

# 2022 ASSESSMENT REPORT

## ACC315116 - ACCOUNTING

### Section A

### Sample Answers

#### QUESTION 1

- a) i. **EXTERNAL USERS OF ACCOUNTING INFORMATION:** Examples may include suppliers, lenders, other creditors, governments, advisors, auditors, customers, competitors, potential investors, business and finance journalists (students should avoid using current shareholders as an example). Reasonable description of usefulness is required for each case.

0.5 Marks for each example and 1 mark each for explaining the use

- ii. **REASONS WHY THE BANK STATEMENT MAY DIFFER FROM THE CASH AT BANK ACCOUNT:** Reasons why they may not be the same. *Note: as this question didn't specify whether this is before or after the completion of the Bank Rec, the following were accepted:* items that appear on the statement that have not yet been entered in the Cash at Bank ledger account, bank or business errors, deposits not yet credited, unpresented cheques, dishonoured cheques, interest received/charged, any timing issues with a specific example.

1 mark for each example and 1 mark for explaining why

- iii. **POSTING ERRORS NOT IDENTIFIABLE IN A TRIAL BALANCE:** Any Journal where the debit entry and the credit entry are equal will not “unbalance” the trial balance and therefore will not “show up” in the trial balance as different debit and credit totals. There can still be a number of errors in the Journal entries that do balance including:

- using the wrong account(s)
- data error (wrong value in correct accounts)
- omission of entry altogether
- doubling up of correct entry
- date error

1 mark for each example and 1 mark for explaining why

- iv. **THE NATURE OF ITEMS IN THE FINANCE EXPENSE CATEGORY:** Items included in the financial expenses section relate to the costs associated with financing of a business (0.5 marks) including borrowing money or lending money (0.5 marks).

These might include: lease costs, interest on borrowings, bank charges, other borrowing costs (e.g., stamp duty), and Bad and Doubtful debts related to offering credit to customers.

(1 mark for each example)

- b) i. **SOURCES OF NON-FINANCIAL INFORMATION:** Select from (Course content) benchmarks for financial ratios, staff turnover, market size, market share, current interest rates, customer feedback, staff surveys or other relevant source.

1 mark for each example and 0.5 marks each for explaining

- ii. **LIMITATIONS OF ACCOUNTING REPORTS:** Limitations may include: use of historic cost in asset valuation (not a current value); formulaic depreciation allocations; subjective treatment of intangible assets; subjective treatment of doubtful debts and hence accounts receivable asset value.

0.5 mark for each limitation and 1 mark each for explaining

- iii. **CONSIDERATIONS WHEN BORROWING:** These may include: interest charges, other costs of borrowing, the terms of the loan, return on investment, existing debt levels/gearing; loan period, repayment amounts; requirement and availability of security, available cash flow to make regular repayments.

1 mark for each example and 0.5 marks each for explaining why they are considerations

- c) i. **CASH BASED VS ACCRUAL BASED ACCOUNTING:** Cash-based accounting only records transactions when cash is either received or paid. Accrual accounting records transactions when the activity occurs - that is when there is a right to a revenue or a receipt, or an obligation for an expense or payment, so it includes non-cash items like credit sales and purchases and depreciation and Bad and Doubtful debts.

1 mark for explaining cash-based and 2 marks for explaining accrual based and 1 mark for showing an understanding of how they are different.

- ii. **DISTINGUISH BETWEEN LIQUIDITY AND PROFITABILITY:** Liquidity is the capacity of the entity to meet bills (current liabilities) as they fall due. In order to pay on time, there needs to be an availability of liquid assets. Assets are more 'liquid' if they are in cash form or if there is the intention and ability to convert them to cash

in the short term. Profitability is the capacity of the business to generate profits through turning sales into profit and keeping control over expenses. Making profit can assist with liquidity, but a business can also get cash from other sources such as loans, further equity or selling off of non-current assets.

**1 mark for explaining liquidity and 1 mark for explaining profitability and 1 mark for showing an understanding of how they are different.**

- iii. **DISTINGUISH BETWEEN A CASH BUDGET AND A CASH FLOW STATEMENT:** Cash budget is a forecast of the predicted receipts of cash and the predicted cash outgoings, in order to predict the cash balance available to the business at some time in the future. A cash flow statement is a period statement showing the change in cash position over the preceding financial period. Both look at the change in cash position, but one looks into the immediate future and the other into the past and examines the sources and uses of cash in 3 areas – Operating Activities (Cash flows related to the profit making activities of the business), Investing Activities (Cash flows related to the sale and purchase of non-current assets) and Financing Activities (Cash flows related to borrowing and capital contributions or drawings made by the owner) and can be a measure of the “health” of the cash position e.g. is it unsustainable based on ongoing borrowing/capital injections or sales of critical assets or is the cash being generated by the operations of the business.

