



## **EXAMINERS' REPORT ON 2001 TERTIARY ENTRANCE EXAMINATION**

### **SUBJECT: ACCOUNTING**

#### **STATISTICS**

<b>Year</b>	<b>Number Who Sat</b>	<b>Non-Examination Candidates</b>	<b>Did Not Sit</b>
2001	1120	54	110
2000	1176	50	133
1999	1278	73	124

The Examiners' Report is written by the Chief Examiner (or another Examiner on their behalf) to comment on matters relating to the Tertiary Entrance Examination in their subject. The opinions and recommendations expressed in this report are those of the Chief Examiner and not necessarily representative of or endorsed by the Curriculum Council.

The Marking Guide provided at the end of this report was prepared for markers and may have been substantially amplified by discussions held in the pre-marking meeting. It is not intended as a set of model answers, and is not exhaustive as regards alternative answers. Some of the answers are less than perfect, but represent a standard of response that the examiners deemed sufficient to earn full marks. Teachers who use this guide should do so with its original purpose in mind.

#### ***SUMMARY/ABSTRACT***

In form and content, the 2001 Accounting examination was similar to the 2000 paper, with content weightings for practical and theory questions following a similar pattern to previous years.

Generally, the examiners were pleased with the overall performance of candidates, except in the essay. Questions dealing with clubs and societies, partnerships, depreciation, analysis and interpretation, cash flow statements and cash budgets were answered well overall; however, the essay, dealing with concepts and certain theoretical aspects of companies, was not handled well by most candidates. The practical aspects of the paper were more challenging than in 2000 in that some questions were worded in such a way that candidates had to work backwards from normal (e.g. from cash budget to profit and loss statement) to obtain requested information; and this is reflected in some of the scores received. As in previous years, some theory questions were poorly done or not attempted, although the percentage of candidates attempting theory questions is better than a few years ago, which is encouraging.

Nevertheless, there is still a tendency by some candidates to rely on practical questions to achieve reasonable results. In relation to the essay, it appears that some of the Curriculum Council's support material on the topic of regulatory aspects of standard setting had not reached the classroom in some cases, and this appears to have disadvantaged a few of the candidates who performed at a high level in the practical aspects.

#### ***GENERAL COMMENTS***

The 2001 paper followed a marking scheme whereby the total for all questions on the paper was 200 marks; no half marks were subsequently awarded in the marking of the paper. This approach is well accepted by markers, as it facilitates the collation and reconciliation of all marks on candidates' papers. As in previous years, space was left for rough workings on the paper, and most candidates made good use of this space, enabling part marks to be awarded for incorrect answers. The paper included an index to questions; reprinted questions were provided on looseleaf

sheets to avoid the turning of pages as candidates were working; and headings and ruled lines were provided for appropriate journal entries, ledger accounts and financial statements as required.

The following table shows the structure of the 2001 TEE paper:

SYLLABUS AREA	APPROVED WEIGHTINGS	THEORY	PRACTICAL	TOTAL
Concepts, principles	5-10	8		8
Depreciation and disposal of assets	10-15	6.5	8.5	15
Cash flow statements	10-15		13.5	13.5
Analysis and interpretation	5-10	3	5	8
Partnerships	10-15	7	3	10
Companies	20-25	7	13	20
Budgets	10-15	2.5	9	11.5
Clubs & societies	10-15		14	14
TOTAL		34	66	100
Section weightings		(30-35)	(65-70)	

The paper covered all areas of the syllabus, and reflected the approved assessment structure weightings. The balance of theory to practical questions was, in this year's paper, 34:66.

### Theory questions

The standard of answers to theory questions varied from question to question, and there is still considerable room for improvement. Most questions where the mean is below the overall mean on the paper are theoretical in nature.

Many candidates still do not attempt one or more of the theory/interpretive questions and the percentage of candidates attempting these questions is generally lower than those attempting the practical questions. Only 86% of candidates attempted Question 1 on replaceable rules and 87.7% attempted Question 4 (the essay), which is a lower percentage than in recent years.

### Practical questions

The practical questions on the examination paper were perhaps more difficult than on 2000 paper, but candidate performance was good. Candidate scores on some practical questions were excellent, particularly Question 2A (share issues), which was good to see as this type of question has not been handled well in past years, Question 5 (clubs and societies), and Question 3A (depreciation). The results for candidates on Question 9 (budgets) and Question 10 (cash flow statements) were variable, although many received part marks for their efforts. Nevertheless there were a few candidates who did not show any workings, or who provided workings in such an untidy manner that it was difficult to decipher their answers.

