

2025 ASSESSMENT REPORT

ACC315116 ACCOUNTING

General Comments

Section A

High achieving students were able to answer questions on the credit nature of the general ledger, give a full explanation to their chosen question for 1d) and be able to provide an answer that was appropriate for 8 marks with multiple examples in Question 2 (question on assumptions and characteristics).

Weaker students struggled with the above, especially expanding on their assumptions and characteristics beyond the 'accounting entity assumption' in Question 2.

Section B

High achieving students were able to answer Question 3 and Question 5 well with only minor errors. Many students did not do well in Question 4.

Section C

High achieving students were able to answer both questions very well with only minor errors on balance day adjustments or discounting (Cash Budget). Students who didn't read the information carefully enough in Question 7 interpreted Purchases as cash purchases. Weaker students incorrectly classified accounts in the Income Statement and Balance Sheet.

Section D

High achieving students were able to fully comment on the ratio section in Question 9, with correct suggestions on how liquidity and efficiency could be improved. Ratios and cash flow statement analysis was done well.

Weaker students struggled to fully complete the section, possibly due to running out of time. They also struggled with commenting on the measures of liquidity and efficiency in Question 9 and giving sufficient analysis in the decision to support or not the support the renovation in Question 9b).

Suggestions to Teachers

Section A

Teachers are encouraged to model accounting terms, concepts and principles in the exam format during the year.

While there is some optionality within Section A for students to select the questions they want to answer, it is important for students to remember that it is very likely there will be two parts for each response to achieve full marks.

This will also help students clearly structure answers which will help them achieve a higher mark in the communication element (Criterion 6) for Section A.

Section B

Teachers are encouraged to:

- model bank errors multiple times in the bank reconciliation
- model the structure of bank reconciliation including writing the name of the statement and date (as at 31st October)
- practice calculating loss on disposal/sale of NCA using diminishing balance method
- model a variety of GJ transactions including drawings and bad debts.

Section C

Teachers are encouraged to explicitly model the layout of the financial statements including the specific columns and specific underlining that should be utilised.

Section D

Make sure that your students understand that Liquidity only measures the ability to pay immediate bills (creditors, wages, taxes, loan repayments, rent, etc.) on time. Poor liquidity can be fixed by borrowing money (particularly if a business has low debt) so it doesn't necessarily spell doom and gloom for a business. It is a short-term problem but inattention to it can spoil a business's reputation and damage relationships with suppliers and other creditors.

For profitability, teach your students that GPR minus NPR equals the amount spent per sales dollar on Other Operating Expenses (assuming low to no Other Operating Revenues).

e.g. GPR: 50% Industry Average 55%
 NPR: 12% Industry Average 5%

This business spends 38% of each sales dollar on Other Operating Expenses which is less than the Industry Average of 50% of each sales dollar.

The reason for this being that suggesting that they should lower Other Operating Expenses in a case like this isn't what they should necessarily be focussing on as this business is already doing a lot better than the average.

Section A

Question 1a)

- i) Better answers were able to fully define selling and distribution expenses. Examples were described well by many students
- ii) Some students had difficulty being able to fully describe owners equity. Most students could identify drawings; however, students struggled with a second example.
- iii) This question was poorly done by students
- iv) This question was answered well by a majority of students, a definition which explained the business owed an amount to an external party was needed for full marks.

Question 1b)

Answered well by students with three examples explained in detail for the borrowing funds question. Inventories was also answered quite well with relevant examples.

Question 1c)

Unearned revenue and accrued revenue were most popular with students and was answered quite well. Bank reconciliation was also a popular option with students leaning on Q5 as evidence of why cash records may differ with strong examples.

Students mostly struggled with fully defining capital expenditure and revenue expenditure with the trial balance option. Students could identify errors but struggled to fully define a trial balance and describe two errors.

Question 1d)

Balance day adjustments were the more common response for this question. Most students could explain the meaning of a BDA with relevant examples but struggled to explain why it is necessary for accrual accounting.

Depreciation was defined by most students however students struggled giving examples of the most suitable method.

Question 2a)

Students struggled to give two correct assumptions and qualitative characteristics, with some students only writing a paragraph response to an 8-mark question.

Accounting entity assumption was the most popular answer, followed by monetary assumption.

Reliability and relevance were the most popular characteristics responses.

Section B

Question 3

High performing students were able to answer most of the general journal entries correctly. Some high performing students may have struggled with the complex transactions that included forgetting to include the GST, Drawings transaction on 23rd May, bad debts transaction on 25th Jun.

Weaker responses struggled with the correct accounts/numbers on entries that involved GST. Overall, most students were compliant with the expected format. Weaker responses had not underlined after each transaction, correct format (DR left and first entry, CR indented) hasn't been utilised, narrations were incomplete with missing source document reference. Some students had referred to mortgage interest expense as mortgage instead of recognising it as an expense account.

Question 4

High-performing students were able to calculate the depreciation using diminishing method correctly and identify that loss on sale of delivery vehicle is recorded in the selling and distribution expense category in the income statement.