**1 mark for explaining each and 1 mark for showing an understanding of how they are similar and 1 mark for highlighting their differences.**

- iv. **DISTINGUISH BETWEEN INVESTING AND FINANCING ACTIVITIES:** Investing activities are those involving the purchase and sale of non-current assets and includes shares / debentures in other companies held as an investment. Financing activities are those involving the funding of the business through owners' capital and borrowings.

**2 marks for each.**

## QUESTION 2

- a) i. **EXAMPLE OF INVENTORY HELD BY AN ELECTRICAL APPLIANCE RETAILER AND WHAT CHARACTERISTICS MUST INVENTORY HAVE.**

Any suitable example such as toaster, electric kettle, TV, refrigerator....

Major characteristic is that the asset is purchased with the intent of resale for a profit. In this instance it will be finished goods as business is retail. Could also have stock of spare parts as inventory in this case.

**1 mark for the example and 3 marks for explaining what makes an item “inventory”.**

ii. EXAMPLE OF A PREPAID EXPENSE. WHERE ARE THEY RECORDED IN THE BALANCE SHEET

A prepaid expense is one paid in advance. Insurance is one example of an expense which is prepaid – accept any correct example. Prepaid expenses are recorded as current assets in the Balance Sheet.

3 marks for the example and explaining what a prepaid expense is. 1 mark for stating that it is a current asset.

iii. ACCOUNTING PRINCIPLES OR QUALITATIVE CHARACTERISTIC THAT SHOULD INFLUENCE A DECISION AS TO WHICH METHOD OF DEPRECIATION

The Matching Principle should be referred to and how depreciation is an expense related to the use of an asset to earn revenue over its useful life. By recording expenses like Depreciation, our reports are reliable (reliability characteristic) and will produce accurate profit calculations and allow valid comparisons (comparability characteristic) of profit to be made between financial periods. Some students received part marks for referring to the Historical Cost assumption, and some good answers referred to the principle of Conservatism with regard to expenses and accumulated depreciation so as not to overstate profit or the value of assets on the balance sheet.

1 mark for identifying the Matching principle and 1 mark for explaining how it relates to Depreciation. 1 mark for explaining that Depreciation is the allocation of the cost of the asset over its useful life in order to calculate profit in each period. 1 mark for identifying either Reliability or Comparability characteristics.

- b) i. NOT ADJUSTING FOR AN UNEARNED REVENUE: The amount is not earned in the financial year (the current accounting period), but is earned in the following year. Therefore, there should be an adjustment to shift the unearned revenue into the next year's accounts. Achieved by a balance day adjustment of debit to cleaning revenue account (reduces revenue) and credit to unearned revenue account (creates a current liability account). This treatment is supported by the matching principle. Qualitative characteristics could include, with explanation, materiality (as it is a large amount – she can't just ignore its effect on the profit figure as being inconsequential), reliability of her Service Fees revenue item (and the current liability as well), comparability.

2 marks for identifying the matching principle and explaining why. 2 marks for identifying and explaining one relevant Qualitative characteristic.

- ii. Concerns will include (with explanation) valuation issues – related to relevance, reliability, comparability, objectivity and moving away from historic cost.

**2 marks** for identifying and explaining historical cost and the need for an independent valuation to be done before showing any change in asset values. **1 mark** for saying It shouldn't be shown as a revenue item as it would need to be sold. We don't preempt sales – they are only recorded when they occur. The business should also not be showing the revaluation as a revenue item as there has been no sale. Doing this will make the profit figure unreliable etc. It would increase owner's equity as a revaluation reserve item (which is beyond the reach of this course). **1 mark** for choosing Reliability or Comparability as qualitative characteristics – by sticking with Historical cost the value of the asset isn't representative of its true value etc.

## Markers Comments

Section A was generally done quite well by most students. There was a good range of questions covering many areas of the course content. Students found Question 1 a) and b) fairly straight forward. Students experienced greater difficulty in answering all parts of the question in Questions 1 c) and Question 2. For question 1 c), many were able to adequately describe both terms but didn't necessarily explain the differences between the two terms. For question 2 a), a surprising number of students didn't know what an electrical appliance was. Questions about the Accounting Assumptions and Qualitative Characteristics of Accounting reports can be challenging for students and this year was no exception, but most students did a reasonable job in tackling this question. For study purposes, it is highly recommended that students look at the suggested answers to gain greater insight into the issues at hand.

