



2013 ACCOUNTING

**FOR OFFICE
USE ONLY**

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

Wednesday 13 November: 1.30 p.m.

Time: 2 hours

Pages: 29
Questions: 4

Examination material: one 29-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 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, 11, and 19 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.

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QUESTION 1

Andrea Maheras sells flower arrangements from her shop InBloom Florist, which she owns and operates. Andrea, who uses the accrual accounting system, presents the following information for use in the preparation of an income statement and a balance sheet extract for InBloom Florist:

INBLOOM FLORIST
Unadjusted Trial Balance at 30 June 2013

<i>Account</i>	<i>Debit</i>	<i>Credit</i>
Bank	26 650	
Debtors' control	3 000	
Inventory (1.7.12)	2 800	
Fittings and fixtures	80 000	
Accumulated depreciation on fittings and fixtures		15 000
Creditors' control		14 600
Loan		36 000
Capital		49 900
Drawings	1 000	
Sales		86 340
Purchases	52 300	
Freight inwards expense	2 050	
Stationery expense	1 000	
Rates expense	2 000	
Bad debts expenses	200	
Advertising expense	1 300	
Shop rent expense	9 600	
Salesperson's wages expense	19 000	
Office expenses	940	
Balance	201 840	201 840

Other Information at 30 June 2013

- A physical stocktake revealed \$1700 of inventory on hand.
- Fittings and fixtures have an expected residual value of \$5000 and a 20-year life. They are depreciated using the straight-line method.
- \$450 in salesperson's wages was owing at 30 June.
- \$500 of the amount included in the rates expense was paid in advance for July 2013.
- \$300 of the advertising expense was incorrectly recorded as office expenses.
- The loan was taken out on 31 December 2012. The principal will be repaid in full at the end of the loan period; interest, calculated at 6% per annum, is due for payment at the end of each year, beginning on 31 December 2013.
- InBloom Florist has recently been offering credit on flower arrangements created for events. Andrea has therefore decided that she should provide for doubtful debts to be 8% of the closing debtors' balance.

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QUESTION 1

(a) Calculate the:

(i) depreciation on fittings and fixtures.

(2 marks)

(ii) accrued interest on the loan.

(2 marks)

(b) Prepare the general journal entries for the following transactions.

GENERAL JOURNAL

Date	Account	Debit	Credit
	Prepaid rates		
	Correction of recording error		
	Interest on loan		

(3 marks)

(c) Using the information on page 5 (the tear-out sheet), prepare the income statement for InBloom Florist for the year ended 30 June 2013.

INBLOOM FLORIST
Income Statement for Year Ended 30 June 2013

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

(10 marks)

(d) How could Andrea use technology to improve sales at InBloom Florist?

(2 marks)

(e) Explain the difference between bad debts and doubtful debts.

(2 marks)

(f) Using the information on page 5 (the tear-out sheet), prepare the balance sheet extract for InBloom Florist at 30 June 2013.

INBLOOM FLORIST
Balance Sheet Extract at 30 June 2013

Current Assets	
Non-current Assets	

(5 marks)

(g) Andrea sends her friend Nicola some flowers from the shop's inventory without paying for them.

(i) With reference to an accounting concept, explain why this should be recorded as a transaction in the accounting system.

(2 marks)

(ii) How would the transaction above be recorded in the accounts of InBloom Florist, and what effect would it have on the accounting equation?

(2 marks)

TOTAL: 30 marks

End of Question 1

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

Heath Lake is the owner–manager of Aztec Furniture and Electrical. In mid-June 2013 a new delivery vehicle was purchased when Aztec Furniture and Electrical began offering a free home delivery service in the hope of improving its market share. Heath estimated that this new marketing strategy would increase sales by 10%.

Heath supplied the following income statement for the year ended 30 June 2013 and the comparative balance sheets for 2012 and 2013 (on page 12), to be used in preparing a statement of cash flows for the year ended 30 June 2013:

AZTEC FURNITURE AND ELECTRICAL
Income Statement for Year Ended 30 June 2013

Revenue		
Sales	480 700	
Sales returns	(2 500)	478 200
Cost of Goods Sold		
Opening inventory	65 000	
Purchases	280 000	
Customs duty	28 000	
Closing inventory	(80 000)	293 000
Gross Profit		185 200
Other Revenue		
Discount received		2 300
Expenses		
Wages	72 900	
Rent	56 400	
Depreciation on equipment	6 000	
Telephone	3 500	
Electricity	15 700	
Interest on loan	7 600	
Office	2 400	164 500
Net Profit		23 000

The information for Question 2 is continued on page 12.

