



South Australian
Certificate of Education

Accounting 2021

Question booklet 1

- **Section 1** (Questions 1 to 3) 70 marks
- Answer **all** questions
- Write your answers in this question booklet
- Allow approximately 80 minutes

Examination information

Materials

- Question booklet 1
- Question booklet 2
- Information booklet
- SACE registration number label

Instructions

- Use black or blue pen
- You may use a sharp dark pencil for calculations
- Show appropriate working for calculations
- Approved calculators may be used

Total time: 130 minutes

Total marks: 120

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Attach your SACE registration number label here



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SECTION 1 (70 marks)

Question 1 (25 marks)

Refer to page 3 of the information booklet when answering Question 1.

(a) Outline *one* global ethical strategy that is relevant to Enduring Couture.

(1 mark)

(b) Identify *one* disadvantage of Tom and Tamzin operating their business as a partnership.

(1 mark)

(c) (i) Using the details provided on page 3 of the information booklet, complete the general journal entries to record the adjustments as shown.

Date	Details	Debit	Credit
	Depreciation of fittings and fixtures		
	Prepaid advertising adjustment		

(3 marks)

(ii) State *one* concept that Enduring Couture is implementing when it depreciates fittings and fixtures.

(1 mark)

(d) Complete the allowance for doubtful debts ledger as at 30 June 2021. *Formal balancing is required.*

**Allowance for doubtful debts
as at 30 June 2021**

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(3 marks)

(e) Complete the balance sheet extract for Enduring Couture as at 30 June 2021.

**ENDURING COUTURE
Balance sheet extract as at 30 June 2021**

Current assets	
Non-current assets	
TOTAL ASSETS	

(6 marks)

(f) Complete the income statement extract for Enduring Couture for the year ended 30 June 2021.

ENDURING COUTURE
Income statement extract for the year ended 30 June 2021

Gross profit	13 800
Other revenue	
Hire income	26 000
Commission revenue	1 000
Expenses	
<i>Selling</i>	
<i>Administrative</i>	
<i>Financial</i>	
Profit/loss	

(4 marks)

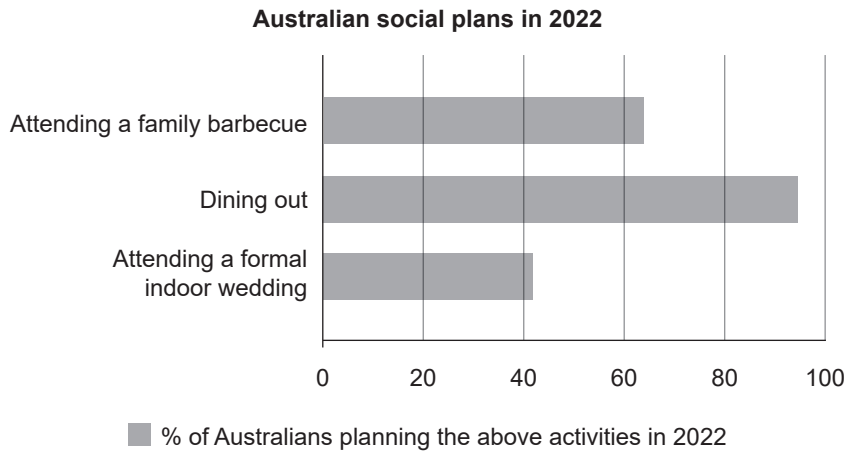
(g) (i) Calculate the 2021 debt ratio for Enduring Couture.

(2 marks)

(ii) Explain how the ratio in part (g)(i) could be used by an internal stakeholder.

(2 marks)

(h) Tom and Tamzin are presented with the graph below.



How might this external information affect their decisions about the future direction of their formal-wear business?

(2 marks)

Question 2 (20 marks)

Refer to page 5 of the information booklet when answering Question 2.

(a) Complete the receipts from debtors schedule for Magnificent Mocktails.

	Total sales	Cash sales	Credit sales	Cash collected November–January
August–October	166 000			
November–January				
Totals				

(3 marks)

(b) Complete the cash budget for the November 2021 to January 2022 quarter.

	November–January
Cash received	
TOTAL RECEIPTS	
Cash paid	
TOTAL PAYMENTS	
Opening bank	
Receipt less payments	
Closing bank	

(8 marks)

- (c) Beau has been thinking about replacing some of the equipment for Magnificent Mocktails, at an expected cost of approximately \$30 000.

Advise Beau on whether this should be done in January or at a different time, referring to the cash budget you prepared in part (b).

