



## EXAMINERS' REPORT ON 2002 TERTIARY ENTRANCE EXAMINATION

### SUBJECT: ACCOUNTING

#### STATISTICS

| Year | Number<br>Who Sat | Non-Examination<br>Candidates | Did Not<br>Sit |
|------|-------------------|-------------------------------|----------------|
| 2002 | 1172              | 43                            | 123            |
| 2001 | 1120              | 54                            | 110            |
| 2000 | 1176              | 50                            | 133            |

The Examiners' Report is written by the Chief Examiner to comment on matters relating to the Tertiary Entrance Examination in this 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

The 2002 paper was prepared to examine a syllabus with negligible changes from previous years. In form and content, the examination was similar to the 2001 paper, and the content weightings for practical and theory questions were essentially similar to those of 2001.

Generally, the examiners were pleased with the performance of candidates, except in the essay and in the question on analysis and interpretation. Questions dealing with partnerships, depreciation, cash flow statements and cash budgets were answered very well, showing a good knowledge of these topics, particularly in relation to practical aspects; however, the essay, dealing with concepts, and analysis and interpretation, was not handled well by the majority of students. For the topic of clubs and societies, students knew how to prepare a subscriptions schedule, but the income and expenditure report was answered poorly.

Overall, the practical aspects of the paper were easier than in 2001. As in previous years, some theory questions were poorly done or not attempted, although the percentage of students attempting theory questions is continuing to improve, which is encouraging. Nevertheless, the

percentages of attempts on practical questions are still above the percentages on theory, and there is still a tendency by some students to rely on practical questions to achieve reasonable results.

### **GENERAL COMMENTS**

The 2002 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.

I wish to thank all members of the examining panel, the independent reviewer, the chief marker, all markers, and the officers of the Curriculum Council for their continued support throughout the year.

The following table shows the structure of the 2002 TEE paper:

| SYLLABUS AREA                       | APPROVED WEIGHTINGS | THEORY  | PRACTICAL | TOTAL |
|-------------------------------------|---------------------|---------|-----------|-------|
| Concepts, principles                | 5-10                | 10      |           | 10    |
| Depreciation and disposal of assets | 10-15               |         | 10        | 10    |
| Cash flow statements                | 10-15               | 5.5     | 9.5       | 15    |
| Analysis and interpretation         | 5-10                | 4.5     | 5.5       | 10    |
| Partnerships                        | 10-15               |         | 12.5      | 12.5  |
| Companies                           | 20-25               | 8.5     | 11.5      | 20    |
| Budgets                             | 10-15               | 2.5     | 8.5       | 11    |
| Clubs & societies                   | 10-15               |         | 11.5      | 11.5  |
| TOTAL                               |                     | 31      | 69        | 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 in this year's paper was 31:69.

### **Comment on theory questions**

The standard of answers to theory questions varied from question to question. There is still considerable room for improvement as 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 as the percentage of students attempting these questions is generally lower than those attempting the practical questions. However, it is encouraging to see that the percentage of students' attempts on theory questions has improved over last year; for example, 91.5% attempted question 3 (the essay), which is 6% better than last year.

### **Comment on practical questions**

The practical questions on the examination paper were perhaps easier than on 2001's paper and student performance was generally excellent. Candidate's scores on certain practical questions, particularly question 2 (dividends and retained profits), question 10A (clubs and societies subscription schedule), question 6 (budgets), question 7 (partnerships), question 8 (depreciation) and question 9A (cash flow statements), were very good. The results for students on question 10B (income and expenditure report for a club) were generally poor, although many received part marks for their efforts. Nevertheless there continue to be a few students who do not show any workings, or who provide workings in such an untidy manner that it is difficult to decipher their answers.