AZTEC FURNITURE AND ELECTRICAL
Comparative Balance Sheets as at 30 June 2013 and 30 June 2012

	2013	2012
Owner's Equity		
Capital	95 800	120 000
Additional capital	15 500	
Drawings	(5 000)	(35 000)
Net profit	23 000	10 800
	129 300	95 800
Current Assets		
Bank	14 000	26 500
Debtors	96 500	85 000
Inventory	80 000	65 000
Prepaid rent	5 100	4 500
	195 600	181 000
Non-current Assets		
Equipment	78 000	78 000
Less accumulated depreciation	(12 000)	(6 000)
Delivery vehicle	91 000	
	157 000	72 000
Total Assets	352 600	253 000
Current Liabilities		
Creditors	61 000	56 000
Accrued electricity	2 300	1 200
	63 300	57 200
Non-current Liabilities		
Loan	160 000	100 000
Total Liabilities	223 300	157 200
Net Assets	129 300	95 800

Other Information

- All acquisitions and sales of non-current assets were for cash.
- All drawings were cash drawings.

QUESTION 2

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

Received from customers

Paid to suppliers

Paid for rent

Paid for electricity

(6 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 Aztec Furniture and Electrical for the year ended 30 June 2013.

AZTEC FURNITURE AND ELECTRICAL
Statement of Cash Flows for Year Ended 30 June 2013

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

INCREASE/DECREASE IN CASH HELD

CASH AT BEGINNING OF YEAR

CASH AT END OF YEAR

(8 marks)

(c) With reference to information on pages 11 and 12 (the tear-out sheet), and to the statement of cash flows that you have prepared in part (b):

(i) state the change in cash position.

(1 mark)

(ii) describe how the current cash position of the business and the future of the business have been affected by:

(1) investing activities.

(2 marks)

(2) financing activities.

(2 marks)

(d) (i) Why would the new delivery vehicle have to be depreciated?

(1 mark)

(ii) Outline which method of depreciation would be most appropriate for this non-current asset.

(1 mark)

(e) Heath assumed that, as well as increasing sales by 10%, the new delivery service would result in a 10% increase in profits and cash flow in the same period.

Suggest *one* reason why:

(i) profits would not increase by 10%.

(1 mark)

(ii) cash flow would not increase by 10%.

(1 mark)

(f) How could the preparation of a cash budget have helped Heath in making the decision to purchase the new delivery vehicle?

(2 marks)

(g) Calculate the debt/equity ratio for Aztec Furniture and Electrical for 2013 and complete the table below.

Debt/Equity Ratio

2012	2013
164%	

(1 mark)

(h) With reference to the information you have calculated previously in this question, explain whether or not it was a reasonable decision to purchase the delivery vehicle.

(4 marks)

TOTAL: 30 marks

End of Question 2

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QUESTION 3

Bruno Hernandez is the owner of Jukebox and Party Supplies. He uses subsidiary ledgers to record debtors and inventory.

Bruno provided the following information for events that occurred during May 2013:

JUKEBOX AND PARTY SUPPLIES
Debtors' Ageing Analysis at 1 May 2013

Debtor	Current	30 Days	60 Days	90+ Days	Total
P. Mars	\$300	\$1340			\$1640
S. Pluto	\$1570				\$1570
D. Mercury				\$400	\$400
M. Earth	\$2670		\$120		\$2790
Total	\$4540	\$1340	\$120	\$400	\$6400

Cash Receipts Journal	Bank	16 500
	Cash sales, cost price	4 400
	Cash sales, selling price	7 500
	Discount allowed	100
	Receipts from debtors	4 100
	Sale of office fixtures	3 000
Cash Payments Journal	Bank	15 000
	Cash purchases	2 500
	Payment to creditors	11 300
	Discount received from creditors	180
Sales Journal	Cost price	4 000
	Selling price	7 200
Sales Returns Journal	Cost price	350
	Selling price	750
Purchases Journal		7 100

Other Information Still to Be Recorded by the Business

- D. Mercury's account is written off as irrecoverable.
- Debtor P. Mars is to be charged \$50 interest for non-payment in May.
- The owner withdrew, for his personal use, stock with a cost price of \$500 and a selling price of \$1100.
- The allowance for doubtful debts account is to be adjusted to 5% of the closing debtors' balance.
- A stocktake at the end of May showed \$11200 of inventory on hand.

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QUESTION 3

(a) State *one* advantage of using a debtors' ageing analysis.

(1 mark)

(b) Using the information on page 19 (the tear-out sheet), complete and formally balance the debtors' control account.

Debtors' Control Account

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(4 marks)

(c) (i) Calculate the debtors' turnover for May.

(2 marks)

(ii) Comment on the impact that the debtors' turnover result would have on the future of the business.

(1 mark)

- (d) (i) Bruno Hernandez has always made an allowance for doubtful debts of 5% of the closing debtors' balance.

State *two* accounting concepts that relate to this practice.

(2 marks)

- (ii) Complete the general journal entries to record the closing of the bad debts account and the adjustment of the allowance for doubtful debts account, if the current balance of the allowance for doubtful debts account is \$500.

GENERAL JOURNAL

Date	Particulars	Debit	Credit
	Closing of the bad debts account		
	Adjusting the allowance for doubtful debts account		

(3 marks)

- (e) Name *one* way in which the business could reduce the amount of bad debts in the future.

(1 mark)

(f) Using the information on page 19 (the tear-out sheet), complete and formally balance the inventory control account.