## COMMENTS ON SPECIFIC QUESTIONS

### Question 1

(Theory: replaceable rules)

The mean mark was 2.57 out of 6 and only 86% of candidates attempted an answer. Candidates appeared either to know the topic well or not at all. One of the major faults was that candidates who attempted the question did not answer it, preferring to talk about the relationship between the replaceable rules and a company's constitution.

## Question 2

(Company share issues, and profit and loss statement)

Question 2A was handled well, which was most pleasing as the topic of share issues has been handled badly in the past. In parts B(i) and B(ii), candidates seemed either to know what they were doing, or have no idea. Many achieved part marks if they could calculate the dividends correctly. It was surprising to see the number of non-attempts at question 2B(ii) (16%). Note that the prescribed format for the profit and loss statement has been dropped from the syllabus for the year 2002 onwards.

## Question 3

(Depreciation)

The number of candidates who attempted this question was very high in relation to other practical questions [99.7%].

(A) The first part of the question was answered very well by most candidates, scoring an average of 13.16 out of 17 [77.4%]. Many achieved full marks or 16 out of 17.

(B) and (C). Part (B) of the question, which involved a knowledge of factors contributing to the depreciation of an asset, was also well done. However, part (C), which required a knowledge of the estimates needed to determine depreciation, was handled poorly, the mean mark being only 32.9%. Many candidates discussed the difference between straight-line and reducing balance. Others could name the estimates but could not explain clearly what they meant.

## Question 4

(Essay: theory and companies, dealing with the regulation of accounting standards and the role played by various bodies in society)

The mean score achieved was 7.6 out of 24 (31.6%). The quality of answers to the essay question was well below last year's, and the proportion of candidates attempting the question fell. Generally speaking, this was not unexpected by the examiners as the question was considered to be the hardest on the paper. It was pleasing to see that some candidates scored very well, but most candidates' answers were either not long enough or showed a clear lack of knowledge in this area. Further work by teachers is needed on this topic, as it is appreciated that the material needed to answer this essay question is fairly new. The examiners consider that knowledge of the regulatory aspects of accounting and standard setting is important for TEE candidates, as this reflects the political environment in which accounting operates in Australian society.

The overall results on the essay question show clearly the need for the essay topic to continue in future, and for candidates to appreciate that a knowledge of accounting requires also an ability to communicate in writing.

## Question 5

(Clubs and societies)

This question was in three parts. The mean mark for the question was 18.4 out of 28.

(A) The marks awarded for this part averaged a healthy 4.7 out of 6 (78.7%). The most common error was placing subscription arrears and advances on the wrong side of the account.

(B) The average mark awarded for this part was 6.5 out of 12. Although preparation of a bar trading account is not strictly in accordance with the syllabus, most candidates knew how to do it; and those who prepared a bar trading statement instead were not penalised. Common errors made were:

- exclusion of bar wages
- incorrect calculation of depreciation
- exclusion of credit purchases from the total of purchases

(C) The statement of income and expenditure was generally well done (average of 74.6%). However, because of lack of time available to examiners to view responses of a random sample of papers before the markers' meeting, many candidates benefited in the marking of this question in that they were penalised minimally for having "foreign items" in the statement. The main mistake made by candidates was the inclusion of items which should not have been there e.g. repayment of loan, bar wages.

**Question 6**

(Partnership: interest on advance)

This question was answered poorly, with candidates achieving a mean score of 2.74 out of 6. It was abundantly clear that many candidates had no idea that interest on advances is an expense, and that interest payable on advances is a liability.

**Question 7**

(Partnership)

Overall, this question, a theory question, was well done, the average mark being 69.1%.

(A) The average mark for the advantages was 3.4 out of 4, a wonderful result.

(B) Candidates exhibited a satisfactory level of knowledge in handling this question and the average mark was 6.4 out of 10. Even though most candidates knew the provisions of the Partnership Act, the main reason for losing marks was the inability to apply those provisions to state whether Earnshaw was advantaged or disadvantaged by not having a partnership agreement.

**Question 8**

(Analysis and interpretation)

The average mark was 9.5 out of 16, but results varied widely for each part.

(A) The concept of working capital, and its calculation was obviously a mystery to many candidates, the average mark being 27.2%. Only 80% of candidates attempted this part.