## ***COMMENTS ON SPECIFIC QUESTIONS***

### **Question 1** (*Theory: ordinary and preference shares*)

The mean mark was 6.4 out of 11 (57.8%, which is below the overall mean of 60.5%). Students appeared either to know the topic well or to answer it in vague fashion. There seems to be some confusion over certain aspects of the topic in that many students stated that preference shares have priority over ordinary shares as to return of capital on liquidation, which is not the case unless so stated in the company's constitution. Another major aspect was the lack of knowledge regarding the nature of participating and redeemable shares, whereas most knew the nature of cumulative shares.

### **Question 2** (*Company dividends and retained profits account*)

Average mark was 15.6 out of 23 (67.8%), which was above average for the paper. Question 2(A) was handled very well, which was most pleasing as the topic of dividends has been handled badly in the past. Nevertheless, the markers were generous with respect to appropriate words to be used in journal entries for dividends. The words used in the answer guide (see the Appendix) are appropriate in terms of current accounting standards and are recommended for use in future. In part (B), many students achieved part marks if they could calculate the dividend amounts correctly. The major fault was the exclusion of an opening balance for the account.

### **Question 3** (*Essay on concepts and theory*)

The mean score achieved was 7.6 out of 20 (37.9%).

The quality of answers was well below that desired by the examiners, and the proportion of candidates attempting the essay was the lowest of all questions on the paper. This was not unexpected by the examiners as the topic in the question was considered to be the hardest on the paper. 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 clear that students cannot analyse a given situation in terms of a set of definitions (see the answer in the appendix for guidance). Many students provided irrelevant responses, such as a discussion of cash versus accrual accounting, and the use of the term *matching* to describe the spreading of revenue over time periods. The concept of matching is completely irrelevant in the area of revenue recognition. It is concerning that, even if students know the definitions of revenue, assets, liabilities and equity, they are unable to analyse a practical situation in terms of the essential aspects of these definitions.

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

**Question 4** (*Analysis and interpretation*)

The average mark was 8.1 out of 20 (40.3%), which was well down on the mark for this topic last year.

(A) The ratio calculations were handled poorly, probably because all ratios were provided on the paper and candidates had to choose which ones were relevant for profitability and gearing. It was particularly noteworthy that so few calculated the rate of return on assets. Furthermore, many tried to calculate the gross profit ratio, even though gross profit could not be calculated.

(B) Explanation of the ratios was perhaps a little better than in previous years, but could still improve. The main problem was the same as in previous years, in that candidates usually make shallow remarks such as “the ratio went up/down since last year and this is good/bad”, without tying the comments to the topic under consideration, eg. gearing or profitability.

**Question 5** (*Companies: role of the AASB*)

The mean mark for this question was 47.1%.

Many candidates exhibited no idea of the topic, but the overall result was certainly better than last years' effort. The examiners consider that knowledge of the regulatory aspects of accounting and standard setting is important for TEE students, as this reflects the political environment in which accounting operates in the Australian society.

**Question 6** (*Cash budget*)

This question was attempted by most candidates, who were awarded an average mark of 15.2 out of 22 (68.9%).

This result is lower for the cash budget question than in previous years, particularly in the practical part (A).

(A) Very few students achieved full marks on this question, which asked students to construct the cash budget from given information. The main errors were:

- Miscalculations of receipts from sales and payments for purchases
- The inclusion of “foreign” items such as depreciation
- The inclusion of payments for insurance in the wrong cash budget
- Miscalculation of rent paid

(B) No comment

(C) The knowledge of candidates as to the contents of the sales and production budgets was surprisingly worse than expected, and the knowledge of the contents of a capital expenditure budget was very poor.

**Question 7** (*Partnership: interest on advance*)

Overall this question was handled very well, and teachers are to be complimented for the result (mean mark was 81.5%).

(A) No comment.

(B) The average mark for the appropriation account was 13.3 out of 16, (83.1%) a wonderful result.

(C) This part was also handled very well, as students scored a mean mark of 84.7%.