Weaker responses struggled to calculate the accumulated depreciation amount and recognise where the loss is recorded. Responses such as expenses in income statement, general expenses category in the income statement only were rewarded with ½ mark.

Question 5

High-performing students had minor errors which included no dates in Cash Receipts Journal (CRJ), Cash Payments Journal (CPJ) or General Ledger account.

The other minor error was the incorrect placement of the bank error, some students put this in the CRJ/CPJ or took the amount away in the Bank Reconciliation.

Weaker responses didn't have the correct structure for the Cash at Bank Ledger accounts and the Bank Reconciliation.

Section C

Question 6

- Most students were able to correctly complete both financial statements; some may have had minor errors due to adjustments. Weaker responses had poor layout of financial statements or included the following mistakes:
 - inventory loss not included in the COGS account
 - sales was frequently not adjusted
 - provision for Doubtful Debts not adjusted and not classified correctly.

Question 7

Most students were able to correctly complete the cash budget.

Weaker performing students had trouble with calculating the discount.

Section D

Question 8

(Calculation of ratios): Done well by most students

Question 9a)

- i) Commenting on Profitability: Students have the opportunity to comment on spending on Other Operating Expenses but seldom did so (this is a simple calculation of GPR – NPR. E.g. GPR 60%, NPR 5% then 55% of each sales dollar is spent on Other Operating Expenses). This was an area that the business was doing better than the average, but very few students noted this). This was also commented on last year, so a good one for teachers to highlight for students.
- ii) Commenting on Liquidity: Many students didn't have a strong grasp of what liquidity actually measures (ability to pay on time) and so comments were off the mark or predicting impending doom for the business when in fact liquidity is an easy fix for most businesses particularly if they have low debt.
- iii) Commenting Efficiency: Done well by most students although quite a few didn't comment about reducing inventories held as a way to increase the inventory turnover ratio and reducing storage and other inventory related costs.

Question 9b)

Most students answered this question reasonably well. As always, opinions were divided, and that is fine as arguments could be made either way in this particular example.

Question 10a)

Better answers gave a methodical summary of the 3 sections of the Cash Flow Statement and the overall drop in cash.

Question 10b)

A number of students gave a general explanation rather than simply commenting on the overdraft.

Question 10c)

Answered reasonably well by most; though, most didn't suggest that the bank would want to look at previous year's reports or the income statement and balance sheet of the business.

Question 10d)

Many students didn't focus on "income earning" and commented on things like reducing drawings. Income means revenues less expenses (as in the income statement), so either increasing revenues or reducing expenses (or both).

Section A – Criterion 1

Question 1a)

- i) Expenses are the costs incurred in earning revenue. Selling and distribution expenses include all expenses incurred in the promotion, selling and distribution of inventories and/or services provided. They reduce the profit earned by a business. Examples may include any of the following: advertising, window display, sales salaries and commissions, delivery expenses, depreciation of delivery van, freight outwards.

(1 mark for definition and ½ marks per example)

- ii) Owner's equity is the difference between the assets and liabilities of a business (its net worth) and equals the amount of the owner's interest or investment in the business. Owner's equity can be reduced through drawings made by the owner from the business. For example, cash, inventories/supplies or non-current assets. It can also be reduced if the business makes a net loss rather than a net profit.

(2 marks for definition and ½ mark for each example)

- iii) The 'nature' of an account refers to the side where transactions that increase the amount in that account are recorded. A ledger account has a credit nature if an increase in the value of the item being recorded in the account is entered as a credit entry. For example, increases in liabilities such as accounts payable or a bank loan, increases in owner's equity through a capital injection and/or retained profits and revenues such as sales or commission earned.

(2 marks for nature and ½ mark for each example)

- iv) A current liability is an amount owed by the business to external parties which is due to be repaid within the current accounting period or within 12 months. Current liabilities appear in the balance sheet. Examples of current liabilities include accounts payable/creditors, bank overdraft, short-term loans due to be repaid within 12 months, accrued revenue and accrued expenses.

(2 marks for definition and ½ mark for each example)

Question 1b)

- i) Any three of the following considerations adequately described when borrowing funds:
- Ability to meet the repayments; principal and interest (size of the loan, adequate profits and cash flow from operations).
 - Cost of borrowing (interest rate, fees and loan establishment costs) compared to the expected return/profit generated by the assets purchased.
 - Current level of debt/gearing in the business.
 - Term of the loan (matching a long-term asset purchase with a long-term loan).
 - Favourable business conditions in the future.
 - Could the finance be raised another way e.g. savings, equity, leasing, renting rather than purchasing?
 - Will the use of the loan funds improve or enhance the financial performance of the business?

(1 mark for each consideration)

- ii) Inventories are items held for sale in the normal course of the business's operations, and it is via the sale of these inventories that a business generates profit. Most businesses have large amounts of money invested in inventories, so the management and control of this asset is very important. It is vital that loss, theft, spoilage and obsolescence are carefully controlled, or business profits can be almost completely negated.