(B) Most candidates scored well here, but so they should, given that the ratio formulae are supplied to them!

(C) Explanation of the ratios regarding liquidity was perhaps a little better than in previous years, the average mark being 3.4 out of 6. The main problem is the same as in previous years, in that candidates usually make shallow remarks such as “the ratio went up since last year and this is good/bad”. Several candidates lost marks in that they did not discuss the inventory and debtors’ turnover ratios in the context of liquidity.

**Question 9**

(Cash budget)

This question was attempted by most candidates, who were awarded an average mark of 12.6 out of 23 (54.8%). This result is lower for the cash budget question than in previous years, particularly in the practical part (A).

(A) Very few candidates achieved full marks on this question, which asked candidates to construct the budgeted profit and loss statement from a given cash budget. The main errors were:

- Miscalculations of interest revenue and depreciation.
- The preparation of two monthly profit and loss statements instead of one two-monthly profit and loss statement. Candidates were usually given half marks for this, provided the figures were correct.
- The exclusion of fees revenue on credit from the calculation of revenue.
- The inclusion of “foreign” items.
- The calculation of cost of goods sold (based on supplies used) even though the business was a service organisation.

(B) The mean mark was 2.7 out of 5, indicating that this part was answered fairly well. The main problem was the lack of application of the budgets to the situation in the question.

**Question 10**

(Cash flow statement)

Only 4.5% of candidates did not attempt this question. The overall average mark was 14.6 out of 27, which was approximately the same as the average on the whole paper. This result is satisfactory for this question, and is a little better than answers in previous years.

(A) The question was different from past years in that the focus was on a service organisation rather than retail, and there were more accrued and prepaid expenses than “normal”. The most common errors were:

- incorrect calculations of payments to suppliers and employees. Many candidates forgot to omit the non-cash expenses eg. insurance and wages expense, depreciation from “other expenses”. Others did not calculate correctly the payment to suppliers of electrical parts.
- exclusion or incorrect calculation of the capital contribution.

- incorrect calculation of the payment for equipment, as many did not realise that the transaction involved a non-cash flow of \$23 000 via the taking out of a loan.

### ***POINTS FOR CONSIDERATION BY THE SYLLABUS COMMITTEE***

The examiners look forward to seeing the Syllabus Committee work towards a revised syllabus for Years 11 and 12 Accounting in future years. The focus in the current syllabus, while mainly up-to-date in terms of content, is too oriented towards financial accounting and external reporting at the expense of the basic accounting needs of management in a small business context. Nevertheless the examiners feel that the financial accounting content should not be discarded altogether, but reduced.

Finally, I wish to thank all members of the Examining Panel, the Independent Reviewer, the Chief Marker, all markers, and the employees of the Curriculum Council for their continued support throughout the year.

John Hoggett  
December 2001

#### **2000 Examining Panel**

Chief Examiner: Mr John Hoggett

Deputy: Ms Jill Burns

Third member: Ms Colleen Hayes

Chief Marker: Prof Valentine Pervan

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**QUESTION 1 6 marks**

**Replaceable Rules**

The Replaceable Rules are set out under the Corporations Law and consist of a set of *basic rules that govern the internal affairs of a company*. [key description give 2]

The following are some examples of the issues dealt with in the rules:

- ◆ powers of directors
- ◆ remuneration of directors
- ◆ calling directors' meetings
- ◆ calling of meetings of members by a director
- ◆ voting at members' meetings
- ◆ inspection of company books by a member
- ◆ transmission of shares on death of a member
- ◆ capitalisation of profits
- ◆ removal of directors in a proprietary company
- ◆ dividend rights in a proprietary company
- ◆ general discretion for directors of proprietary companies to refuse to register transfers of shares.

[1 mark for each dot point to a maximum of 4 marks]

**QUESTION 2 26 marks**

(A) Prepare all ledger accounts to record these events for Ningaloo Ltd. [9 marks]

4 000 000 x \$1.40 = \$5 600 000 [1]

Share Capital					
			19/02/00	Applic.	5 600 000 [1]
Cash					
15/02/00	Application	5 600 000 [1]	19/02/00	Prelim exps	20 000 [1]
Application					
19/02/00	Share Capital	5 600 000 [1]	15/02/00	Cash	5 600 000 [1]
Preliminary Expenses					
19/02/00	Cash	20 000 [1]			

[1] mark for correct dates and [1] for correct cross-references.