(3 marks)

- (d) Beau is also investigating the introduction of a new style of drink for summer, the 'Mint Fauxito'. Based on some research, he expects to sell 200 of these drinks for \$26 each over the next 3 months. The cost to make each drink is \$7 for the ingredients and \$5 for the bottle. In addition, Beau would need to hire an extra mixing and bottling machine at a cost of \$1500 for the 3-month period. He has told you that it would only be worthwhile producing the drink if it made a profit of \$1200 for the period.

Advise Beau whether or not he should introduce this new drink, using the information provided to support your advice. *Show your calculations.*

(4 marks)

- (e) In addition to completing a cash budget, Beau has also asked you to confirm that the \$2650 debit figure in the cash at bank ledger is correct. He is concerned because his last bank statement, dated 31 October, showed a \$1580 credit balance.

Beau is sure the ledger is up to date, but when reviewing the bank statement could not find the following items:

- \$2300 cash received from a customer on 29 October (The money is still in the safe, as Beau has not had time to deposit it in the bank.)
- a cheque for \$500 written out to pay for advertising in October
- a cheque for \$730 to pay for some inventory purchased on 28 October.

Prepare a bank reconciliation statement, using the details above.

MAGNIFICENT MOCKTAILS
Bank reconciliation statement as at 31 October 2021

(2 marks)

Question 3 (25 marks)

Refer to pages 6 and 7 of the information booklet when answering Question 3.

- (a) Perform the following calculations for Sunny Bank Batteries, to assist in the preparation of a statement of cash flows for the year ended 30 June 2021.

Cash received from debtors.

Cash paid to creditors.

Cash paid for insurance.

Cash received for commission revenue.

(6 marks)

Use the space below for other calculations.

(b) Prepare a statement of cash flows for Sunny Bank Batteries for the year ended 30 June 2021.

SUNNY BANK BATTERIES
Statement of cash flows for the year ended 30 June 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash flows from operating activities

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash flows from investing activities

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash flows from financing activities

NET INCREASE/DECREASE IN CASH HELD

CASH AT BEGINNING OF YEAR

CASH AT END OF YEAR

(8 marks)

(c) Provide an example of how accrual accounting affects the preparation of the statement of cash flows.

_____ (1 mark)

(d) Identify the link between the balance sheet and the statement of cash flows.

_____ (1 mark)

(e) Describe how the statement of cash flows is used as a management tool, with reference to the statement you prepared in part (b).

_____ (3 marks)

(f) As the operator of Sunny Bank Batteries, Connie is considering using her excess cash to purchase shares in Kwiker Charge Ltd, a business that charges electric vehicles. The following information has been provided as at 30 June 2021.

KWIKER CHARGE LTD

Industry average (benchmark) earnings per ordinary share	\$2.50
Industry average (benchmark) earnings yield	15%
Profit for ordinary shareholders	\$623 700
Number of ordinary shares	330 000
Market price per ordinary share	\$28

(i) Calculate the earnings yield for Kwiker Charge Ltd as at 30 June 2021.

(2 marks)

- (ii) Advise Connie whether or not she should invest in Kwiker Charge Ltd, based on the result in part (f)(i). Give your reasons.

(2 marks)

- (g) State the accounting entity for:

- (i) Sunny Bank Batteries _____ (1 mark)
- (ii) Kwiker Charge Ltd _____ (1 mark)





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Question booklet 2

Section 2 (Questions 4 and 5) 50 marks

- Answer **all** questions
- Write your answers in this question booklet
- Allow approximately 50 minutes

2

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Copy the information from your SACE label here

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SECTION 2 (50 marks)

Question 4 (25 marks)

Refer to pages 9 to 11 of the information booklet when answering Question 4.

(a) Refer to the inventory card for vinyl cleaning kits on page 11 of the information booklet.

(i) State which method of valuing inventory is being used. Provide a reason for your answer.

(2 marks)

(ii) Calculate the inventory turnover for vinyl cleaning kits for the month of June.

(2 marks)

(b) Lindsey's Vinyl Revival has experienced an increase in sales over the past 2 years. As a result, Lindsey wants to move from a physical/periodic inventory system to the perpetual method of recording inventory, via computer.

(i) Discuss some of the recording and reporting processes that would change for the business if this plan went ahead.

(4 marks)

(ii) State which accounting concept or convention would be violated by changing the inventory recording method.

(1 mark)

- (c) Lindsey's Vinyl Revival uses subsidiary ledgers for inventory and debtors.
Identify *three* advantages for a business of using subsidiary ledgers and control accounts.