A business can safeguard their inventories by ensuring any one of the following:

- control over storage – using suitable storage facilities and conditions to reduce spoilage
- security – preventing shoplifting by customers, burglary and pilfering by staff. For example, using security cameras, dye tags, burglar alarm systems, bag checks, staff rotation, etc.
- control over purchasing/selling inventories – just-in-time purchasing, maintaining correct inventory levels (avoid stock shortages or obsolescence caused by holding too much stock), monitoring turnover rates
- an appropriate inventory management system e.g. use of software to record stock movements
- conducting regular physical stocktakes.

(1 mark for definition, 1 mark for explanation and 1 mark for strategy)

Question 1c)

- i) Capital expenditure is expenditure on non-current assets and will be recorded in the Balance Sheet. These assets are intended to be held for longer than one accounting period and will be used in earning revenue. Capital expenditure includes the price of the asset (including any GST) and any delivery and installation costs plus the value of any upgrades that add to

the value of the asset e.g. a new flat tray for a ute, the installation of machinery in a factory.

Revenue expenditure is expenditure for the purchase of goods and services which relate to the upkeep and use of non-current assets. These are expenses intended to be consumed during the current accounting period e.g. insurance, registration, maintenance and servicing costs, fuel, etc., and will be offset against revenue to determine profit in the income statement.

(2 marks for explanations and 2 marks for examples)

- ii) Bank reconciliation is an accounting procedure designed to safeguard the cash asset of the business by highlighting discrepancies or differences between the business's cash records and those of its bank. It is an important control measure as the bank is independent to the business.

The cash records may differ due to any of the following:

- unpresented cheques which appear in the business records but have not yet been presented to the bank for payment
- deposits not yet credited – a deposit made into a business's bank account, but the bank has not yet processed this deposit (e.g. amounts held in an overnight safe)
- bank fees and charges, merchant fees, interest – amounts not yet recorded in the business' records
- direct deposits into the business's bank account.

(2 marks for explanation and 2 marks for reasons why cash records may differ)

- iii) Unearned revenue is revenue that the business has received but is yet to provide the service or supply the good/s on balance day. Unearned revenue is a current liability and will appear in the Balance Sheet. For example, a client pays a deposit in June for building works to commence in August, after balance day.

Accrued revenue is revenue that is owed to the business on balance day for work completed or good/s supplied. Accrued revenue is a current asset as amounts owed belong to the business and appears in the Balance Sheet. For example, sold goods to a customer on credit but payment has not been received by balance date.

(2 marks for explanations and 2 marks for examples)

- iv) The trial balance is a list of account balances prepared on a particular date to check the arithmetic accuracy of the ledger. If total debits equal total credits, it does not guarantee that the ledger is correct.

Errors which are not revealed by the trial balance include:

- incorrect amounts of the same value which have been entered on both sides of the ledger
- entries of an equal amount made to the wrong side of each account
- entries of an equal amount made in the wrong accounts, but on the correct sides
- transactions omitted entirely or entered twice
- compensating errors made, e.g. two errors in one account which cancel each other out or two errors in the trial balance which cancel each other out.

(2 marks for explaining the function and 2 marks for describing any two of the errors, which should be described adequately)

Question 1d)

- i. Balance day adjustments are entries made on balance day in order to compare (match) the revenue and expenses accurately so that the profit (loss) can be determined for a given accounting period. They adjust account balances to ensure that revenue and expense transactions are recorded in the period to which they relate (matching principle) and to bring into account assets and liabilities not previously recorded. For example, an annual insurance premium of \$1200 paid on 1 January would need to be adjusted on balance day, 30 June, as only \$600 of the expense relates to the current period with the remainder being a prepaid expense and recorded as a current asset in the balance sheet. Another example is wages of \$500 owing on balance day. This accrued expense needs to be accounted for, requiring an increase in the wages account for the current period and the creation of an accrued expense account which is a current liability and will appear in the balance sheet.

(2 marks for explanation and 2 marks for examples, including recorded in balance sheet)

- ii. Depreciation expense is the allocation of the cost of an asset to the periods in which that asset contributes to the generation of revenue. Factors to consider in deciding which method of depreciation is to be used, straight line or diminishing balance, include: the cost of the asset, its useful life (and how it is to be used), and its anticipated residual value. If an asset contributes most to revenue generation in its early years, the most appropriate depreciation method chosen would be the diminishing balance method, which allocates a larger portion of the cost of the asset to the periods when it generates the most revenue. Office equipment, on the other hand, is expected to contribute equally to revenue generation each year of its use and straight line depreciation would therefore be a more appropriate method of depreciation.

It is necessary to allocate depreciation as a balance day adjustment so that profit can be estimated as accurately as possible for each accounting period. For example, office equipment costing \$5 000 with no residual value and an expected life of 5 years (under SLD) would be depreciated at a rate of \$1 000 per year. Thus the \$1 000 depreciation expense allocated each year would be matched against the revenue the office equipment helped to generate, thereby ensuring that the business did not overstate its profits or asset values. This allocation is made each balance day through a balance day adjustment.

