4 marks)

(d) The motor vehicles:

- are recorded in the balance sheet at their historical cost of \$60 000
- have a written-down value of \$54 000
- have a replacement value of \$90 000.

(i) Explain the purpose of depreciating motor vehicles.

(2 marks)

(ii) Explain why the historical cost, rather than the replacement value, of the motor vehicles has been used in the balance sheet.

(2 marks)

TOTAL: 20 marks

End of Question 2

SACE
BOARD
OF SOUTH
AUSTRALIA

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

Jennifer Kane is the owner of the Outdoor Furniture Store. She has supplied the following income statement for the year ended 30 June 2011 and the comparative balance sheets for 2010 and 2011 (on page 18) to be used in completing the statement of cash flows:

THE OUTDOOR FURNITURE STORE
Income Statement for Year Ended 30 June 2011

	\$	\$	\$
Sales			
Cash		20 000	
Credit	90 000		
Sales returns	<u>2 500</u>	<u>87 500</u>	107 500
Cost of Goods Sold			
Inventory (1.7.10)		8 000	
Purchases		22 000	
Cartage		<u>1 500</u>	
		<u>31 500</u>	
Inventory (30.6.11)		<u>12 000</u>	<u>19 500</u>
Gross Profit			88 000
Discount received			<u>2 200</u>
			90 200
Operating Expenses			
Wages	50 000		
Depreciation on office equipment	1 100		
Depreciation on delivery vehicles	5 000		
Insurance	4 500		
General office expenses	7 100		
Bad debts	4 000		
Interest on mortgage	10 500		<u>82 200</u>
Net Profit			<u>8 000</u>

The information for Question 3 is continued on page 18.

THE OUTDOOR FURNITURE STORE
Comparative Balance Sheets as at 30 June 2010 and 30 June 2011

	2011		2010	
Current Assets				
Cash at bank	—		3 400	
Debtors	4 900		5 000	
Inventories	12 000		8 000	
Prepaid insurance	1 750	18 650	900	17 300
Non-current Assets				
Delivery vehicles	40 000		40 000	
Less accumulated depreciation	<u>(35 000)</u>		<u>(30 000)</u>	
Office equipment	35 000		35 000	
Less accumulated depreciation	<u>(6 600)</u>		<u>(5 500)</u>	
Premises	400 000	<u>433 400</u>	400 000	<u>439 500</u>
Total Assets		<u>452 050</u>		<u>456 800</u>
Current Liabilities				
Bank overdraft	4 000		—	
Creditors	1 850		1 500	
Accrued wages	800	6 650	900	2 400
Non-current Liabilities				
Mortgage on premises		<u>316 000</u>		<u>326 000</u>
Total Liabilities		<u>322 650</u>		<u>328 400</u>
Net Assets		<u>129 400</u>		<u>128 400</u>
Owner's Equity				
Capital		128 400		80 000
Less drawings		<u>(7 000)</u>		<u>(2 000)</u>
Add net profit		<u>8 000</u>		<u>50 400</u>
Total Equity		<u>129 400</u>		<u>128 400</u>

QUESTION 3

Statement of Cash Flows

- (a) Complete the following calculations, which you will need in order to prepare the statement of cash flows for the Outdoor Furniture Store.

Cash received from customers.

Cash paid to suppliers.

Cash paid for wages.

Cash paid for insurance.

Any other calculations you may need.

(8 marks)

(b) Complete the operating activities section of the statement of cash flows for the Outdoor Furniture Store *and* calculate the net increase or decrease in cash held for the year ended 30 June 2011.

THE OUTDOOR FURNITURE STORE
Statement of Cash Flows for Year Ended 30 June 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Net cash flows from operating activities</i>		
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows		
Nil		
Outflows		
Nil		
<i>Net cash flows from investing activities</i>		Nil
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows		
Nil		
Outflows		
Mortgage	(10 000)	
Drawings	(7 000)	
<i>Net cash flows from financing activities</i>		(17 000)
NET INCREASE/DECREASE IN CASH HELD		
CASH AT BEGINNING OF PERIOD		
CASH AT END OF PERIOD		

(5 marks)

(c) Why is it important for the operating activities of the business to have a positive figure?

(2 marks)

Question 3 continues on page 22.

Cash Budget

Jennifer provides the following information to help in the preparation of a cash budget for the Outdoor Furniture Store for August 2011:

- Estimated cash sales are \$1500 for July and \$1700 for August.
- Credit sales are expected to be \$7000 in July and \$8000 in August.
- The collection pattern for credit sales as of July 2011 is 40% in the month of sale, 55% in the month after sale, and 5% bad debt. Debtors who pay in the month of sale receive 5% discount.
- All purchases are made on credit and are paid for in the month after purchase to take advantage of a 10% discount.
- Estimated purchases are \$2500 for July and \$2000 for August.

Other Information

- Old office equipment is to be sold for \$2000 cash.
- General office expenses are \$700 per month.
- Interest on the mortgage is \$10500 per annum, payable monthly.
- The wages expense for August is expected to be \$4000. There is expected to be \$500 of accrued wages at the end of July. There are expected to be no accrued wages at the end of August.
- Depreciation is calculated at \$1600 per month.
- \$2500 for 6 months' registration and insurance for the delivery vehicles is to be paid at the beginning of August.
- On 1 August Jennifer plans to purchase a new delivery vehicle at a cost of \$55000, to be paid in cash.
- Jennifer intends to withdraw \$5000 for her personal use.