**Question 8** (*Depreciation*)

The number of candidates who attempted this question was very high in relation to other practical questions (97.9%).

(A) The first part of the question was answered very well by most candidates, scoring an average of 12.6 out of 16 (78.4%). Many achieved full marks or 15 out of 16.

(B) and (C) Although these parts attracted only small marks, both were handled badly. It was somewhat surprising to see that candidates had difficulty calculating the depreciation for the year and the loss on disposal.

**Question 9** (*Cash flow statement*)

The overall average mark was 19.0 out of 30, (63.3%) which was above the average on the whole paper. This result is satisfactory for this question, and is better than answers in previous years.

(A) The question was different from past years in that the focus was on operating activities, and there were several accrued and prepaid expenses. The most common errors were:

- incorrect calculations of payments to suppliers and employees. Many students forgot to omit the non-cash expenses eg. depreciation from “other expenses”. Others did not calculate correctly the payment to accounts payable.
- exclusion of interest paid from the face of the statement

(B) Candidates averaged only 51% on discussing the purpose of a statement of cash flows. This is somewhat disappointing as the examiners believe that students must know why the statement is useful as well as its preparation

(C) As for part (B), the average mark was below expectations; however, the examiners believe that students must know the concept of cash used in a cash flow statement if they are to interpret it correctly.

**Question 10** (*Clubs and societies*)

This question was in two parts. The mean mark for the question was 13.9 out of 23, (60.4%) which is close to average across the whole paper. However, the marks for each part differed significantly.

(A) The marks awarded for this part averaged a healthy 5.5 out of 6 (91.4%) and was handled extremely well

(B) The average mark awarded for this part was only 8.5 out of 17. (50.0%). Common errors made in preparing the income and expenditure report were:

- incorrect calculation of basketballs used
- incorrect calculations of depreciation and rent expense

- inclusion of the purchaseorder for new tracksuits

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

Nil

John Hoggett  
December 2002

**2002 Examining Panel**

Chief Examiner: Mr John Hoggett

Deputy: Ms Jill Burns

Third member: Mrs Cathy Moore

Chief Marker: Prof Val Pervan

***APPENDIX***

**CURRICULUM COUNCIL (WA)  
COPYRIGHT RESERVED**

**TERTIARY ENTRANCE EXAMINATION 2002**

**ACCOUNTING**

**SOLUTIONS**

**This is a working document amplified by discussions with markers, and is not a set of model answers.**

**QUESTION 1 (11 marks)**

*Describe the characteristics of ordinary shares and preference shares. In your response, include descriptions of cumulative, participating and redeemable preference shares.*

*(11 marks)*

Ordinary shares:

- Are shares with voting rights in the company (1)
- Are regarded as the residual interest (owners) of the company (1)
- Are entitled to receive dividends as and when declared (1)

Preference shares:

- Are preferential as to dividends over ordinary shares (1)
- Dividends are at a fixed rate (1)
- Do **not** have priority as to return of capital on liquidation unless so given by the company's constitution (1)

Different types of preference shares:

*Cumulative:*

- These shares have special dividend rights in that if the company does not pay a dividend in a particular year, the dividends accumulate so that double dividends would be due in the next year (2)

*Participating:*

- Owners of these shares participate in (receive) further dividends beyond their fixed rate if ordinary shares receive a dividend above a stated rate (2)

*Redeemable:*

- May be purchased back by the company (1)
- At a fixed future date, or (1)
- On a variable date at the option of either the company or the shareholders (1)

*Any other sensible point eg. ordinary shares can be bought back by the company, attracts one mark each. Maximum of 11 marks.*

**QUESTION 2 (23 marks)**

(A) (10 marks)