(B) 1. [4 marks] calculations may be expressed in account form as follows:

RETAINED PROFITS ACCOUNT					
Interim dividend paid			Opening balance		125 000
3c x 4 000 000	[1]	120 000	Net profit after tax		<b>375 000</b>
Final div provided			Transfer from gen reserve [1]		40 000
5c x 4 000 000	[1]	200 000			
Closing balance		220 000			
		540 000			540 000

[1] for both balances. If tax included in this working, deduct [1].



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(C) Describe three estimates involved in calculating the annual depreciation of an asset, as outlined in AASB 1021.

[9 marks]

The calculation of depreciation requires knowing [any three of the following]

- the estimated useful life [1],
- residual value [1]
- the cost of the asset [1], and
- the expected pattern of usage of future economic benefits [1].
- Depreciable amount of the asset [1]

Then discuss the same three for 2 marks each:

- **useful life** of an asset may be defined as the estimated total service, expressed in terms of production or similar units that is expected to be obtained from the asset by the entity [1] **or** the estimated period of time over which the future economic benefits embodied in a depreciable asset are expected to be consumed by the entity. [1]  
*Main features are: productivity or time [1] and by the entity [1]*
- the **residual value** of a depreciable asset is an estimate of the net amount recoverable on disposal of the asset [1] at the end of its useful life. [1]
- the **cost** of a depreciable asset, equals the purchase consideration [1] plus costs to get the asset to a position and condition ready for use. [1]
- the **expected pattern of usage of future economic benefits** determines whether the entity will use a straight line method, or a reducing balance method
- depreciable amount is equal to the cost [1] less the residual value [1]

(Total = 9 marks)

*Total for question = 30 marks*

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### QUESTION 4 24 marks

Write an essay in which you discuss the role played by government in the establishment of accounting standards. As part of your answer, include a discussion of the roles played by the Financial Reporting Council, the Australian Accounting Standards Board, the Urgent Issues Group and the Australian Securities and Investments Commission in the standard-setting process.

[24 marks]

#### Marking key:

Introductory and concluding paragraphs	[2]
English expression and grammar	[1]
Essay content	[21]

The following is a guide in relation to content. The essay should be *expressed in narrative form*. The marks allocated below for content exceed 21. Candidates must say something about each subheading for full marks. Award up to a maximum of 21 marks for content.

#### **The role of government generally [to a maximum of 7 marks]**

The Federal Government of Australia has control in the establishment of accounting standards. [1] It has established the FRC, AASB and its subcommittee the UIG, and the ASIC [1]

Its role is to establish a framework in which these standards are formulated and made. [1]

Through Corporations Law [NOW CORPORATIONS ACT 2001] it sets out the objectives of the process of setting accounting standards. [1]

These objectives are:

- ◆ To facilitate the development of accounting standards that require the provision of financial information that is relevant, reliable, understandable and comparable so as to allow users to make informed decisions, assist direction to discharge their obligations and is relevant in assessing performance, financial position, financing and investment; [2] and
- ◆ To facilitate the Australian economy; [1] and
- ◆ To maintain investor confidence in the Australian economy. [1]

#### **The role of the Financial Reporting Council [must have a minimum of 4 marks]**

The main role of the FRC is to provide broad oversight and policy of the process for setting accounting standards, [1] to act as an advisory body to the AASB [1] and to give the Federal Treasurer reports and advice on the process [1].

The Federal Treasurer appoints the members of the FRC. [1] The FRC may establish committees and advisory groups to facilitate its functions. [1]

The FRC approves and monitors the AASB's plans, budget and staffing arrangements, [1]

but does not have the power to direct the AASB in relation to the development or making of accounting standards [1]

nor does it have the power to veto any standard formulated and recommended by the AASB. [1]

#### **The role of the Australian Accounting Standards Board [minimum of 5 marks]**

The main role of the AASB is to develop a conceptual framework [1]

to formulate and make accounting standards, which are compulsory for reporting entities [1]

and to participate and contribute to the development of a single set of accounting standards for worldwide use. [1]

The AASB has the power to engage staff and consultants, and establish committees, advisory panels and consultative groups to facilitate its functions. [1] The members of the AASB are appointed by the FRC, with the exception of the Chair of the AASB who is appointed by the Federal Treasurer. [1]