-
- (d) Complete the collection from debtors schedule for the Outdoor Furniture Store for August 2011.

THE OUTDOOR FURNITURE STORE Collection from Debtors Schedule for August 2011

Month of Sale	Credit Sales	August
July	7 000	
August	8 000	
Total	15 000	

(3 marks)

(e) Prepare the cash budget for the Outdoor Furniture Store for August 2011.

THE OUTDOOR FURNITURE STORE
Cash Budget for July and August 2011

	July \$	August \$
Estimated Receipts		
Cash sales	1 500	
Receipt from debtors	6 235	
Total Estimated Receipts	7 735	
Estimated Payments		
Payment to creditors	1 665	
General office expenses	700	
Interest on mortgage	875	
Wages	4 200	
Total Estimated Payments	(7 440)	
Excess receipts/payments	295	
Opening cash balance	(4 000)	
Closing bank balance	(3 705)	

(8 marks)

(f) Using the information from the cash budget you prepared on page 23:

(i) give *two* reasons why Jennifer's projected cash position is so poor.

(2 marks)

(ii) explain how the preparation of this cash budget will help Jennifer in her decision-making.

(3 marks)

(g) A business can use the statement of cash flows and the cash budget to control its cash. The statement of cash flows reflects the past and the cash budget indicates the future.

Explain how each of these statements can be used to control cash.

(i) Statement of cash flows.

(2 marks)

(ii) Cash budget.

(2 marks)

(h) Name *one other* statement (apart from the statement of cash flows and the cash budget) that can be used to control cash.

(1 mark)

(i) Give *two* reasons why the cash at bank figure in the business records would be different from the figure that would appear on the bank statement for the same date.

(2 marks)

(j) Why would the bank statement for the business account show a credit balance whereas the business records would show a debit balance?

(2 marks)

TOTAL: 40 marks

End of Question 3

SACE
BOARD
OF SOUTH
AUSTRALIA

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 4.

QUESTION 4

Ronaldo Sánchez is the owner of Beetle Control Products. Ronaldo uses the perpetual method for recording inventory. The following trial balance for the business was prepared at 30 June 2011:

BEETLE CONTROL PRODUCTS
Trial Balance at 30 June 2011

	<i>Debit</i>	<i>Credit</i>
Bad debts	3 500	
Cost of goods sold	102 400	
Debtors	46 200	
Mortgage		250 000
Creditors		51 800
Sales		263 000
Bank	13 100	
Prepaid advertising	16 000	
Delivery vehicle	75 000	
Accumulated depreciation on delivery vehicle		6 000
Capital		222 800
Electricity	5 000	
Sundry expenses	2 200	
Interest on loan	4 100	
Rent revenue		13 000
Cartage out	1 900	
Inventory (30.6.2011)	38 000	
Loan (due 2020)		60 000
Drawings	21 500	
Equipment	45 000	
Accumulated depreciation on equipment		11 000
Sales returns	2 700	
Buildings	420 000	
Office salaries	81 000	

Other Information

- At 30 June \$2100 was owing for electricity.
- Rent revenue includes a payment of \$3000 for a 3-month period that began on 1 May.
- The delivery vehicle is depreciated using the units-of-use method. The vehicle is estimated to have a useful life of 250 000 kilometres. It travelled 30 000 kilometres during the current accounting period.
- Equipment was purchased for \$5000 on 1 March. This transaction has already been recorded.
- Equipment is depreciated at 15%, using the straight-line method.
- Advertising expense for the period was \$14 500.
- A physical stocktake on 30 June revealed \$36 300 of inventory on hand.

SACE
BOARD
OF SOUTH
AUSTRALIA

QUESTION 4

(a) Show calculations for depreciation on:

(i) the delivery vehicle.

(1 mark)

(ii) equipment.

(3 marks)

(b) Complete the general journal entries to record the following adjustments.

GENERAL JOURNAL

Date	Particulars	Debit	Credit
30 June	Recording depreciation on equipment		
30 June	Recording advertising expense		
30 June	Recording inventory adjustment		

(5 marks)

(c) Complete the balance sheet for Beetle Control Products as at 30 June 2011.

BEETLE CONTROL PRODUCTS
Balance Sheet as at 30 June 2011

OWNER'S EQUITY	
ASSETS	
Current	
Non-current	
LIABILITIES	
Current	
Non-current	
NET ASSETS	

(12 marks)

(d) (i) Calculate the return on equity ratio for Beetle Control Products.

(2 marks)

(ii) What does the return on equity ratio measure?

(1 mark)

(iii) The results for the return on equity ratio for Beetle Control Products in previous years are shown in the table below:

	2008	2009	2010
Return on equity	19.8%	21.2%	9.8%

With reference to the ratio you calculated in part (d)(i) and to the table of results from previous years, comment on the trend for the business.

(2 marks)

(iv) How could the business improve the result for the return on equity ratio?

(2 marks)

- (e) Complete the income statement (extract) for Beetle Control Products for the period ended 30 June 2011. The business records any inventory adjustment in order to determine gross profit.

BEETLE CONTROL PRODUCTS
Income Statement (Extract) for Period Ended 30 June 2011

Revenue	
Cost of Goods Sold	
Gross Profit	

(2 marks)

TOTAL: 30 marks

End of Question 4