**JOURNAL OF NGUYEN AUTOS LTD**

| Date    | Account   | Debit      | Credit |
|---------|---|------------|--------|
| 30/6/01 | Retained Profits (1)<br>General Reserve (1)<br>(To record transfer to the general reserve)  | 20 000     | 20 000 |
|         | Preference Dividends Provided/<br>Retained Profits (1)<br>Provision for Pref. Div. (1)<br>(To record provision for preference dividends of 5% for half year) (5% x \$200 000) | (1) 10 000 | 10 000 |
|         | Ordinary Dividends Provided/<br>Retained Profits (1)<br>Provision for Ord. Div. (1)<br>(To record provision of dividends of 3c per share on 600 000 ordinary shares)          | (1) 18 000 | 18 000 |

*(2) marks for including date and ALL narrations,**(1) if one item incorrect or missing,**(0) if >1 item incorrect or missing*

(B) (13 marks)

Workings: Open bal of Ret Profs = Profit – Reserve transfer - Dividends

$$= \$75\,000(1) - \$20\,000(1) - \$10\,000 - \$18\,000(1)$$

$$= \$27\,000$$

**RETAINED PROFITS**

|          |                               |         |                        |
|----------|-------------------------------|---------|------------------------|
| 31/12/01 | Interim divs (2) 36 000       | 1/7/01  | Opening bal (1) 27 000 |
| 30/6/02  | T'fer to gen res. (1) 40 000  | 30/6/02 | Net profit (1) 200 000 |
|          | Final div. - pref. (2) 20 000 |         |                        |
|          | Final div. - ord (2) 48 000   |         |                        |
|          | Closing bal (1) 83 000        |         |                        |
|          | 227 000                       |         | 227 000                |
|          |                               |         | Balance b/d 83 000     |

*Do not penalise consequential.**If payment for final dividend for previous year on 31 August is included in the retained profits, deduct (2).**If students prepare running balance accounts, that's fine.**Deduct (3) if a statement format is used.*

### QUESTION 3 (20 marks)

#### Marking key:

|  |      |
|--|------|
| Introductory and concluding paragraphs | (2)  |
| English expression and grammar         | (1)  |
| Essay content                          | (17) |

The following is a guide in relation to content. The essay should be *expressed in narrative form*. The marks allocated below for content exceed 17. Award up to a maximum of 17 marks for content.

Key question: Does C&W Optus and Telecom NZ have recognisable revenue?

*Definition of revenue:*

Inflows or enhancements of future economic benefits during an accounting period (1)  
inflows must result in an increase in equity (other than a contribution by owners) (1)  
in the form of an increase in an asset or reduction in liability (1)

*Revenue recognition criteria:*

probable that inflow of future economic benefits will occur (1)  
AND that the inflow can be measured reliably (1)

Firstly, does C&W Optus have revenue, according to the definition:

- Has C&W Optus had an inflow or enhancement of future economic benefits during the accounting period? Yes (1)
- Has C&W Optus had an increase in equity? This depends on definitions of assets and liabilities (1)

*Assets* are defined as future economic benefits, controlled by an entity, as a result of a past transaction or event (1)

- Does C&W Optus have future economic benefits Yes (1)
- Do they control them Yes (1)
- Is it a result of a past transaction or event. Yes, there is a contract signed (1)
- So there has been an increase in an asset (1)

Has there been a reduction in a liability?

*Liabilities* are defined as future sacrifices of economic benefits that the entity is presently obliged to make to other entities as a result of past transactions or other past events (1)

- Optus does have a present obligation to deliver a service (1)

But does the sale of excess capacity constitutes a sacrifice of future economic benefits (this seems to be the crucial point and will determine the conclusion reached, particularly if the capacity given up by C&W Optus is SPARE as with NZ Telecom.)

