



## 2012 ACCOUNTING

**FOR OFFICE  
USE ONLY**

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

**Wednesday 7 November: 1.30 p.m.**

Time: 2 hours

Pages: 32  
Questions: 5

Examination material: one 32-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 five problem questions.  
Answer **all** questions in the spaces provided in this question booklet.
3. The total mark is 120.
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, 13, 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) <sup>†</sup>	$\frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$	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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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

Leigh Kumar is the owner of the Dawn to Dusk Deli. He has supplied the following information to be used for the preparation of a statement of cash flows for the year ended 30 June 2012:

**DAWN TO DUSK DELI**  
**Income Statement for Year Ended 30 June 2012**

<b>Revenue</b>		
Sales	240 000	
Sales returns	(2 000)	238 000
<b>Cost of Goods Sold</b>		
Opening inventory	19 000	
Purchases	129 000	
Freight	2 000	
Closing inventory	(26 000)	124 000
<b>Gross Profit</b>		114 000
<b>Other Revenue</b>		
Interest received	1 700	
Discount received	400	2 100
<b>Expenses</b>		
Wages	63 800	
Rent	24 000	
Depreciation on delivery vehicle	5 000	
Insurance	11 500	
Interest on loan	1 400	
Discount expense	700	
Other expenses	3 500	109 900
<b>Net Profit</b>		6 200

*The information for Question 1 is continued on page 6.*

**DAWN TO DUSK DELI**  
**Comparative Balance Sheets as at 30 June 2012 and 30 June 2011**

	<b>2012</b>	<b>2011</b>
<b>Owner's Equity</b>		
Capital	53 050	45 450
Additional capital	10 000	0
Drawings	(3 500)	(3 500)
Net profit	6 200	11 100
	<b>65 750</b>	<b>53 050</b>
<b>Current Assets</b>		
Bank	1 800	0
Inventory	26 000	19 000
Debtors	13 900	6 600
Prepaid insurance	4 800	1 300
	<b>46 500</b>	<b>26 900</b>
<b>Non-current Assets</b>		
Equipment	90 000	115 000
Delivery vehicle	85 000	85 000
less accumulated depreciation	(60 000)	(55 000)
Investments	27 000	17 000
	<b>142 000</b>	<b>162 000</b>
<b>Total Assets</b>	<b>188 500</b>	<b>188 900</b>
<b>Current Liabilities</b>		
Overdraft	0	6 000
Creditors	22 600	24 000
Accrued wages	150	850
	<b>22 750</b>	<b>30 850</b>
<b>Non-current Liabilities</b>		
Loan	100 000	105 000
<b>Total Liabilities</b>	<b>122 750</b>	<b>135 850</b>
<b>Net Assets</b>	<b>65 750</b>	<b>53 050</b>

*Other Information*

- All acquisitions and sales of non-current assets were for cash.
- \$25 000 in cash was received for the equipment sold.
- All drawings were cash drawings.

QUESTION 1

- (a) Complete the following calculations, which you will need in order to prepare a statement of cash flows for the Dawn to Dusk Deli.

Cash paid to *suppliers*.

Cash paid for insurance.

Cash paid for wages.

(4 marks)

***Use this space for any other calculations you need to make for a statement of cash flows.***

(b) Prepare a statement of cash flows for the Dawn to Dusk Deli for the year ended 30 June 2012.

**DAWN TO DUSK DELI**  
**Statement of Cash Flows for Year Ended 30 June 2012**

CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows		
Cash received from customers	230 000	
Interest received	1 700	
	<hr/>	
		231 700
 <i>Net cash flows from operating activities</i>		
CASH FLOWS FROM INVESTING ACTIVITIES		
 <i>Net cash flows from investing activities</i>		
CASH FLOWS FROM FINANCING ACTIVITIES		
 <i>Net cash flows from financing activities</i>		
NET INCREASE/DECREASE IN CASH HELD		
CASH AT BEGINNING OF PERIOD		
CASH AT END OF PERIOD		

(10 marks)



(c) The bank is an external user of the Dawn to Dusk Deli's financial statement.  
Define the term 'external user'.

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(1 mark)

(d) For the Dawn to Dusk Deli in 2011 the:

- total debt/total assets ratio was 71.9%
- times interest earned ratio was 8.1 times.

(i) Calculate the total debt/total assets ratio for 2012.

(1 mark)

(ii) Calculate the times interest earned ratio for 2012.