## Section B

### Sample Answers

#### QUESTION 3

Date	Transaction	Debit	Credit	Marks
July 5	Cash at bank  Loan XYZ bank  Capital  (Commenced business with loan and cash as capital Receipt No. 000517)	108 000	50 000  58 000	     
August 3	Inventory  GST Clearing  AGX Ltd  (Purchased goods on account Tax Invoice 601247)	22 000  2 200	24 200	     
August 31	Hire Clothing  GST Clearing  Glory B Pty Ltd  (Purchased hire clothing on account Tax Invoice 400671)	13 800  1 380	15 180	     
Sept 25	AGX Ltd.  Inventory  GST Clearing  (Returned goods to supplier Credit Note R56)	440	400  40	     
October 8	Muriel Smith	2 530		

Date	Transaction		Debit	Credit	Marks
	Hire Clothing Revenue			2 300	
	GST Clearing			230	
	(Hired goods to Debtor Tax Invoice I12347)				
Nov16	Cash at bank		2 530		
	Muriel Smith			2 530	
	(Debtor paid account Receipt No. 000675)				
Jan 9	Smart Dress Co.		15 400		
	Cash at bank			15 400	
	(Paid creditor Chq. No. 655)				
March 16	Drawings		440		
	Inventory			400	
	GST Clearing			40	
	(Owner withdrew stock for personal use Memo 12)				
June 30	Accrued revenue		2000		
	Interest revenue			2000	
	(Adjustment for 4 months interest)				
June 30	Bad and Doubtful Debts *		480		
	Provision for Doubtful Debts			480	
	(Created Provision – 4% of A/R Balance)				

**\*Accept B&D Debts or Doubtful Debts, 0.5 marks for Bad Debts**

**There were fewer lines this year but students had to do more reading and a fairly tricky interest adjustment.**

*Entries:* Marks for each line (total of 26) (1 mark per line – the complete line needs to be correct to earn 1 mark, half marks given at marker’s discretion).

*Layout:* 2 marks for narrations and 2 marks for layout.

Correct use of accounts earned half marks even if the calculations were incorrect in the balance day adjustments.

**Total Marks: / 20** (score x 20 and divide by 30, rounded up or down to the nearest half mark).

### Markers Comments

Students are reminded to rule off after each GJ entry.

If source documents e.g., cheque numbers, invoices etc are given in the question, they must be included in the narration.

Students who use GST Collected and GST Cr Received must take care to write the correct account name against the appropriate entry.

Students had difficulties in both calculating the amounts and remembering the accounts used to complete the balance day adjustments. Correct use of accounts earned half marks even if the calculations were incorrect.

The entry on January 9, paying the creditor for clothing was poorly done. Students did not add the GST that was required to be paid to the value of the clothing.

## QUESTION 4

### Marking Scheme:

- a. Entry marked A

Purchase of inventory on account from Ace Co. (\$9900, GST Inclusive). **2 marks: ½ mark noting it was purchase, ½ mark on account, ½ mark inventory, ½ mark GST**

- b. Entry marked B

Owner drew cash of \$2 000 and inventory of \$1 000 for personal use. **2 marks: ½ mark indicating it was the owner, ½ mark mentioning drawings, ½ mark mentioning cash, ½ mark mentioning inventories**

- c. Entry marked C

This relates to Entry B: The inventory had \$100 GST recorded which is reversed. **1 mark for relating it to the withdrawal of inventories - Example: GST from withdraw inventories added to drawings and increasing GST debt**

### Markers Comments

It is a good technique to mention the date each entry occurred. Figures must be included in the explanation. Students frequently thought that ACE Co was the firm as opposed to being an Account Payable. Students must explain it was purchasing inventory.

## QUESTION 5

Cash Receipts			Cash Payments			
Date	Details	\$	Date	Details	Chq.No	\$
Sept 2	R.Dodger account	92	Sept 3	Insurance Co.	670	1 500
6	Cash Sales	1 750	6	Fruit Drink Co.	671	670
8	J Clampett account	620	8	Rent	672	800
10	M. Poke account	205	12	Casual Wages		650
13	Cash Sales	1 240	15	Henry's bakehouse		210
16	J. Atric account	107		Wholesale foods	673	720
20	Cash Sales	1 060	16	Aur Electrical		512*

Cash Receipts			Cash Payments			
Date	Details	\$	Date	Details	Chq.No	\$
23	D.Trusk account	47	20	Water Board		370
27	Cash Sales	927	22	Rent	674	800
30	Ted Bare account	78	24	Donation Red Cross		45
			26	Casual Wages		650
			28	Repair	675	165
			30	Subscription	676	110
	<i>Sub-total</i>	6 126		<i>Sub-total</i>		7 202*
2 marks	Interest	3	1 mark	Account fee		27
			1 mark	Cheque book		8
			1 mark	Error correction		9*
1 mark		6 129	1 mark			7 246

\*Students could also cross out the Aur Electrical entry and put \$521 (the correct amount) and correct the old total to \$7211

a) Cash at Bank account.