- the obligation is to an outside entity (AAPT) (1)
- and resulted from a past transaction or event (the contract) (1)

*Equity* is the residual interest in the assets of the entity after deduction of its liabilities. ie.  $E = A - L$  (1)

If there is an increase in assets and an increase in liabilities there is no change in equity and therefore no revenue (1)

***If you believe that there is a sacrifice requiring settlement***, then under the conceptual framework, the whole \$104 million should be treated as an asset and a liability and therefore no revenue would be recognised immediately. (1)

In this case, revenue should be spread over the 15 year period of the contract (1)

as the initial increase in assets resulted in an increased liability (a service to be delivered gradually in the future) (1)

***If you believe that there is no sacrifice requiring settlement***, as the capacity is SPARE, then you could argue that revenue exists for the full \$104 million. (1)

we then need to determine whether it can be recognised (1)

- Do we have a reliable measure – Yes – the figure in the contract (1)
- Is it probable that the inflow will occur – Yes – a contract has been signed (1)

Hence, C&W Optus can argue that it does have recognisable revenue. (1)

#### QUESTION 4 (20 marks)

#### REQUIRED

- A. Calculate ratio formulae for 2001 and 2002, which would help you to comment on George's profitability and gearing (round to two decimal places). (11 marks)

The only ratios to be considered are as follows:

| Ratio   | 2001   | 2002   |            |
|---|--|--|------------|
| Net Profit Ratio<br>= Net Profit / Sales                                      | 20 000 / 100 000<br>= 20%                      | 30 000 / 220 000<br>= 13.64%                 | (2)        |
| Rate of Return on Assets<br>= Net Profit / Average Assets                     | 20 000 /<br>(50 000 + 100 000) / 2<br>= 26.67% | 30 000 /<br>(100 000 + 200 000) / 2<br>= 20% | (2)<br>(2) |
| Rate of Return on Owner's Investment =<br>Net Profit / Average Owner's Equity | 20 000 /<br>(50 000 + 50 000) / 2<br>= 40%     | 30 000 /<br>(50 000 + 50 000) / 2<br>= 60%   | (2)<br>(1) |
| Debt to equity<br>= Total liabilities /<br>Owner's equity (end)               | 50 000 / 50 000<br>= 1 : 1                     | 150 000 / 50 000<br>= 3 : 1                  | (2)        |

*Note that the operating expense ratio could be used as an alternative to the net profit ratio.*

B. Explain the results of these ratio calculations to George and advise him of the risks involved in his plan to borrow a further \$100 000. (9 marks)

Any 9 of the following points, or other relevant points:

Borrowing an extra \$100 000 would increase George's gearing, defined as (1)

Gearing: The relationship between the funds provided for the business by the owner (owner's equity) and those provided by outside lenders (liabilities). (1)

A firm is generally considered to be highly geared when a larger proportion of its funds is provided by liabilities, ie. the ratio is greater than 1. (1)

An increased debt to equity ratio will only increase the rate of return on owner's investment if the rate of return on total assets is greater than the rate of interest on the borrowed funds overall. (1)

This potential for increased profitability must be balanced against the increased risk to financial stability arising from the interest commitment and the need, eventually, to repay the principal. (1)

It appears that the profitability of George's business is declining somewhat and, as interest rates appear to be on the rise, the risk in borrowing appears to be greater. (2)

The rate of return on assets is likely to be lower because of the increased interest to be paid on \$200 000. (1)

There is considerable risk that the overall return on funds invested could fall below the interest rate payable on the borrowed funds, if not during the next year, then in the year after that if trends continue. (1)

The other important factor, which George should take into account when considering the risks associated with high gearing, is the necessity to repay borrowed money. The cash generated by the business must be sufficient to pay all expenses (including interest) and also to meet debt repayments as they fall due. (2)

This could be a particular problem if the sales are on credit. I would require further information before making a judgement about the possibility that increased profits generated from borrowed funds could jeopardise the liquidity and therefore financial stability of George's business. (2)

*No marks to be given for merely describing the ratio calculation. Give a mark for any sensible explanation or piece of advice.*

## **QUESTION 5 (6 Marks)**

### **The role and powers of the Australian Accounting Standards Board**

The main roles of the AASB are:

- to develop a conceptual framework (1)
- to formulate and make accounting standards (1),
- The standards are compulsory for companies which are reporting entities (1)
- To revise accounting standards already existing (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 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 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)

*There are nine marks listed. Any six will earn full marks.*

**QUESTION 6 (22 marks)**

**A.**

|  |     | <b>October</b> |
|--|-----|----------------|
| <b>Receipts</b>                                  |     |                |
| Receipts from sales                              | (4) | \$22 560       |
|  |     | 22 560         |
| <b>Payments</b>                                  |     |                |
| Payments for purchases                           | (4) | 12 960         |
| Wages  | (1) | 1 800          |
| Office equipment                                 | (1) | 3 600          |
| Rent   | (3) | 4 800          |
|  |     | 23 160         |
| Cash at beginning                                | (1) | 10 200         |
| Estimated net payments ( <i>may be omitted</i> ) |     | (600)          |
| Estimated cash at end (before dividend)          | (1) | 9 600          |

**Workings: Part marks to be awarded if either of these items below are incorrect:**

Receipts from sales = 30% x \$19 200 (1) + 70% x \$24 000 (1)  
= 5 760 + 16 800 = \$22 560 (1)

Payments for purchases = 40% x 10 800 (1) + 60% x 14 400 (1)  
= 4 320 + 8 640 = \$12 960 (1)

Rent = \$400 x 12 = \$4 800 (2)

*Do not penalise consequentials. Deduct (1) mark if insurance included in the payments.*

(B) The company can afford to pay dividends of **\$3 600** (= \$9 600 - \$6 000) to shareholders to maintain a minimum cash balance of \$6 000. (2)

(C) *Describe the functions of the following budgets:*

*Sales budget*

*Capital expenditure budget*

*Production budget*

*(5 marks)*

- Sales Budget: Is the cornerstone of budgeting and is the first budget produced (1); it forecasts the dollar amount of sales to be made in a specified period of time. (1)
- Production Budget: Forecasts the number of production units required in a specified period of time (1)  
to fulfil sales targets. (1)
- Capital Expenditure Budget: Forecasts the types and costs of non-current assets to be purchased in a specified period of time. (1)

**QUESTION 7 (25 marks)**

A     \$175 382 – \$90 374 = \$85 008 Net Profit (2)  
        *Deduct marks for extra items such as drawings, to a maximum of 2.*

B. (16 marks)

Appropriation Account

|                     |     |                      |            |
|---------------------|-----|----------------------|------------|
|                     |     |                      |            |
| Interest on capital | (4) |                      |            |
| Current: Moses      |     | 12 000               |            |
| Power               |     | 16 000               |            |
| Salary: Moses       | (1) | 50 000               |            |
| Residual Profit     | (3) |                      |            |
| Current: Moses      |     | 3 162                |            |
| Power               |     | 4 216                |            |
|                     |     |                      |            |
|                     |     | Profit               | (1) 85 008 |
|                     |     | Interest on drawings | (6)        |
|                     |     | Current: Power       | 350        |
|                     |     | Moses                | 20         |

*Add (1) mark for appropriate cross-referencing*  
*If any of the above are incorrect check workings for part marks as below*  
*If answer given in the form of a statement, deduct (2)*

*Workings*

**Interest on drawings (6)**

(1) for placing on correct side of ledger account

Power - \$10 000 (1) @ 6% (1) x 7/12 (1) = 350

Moses - \$2 000 (1) @ 6% x 2/12 (1) = 20

**Interest on capital (4)**

(1) for placing on correct side of ledger account

Power - 4% (1) x 400 000 (1) = 16 000

Moses - 4% x 300 000 (1) = 12 000

**Residual Profit (3)**

(1) for placing on correct side of ledger account and calling it a profit

Power - 4/7 (1) of 7378 = 4216

Moses - 3/7 (1) of 7378 = 3162

*Do not penalise consequential errors.*

C (7 marks)