(1 mark)

(iii) With reference to the statement of cash flows that you have completed on page 8, and to your ratio calculations in part (d)(i) and (ii) above, identify and describe any concerns the bank may have when considering whether or not to approve a loan for the Dawn to Dusk Deli.

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(3 marks)

TOTAL: 20 marks

**End of Question 1**

**QUESTION 2**

Jade Spangle owns and manages Spangtaclar Jewels, a jewellery store. She maintains a subsidiary ledger to help in the control of her inventory.

Jade provides the following financial information for October:

Cash sales	Cost price \$2900 Selling price \$10600
Credit sales	Cost price \$8400 Selling price \$33500
Credit sales returns	Cost price \$250 Selling price \$1700
Credit purchases	\$6400
Credit purchases returns	\$450

A physical stocktake on 31 October showed \$21 100 of inventory on hand.

- (a) Using the information above, complete the inventory control account for October. Formal balancing of this account is required

**Inventory Control Account**

1 Oct.	Balance	27 000	

(7 marks)

- (b) Record the general journal entry to show the inventory discrepancy. Include an appropriate narration.

**General Journal**

Date	Particulars	Debit	Credit

(2 marks)

- (c) Complete the income statement extract for the month ended 31 October to show the gross profit. Inventory discrepancy is treated as part of the cost of goods sold.

**SPANGTACULAR JEWELS**  
**Income Statement Extract for Month Ended 31 October**

Revenue
Cost of goods sold
Gross profit

(4 marks)

(d) The concept of 'the lower of cost or net realisable value' is applied when dealing with inventory.

(i) Explain the concept of the lower of cost or net realisable value.

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(2 marks)

(ii) At what stage of the accounting process is this concept used?

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(1 mark)

(e) (i) Calculate the inventory turnover for October.

(2 marks)

(ii) The inventory turnover for this business was 1.2 times in September.

Suggest *one* reason for the change in turnover, with reference to the information on page 10.

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(1 mark)

(iii) What action could the business take to improve the turnover?

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(1 mark)

TOTAL: 20 marks

**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

Annie's Sweets Shop is a confectionery store. Sales are usually made to customers at the store but the business has recently begun selling confectionery via the Internet. The following information is presented to enable an income statement and a balance sheet extract to be prepared for the year ended 30 June 2012:

Account Name	\$
Sales	56 400
Purchases	9 500
Bank loan	20 000
Cartage on purchases	2 100
Fixtures and fittings	12 900
Accumulated depreciation	3 400
Creditors	7 900
Shop assistants' wages	12 100
Shop rent expense	18 000
Telephone expense	2 800
Office equipment	15 500
Accumulated depreciation	6 700
Office Internet usage expense	2 400
Inventory 1.7.2011	12 900
Prepaid advertising	8 400
Bank overdraft	15 000
Interest expense	8 500
Cartage on sales	4 300

#### *Other Information*

- A stocktake reveals \$15 700 of inventory on hand at 30 June.
- Shop assistants are owed \$870 in wages at 30 June.
- The advertising expense for the year was \$7 200.
- A new display cabinet was purchased for \$4 800 on 1 June 2012 and recorded as fixtures and fittings.
- Fixtures and fittings are depreciated at 10% per annum, using the straight-line method.
- Office equipment is depreciated at 15% per annum, using the diminishing-balance method.
- \$360 of cartage on purchases has been incorrectly recorded as cartage on sales.

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**QUESTION 3**

(a) Show calculations for depreciation on:

(i) fixtures and fittings.

(3 marks)

(ii) office equipment.

(2 marks)

(b) Record the general journal entries to show the depreciation on office equipment, the wages owed to shop assistants, and the correction of the cartage recording error.

**GENERAL JOURNAL**

Date	Particulars	Debit	Credit
	Recording depreciation on office equipment		
	Recording wages owed to shop assistants		
	Correcting cartage recording error		

(3 marks)

(c) Complete the income statement for Annie's Sweets Shop for the year ended 30 June 2012.

**ANNIE'S SWEETS SHOP**  
**Income Statement for Year Ended 30 June 2012**

Revenue
Cost of Goods Sold
Gross Profit
Selling Expenses
Administrative Expenses
Financial Expenses
Net Profit/Loss

(10 marks)



(d) Complete the balance sheet extract as at 30 June 2012.

**ANNIE'S SWEETS SHOP**  
**Balance Sheet Extract as at 30 June 2012**

<b>Assets</b>
Current
Non-current
<b>Total Assets</b>

(5 marks)

(e) Explain the purpose of depreciating non-current assets.