#### Cash at Bank

Date	Particulars	\$	Date	Particulars	\$
1 Sept	Balance b/d (0,5 marks)	1 756	30 Sept	Payments (1 mark)	7 246
30 Sept	Receipts (1 mark)	6 129		Balance c/d	639
		7 885			7 885
	Balance b/d (0.5 marks)	639			

OR

Cash at Bank

Date	Particulars	\$	Date	Particulars	\$
1 Sept	Balance b/d (0,5 marks)	1 756	30 Sept	Payments (1 mark)	7 246
30 Sept	Receipts (1 mark)	6 129			
	(0,5 marks)	639			

OR

Cash at Bank

Date	Particulars	Debit	Credit	Balance
1 Sept	Balance		(0,5 marks)	1 756 DR
30 Sept	Receipts (1 mark)	6 129		7 885 DR
30 Sept	Payments (1 mark)		7246	639 DR (0,5 marks)

OR

Cash at Bank

Date	Particulars	Debit	Credit	Balance
1 Sept	Balance		(0,5 marks)	1 756 DR
30 Sept	Payments (1 mark)		7246	5 490 CR
30 Sept	Receipts (1 mark)	6 129		639 DR (0,5 marks)





## Section C

### Sample Answers

#### QUESTION 6

**NOTE: Set out to comply with handwritten example answer (see ahead).**

Adventure Cycles Income Statement **(0.5 marks)** for the year ended June 30 2022 **(0.5 marks)**

Net Sales				MARKS
Sales		900 200		1
Less Sales Returns		1 500	898 700	2
<b>Less Cost of Sales</b>				
Cost of Goods Sold		680 000		1
Inventory adjustment		500	680 500	2 + 1
<b>Gross Profit</b>			<b>218 200</b>	1
<b>Other Operating Revenue</b>				
Profit from sale of asset			1 540	1
		SUBTOTAL	219 740	1
<b>Less Other Operating Expenses</b>				
<b><i>Selling and Distribution</i></b>				
Advertising	13 550			1
Sellers Commission	21 590			1
Delivery charges	4 220	39 360		1
<b><i>General and Administrative</i></b>				
Insurance	9 600			2
Rent of premises	31 000			1
Other administrative expenses	22 950			1

Depreciation on tools and equipment	7 140	70 690		2
<b>Finance</b>				
Interest	1 200			2
Bank fees and charges	530	1 730	111 780	1 + 2
Net Profit			107 960	1
<b>TOTAL</b>				<b>26 marks</b>
Add a score out of 3 for formatting				<b>/3</b>
<b>Overall score is out of 25 so multiply the score by 25 and divide by 29</b>				

## Marking Scheme

Guiding Principal: any entry can't have less than 0 marks

- **Entries:**

1 mark for correct title (0.5 for identifying the report and 0.5 for the dates), 1 mark per correct entry, 2 marks for simple correct BDA, 3 marks for complex correct BDAs.

**If the item is there but remains unadjusted – allocate a mark of 0.5.**

For an adjustment attempted but incorrect, allocate 1 mark for a simple adjustment and 1.5 marks for a complex adjustment.

- Minus 0.5 if correct statement but wrong classification (e.g., if worth 3 marks, would be 2.5, 2 marks 1.5 etc)
- 0 marks if incorrect statement
- Minus 0.5 if transfer of incorrect amount from trial balance (e.g., if worth 1 mark, would be 0.5 (or 0 if also wrong classification))

- **Formatting:**

Correct use of columns for sub-totalling, sub-totals and ruling = /3 marks allocated overall

**Final score is out of 29 (26 + 3). Calculation of FINAL MARK / 25 (score x 25 ÷ 29, rounded up or down to the nearest half mark).**

Adventure Cycles Balance Sheet (0.5 marks) as at June 30 2022 (0.5 marks)