The AASB may make use of international accounting standards in the preparation of accounting standards for use in Australia. [1]

It must carry out a cost benefit analysis of the impact of a proposed accounting standard to be used in Australia. [1]

#### **The role of ASIC [minimum of 2 marks]**

The Australian Securities and Investments Commission (ASIC) is not directly involved in the development of the AASB accounting standards. [1]

However, it issues interpretations of the standards in the form of Practice Notes, [1]

and is involved in monitoring compliance with the standards in relation to companies who are reporting entities. [1]

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**The role of the Urgent Issues Group [minimum of 3 marks]**

An important sub-committee of the AASB is the Urgent Issues Group (UIG). [1]

Business entities, user groups, and professional accounting associations may be involved in the UIG. [1]

It issues Abstracts, which deal with contentious issues in financial accounting with a view to reaching a consensus on the appropriate accounting treatment. [1]

It is compulsory for reporting entities to comply with UIG Abstracts. These give directives to preparers of GPFs on accounting matters, which require urgent attention, and where there needs to be an interpretation of existing regulation. [1]

**Marks given for sensible, correct comments. Minus 3 marks if essay presented as a series of dot points and lose the 3 marks for introduction, conclusion and expression if so presented.**

Total = 24 marks

**QUESTION 5 28 marks**

**KILLARNEY SOCCER CLUB**

(A) [6 marks]

**Subscriptions Account**

June 2000	Subs in arrears	[1]	400	June 2000	Subs in advance	[1]	600
June 2001	Subs in advance	[1]	400	June 2001	Cash	[1]	15 000
	<b>Subs income</b>	<b>[1]*</b>	<b>15 500</b>		Subs in arrears	[1]	<u>700</u>
			<u>16 300</u>				<u>16 300</u>

\*for writing "subs income", not for the correct figure. Dates not required (6 marks)

(B) [12 marks] Workings for errors in the Bar trading:

**Wages – Bar**

June 2001	Cash	[1]	25 000	June 2000	Accrued	[1]	400
	Accrued	[1]	<u>300</u>		<b>Bar Trading</b>		<b>24 900</b>
			<u>25 300</u>				<u>25 300</u>

(total 3 marks)

**Bar Creditors**

June 2001	Bank	[1]	15 200	June 2000	Balance		2 900
	Balance		<u>700</u>		<b>Purchases</b>		<b>13 000</b>
			<u>15 900</u>				<u>15 900</u>

[1] for both opening and closing balances  
Purchases = \$6 000 + \$13 000 = \$19 000 [1]

**Bar Trading Account**

June 2000	Inventory	[1]	1 600	June 2001	Sales	[1]	50 000
	Purchases	[4]	19 000		Inventory	[1]	1 900
	Wages	[3]	24 900				
	Depreciation	[2]	500				
	<b>Profit on Bar</b>		<b>5 900</b>				
			<u>51 900</u>				<u>51 900</u>

(total 12 marks)

(C) [10 marks]

**Killarney Soccer Club  
Statement of Income and Expenditure  
For the year ended 30 June 2001**

**Income**

Subscriptions		[1]	15 500		
Donations		[1]	2 000		
Profit on Bar Trading [1 for calculation]		[1]	5 900		
Movie Night ticket sales		[1]	<u>1 600</u>	\$25 000	
<b>Less Expenditure</b>					
Movie night costs		[1]	800		
Interest on Loan		[1]	1 800		
Affiliation Fee		[1]	<u>10 400</u>	<u>13 000</u>	

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**Net Surplus** [1 for this description][1 for correct figure] \$12 000  
10 marks - 2 for Movie Night, shown as above or as a profit of \$800

*Total for question = 28 marks*

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### QUESTION 6 6marks

#### Workings

50 000 at 10% = 5000 [1 mark]

2001

June 30	Interest on advance expense	5 000	
	Interest on advance payable		5 000
	<i>(Accrued interest on advance - alternative name)</i>		
	10% interest payable on \$50 000 advance owing		
	Profit and Loss	5 000	
	Interest on Advance expense		5 000
	Transfer – closing entry		

(1 mark for each entry and 1 mark for the narrations - 5 marks)

*Total - 6 marks*

### QUESTION 7 14 marks

(A) *Earnshaw operates a business as a sole trader, but has thoughts of asking her friend Wolski to join her in partnership. List four advantages for Earnshaw operating as a partnership rather than as a sole trader.*

[4 marks]