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(2 marks)

(f) (i) State the concept of the going concern.

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(1 mark)

(ii) State the concept of the accounting period.

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(1 mark)

(iii) Explain why the accounting concepts in part (f)(i) and (ii) above make balance day adjustments necessary when accrual accounting is used in the preparation of reports.

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(2 marks)

(g) Annie's Sweets Shop began selling confectionery via the Internet in April. The following sales variance report has been prepared to compare budgeted figures and actual results:

**Sales Variance Report for Annie's Sweets Shop**

	April			May			June		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Shop Sales	4200	4150	(50)	3200	3250	+50	3000	3000	nil
Internet Sales	1700	1500	(200)	2700	2600	(100)	3900	3850	(50)

(i) What is the purpose of a budget?

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(1 mark)

(ii) (1) Suggest *one* reason for the variances in the report above.

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(1 mark)

(2) What is indicated by the variance columns in the report on page 18?

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(2 marks)

(iii) Annie's Sweets Shop expects that shop sales will continue to fall and that Internet sales will grow.

What are the social implications if Annie's Sweets Shop decides to make all sales via the Internet?

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(2 marks)

TOTAL: 35 marks

***End of Question 3***

#### QUESTION 4

Emerald Waters Pty Ltd is a plumbing company that supplies water pumps to local and international clients.

You have been given the following information as at 30 June 2012:

**EMERALD WATERS PTY LTD**  
**Balance Sheet as at 30 June 2012**

<b>Current Assets</b>		
Bank	54 350	
Debtors	85 000	
less allowance for doubtful debts	(4 250)	
Inventory	124 000	259 100
<b>Non-current Assets</b>		
Premises	760 000	
Fixtures and fittings	130 000	
Vehicles	185 000	
less accumulated depreciation	(89 000)	986 000
<b>Total Assets</b>		<b>1 245 100</b>
<b>Current Liabilities</b>		
Creditors	72 000	
Accrued wages	17 800	89 800
<b>Non-current Liabilities</b>		
Mortgage on premises	330 000	330 000
<b>Shareholders' Equity</b>		
Issued capital (600 000 ordinary shares)	600 000	
Retained profits	225 300	825 300
<b>Total Equity</b>		<b>1 245 100</b>

*Other Information*

- The net profit is \$1 080 000.
- The dividend paid to ordinary shareholders is \$1 152 000.
- The current market price is \$8.20 per ordinary share at 30 June.

(a) Using the information on the page opposite, calculate the dividend yield for Emerald Waters Pty Ltd at 30 June 2012.

(2 marks)

(b) The dividend yield for Emerald Waters Pty Ltd in 2011 was 18.5%.

(i) Comment on the dividend yield for 2012.

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(1 mark)

(ii) State *one* reason for the change in the 2012 result.

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(1 mark)

(c) State *one* factor that affects the size of a dividend paid to ordinary shareholders.

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(1 mark)

(d) (i) State the concept of prudence.

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(1 mark)

(ii) Explain how prudence is being used in the balance sheet of Emerald Waters Pty Ltd.

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(3 marks)

(e) (i) Identify where the concept of historical cost is used in the balance sheet of Emerald Waters Pty Ltd.

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(1 mark)

(ii) State *one* advantage of using the concept of historical cost.

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(1 mark)

(f) (i) Define the concept of the accounting entity.

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(1 mark)

(ii) Describe how the concept of the accounting entity relates to Emerald Waters Pty Ltd.

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(1 mark)

(g) (i) Define the concept of the legal entity.

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(1 mark)

(ii) Describe how the concept of the legal entity relates to Emerald Waters Pty Ltd.

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(1 mark)

- (h) The reconciliation process for Emerald Waters Pty Ltd provides the following information at 30 June 2012:
- The bank statement shows a credit balance of \$71 880.
  - Cheques to the value of \$21 500 have not yet been presented to the bank.
  - A direct debit of \$650 on the bank statement has not yet been recorded by the company.
  - There is a total of \$320 in bank charges for June.
  - \$3000 has been received and recorded by the company but has not yet been deposited in the bank.

Prepare the bank reconciliation statement for Emerald Waters Pty Ltd at 30 June 2012.

**EMERALD WATERS PTY LTD**  
**Bank Reconciliation Statement at 30 June 2012**

(2 marks)

(i) Emerald Waters Pty Ltd sells both standard and deluxe water pumps and uses the first-in first-out perpetual method of recording inventory.