Current assets					MARKS
Cash at Bank			22 000		1
Inventory			98 000		2
Accounts Receivable		15 400			1
Less Provision for Doubtful Debts		500	14 900		1 + 1
Prepaid expense			5 600	140 500	2 + 1
<b>Non-current assets</b>					
<i>Other financial</i>					
Term Deposit			49 500		1
<i>Property, plant and equipment</i>					
Tools and Equipment		73 200			1
Less Accumulated Depreciation		32 740	40 460		2 + 1
<i>Intangibles</i>					
Agency agreements *			40 000	129 960	1 + 1
<b>Total Assets</b>				<b>270 460</b>	<b>1</b>
<b>Current Liabilities</b>					
Accounts payable			19 200		1
Accrued expense			120		2
GST Clearing			3 780	23 100	1 + 1
<b>Non-current liabilities</b>					
Term Loan				30 000	1
<b>Total Liabilities</b>				<b>53 100</b>	<b>1</b>
<b>Net Assets</b>				<b>217 360</b>	<b>1</b>
<b>Owners' Equity</b>					

Capital – owner		269 400			1
Add net profit		107 960	377 360		1
Less Drawings			160 000	217 360	1 + 1
TOTAL					30 marks
Add a score out of 3 for formatting					/3
Overall score is out of 20 so multiply the score by 20 and divide by 33					

\* Could also be treated as a General & Administrative Expense or Selling expense

### Marking Scheme:

Guiding Principal: any entry can't have less than 0 marks

- **Entries:**

1 mark for correct title, 1 mark per correct entry, 2 marks for simple correct BDA, 3 marks for complex correct BDAs – part marks for adjustment attempted but incorrect,

1 mark for a simple BDA and 1.5 marks for a “complex” BDA.

**If adjustment is not attempted but the item is included, allocate 0.5 marks.**

Minus 0.5 if correct statement but wrong classification (e.g., if worth 3 marks, would be 2.5, 2 marks 1.5 etc)

0 marks if incorrect statement

Minus 0.5 if transfer of incorrect amount from trial balance e.g. if worth 1 mark, would be 0.5 (or 0 if also wrong classification)

- **Formatting:**

Correct use of columns for sub-totalling, sub-totals and ruling = /3 marks allocated overall

Final score is out of 33 (30 + 3)

**Calculation of FINAL MARK / 20** (score x 20 ÷ 33 rounded up or down to the nearest half mark).

Question 6

a) ..... Income Statement .....  
 ..... for Adventure Cycles .....  
 ..... 1.7.21 - 30.6.22 .....

	\$	\$	\$
<b>Net Sales</b>			
Sales		900,200	
Less Sales Returns		<u>1,500</u>	898,700
<b>Less Cost of Sales</b>			
Cost of Goods Sold		680,000	
Inventory Adjustment		<u>500</u>	680,500
<b>Gross profit</b>			\$ 218,200
<b>Add Other Operating Revenue</b>			
Profit from sale of asset			<u>1,540</u>
		<b>SUBTOTAL:</b>	<b>219,740</b>
<b>Less Other Operating Expenses</b>			
<i>Selling and Distribution Expenses *</i>			
Advertising	13,550		
Sellers Commission	21,590		
Delivery Charges	<u>4,220</u>	39,360	
* Could include Agency Agreements			

	\$	\$	\$
<b>General &amp; administrative expenses *</b>			
Insurance	9,600		
Rent of Premises	31,000		
Other Admin. Expenses	22,950		
Depreciation on Tools & Equipment	<u>7,140</u>	70,690	
* Agency Agreements could also be included here (or under selling expenses)			
<b>Finance expenses</b>			
Interest	1200		
Bank Fees & charges	<u>530</u>	1730	111,780
<b>Net Profit/(Net Loss)</b>			<b>\$107,960</b>

Question 6 continued

b) Balance Sheet for  
Adventure Cycles  
as at 30.6.2022

ASSETS	\$	\$	\$	\$
<b>Current Assets</b>				
Cash at bank			22,000	
Inventory			98,000	
Accounts Receivable		15,400		
less Provision for D. Debts		<u>500</u>	14,900	
Prepaid Expenses			<u>5,600</u>	140,500
<b>Add Non-Current Assets</b>				
<i>Other financial assets</i>				
Term Deposit			49,500	
<i>Property, plant and equipment</i>				
Tools & Equipment		73,200		
less Accumulated Deprec.		<u>32,740</u>	40,460	
<i>Intangibles</i>				
Agency Agreements *			<u>40,000</u>	<u>129,960</u>
<b>Total Assets</b>				<b>\$270,460</b>

\* Could also be treated as a General & Admin Expense  
 or even Selling Expenses

Question 6 b) continues

## Markers Comments

### QUESTION 6

Classifying and formatting overall, was done well by students.

Very few students were able to produce the correct net profit figure, net assets and total owners' equity amount.

The most common mistake in terms of the balance day adjustments was the accrued interest expense from the fixed loan, followed by the insurance premium and knowing how many months had already been used and how many were left as a prepaid asset.