#### Advantages

- ◆ Raise more capital
- ◆ Contribute additional skills allowing specialization
- ◆ Cover for partner to allow for holidays or sickness
- ◆ Share the risks or losses of the business

[1 mark each]

(B) [10 marks]

*Explain why Earnshaw will be disadvantaged by relying solely on the Partnership Act to determine the rights and duties of the partners.*

[10 marks]

Act states:

- Partner not entitled to a salary [1]; hence, Earnshaw is disadvantaged in that she has done most of the work and Wolski has not [1].
- Interest on capital is not allowed [1]; hence, Earnshaw is disadvantaged in that she has contributed twice as much capital as Wolski, and receives no benefit from doing so [1]
- Profit and loss must be shared equally [1]; hence, Earnshaw is disadvantaged in that she has contributed twice the capital, done most of the work but is not rewarded adequately for her efforts [1]
- Interest on drawings is not provided [1]; hence, Wolski does not pay interest on the money withdrawn, which disadvantages Earnshaw who did not withdraw funds. [1]
- Interest on advance is at 6% [1]; perhaps Earnshaw could have earned much more interest in an alternative use of the money advanced to the partnership [1]

(Use discretion: e.g. litigation may occur which further disadvantages Earnshaw)

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QUESTION 8 16 marks

HURON LTD

(A) Calculate the working capital figure for the year ended 30 June 2001.

[3 marks]

Workings

current assets: 12 000 + 60 000 + 50 000 + 10 000 = 132 000		[1]
current liabs:	<u>80 000</u>	[1]
<b>working capital</b>	<b>52 000</b>	[1]

(B) [7 marks]

TABLE OF RATIOS

Ratio	Calculations
current ratio	$\frac{132\,000}{80\,000}$ = 1.65:1 [1]
quick ratio (12 000 + 60 000) [1]	$\frac{72\,000}{80\,000}$ = 0.90:1 [1]
inventory turnover (50 000 + 35 000)/2 [1]	$\frac{240\,000}{42\,500}$ = 5.65 times [1]
debtors' collection period (60 000 + 75 000)/2 [1]	$\frac{67\,500}{480\,000} \times \frac{365}{1}$ 51.32 days (1)

(C) Evaluate the liquidity of the business, given the results you obtained in answering parts (A) and (B).

[6 marks]

- The working capital figure (\$52 000), which essentially represents the cash available to meet the firm's operating activities, by general standards, could be stronger **vis-a-vis** the associated current ratio and quick ratios. [1]
- The *general* rule of thumb is that the current ratio should be not less than 2:1, thus, again, one can say the firm's liquidity could be stronger. [1]
- This is certainly supported by the result of the quick ratio - 0.9:1. One would expect that this ratio would not be less than 1:1. [1]
- The inventory turnover figure is comparable with that of the industry. That's encouraging. [1]
- However, the debtors' turnover result is poor in relation to the firm's credit policy. The result would suggest that debtors' collection needs review in that it is likely that there are some bad debts. [1]
- The debtors' collection result adversely reflects on both the current and quick ratios, which include the debtors figure. (ie. If debtors were reduced by the bad debts the current and quick ratios would be even worse). [1]
- **Other sensible comments** [1]

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**QUESTION 9 23 marks**

**EYRE TRADING**

(A) Prepare a single unclassified budgeted profit and loss statement for Eyre Trading for the months of November and December 2001 combined. **[18 marks]**

**Workings for profit and loss statement**

	<u>Nov</u>	<u>Dec</u>	<u>Total</u>
Fees: cash	\$34 000	32 800 [1]	
credit	60 000	57 500 [1]	184 300
Depreciation of equipment (47 000 – 5 000[1]) (0.20) (1/12) [1]			700
Interest (15 000) x (0.10) x (0.25) [1] = \$375 x 2/3 [1]			250

**EYRE TRADING**

**Budgeted profit and loss statement  
for two months ended 31 December 2001**

<u>Revenues</u>	
Service fees	\$184 300 [1]
Interest	<u>250 [1]</u>
	<u>184 550</u>
<u>Less: expenses</u>	
Technician wages [43 000 + 41 000] [1]	84 000 [1]
Supplies used [5 100 + 4 000] [1]	9 100 [1]
Administrative [9 200 + 8 600] [1]	17 800 [1]
Advertising [13 400 + 11 000] [1]	24 400 [1]
Depreciation - equipment	<u>700 [1]</u>
	<u>136 000</u>
Net or operating profit [1 for name even if amount wrong]	<u>48 550</u>