(3 marks)

- (d) Lindsey has supplied their debtors ageing analysis for 30 June 2021, as shown below.

LINDSEY'S VINYL REVIVAL
Debtors ageing analysis at 30 June 2021

<i>Debtor</i>	<i>Current</i>	<i>1–30 days overdue</i>	<i>31–60 days overdue</i>	<i>60+ days overdue</i>	<i>Balance</i>
P Smith	700				700
A Morrow	300		300	400	1000
N Lee		500	320		820
B Richards	1000	150			1150
T Harris	200	550			750
H Johnson			240	1100	1340
TOTAL	2200	1200	860	1500	5760

The standard credit terms for Lindsey's Vinyl Revival is 30 days.

Discuss any concerns you have with the business's control of debtors, based on the information contained within the debtors ageing analysis.

(3 marks)

(e) (i) Calculate the working capital ratio for Lindsey’s Vinyl Revival for 30 June 2021.

(1 mark)

(ii) Using the ratio result calculated in part (e)(i) — and relevant details from the balance sheet on page 10 of the information booklet — discuss the impact of this result for Lindsey’s Vinyl Revival.

(3 marks)

(iii) The total inventory turnover ratio for Lindsey’s Vinyl Revival was 7.16 times for the year ended 30 June 2021.

Discuss this inventory turnover result — and the turnover calculated for the cleaning kits in part (a)(ii) — compared with the industry average of 5.35 times per year.

(3 marks)

- (f) Lindsey is exploring various sources of finance to help purchase their chosen computer inventory system, including additional capital, leasing, and loans.

Calculate the following ratios for 2021, in preparation for choosing possible sources of finance.

Debt/equity.

Quick ratio.

Return on equity.

(3 marks)

You may use the space below for any calculations that you may wish to do to support your answer to Question 5; however, these calculations will not be assessed.





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Accounting 2021

Information booklet

- Refer to the information in this booklet, where appropriate, when answering Questions 1 to 5
- Write your answers in the question booklets



Refer to the following information, where appropriate, when answering Questions 1 to 5.

FINANCIAL ANALYSIS RATIOS

Name	Calculation	Expressed as
Profitability (return)		
For all entities:		
Return on equity	$\frac{\text{profit}}{\text{owner's equity}^*}$	%
Return on total assets	$\frac{\text{profit} + \text{interest expense}}{\text{total assets}^*}$	%
Profit margin	$\frac{\text{profit}}{\text{revenue}^\dagger}$	%
Expense	$\frac{\text{individual expenses}}{\text{revenue}^\dagger}$	%
Gross profit margin	$\frac{\text{gross profit}}{\text{revenue}^\dagger}$	%
For companies:		
Earnings per ordinary share	$\frac{\text{profit for ordinary shareholders}}{\text{number of ordinary shares}}$	\$
Earnings yield	$\frac{\text{earnings per ordinary share}}{\text{market price per ordinary share}}$	%
Dividend per ordinary share	$\frac{\text{total ordinary dividend}}{\text{number of ordinary shares}}$	\$
Dividend yield	$\frac{\text{dividend per ordinary share}}{\text{market price per ordinary share}}$	%
Financial stability (risk)		
Short term (liquidity)		
Quick ratio (acid test)	$\frac{\text{cash assets} + \text{receivables}}{\text{current liabilities}}$	ratio
Working capital (current ratio)	$\frac{\text{current assets}}{\text{current liabilities}}$	ratio
Debtors turnover	$\frac{\text{net credit sales}}{\text{debtors}^*}$	times
Inventory turnover	$\frac{\text{cost of goods sold}}{\text{inventory}^*}$	times
Long term (solvency)		
Debt ratio	$\frac{\text{total liabilities}}{\text{total assets}}$	%
Debt/equity	$\frac{\text{total liabilities}}{\text{owner's equity}}$	%
Times interest earned	$\frac{\text{profit} + \text{interest expense}}{\text{interest expense}}$	times

*Averages are used for these values. However, the availability of information may necessitate the use of opening or closing values.

†Net sales should be used, except in the case where a business only provides service.

SECTION 1

Question 1

Tom and Tamzin Stewart are twins who own a formal-wear business called Enduring Couture. This partnership recycles high-end fashion, making pre-owned items available to customers for hire or purchase. The partners have provided the following trial balance.