Other common mistakes were making sure the Owner's Equity account goes Capital, Add Net Profit and Less Drawings as well as making sure Provision for Doubtful Debts goes straight underneath Accounts Receivable in the Current Assets.

### QUESTION 7

#### Inventory

Date	Particulars	\$	Date	Particulars	\$
1/7/21	Balance b/d	12 000	30/6/22	Cost of goods sold (1 mark)	107 800
30/6/22	Cash at Bank (2 marks)	<u>109 800</u>		Balance c/d	<u>14 000</u>
		<u>121 800</u>			<u>121 800</u>
	Balance b/d (1 mark)	14 000			

OR

#### Inventory

Date	Particulars	\$	Date	Particulars	\$
1/7/21	Balance (1 mark)	12 000	30/6/22	Cost of goods sold (1 mark)	107 800
30/6/22	Cash at Bank	<u>109 800</u>			

	(2 marks)				
	(1 mark)	14 000			

Capital

Date	Particulars	\$	Date	Particulars	\$
30/6/22	Drawings (2 marks)	143 850	1/7/21	Balance b/d	95 000
	Balance c/d	<u>102 000</u>	30/6/22	Net Profit (1 mark)	<u>150 850</u>
		<u>245 850</u>			<u>245 850</u>
				Balance b/d (1 mark)	102 000

OR

Capital

Date	Particulars	\$	Date	Particulars	\$
30/6/22	Drawings (2 marks)	143 850	1/7/21	Balance b/d	95 000
			30/6/22	Net Profit (1 mark)	<u>150 850</u>
				(1 mark)	102 000

**1 mark was given for the correct answer and 1 mark for the correct construction**

## Markers Comments

### QUESTION 7

On average, this question was not answered well and there was greater variance in the students' results. Students need to be prepared to be able to answer both a Cash Budget **AND** Cash Flow Statement for Q7 in their preparation for the exam.

Unfortunately, a small minority didn't attempt the Cash Flow Statement and a much larger minority couldn't classify correctly.

Reconstructing of the accounts was an area in which student struggled and this seemed to have caused problems in transferring over these figures into the Cash flow statement. Other common mistakes were dividends from shares in the investing activities inflow and interest received and interest on business loan in the financing activities.

**Set out to comply with Appendix 8 of course document.**

**Statement of Cash Flows (0.5 marks) for Fresh As for the period 1 July 2021 to 30 June 2022 (0.5 marks)**

<b>Cash flows from operating activities</b>	\$	\$		
<b>Inflows</b>				
Cash sales	321 000			
Interest received	60			
Dividends from shares	350			
Rent received	2 500	323 910		+
<b>Outflows</b>				
Payments to suppliers	109 800			2
Payments to employees	58 000			
Interest	1 560			
Insurances	2 500			
Sundry expenses	3 200	175 060	148 850	+   +
<b>Cash flows from investing activities</b>				
<b>Inflows</b>				
Sale of delivery vehicle		9 000		
<b>Outflows</b>				

Purchase of new vehicle		39 000	(30 000)	I + I
<b>Cash flows from financing activities</b>				
<b>Inflows</b>				
-		0		
<b>Outflows</b>				
Drawings	143 850			2
Loan repayment	5 000	148 850	(148 850)	I + I + I
<b>Net cash flow</b>			<b>(30 000)</b>	<b>I</b>
<b>Cash balance at beginning</b>			<b>29 000 DR</b>	<b>I</b>
<b>Cash balance at end</b>			<b>(1 000) CR</b>	<b>I</b>
TOTAL:				25
Overall score is out of 12 so multiply the score by 12 and divide by 25				

Question 7 continued

c) Statement of Cash Flows  
for Fresh AS for the period 1.7.21 to 30.6.22

Cash flows from operating activities	\$	\$	\$
<b>Inflows</b>			
Sales	321,000		
Interest Received	60		
Dividends Received	350		
Rent received	2,500	323,910	
<b>Outflows</b>			
Purchase of Stock/inventories	109,800		
Wages	58,000		
Interest	1,560		
Insurances	2,500		
Sundry	3,200	175,060	148,850
<b>Cash flows from investing activities</b>			
<b>Inflows</b>			
Vehicle Sale		9,000	
<b>Outflows</b>			
Vehicle Purchase		39,000	(30,000)
<b>Cash flows from financing activities</b>			
<b>Inflows</b>			
<b>Outflows</b>			
Loan repayment	5,000		
Drawings	143,850	148,850	(148,850)
<b>Net cash flow</b>			(30,000)
<b>Cash balance at beginning</b>			29,000 DR
<b>Cash balance at end</b>			(1,000) CR

## Section D

### Sample Answers

#### QUESTION 8

- a) 1.06:1 (2 marks)
- b) 1.44:1 (2 marks)
- c) 72.56% (2 marks)

Part marks allocated if the student showed workings but there were errors.