(2 marks for explanation and 2 marks for example)

Question 2

The following accounting **assumptions** have been breached (any **two**):

- The **accounting entity assumption** assumes that the business and owner are separate entities. This requires that the records/transactions of the owner are kept separate from those of the business. This has been breached as the business has recorded as assets the caravan and electric bike, which belong to the owner for their personal use, and the computer which belongs to a friend. Consequently, the value of assets in the balance sheet are overstated.
- The **monetary assumption** states that all transactions must be recorded in the common currency in use; \$AUD in Australia. Recording \$450 worth of cash in \$USD breaches this assumption. The value of cash at bank will not be accurate, it will most likely be understated in the balance sheet as the \$USD is usually of greater value on currency exchanges.

- The **accounting period assumption** assumes that the life of a business is divided into arbitrary time periods to allow for profit/loss calculations and to meet the requirements of the ATO. If this business has been operating for longer than 12 months, the report presented fails to meet either of these requirements. No profit/loss can be calculated as no separate revenue or expense accounts appear in the report and, therefore, no income statement can be prepared.

Very few of the **qualitative characteristics** have been applied in the preparation of Harriet's report. Any **two** of the following are acceptable:

- The information contained in end-of-period reports should be **reliable**. It should be accurate and free from bias. The report lacks reliability as the accounts receivable amount is incorrect (should be \$3 850). Current asset values will therefore be understated in the balance sheet.
- The report lacks **relevance** as the bank overdraft figure of \$2 700 has not been included. Thus, current liabilities will be understated in the balance sheet. Also, the report includes assets that do not belong to the business. Non-current asset values will be overstated in the balance sheet.
- The report lacks **understandability** as it is not consistent with generally accepted accounting formats. It is difficult to determine the purpose of this report. It includes revenue but no profit or loss can be calculated and in its current form it is of little relevance to the users who want information for decision making. The report includes revenue, asset, liability and owner's equity items but no expenses are shown. There is no separate income statement nor balance sheet.
- The withdrawal of \$5 000 cash in a small business such as this is both **relevant** and **material** and should appear in the report. By omitting drawings, the owner's equity in the balance sheet is overstated.
- This report would not meet the qualitative characteristic of **comparability** as it contains too many errors/defects, and it would be pointless comparing it with a previous income statement or balance sheet for this business.

(2 marks for each assumption and characteristic)

Section B – Criterion 2

Question 3

Surfs-up Scamander General Journal

Date	Particulars	Debit	Credit	Marks
2025				
Jan 1	Bank	10 000		1
	Motor Vehicle	45 000		1
	Land and Buildings	240 000		1
	Mortgage		90 000	1
	Wetsuit Wholesalers		7 000	1
	Capital		198 000	1
	(Owner commenced business)			
Jan 2	Inventories	8 000		1
	GST Clearing	800		1
	Wetsuit Wholesalers		8 800	1
	(Purchased GST inclusive Inventory on credit, Invoice No 3045)			
Jan 17	Bank	858		1
	Sales		780	1
	GST Clearing		78	1
	Cost of Goods Sold	255		1
	Inventories		255	1
	(Cash sale of GST inclusive Inventory, CRS 123)			
Feb 8	Wetsuit Wholesalers	550		1
	GST Clearing		50	1
	Inventories		500	1
	(Returned GST inclusive damaged stock Adjustment Note No 263)			
March 28	Coastal Surf School	638		1
	GST Clearing		58	1

	Sales		580	1
March 28	Cost of Goods Sold	165		1
	Inventories		165	1
	(Credit sale of GST inclusive stock, Invoice No 26)			
<hr/>				
April 1	Insurance	3 000		1
	GST Clearing	300		1
	Bank		3 300	1
	(Paid annual insurance by direct deposit)			
<hr/>				
April 19	Sales Returns	80		1
	GST Clearing	8		1
	Coastal Surf School		88	1
	(Returns of GST inclusive goods, Adjustment Note 10)			
	Inventories	20		1
	Cost of Goods Sold		20	1
	(Cost price of goods returned)			
<hr/>				
May 23	Drawings	233		1
	Bank		200	1
	Inventories		30	1
	GST Clearing		3	1
	(Owner withdrew cash and GST inclusive stock for personal use, Memo 2)			
<hr/>				
June 5	Wages	2 200		1
	Office Expenses		2 000	1
	GST Clearing		200	1
	(Correcting entry)			
<hr/>				
June 25	Bad and Doubtful Debts	250		1
	GST Clearing	25		1
	Coastal Surf School		275	1

(Coastal Surf School ceases operations and balance of account written off as a bad debt, Memo 3)

June 30	<u>Prepaid Expenses</u>	2 250	1
	Insurance		1
	(9 months Insurance prepaid)		
		2 250	
June 30	<u>Interest Expense</u>	4 500	1
	Accrued Expenses		1
	(Interest owing on Mortgage on balance day)		
		4 500	

1 mark per each correct entry/line = 44 marks

1 mark for correct dates, 1 mark for underlining, 1 mark for correct format (Dr left and first entry, Cr indented)

3 marks for narrations

If source document reference in narrations were partially completed awarded 2 ½ marks

If source document has not been cited throughout the transactions, maximum mark received was 1 ½

Total Marks out of 50

Convert to a score out of 20 marks

Question 4a)

WDV (written down value) at point of sale on 30 September 2024 was \$66 880.