ENDURING COUTURE
Trial balance as at 30 June 2021

<i>Account</i>	<i>Debit</i>	<i>Credit</i>
Cash at bank		5 800
Debtors	4 000	
Inventory 1 July 2020	63 500	
Creditors		6 700
Shop fittings and fixtures	12 000	
Commission revenue		750
Vehicle	21 000	
Rent expense	28 000	
Sales		109 200
Hire income		26 000
Sales returns	3 600	
Purchases	74 000	
Prepaid advertising	1 200	
Office wages	64 000	
Building	650 000	
Mortgage on building		590 000
Drawings	23 500	
Internet and phone	1 000	
Allowance for doubtful debts		400
Interest expense	11 300	
Capital		218 250
TOTAL	957 100	957 100

Additional information

- The closing inventory was determined through a stocktake on 30 June 2021 as being \$45 700.
- The vehicle and building were purchased in late June 2021, and no depreciation is required to be recorded.
- Fittings and fixtures were purchased on 1 January 2021, and are depreciated using the straight-line method at 4% per annum.
- Bad debts of \$500 are yet to be written off, and the allowance for doubtful debts should have a final balance of 10% of closing debtors.
- Prepaid advertising was for the 12 months from 1 October 2020.
- Commission of \$250 has been earned but will not be received until July.
- Office wages of \$650 had not been paid or recorded as at 30 June 2021.

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Question 2

Beau Voss is the owner of a small drinks business, Magnificent Mocktails, which makes exclusive beverages for special events. Beau wants you to prepare a cash budget for the business for the 3 months from November 2021 to January 2022.

He has provided you with the following information:

- The November to January quarter is normally the busiest of the year. Sales for the remainder of the year are expected to be much lower. Expenses remain roughly the same year-round.
- For the August to October 2021 quarter, actual sales totalled \$166 000.
- Sales are expected to increase by 40% for the November 2021 to January 2022 quarter.
- Ten per cent of sales are cash sales. Of credit sales, 70% are collected in the quarter they are made, with the remainder collected in the following quarter.
- To try to improve sales, Beau will be running three special events in December at a cost of \$6000 each. A deposit of \$1000 for each event was paid in October, with the balance due in November.
- Purchases of inventory are equal to 55% of the expected sales for the November 2021 to January 2022 quarter, and are made in cash.
- Expenses for the November 2021 to January 2022 quarter are expected to be:
 - electricity \$6000
 - shop rent \$12 000, of which \$2000 will be accrued at the end of January. No amounts were accrued at the end of October
 - advertising \$600 in November, decreasing by 10% each month
 - wages \$15 000 per month
 - depreciation \$1240.
- The cash at bank ledger had a \$2650 debit balance on 31 October 2021.

Question 3

The market for electric car batteries has dramatically increased over the past few years. Connie Nguyen, a sole trader operating Sunny Bank Batteries, has asked you to provide some advice on how the business is using its cash. To enable you to produce a statement of cash flows, you have been given the following financial statements.

SUNNY BANK BATTERIES
Income statement for the year ended 30 June 2021

Revenue			
Sales		780 000	
Sales returns		(26 000)	
Discounts allowed		(19 000)	735 000
Cost of goods sold			
Opening inventory		25 000	
Purchases	290 000		
Purchase returns	(11 000)		
Customs duties	1 000	280 000	
Closing inventory		(22 000)	(283 000)
Gross profit			452 000
Other revenue			
Commission revenue			5 000
Expenses			
Insurance	6 000		
Depreciation on plant and equipment	22 125		
Depreciation on computer equipment	16 000		
General expenses	88 000		
Interest on loan	15 000		
Rent	25 000		
Wages	185 000		357 125
Profit			99 875

SUNNY BANK BATTERIES
Comparative balance sheets as at 30 June 2021 and 30 June 2020

	2021	2020
ASSETS		
Current assets		
Cash at bank	171 600	25 000
Debtors	97 000	90 000
Inventory	22 000	25 000
Prepaid insurance	4 200	3 800
Non-current assets		
Plant and equipment	350 000	250 000
Less accumulated depreciation	(62 125)	(40 000)
Computer equipment	125 000	100 000
Less accumulated depreciation	(33 000)	(17 000)
Total assets	674 675	436 800
LIABILITIES		
Current liabilities		
Creditors	76 000	70 000
Unearned commission revenue	21 000	19 000
Non-current liabilities		
Loan	100 000	0
Total liabilities	197 000	89 000
EQUITY	477 675	347 800

SUNNY BANK BATTERIES
Statement of changes in equity for years ended 30 June 2021 and 30 June 2020

	2021	2020
Opening capital, Connie Nguyen	347 800	302 800
Profit	99 875	55 000
Additional capital	30 000	0
Drawings	0	(10 000)
Closing capital	477 675	347 800

Additional information

- All sales and purchases are on credit.
- All capital contributions and drawings were made in cash.
- All acquisitions and disposal of non-current assets were paid for in cash.