Inventory Control Account

1 May	Opening Balance	10 300	
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(8 marks)

(g) The inventory turnover for May is 0.7 times. Assume that the inventory turnover for April was 1.1 times.

Suggest *two* possible reasons for the change in the result for May.

(2 marks)

(h) Bruno Hernandez uses the perpetual method of recording inventory.

List *two* benefits of using this method.

(2 marks)

- (i) One type of inventory that Bruno bought for \$3 per unit can be sold for only \$2 per unit. Explain how this type of inventory should be valued in the financial statements, and why.

(2 marks)

- (j) Outline *one* advantage of using control accounts.

(1 mark)

- (k) (i) Bruno is planning to sell party cakes.

Using the following information, calculate the break-even point for party cakes:

- fixed costs \$1120
- selling price \$25
- variable costs \$9.

(1 mark)

- (ii) Bruno wants to make \$1000 profit from the sale of party cakes.

Calculate the number of party cakes that will need to be sold for Bruno to achieve this goal.

(1 mark)

- (l) Bruno has provided the following information about assets and liabilities of the business at 30 June 2012 and 30 June 2013. During the financial year Bruno made drawings of \$27 000.

	2012	2013
Assets	320 000	350 000
Liabilities	180 000	165 000

Calculate the profit for the year ended 30 June 2013.

(3 marks)

- (m) Jukebox and Party Supplies has had some cash flow problems recently and Bruno is proposing to reduce wages by dismissing two full-time staff members.

Identify *one* social or ethical issue relating to this proposal.

(1 mark)

TOTAL: 35 marks

End of Question 3

QUESTION 4

Brothers Doug and Phil De Holzen run How Does Your Garden Grow?, an indoor landscaping business for people without a garden. The business involves building and selling small garden beds in a box, which can then be set up indoors.

The brothers are planning for the first 3 months of next year. They have provided the following information to help in the preparation of the cash budget for January to March 2014:

Sales

- 25% of sales are made on credit and 75% are cash.
- Sales for January and February are expected to be \$20000 per month; this amount is expected to fall by 20% in March as the hot weather ends.
- Credit sales are expected to be collected:
 - 60% in the month of sale
 - 40% in the month after sale.

Purchases of Supplies

- Purchases are expected to be 65% of the sales for any particular month.
- All purchases are made on credit and paid for in the month after purchase.

Other Information

- The expenses for October, November, and December 2013 total:
 - rent \$12000
 - electricity \$3000
 - telephone \$1600
 - depreciation \$5000.

These expenses are expected to remain the same, except for electricity, which will increase by 30%.

- All the equipment used to build the garden beds was thoroughly serviced in November at a cost of \$15000. Payment is due in January.
- \$1500 interest from a term deposit will be received on 28 February.

- (a) Complete the collection from debtors schedule for How Does Your Garden Grow? for January to March 2014.

HOW DOES YOUR GARDEN GROW? Collection from Debtors Schedule for January to March 2014

Month	Total Sales	Cash Sales	Credit Sales	Cash Collected from Debtors in January, February, and March
December	20000			
January	20000			
February	20000			
March				
Total				

(4 marks)

(b) Complete the payment to creditors schedule for January to March 2014.

**HOW DOES YOUR GARDEN GROW?
Payment to Creditors Schedule for January to March 2014**

Month	Total Sales	Purchases	Payments Made to Creditors in January, February, and March
December	20 000		
January	20 000		
February	20 000		
March			
Total			

(3 marks)

(c) Prepare the cash budget for How Does Your Garden Grow? for January to March 2014.

**HOW DOES YOUR GARDEN GROW?
Cash Budget for Quarter Ending 31 March 2014**

	Total for January to March
Estimated Receipts	
Total Estimated Receipts	
Estimated Payments	
Total Estimated Payments	
Surplus/deficit	
Opening bank balance	\$10 000
Closing bank balance	

(7 marks)

(d) What does the cash budget that you prepared in part (c) on page 27 indicate about the predicted cash position of How Does Your Garden Grow? at the end of March?

(1 mark)

(e) Suggest *two* reasons why it is important to prepare a budget, even if you are sure that the actual results will be different from the budget estimates.

(2 marks)

Before they could undertake the budgeting process, Doug and Phil needed to reconcile their cash at bank account with the bank's records.

The bank statement at 31 December 2013 showed a credit balance of \$13480. The business records were checked and found to be completely up to date; however, the following items did not appear on the bank statement:

- A \$2700 cash payment from a customer, received on 30 December.
- Cheque number 456782 for \$6000 for December rent had been issued but not presented to the bank.
- An error made by the bank in December, when the bank teller had incorrectly recorded as \$350 a \$530 deposit made by Doug, had not been corrected.

(f) Prepare a bank reconciliation statement at 31 December 2013.

HOW DOES YOUR GARDEN GROW?
Bank Reconciliation Statement at 31 December 2013

(4 marks)

(g) Suggest *two* reasons that account for the difference in the amounts of cash recorded by the bank and the business.

(2 marks)

(h) Why is it important for a business to monitor its cash balance even if it is making a large profit each year?

(2 marks)

TOTAL: 25 marks

End of Question 4