Loss on Disposal of \$4 880 (\$66 880 - \$62 000).

Calculations:

Cost of Delivery Van	110 000	
Accumulated Depreciation – Delivery Van	39 600	
Written down value (WDV)	70 400	1 mark
Depreciation to point of sale (70,400 x 0.2 x 3/12)	3 520	1 mark
WDV at point of sale	66 880	
Sale price	62 000	
Loss on Disposal	4 880	1 mark

- Sold for \$62 000. WDV \$66 880 - \$62 000 = \$4 880.
- Therefore, there is a Loss on Disposal of \$4 880.

Question 4b)

Income Statement (extract)

Less Selling and Distribution Expenses

Loss on Disposal of Delivery Van \$4 880

1 mark for Selling and Distribution Expense. ½ if mentioned General Expense

1 mark for Loss on Disposal on Delivery Van

Question 5

Cash Receipts Journal (extract)			
Date	Particulars	\$	
2025			
Oct 3	Cash Sales/Fees	250	
5	S Smith	500	
5	EFTPOS Sales/Fees	700	
11	P Porter	450	
11	EFTPOS Sales/Fees	800	
17	Cash Sales/Fees	375	
26	G Green	600	
26	EFTPOS Sales/Fees	725	
27	B Bowen	345	
31	Sub Total	\$4 745	
31	Direct Deposit (Dividend)	140	1 mark
31	Interest	17	1 mark
31	Total	\$4 902	

(2 marks)

Cash Payments Journal (extract)				
Date	Particulars	Chq No	\$	
2025				
Oct 4	Insurance -EFT		1 365	
7	Rent	123	615	
14	Wages – EFT		1 489	
17	Cleaning supplies	124	475	
28	Drawings	125	2 000	
29	Vehicle expenses	126	150	
29	Wages – EFT		600	
31	Sub Total		\$6 694	
31	Dishonoured Cheque – B Bowen	55	345	1 mark
31	Interest on Loan		1 200	1 mark
31	Account charges		131	1 mark
31	Total		\$8 370	

(3 marks)

Cash at Bank Account

Date	Particulars	Debit \$	Date	Particulars	Credit \$	
2025						
1 Oct	Balance b/d	3 549	31 Oct	Cash Payments	8 370	1 mark
31 Oct	Cash Receipts	4 902	31 Oct	Balance c/d	81	1 mark
		8 451			8 451	
1 Nov	Balance b/d	81				

(4 marks)

Alternative

Cash at Bank Account

Date	Particulars	Debit \$	Credit \$	Balance \$	
2025 1 Oct	Balance b/d	3 549		3 549Dr	1 mark
31 Oct	Cash Receipts	4 902		8 451Dr	1 mark
31 Oct	Cash Payments		8 370	81Dr	1 mark 1 mark

(4 marks)

- Errors carried forward but done correctly in account received full marks.
- ½ mark lost for incorrect date and wrong Dr/Cr structure.

Strahan Home Maintenance

Bank Reconciliation Statement

0.5 mark

As at 31 October 2025

0.5 mark

	Chq No	\$	\$	
Credit balance as per Bank Statement			485	1 mark
Add Deposits Not Yet Credited			600	1 mark
			<u>1085</u>	1 mark
Less Unpresented Cheques	119	729		1 mark
	124	475	1204	1 mark
			<u>119</u>	
Add Bank error (Chq 126 \$350 - \$150)			200	1 mark
Debit balance as per Cash at Bank account			<u>\$81</u>	1 mark

1 additional mark for the structure/setting out/underlining the debit balance as per cash at bank

Total marks out of 9, convert to a score out of 6 marks

- Accepted either the dishonoured cheque \$345 to be added into the CPJ, or minus from CRJ.
- If correct dates are not included deduct ½ mark from the total of 5 marks (2 marks CRJ+ 3 marks CPJ).
- Circle balances were accepted in cash at bank account. If correct dates are not included deduct ½ mark.