Current - Moses

|                      |     |        |                     |
|----------------------|-----|--------|---------------------|
|                      |     |        |                     |
| Appropriation:       |     |        | Appropriation:      |
| Drawings             | (1) | 2 000  | Interest on Capital |
| Interest on drawings | (1) | 20     | Residual Profit     |
| Cash: (Salary paid)  | (1) | 30 000 | Salary              |
| Balance              | (1) | 33 142 | (1) 50 000          |

(7 marks)

*Deduct (1) for inappropriate cross-referencing.*



**QUESTION 9**

(A) (19 MARKS)

**Cash Flow from Operating Activities**

|                                       |           |           |
|---------------------------------------|-----------|-----------|
| Receipts from Customers               | 429 500   | <b>3</b>  |
| Interest Paid                         | (2 500)   | <b>1</b>  |
| Payments to Suppliers and Employees   | (392 700) | <b>15</b> |
| Cash provided by operating activities | 34 300    |           |

*Minus 1 mark for EACH "foreign item" in the statement. If any of the above are incorrect, check workings for part-marks*

**Workings**

## Accounts Receivable

|         |         |             |                |
|---------|---------|-------------|----------------|
| Balance | 17 000  | <b>Cash</b> | <b>429 500</b> |
| Sales   | 436 000 | Balance     | 23 500         |

**1** mark for both of the balances

Cost of Goods Sold

|                        |                |          |
|------------------------|----------------|----------|
| Opening inventory      | 18 000         | <b>1</b> |
| Purchases              | <b>271 000</b> |          |
|                        | 289 000        |          |
| Less Closing inventory | <u>29 000</u>  | <b>1</b> |
| Cost of goods sold     | <u>260 000</u> | <b>1</b> |

## Accounts Payable

|             |                |           |         |
|-------------|----------------|-----------|---------|
| <b>Cash</b> | <b>288 000</b> | Balance   | 28 000  |
| Balance     | 11 000         | Purchases | 271 000 |

**1** mark for both balances

## Prepaid Rent

|             |               |                 |        |          |
|-------------|---------------|-----------------|--------|----------|
| Balance     | 1 500         | Profit and Loss | 76 000 | <b>1</b> |
| <b>Cash</b> | <b>76 200</b> | Balance         | 1 700  |          |

**1** mark for both balances

|                  |  |          |
|------------------|--|----------|
| Depreciation -   | motor vehicles - 19 000 - 12 000 = 7 000 | <b>1</b> |
|                  | office equipment - 3 500 - 2 000 = 1 500 | <b>1</b> |
| Other expenses - | 18 000 (1) - (1 500 + 7 000) (1) = 9 500 |          |

Payment to Suppliers and Employees

|                    |                  |
|--------------------|------------------|
| Accounts Payable   | 288 000 (5)      |
| Rent               | 76 200 (2)       |
| Wages              | 12 000 (1)       |
| <b>Advertising</b> | <b>3 000 (1)</b> |
| Telephone          | 4 000 (1)        |
| Other expenses     | <u>9 500 (4)</u> |

B. What is the purpose of preparing a statement of cash flows? What types of decisions does a statement of cash flows help the owners of a business to make?

(6 marks)

The cash flow statement shows the main cash inflows and outflows of a business over a period of time. (1)

It allows businesses to properly assess their cash situation in terms of operating, investing and financing activities (2)

It also allows the owners of a business to evaluate the ability of the business to generate cash in the future. (1)

Hence it helps them to make the following types of decisions:

- obtaining external finance, (1)
- leading the business to finance new opportunities and (1)
- meeting financial obligations when they are due. (1)

**Other sensible comments may also deserve a mark each**

Note that a minimum of (2) marks must be allocated to mention of the decisions

C. The nature of “cash” under AASB 1026

Cash is cash on hand and cash equivalents. (1)