**Deduct one [1] mark for each “foreign item” in the statement**

(B) Describe how a cash budget and budgeted profit and loss statement can assist management in running a business. Support your discussion using the cash budget provided and the budgeted profit and loss statement you obtained in answering part (A) above. **[5 marks]**

**Solution**

Any five of the following:

- Budgets can assist managers with planning of future operations [1]
- Budgets can assist in controlling business operations when used in conjunction with actual data [1]
- A cash budget may identify future cash flow problems [1]
- A budgeted profit and loss statement can show whether an intended activity is likely to be profitable, by showing expected revenues and expenses [1]
- Overall, expected cash will rise from \$2 500 to \$12 500, even though there is a rise in November and a fall in cash in December, because of the payment for equipment in that month.[1]
- The P&L statement anticipates a profit of \$48 550 over the period of 2 months, well in excess of the operating cash flow [1]

**Any other sensible comment, given the financial statements concerned [1]**

**At least two marks to relate back to the figures in the question and their application.**

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QUESTION 10 27 marks

TORRENS ELECTRICAL SERVICES

Prepare a cash flow statement for the year ended 30 June 2001.

[27 marks]

TORRENS ELECTRICAL SERVICES  
CASH FLOW STATEMENT  
for the year ended 30 June 2001

**Cash flows from operating activities\***

Receipts from customers	\$132 200 [3]
Payment to suppliers and employees	(69 360) [11]
Net cash inflow from operating activities*	<u>62 840</u>

**Cash flows from investing activities\***

Payment for equipment [41 490 – 23 000] [2]	(18 490) [1]
Net cash outflow from investing activities*	<u>(18 490)</u>

**Cash flows from financing activities\***

Drawings	(46 650) [1]
Proceeds from capital investment	<u>9 900</u> [4]
Net cash outflow from financing activities*	<u>(36 750)</u>

<b>NET CASH INCREASE IN CASH HELD</b>	<b>7 600 [1]</b>
Cash at the beginning of the financial year	<u>8 700 [1]</u>
<b>CASH AT END OF THE FINANCIAL YEAR</b>	<b><u>\$16 300 [1]</u></b>

*\*[2] marks for presentation of 6 items. [1] if 4-5 items. [0] if 0-3 items only.*

*[1] mark deducted for each “odd” thing that should not be in the cash flow statement, to a maximum of 5 marks  
[1] mark deducted for each item that is incorrectly classified e.g. was put in “operating”, but should be in “investing”.*

*Do not penalise consequentials*

**ACCOUNTING TEE 2001 MARKING GUIDE**

**Workings for cash flow statement.**

**NOTE: Marks below indicate part marks if figures incorrect in cash flow statement.**

**Receipts from customers**

		<b>Accounts receivable</b>			
	Open bal		14 000	<b>Cash from customers</b>	<b>132 200</b>
	Fees [1]		133 000	Clos bal	14 800
			147 000		147 000

[1] for opening and closing balances on correct side

**Payments to suppliers**

		<b>Supplies of electrical parts</b>			
	Open bal		1 500	Expense [1]	14 500
	<b>Cash Purchases</b>		<b>14 600</b>	Clos bal	1 600
			16 100		16 100

[1] for opening and closing balances on correct side

		<b>Prepaid insurance</b>			
	Open bal		850	Expense [1]	5 000
	<b>Insurance paid</b>		<b>5 085</b>	Clos bal	935
			5 935		5 935

[1] for opening and closing balances on correct side

		<b>Accrued wages</b>			
	Paid		39 775	Open bal	2 485
	Clos bal		2 710	Expense [1]	40 000
			42 485		42 485

[1] for opening and closing balances on correct side

Other Expenses = 75 400 - (\$14 500 + 40 000 [1] + 5 000 + 6 000 [1]) = \$9 900

**Payments to suppliers and employees = \$(9 900 + 5 085) [1] + (14 600 + 39 775) [1]**  
**= \$ 69 360 [1]**

**Calculation of capital contribution**

		<b>Capital/Proprietorship</b>			
	Cash drawings [1]		46 650	Open bal	43 565
				Profit [1]	57 600
	Clos bal		64 415	<b>Capital contribution</b>	<b>9 900</b>
			110 065		111 065

[1] for opening and closing balances on correct side.