Section C – Criterion 3

Question 6

Smithton Events Suppliers

0.5 +
0.5

Income Statement for the year ended 30 June 2025

	\$	\$	\$	
Net Sales				
Sales		421 000		2
Less Sales Returns		8 000	413 000	1 + 1
Less Cost of Sales				
Cost of Goods Sold		180 000		1
Inventory Adjustment		500	180 500	2 + 1
Gross Profit			232 500	1
Add other Revenue				
Interest on Term Deposit XYZ Bank			2 300	1
			234 800	1
Less other Expenses				
Selling and Distribution Expenses				
Advertising	7 900			1
Sales Wages	68 000			1
Delivery Van Expenses	6 000			1
Depreciation on Delivery Van	8 400	90 300		3+1
General and Administrative Expenses				
Office Wages	47 000			1
Insurance	4 000			1
Depreciation on Office Equipment	2 730	53 730		2 + 1
Finance Expenses				
Bad and Doubtful Debts	4 920			3
Interest on Mortgage	8 000	12 920	156 950	1+1+1
Net Profit (Net Loss)			\$77 850	1

31 marks + 3 layout = 34 marks
Convert to a score out of 25

Smithton Events Suppliers
Balance Sheet as at 30 June 2025

0.5 +
0.5

	\$	\$	\$	\$	
ASSETS					
<i>Current Assets</i>					
Accounts Receivable		62 000			1
Less Provision for Doubtful Debts		3 720	58 280		3 + 1
Bank		<u> </u>	3 400		1
Inventory			26 500	88 180	2 + 1
			<u> </u>		
<i>Non-Current Assets</i>					
<i>Other Financial Assets</i>					
Term Deposit – XYZ Bank			55 000		1
<i>Property, Plant and Equipment</i>					
Delivery Van	58 000				1
Less Accumulated Depreciation – Delivery Van	24 400	33 600			3 + 1
Office Equipment	<u>18 200</u>				1
Less Accumulated Depreciation – Office Equipment	7 930	10 270			2 + 1
Land and Buildings		<u>505 000</u>	548 870	603 870	1 + 1
				<u>692 050</u>	1
Total Assets					
Less LIABILITIES					
<i>Current Liabilities</i>					
Account Payable		65 000			1
GST Clearing		9 000			1
Unearned Revenue		10 000	84 000		2 + 1
			<u> </u>		
<i>Non-Current Liabilities</i>					
Mortgage			400 000		1
			<u> </u>		
Total Liabilities					
				484 000	1

NET ASSETS\$208 050 1**OWNER'S EQUITY**

Capital	160 200			1
Add Net Profit	77 850	238 050		1 + 1
Less Drawings		<u>30 000</u>	<u>\$208 050</u>	1 + 1

37 marks + 3 layout = 40 marks**Convert to a score out of 20**

- One mark for correct title. One mark per correct entry, two marks for simple correct balance day adjustment. Three marks for complex correct balance day adjustment.
- If BDA attempted but wrong allocate 50% of the marks (1 mark for simple, 1 ½ marks for complex). If entry there but unadjusted allocate a mark of ½.
- Minus ½ if correct statement but wrong classification. Zero marks if incorrect statement. Minus ½ if transfer of incorrect amount from trial balance.
- 1 mark for underlining and 2 marks for column structure.

Question 7

Statement of Estimated Receipts from Accounts Receivable					
Credit sales in:	Total \$	Estimated Cash to be received in:			marks
		December	January	February	
September	12 000	480			0.5
October	14 000	2 100	560		1
November	10 000	7 840	1 500	400	1.5
December	15 000		11 760	2 250	1
January	22 000			17 248	0.5
February	17 000				
Total		\$10 420	\$13 820	\$19 898	1.5

Accounts Receivable calculations:

Month	Amount (\$)	80%	Less 2% discount	Amount Paid	Paid in
November	10 000	8 000	160	7 840	December
December	15 000	12 000	240	11 760	January
January	22 000	17 600	352	17 248	February
February	17 000	13 600	272	13 328	March

Accounts Payable calculations:

Month	Amount (\$)	Discount 3%	Amount Paid	Paid in
November	20 000	600	19 400	December
December	6 500	195	6 305	January
January	9 200	276	8 924	February
February	8 400	252	8 148	March

Tracks & Trails

Cash Budget

0.5

For the three months ending 28 February 2026

1.0

	December (\$)	January (\$)	February (\$)	
Estimated Cash Receipts				
Cash Sales	16 200	23 300	18 700	3
Collections from Accounts Receivable	10 420	13 820	19 898	3
Interest Revenue		400		1
Bank Loan		20 000		2
Total Estimated Receipts	26 620	57 520	38 598	1.5
Estimated Cash Payments				
Payments to Accounts Payable	19 400	6 305	8 924	6
Operating Expenses	14 000	18 000	20 500	4.5
Drawings		10 000		1
GST Liability		2 660	3 710	2
Payment to Car Sellers		20 000		2
Loan repayment			10 000	1
Total Estimated Payments	33 400	56 965	43 134	1.5
Bank Balance at start	10 000Dr	3 220Dr	3 775Dr	2
Excess Receipts over Payments		555		1.5
Excess Payments over Receipts	6 780		4 536	
Bank Balance at end	\$3 220Dr	\$3 775Dr	\$761Cr	1.5

Total of 35 marks

Convert to a score out of 14

- Deduct 1 mark if a student includes a non-cash component, e.g. Depreciation and trade in of car.