Deduct 0.5 mark for incorrect rounding (only once).

Deduct 0.5 mark for incorrect or omitted format (i.e. :1 or %).

$$\begin{aligned} \text{a) QAR} &= \frac{\text{Cash + Receivables}}{\text{Current liabilities}} \\ &= \frac{1200 + 6300 + 7020}{8750 + 5000} \\ &= \frac{14520}{13750} \\ &= 1.056:1 \text{ or } 1.06:1 \end{aligned}$$

$$\begin{aligned} \text{b) Current Ratio} &= \frac{\text{Current Assets}}{\text{Current liabilities}} \\ &= \frac{14520 + 5340}{13750} \\ &= \frac{19,860}{13,750} \\ &= 1.44:1 \end{aligned}$$

$$\begin{aligned} \text{c) Debt Ratio} &= \frac{\text{Total liabilities}}{\text{Total Assets}} \times 100 \\ &= \frac{13750 + 50,000}{14520 + 5340 + 68,000} \times 100 \\ &= \frac{63,750}{87,860} \times 100 \\ &= 72.56\% \end{aligned}$$

## Markers Comments

### QUESTION 8

Overall, this question was done well.

A common error in the calculation of the debt ratio was the inclusion of the net assets of \$23 110 in the total liabilities.

### QUESTION 9

#### a) i) Profitability

Three profitability ratios are available: gross profit ratio, net profit ratio and rate of return on owner's equity.

The gross profit ratio increased and improved from 56.21% in 2020 to 60.24% in 2022 and is now above the industry average of 60.00% which is favourable.

Both credit sales and cost of goods sold have increased, particularly from 2021 to 2022, with sales increasing at a greater rate than cost of goods sold. This can be attributed to the purchase and installation of the Digital Emboss H60.

The net profit ratio has decreased and worsened from 8.36% in 2020 to 5.86% in 2022 and is now below the industry average of 8.48% which is unfavourable.

As the gross profit ratio is increasing, this situation has arisen from the increase in other operating expenses, particularly the press operator wages which have increased from \$237 200 in 2021 to \$390 900 in 2022. This increase was due to the wages and training costs of specialized operators for the new technology.

The rate of return on owner's equity has decreased and worsened from 87.69% in 2020 to 66.50% in 2022, however, it is still well above the industry average of 18.00%.

The decrease is mainly due to the decrease in profit rather than an increase in equity as profit has declined from \$129 030 in 2020 to \$107 600 in 2022, whereas Owner's Equity has only increased slightly over the same period. This is still a solid rate of return to the owner compared to alternative investments.

**For each ratio:**

**One mark for identifying the trend and comparing the business to the industry average.**

**One mark for discussion relevant to *McLeod's Printing* and referring to the statements.**

#### a) ii) Liquidity

The liquidity ratios are the quick asset ratio and the current ratio.

The quick asset ratio worsens significantly from 1.2:1 in 2020 to 0.35:1 in 2022 and is now well below the industry average of 1.30:1 which is unfavourable. This suggests that *McLeod's Printing* will face difficulty in meeting its debts as they fall due. If there is a crisis requiring liquidation there are insufficient of the most liquid current assets (cash and receivables) to cover liabilities due in the short term.

The current ratio has also worsened from 2.6:1 in 2020 to 0.83:1 in 2022 and is now below the industry average of 2.00:1 which is unfavourable. *McLeod's Printing* would have insufficient current assets to cover current liabilities as they fall due.

Cash at bank has moved from a positive cash balance in 2020 to an overdraft in 2021 and 2022. The overdraft and a short-term bank loan were used to fund the purchase of the Digital Emboss H60 in 2021. The business has started paying off the current liabilities with the total current liabilities decreasing from \$140 100 in 2021 to \$87 380 in 2022. This is reflected in the increase in both liquidity ratios in 2022 from their lowest points in 2021.

For each ratio, one mark for identifying the trend and comparing the business to the industry average.

Two marks for referring to the financial statements, including figures.

Two marks for discussion of the liquidity challenges facing the business.

### a) iii) Financial Stability

This relates to the long-term financial stability of the business. The debt ratio shows the proportion of assets which has been paid for with borrowings. The debt ratio of *McLeod's Printing* has increased and worsened from 44.68% in 2020 to 54.64% in 2022 and has been above the industry average of 40.00% in all three years. Since 2021, more of the business's assets have been funded by borrowings than with equity. In 2021 and 2022 the Balance Sheet reveals that while the secured loan stayed the same at \$100 000, accounts payable increased slightly and in 2021 the business started a bank overdraft and short-term bank loan to fund the purchase of the Digital Emboss H60. The bank overdraft and short-term bank loan were beginning to be paid off in 2022 which is reflected in the decrease in the debt ratio from 2021 to 2022.