During June the company recorded the following transactions for standard water pumps:

- 5 June Purchased six water pumps for \$325 each.
- 7 June Returned one of the water pumps purchased on 5 June for a full refund.
- 9 June Sold five water pumps for \$600 each.
- 23 June Sold four water pumps for \$600 each.
- 30 June Stocktake reveals two water pumps.

Complete the inventory card, using the first-in first-out method. Record any inventory discrepancy.

**INVENTORY CARD  
Standard Water Pumps**

Date	Details	In		Out		Balance		
		Qty	Cost	Qty	Cost	Qty	Cost	Total
1 June	Balance					3	300	900
						4	350	1400

(5 marks)



- (j) (i) Using the following information, calculate the break-even point for deluxe water pumps:
- selling price \$800
  - cost price \$420
  - fixed costs \$27 200.

(1 mark)

- (ii) Emerald Waters Pty Ltd is proposing to sell only one type of water pump. Standard water pumps have a break-even point of 99 units.

On the basis of your break-even calculation in part (j)(i) above, state which type of water pump the company should continue to sell.

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(1 mark)

- (iii) Identify *one* non-financial implication that Emerald Waters Pty Ltd may face if the company sells only one type of water pump.

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(1 mark)

TOTAL: 25 marks

***End of Question 4***

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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 5.

#### QUESTION 5

Francesca Holt owns and operates the Whiz and Whisk, a kitchen supply store. She uses subsidiary ledgers to help in controlling her debtors, for whom she allows credit terms of 7 days.

Francesca presents the following financial information for the week ended 30 June 2012:

**WHIZ AND WHISK**  
**Debtors' Ageing Analysis at 23 June 2012**

Debtor	Account Balance	0–7 Days	8–14 Days	15–30 Days	Over 30 Days
R. Lambert	2 200	2 200			
J. Simmons	850	550			300
G. Foreston	600		500	100	
E. Basilico	1 330			1 330	
Total	4 980	2 750	500	1 430	300

#### *Other Information*

- 24 June Credit sale to E. Basilico \$960.
- 25 June G. Foreston was charged \$40 for delivery.
- 27 June R. Lambert returned goods worth \$130.
- 29 June Francesca was informed that J. Simmons had declared bankruptcy; she therefore needed to write off his account as a bad debt.

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QUESTION 5

(a) Complete the debtors' subsidiary ledger for the Whiz and Whisk for 30 June 2012.

**DEBTORS' SUBSIDIARY LEDGER**

**R. Lambert**

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**J. Simmons**

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**G. Foreston**

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**E. Basilico**

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(5 marks)

(b) (i) Complete the schedule of debtors at 30 June 2012.

**WHIZ AND WHISK**  
**Schedule of Debtors at 30 June 2012**

R. Lambert	
J. Simmons	
G. Foreston	
E. Basilico	
	_____
Total	_____

(1 mark)

(ii) What is the purpose of completing a schedule of debtors?

\_\_\_\_\_

\_\_\_\_\_

(1 mark)

(c) Using the 'Other Information' on page 27 (the tear-out sheet), complete and formally balance the debtors' control account for the Whiz and Whisk for 30 June 2012.

**GENERAL LEDGER**  
**Debtors' Control Account**

23 June	Balance	4980	

(3 marks)

(d) Comment on Francesca's management of J. Simmons' account, with reference to the debtors' ageing analysis on page 27 (the tear-out sheet).

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(2 marks)

(e) Francesca is concerned that her future financial reports may not be reliable, given the bad debt that has occurred. She decides to create an allowance for doubtful debts.

(i) Complete the general journal entry to allow for doubtful debts to be 7% of the final debtors' balance from part (c).

**GENERAL JOURNAL**

Date	Particulars	Debit	Credit
30 June	Allow for doubtful debts to be 7% of debtors		

(2 marks)

(ii) What *two* recommendations would you make to help Francesca to control her future debtors better and to avoid bad debts?

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(2 marks)

- (f) Another kitchen supply store has recently opened near the Whiz and Whisk. The new store allows credit terms of 30 days.

Explain what factors Francesca should consider when reviewing her credit terms.

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(2 marks)

- (g) As a result of the increased competition, Francesca is considering expanding her business by entering into a partnership.

- (i) Describe *one* advantage that Francesca may experience by entering into a partnership.

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(1 mark)

- (ii) Describe *one* disadvantage that Francesca may experience by entering into a partnership.

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(1 mark)

TOTAL: 20 marks

***End of Question 5***