Section D – Criterion 4

Question 8a)

Gross Profit = **\$402 000**

Calculations:

Net Sales (Sales – Sales Returns) – Cost of Goods Sold = Gross Profit

$\$852\,000 (\$894\,000 - \$42\,000) - \$450\,000 = \$402\,000$

2 marks

Question 8b)

GPR = **47.18%**

Calculations:

Gross Profit/Net Sales x 100

$\$402\,000/\$852\,000 \times 100 = 47.183\%$

1 mark

Question 8c)

Equity Ratio = **45.37%**

Calculations:

Total Owner's Equity/Total Assets x 100

$\$190\,975/\$420\,900 \times 100 = 45.3730$

1 mark

Question 8d)

Turnover of Inventories = **2.23 times per year**

Calculations:

Cost of Goods Sold/Average Inventories

$\$450\,000/\$202\,200 = 2.2255$

2.23 times per year

1 mark

Question 9a)

Students should incorporate data as evidence of their answers/trends.

i) Profitability

Consider: Gross Profit Ratio (GPR), Net Profit Ratio (NPR) and Rate of Return on Total Assets (RRTA).

The overall trend in profitability is positive. There has been a small but positive improvement in the GPR of 2.85% over the past three years. This indicates that sales are increasing at a faster rate than COGS but this ratio is still 3.71% below the industry average of 65%, highlighting that further improvement is needed in this area through a proportional increase in sales and/or reduction in COGS. This improvement could be achieved by sourcing a cheaper supplier for their electric bikes but ensuring that the new stock is of a similar or better quality when compared to their current goods. An increase in its selling price, provided it remains competitive, would also improve its gross profit ratio. The business could also review its marketing strategy, ensuring that it is reaching its target market effectively in order to boost its sales.

The NPR has improved by 3.15% during the three-year period, ending 0.48% above the industry average of 34% in 2025. This is also a very positive result for the business indicating that the business has improved its ability to generate revenue and at the same time reduce the level of expenses required to generate that revenue. The business is spending just 26.81% (61.29 – 34.48) of each Sales dollar on Other Operating Expenses compared to the industry average of 31% (65 – 34).

However, the area of concern for this business is the rate of return on total assets. This ratio indicates the relationship between the assets of the business and the income generated from those assets through sales. The RRTA has deteriorated from being above the industry average in 2023 at 25.89% to below the industry average in 2025, finishing on a ratio of 20.65% which is 1.07% below the industry average. This indicates that there has been a decline in the effective use of the total assets of the business to generate profits. There has been a significant increase in the business's non-current assets of \$394 000 over the period, from \$330 000 in 2023 to \$724 000 in 2025 along with a corresponding 5.24% decline in its RRTA. The business needs to review the non-current assets it holds, selling any that are surplus or under-performing, or no longer contributing to the generation of profits.

Each profitability ratio (3) – 1 mark for identifying the trend, comparing to the industry average. 1 mark for explanation relevant to the QEB and referring to the statements

Each suggestion (2) – 1 mark for a correct suggestion, 1 mark for how it improves profitability

ii) Liquidity

Consider: Current Ratio (CR) or Working Capital Ratio (WCR)

There has been a marked decline in the CR from \$3.07 of current assets to every \$1 of current liabilities held in 2023 down to 2.09:1 in 2025 due in part to an increase in the business' level of current liabilities, up from \$75 000 in 2023 to \$110 000 in 2025. This ratio is still within the generally acceptable rate of 2:1 but the business must ensure that it does not fall below its current levels if the business is to continue to meet its short-term commitments as they fall due. This is also necessary to maintain the business' reputation and its relationships with its suppliers, and to ensure that it has the scope to easily deal with unforeseen financial events.

1 mark for identifying the trend and comparing to the industry average, 1 mark for explanation relevant to the QEB and referring to the statements and 1 mark for commenting on the possible impact on the business

iii) Efficiency

Consider: Turnover of Inventories and Debtors Collection Period

The efficiency of QEB is measured by how quickly inventories can be turned over (sold) relative to competitors and how many days it takes for accounts receivable to pay their accounts once due. Having business practices in place to sell inventories as quickly as possible and receive cash from accounts receivable promptly will minimise the time taken to realise the purchase of inventories as cash inflows to the business, averting cash flow problems.

QEB has experienced an increase in the number of days it takes to sell its inventory as well as the days taken for its accounts receivable to pay. Both measures indicate a deterioration in the management effectiveness of the business.

Accounts Receivable are now taking 6 days longer to pay their accounts, up from 32 to 38 days, and 10 more days than the industry average of 28 days. In 2025 the turnover of inventory is taking 6 days longer than it did in 2023, and 7 days longer than the industry average. This means that, once purchased, it takes considerably more days to sell its inventories than the industry average. Cumulatively in 2025 it takes 46 + 38 days for the purchase of inventories to be realised as cash compared to the industry average of 39 + 28 days. This situation could lead to potential cash flow problems for QEB, where it may not generate enough cash to meet other financial commitments, especially in the short term.