Cash on hand means notes and coins held and deposits held at call with a financial institution such as a bank (1)

Cash equivalents –

- *Highly liquid investments* with short periods to maturity which are readily converted to cash on hand at the investor’s option (1)
- and are subject to an insignificant risk of change in value (1)
- *Borrowings* which are integral (essential) to the cash management functions (1)
- and are not subject to a term facility (1)

Any 5 points

5 marks

**QUESTION 10****(A)***Subscriptions Schedule*

|   |               |            |          |
|---|---------------|------------|----------|
| Subscriptions received during 2002              | \$35 325      |            | <b>1</b> |
| Add Subscriptions received in advance in 2001   | <u>700</u>    |            | <b>1</b> |
|   | 36 025        |            |          |
| Add Subscriptions in arrears for 2002           |               | <u>650</u> | <b>1</b> |
|   | 36 675        |            |          |
| Less Subscriptions in arrears for 2001          | <u>350</u>    |            | <b>1</b> |
|   | 36 325        |            |          |
| Less Subscriptions received in advance for 2002 | <u>300</u>    |            | <b>1</b> |
| Subscription income for 2002                    | <u>36 025</u> |            | <b>1</b> |

*6 marks***(B)***Income and Expenditure Report*Income

|                        |              |          |          |
|------------------------|--------------|----------|----------|
| Subscriptions          | \$36 025     |          | <b>1</b> |
| Surplus - Refreshments | <u>1 400</u> | <b>6</b> |          |
|                        |              | \$37 425 |          |

Expenditure

|                          |            |               |  |
|--------------------------|------------|---------------|--|
| Basketballs used         | 2 600      | <b>5</b>      |  |
| Rent                     | 24 000     | <b>2</b>      |  |
| Depreciation - Equipment | <u>250</u> | <b>2</b>      |  |
|                          |            | <u>26 850</u> |  |
| Surplus for the year     | <b>(1)</b> | <u>10 575</u> |  |

*17 marks**Negative 1 for each entry appearing incorrectly eg tracksuits ordered.**Check workings for each incorrect entry above to allocate part marks.*

## Workings

### Accounts Payable – Refreshments Pty Ltd

|                 |       |          |                  |              |
|-----------------|-------|----------|------------------|--------------|
| Cash Payment    | 2 800 | <b>1</b> | Open Balance     | 250          |
| Closing Balance | 750   |          | <b>Purchases</b> | <b>3 300</b> |

(1) for opening and closing balances

### Refreshment Trading

|                   |              |          |                   |       |          |
|-------------------|--------------|----------|-------------------|-------|----------|
| Opening inventory | 400          |          | Sales             | 4 500 | <b>1</b> |
| Purchases         | 3 300        | <b>1</b> | Closing Inventory | 600   |          |
| <b>Surplus</b>    | <b>1 400</b> |          |                   |       |          |

(1) for opening and closing balances

### Accounts Payable - Go Sports

|              |       |          |                  |              |
|--------------|-------|----------|------------------|--------------|
| Cash Payment | 2 000 | <b>1</b> | Balance          | 175          |
| Balance      | 500   |          | <b>Purchases</b> | <b>2 325</b> |

(1) for opening and closing balances

### Supplies - Basketballs

|                 |       |          |                 |              |
|-----------------|-------|----------|-----------------|--------------|
| Opening Balance | 650   |          | Closing Balance | 375          |
| Purchases       | 2 325 | <b>1</b> | <b>Used</b>     | <b>2 600</b> |

(1) for opening and closing balances

|                           |                              |               |          |          |
|---------------------------|------------------------------|---------------|----------|----------|
| Rent                      | $24\,500 - 500 =$            | <b>24 000</b> |          | <b>1</b> |
| Depreciation of equipment | $12\frac{1}{2}\%$ of 2 000 = | <b>250</b>    | <b>1</b> |          |