In the long term the business should aim to reduce its debt by using its profits to pay off loans rather than take the profits away from the business as drawings.

This part was worth six marks for discussion of one ratio.

One mark for a definition/explanation of what the ratio measures.

Two marks for describing the trend and comparing the business to the industry average.

Two marks for referring to the financial statements, including figures.

One mark for suggestions for improvement/how to address the situation.

b) Either yes or no was accepted, with justification.

Sales have increased from 2021 to 2022 which may be attributed to the acquisition of the Digital Emboss H60. During the same time frame the press operator wages increased from \$235 000 in 2020 to \$390 900 in 2022 (necessitated by the new press). Therefore, sales have increased but net profit has decreased (from \$129 030 in 2020 to \$107 600 in 2022), along with the net profit ratio.

Money was borrowed in order to purchase the Digital Emboss H60 which has had an impact on the liquidity of the business. This is mainly because short-term finance was used for the purchase of the non-current asset rather than long-term finance.

The machine will be a positive if sales continue to grow while the press operator wages can be brought down to levels that will allow a growth in profits. Additional profits could then be used to pay off debt to assist with the liquidity issues and avoid increasing interest expense.

One mark for decision: yes or no. Either was accepted with justification.

Two marks for comment on the increased sales and the profit trend.

One mark for comment on the increased wages related to the purchase of the machine.

One mark for comment on the funding of the machine/effect on finances/liquidity.

One mark for discussion about (for example) the expectation of the rapid return on investment (mentioned in stimulus) or the uncertainty of the future in relation to sales and wages or the risks of increasing interest rates.

Students are encouraged to carefully read all the information about the business and study the financial statements and calculated ratios before writing answers.

- Many students did not identify the purchase of the Digital Emboss H60 or the short-term funding that was used for its purchase.
- Many students did not link the increase in press operator wages with the purchase of the new press.
- In Part b), many students discussed investing in *McLeod's Printing* rather than the investment in the Digital Emboss H60.

In Part a), many students gave generic responses rather than specifically interpreting the information for *McLeod's Printing*. For example, to explain the increase in the gross profit ratio, many students commented that this is due to increased sales and decreased cost of goods sold when the Income Statement shows that cost of goods sold actually increased.

Note that the 2020 net profit shown in the Income Statement is \$129 030 and the 2020 net profit shown in the Balance Sheet is \$130 030. The 2020 rate of return on owner's equity and net profit ratio shown in the stimulus were calculated using the figures in the Balance Sheet.

## QUESTION 10

- a) *Happy House Rentals Pty Ltd* has \$31 650 at the start of the period (0.5 mark) and **is projected to have** a large increase to \$555 600 by the end of December (0.5 mark), an overdraft of \$1 750 (0.5 mark) at the end of January and an overdraft of \$960 (0.5 mark) at the end of February.

0.5 mark deducted if figures omitted.

0.5 mark deducted if 'projected/budgeted/forecast' omitted.

0.5 mark deducted if the terms 'profit' or 'loss' were incorrectly used.

- b) *Happy House Rentals Pty Ltd* expect to receive the funds of \$520 000 from their borrowing to purchase 45 Freddo Street in December, but not to have to pay the funds of \$560 900 for the settlement of the property until January. This means that the cash will be held by the business for the period between its forecast receipt and disbursement.

One mark for identifying the forecast loan.

One mark for identifying the forecast property settlement.

One mark for linking the forecast loan with the forecast property settlement.

One mark for including the figures.

- c) Suggestions include:

- Arrange to borrow a greater amount in December (if the lender will allow it), thereby avoiding the forecast shortfalls in January and February.
- Arrange overdraft facility/short-term finance to cover the shortfalls forecast in January and February.
- Plan to delay some payments to maintain positive cash balance (students need to identify particular payments to which this might apply).
- Owner could contribute cash thereby avoiding the need for further external finance and avoiding more interest expense.

- Sell some of the shares to cover the predicted shortfalls, thereby avoiding further external finance and interest expense.
- Increase rental receipts by raising the rent received from tenants if possible.

One mark for stating each suggestion.

One mark for explaining each suggestion and how it would address the cash positions shown by the budget.

Overall, this question was done well.

The most common error was not linking the proceeds of the loan for 45 Freddo Street expected as a receipt in December to the settlement of 45 Freddo Street budgeted as a payment in January.