To improve its debtors collection period, the business should tighten its credit granting policies, ensuring that it carries out credit checks on all debtors. Other measures could include following up late payers by email, letter, phone; offering discounts for early cash settlements; use of bright stickers on statements to alert customers to their overdue account status. Strategies to improve its inventory turnover may include: a review of the type and quality of inventories; a review of its sales practices including marketing, showroom displays and online store. They could also reduce inventory levels which can also save money on storage costs and other costs associated with holding inventory like this such as insurance, obsolescence etc.

Comment on debtors collection period 1 ½ marks.

Comment on turnover of inventories 1 ½ marks

1 mark for each suggestion = 3 marks

Question 9b)

If there is an increase in NCAs to renovate the showroom in the Devonport premises, costing \$100 000, there is scope to borrow this amount without causing financial stability concerns. The new equity ratio would be:

$$\frac{766\ 000}{1\ 054\ 000} \times \frac{100}{1} = 72.68\%$$

This ratio is still 2.68% above the industry average.

Reasons 'for' the renovation with debt finance: If the increased revenue is greater than the additional loan plus interest repayments, and any other associated increases to operational costs, the renovation financed by debt would be a positive outcome.

Reasons 'against' the renovation with debt finance: The business already has a poor RRTA, meaning that the business utilises its existing assets inefficiently, not generating enough net profit from each dollar of asset value relative to its peers. Additional assets may result in the business being 'over-capitalised'.

Spending a further \$100 000 on renovations will result in a further deterioration of the RRTA to 16.22% if there is no increase in profits, 6% below the industry average of 22%. Non-current assets will increase to \$824 000 and total assets to over \$1 054 000. There needs to be a significant increase in profits as a result to make this investment worthwhile. The owner needs to consider if the 10-year bank loan, plus interest repayments, will be worth it for the business in the long term. That is, will it generate enough profits to make the investment a worthy one in comparison to using these funds elsewhere, or to not carrying out the renovations.

Due to the deteriorating liquidity position as measured by the CR, incurring additional debt with the increased loan and interest repayments may exacerbate this issue further. As a result, I would not recommend the funds to be spent on the renovation until the firm's RRTAs can be improved along with its ability to repay any increases of debt finance with an improved liquidity position.

For full marks:

- **evidence of supporting/not supporting the renovation**
- **referring to the statements**
- **explanation of supporting/not supporting will have on the business**

Question 10a)

1 mark for commenting on the cash flows from operating activities

- ½ mark for identifying inflows \$152 000 (receipts from customers from accommodation and wedding bookings) and outflows \$131 750 (payments to suppliers, employees, interest, marketing and other operating expenses).
- ½ mark for identifying the small but positive cash flow of \$20 250 from operating activities.

1 mark for commenting on the cash flows from investing activities

- ½ mark for identifying inflows \$28 600 (from sale of non-current asset) and outflows \$76 500 (from acquisition of new vehicle, non-current asset).
- ½ mark for identifying the negative cash outflow of \$47 900 because of substantial investment in new vehicle.

1 mark for commenting on the cash flows from financing activities

- ½ for identifying inflows \$85 000 (\$45 000 capital injection and \$40 000 loan) and outflows \$98 000 (\$35 000 repayment of borrowings and \$63 000 in drawings).
- ½ mark for stating negative cash outflow of \$13 000. \$35 000 of the \$40 000 borrowed used to pay off previous loan.

1 mark for commenting on the overall change in the cash position

- 1 mark for stating the (substantial) net decrease in cash of \$40 650 from a starting position of \$36 500, leading to an overdraft of \$4 150.

Question 10b)

1 mark for stating that a negative cash position at the end of the period indicates a much weaker cash or liquidity position; a substantial reduction in cash held of \$40 650 resulting in an overdraft. Must include figure of -\$4 150 for full mark.

Question 10c)

The business is only achieving a very low positive cash flow from its operating activities and has relied on funds from borrowings and the owner, through capital injections, to assist in funding the purchase of the new vehicle. The owner's drawings are also modest, providing them with relatively low returns on their investment.

As a potential lender, examples of other information required would include:

- information about the assets and liabilities of the business
- the size of the market it operates in and its movement
- previous performance of the business
- the owner's personal financial resources.

Consequently, without a substantial lift in cash inflows from operations, and information about what the loan is to be used for, I would not recommend lending the business \$30 000 at this time.

1 mark for each relevant point supporting/not supporting the bank giving a loan

Question 10d)

The cash inflows for the business in the operations area need boosting. At present the cash coming in from operations only covers the costs / outflows associated with generating this inflow; there is a low, positive balance and this is not providing an adequate return to the owners on their investment.

The business needs to look at how it can boost its receipts/income from both its accommodation and wedding bookings.

- Are its marketing strategies reaching its target market?
- Does more need to be spent on lifting the business's profile e.g. special offers?
- Should the business review its minimum stay policy of three nights as this, to some extent, excludes weekend visitors who may only be able to stay Friday and Saturday nights before returning to work (i.e. a two-night stay)?
- A review of its pricing policy may need to be undertaken to ascertain if an increase in the rates being charged for both accommodation and wedding bookings is needed, in line with competitors.

1 mark for recommendation and 1 mark for justification