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SECTION 2

Questions 4 and 5

Lindsey Ords owns a small business called Lindsey's Vinyl Revival, dealing primarily with buying and selling second-hand compact discs and vinyl records. The business, which grew from their hobby, has been operating for 10 years. Although it has always generated a healthy cash flow, the business has experienced a sharp increase in vinyl sales in the past 2 years. At the same time, credit sales have increased significantly.

Lindsey has expanded the lines of inventory in the past 12 months. Lindsey's Vinyl Revival now sells new vinyl records, as well as record accessories such as cleaning kits and turntable needles. The business is in the suburbs on a main road leading into the city. Its renovated premises are in good condition, with sufficient space to display and store inventory as needed.

As a result of the increase in demand, Lindsey would like to purchase a computer system to catalogue and record all inventory movement electronically. After some research, they have found a system for \$8000 that appears suitable.

Lindsey has provided financial statements from the past 2 years for you to advise on how to best purchase the computer inventory system. They believe the business has insufficient cash to make this purchase, because it must maintain a cash surplus to buy second-hand compact discs and vinyl records from customers.

LINDSEY'S VINYL REVIVAL Income statement for the year ended 30 June

	2021	2020
Revenue		
Sales	440 350	390 280
Sales returns	(3 000)	(4 080)
Cost of goods sold	209 100	190 500
Stock loss	2 200	800
Gross profit	226 050	194 900
Expenses		
Wages	126 650	116 680
Rates and taxes	9 000	8 800
Insurance	4 500	4 300
Depreciation	3 000	3 000
General expenses	14 340	9 250
Bad debts	8 280	2 390
Interest on loans	5 350	5 620
Profit	54 930	44 860

Additional information

- Average inventory turnover for the industry is 5.35 times per year.
- Credit sales are 10% of net sales.

LINDSEY'S VINYL REVIVAL
Statement of changes in equity
for the years ended 30 June 2021 and 30 June 2020

	2021	2020
Opening capital, Lindsey Ords	293 060	279 200
Drawings	(33 000)	(31 000)
Profit	54 930	44 860
Closing capital	314 990	293 060

LINDSEY'S VINYL REVIVAL
Balance sheet as at 30 June

	2021		2020	
ASSETS				
Current assets				
Inventory	33 400		25 000	
Debtors	5 760		2 500	
Prepaid expenses	4 000		1 700	
Cash in hand	1 200		1 000	
Cash at bank	6 240	50 600	4 250	34 450
Non-current assets				
Fixtures and fittings	50 000		42 000	
Less accumulated depreciation	(38 000)		(35 000)	
Land and buildings	420 000	432 000	420 000	427 000
Total assets		482 600		461 450
LIABILITIES				
Current liabilities				
Creditors	13 110		10 690	
Accrued expenses	1 500		1 700	
Loan	8 000	22 610	0	12 390
Non-current liabilities				
Mortgage	145 000	145 000	156 000	156 000
Total liabilities		167 610		168 390
Net assets		314 990		293 060

LINDSEY'S VINYL REVIVAL
Statement of cash flows for the year ended 30 June 2021

Cash flows from operations		
Inflows	425 810	
Outflows	(368 020)	57 790
Cash flows from investing		
Inflows	0	
Outflows	(19 600)	(19 600)
Cash flows from financing		
Inflows	8 000	
Outflows	(44 000)	(36 000)
Net change in cash		2 190
Cash at beginning of year		5 250
Cash at end of year		7 440

LINDSEY'S VINYL REVIVAL
Inventory card for vinyl cleaning kits

Date	Details	In			Out			Balance		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 June	Balance							5	14	70
								4	15	60
3 June	Sales				4	14	56	1	14	14
								4	15	60
8 June	Purchases	5	25	100				5	25	125
11 June	Sales				1	14	14			
					2	15	30	2	15	30
								5	25	125
13 June	Sales returns	2	15	30				4	15	60
								5	25	125
18 June	Purchases	15	22	330				15	22	330
20 June	Purchases returns				3	22	66	4	15	60
								5	25	125
								12	22	264
21 June	Sales				4	15	60			
					2	25	50	3	25	75
								12	22	264
26 June	Drawings				1	25	25	2	25	50
								12	22	264
29 June	Sales				2	25	50			
					3	22	66	9	22	198
30 June	Stock loss				2	22	44	7	22	154

