Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**2020 ACCOUNTING Unit 3**

**Area of Study 2: Preparing and interpreting accounting reports**

**Written SAC2**

**Reading time: 10 minutes**

**Writing time: 48 minutes**

**QUESTION BOOK**

**Structure of book**

|  |  |  |
| --- | --- | --- |
| *Number of questions* | *Number of questions to be answered* | *Number of marks* |
| 3 | 3 | 40 |

|  |
| --- |
| * Students are permitted to bring into the SAC room: pens, pencils, highlighters, erasers, sharpeners, rulers and one scientific calculator. * Students are NOT permitted to bring into the SAC room: blank sheets of paper and/or correction fluid/tape.   **Materials supplied**   * Question book of 3 pages. * Answer book of 6 pages.   **Instructions**   * Write your name in the space provided on the front cover of the question book. * Answer all questions in the answer book. * All written responses must be in English.   **At the end of the SAC**   * Return the question book and the answer book. |

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| **Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the SAC room.** |

**Question 1** (20 marks)

Lucia Luca established Lucia’s Coffee Cups on 1 May 2020. The business sells environmentally friendly and sustainable takeaway coffee cups to cafes.

Lucia’s Coffee Cups prepares financial reports on the last day of each month.

The following occurred during May 2020.

|  |  |
| --- | --- |
| 1 May | Lucia transferred $20 000 from her personal bank account into the business bank account (EFT. 001). |
| 1 May | Lucia’s Coffee Cups received a loan of $30 000 from YLE Bank (Rec. 1). |
| 1 May | The business purchased inventory valued at $1 650 (including GST, from Enviro Cups (Inv. 34R). |
| 4 May | Lucia’s Coffee Cups arranged an overdraft of $10 000 with GRP Bank. |
| 12 May | The business sold 500 cups to Green Tapas, total $440 (including GST) (Inv. LCC1). |
| 14 May | Lucia contributed her vehicle to the business. It was originally purchased for $25 000 and has a fair value of $14 000 (Memo 1). |
| 15 May | The business paid wages $3 000 (Chq. 1). |
| 24 May | Lucia’s Coffee Cups sold 250 cups to Bespoke Café, total $200, plus GST, (Inv. LCC2). |
| 27 May | The business placed an order for office furniture that cost $15 400 (including GST). This is expected to be delivered on 2 June 2020. (Memo 2). |
| 28 May | Green Tapas repaid the full amount owing (Rec. 2). |

**Additional information**

* Lucia’s Coffee Cups buys and sells all inventory on credit.
* Credit terms for customers are n/30, 2/10.
* There is a 100% mark-up on cost of inventory.
* The loan is repayable in equal instalments of $500 on the last day of each month over the life of the loan.
* On 31 May 2020, Lucia’s accountant found the following business document.

**YLE BANK**

|  |  |
| --- | --- |
|  | CONFIRMATION OF PAYMENT -EFT. 002 |
| Transfer to: | BSB 197-771 |
| A/c number: | 401-996-222 |
| Date/time: | 29/05/20, 09.17 |
| Authorisation: | 4422711 |
| TOTAL: AUD | $3 400 |
| Reference: | Lucia Luca – payment for holiday accommodation |

**Date:** 30/05/2019

**Received from**: Malvern West Primary School

**The sum of:** Two thousand, five hundred dollars plus two hundred and fifty dollars

**Being for**: Cash fess

**Amount (incl. GST): $** 2,750.00

**Signed:** *Gregory Green*

1. Complete the Bank General Ledger account for May 2020.

You **are** required to balance or close this account, as appropriate.

6 marks

1. Prepare the Cash Flow from the Financing Activities section of the Cash Flow Statement for Lucia’s Coffee Cups for the month ended 31 May 2020.

3 marks

1. Prepare the Assets extract of the Balance Sheet for Lucia’s Coffee Cups as at 31 May 2020.

4 marks

1. Explain how Lucia’s decision to prepare financial reports on the last day of each month upholds **one** qualitative characteristic.

3 marks

1. Referring to the transactions that occurred on 12 May 2020 and 28 May 2020, distinguish between cash and profit.

4 marks

**Question 2** (14 marks)

Sam owns and operates a business called Sam’s Sports Shoes. The business promotes itself as only purchasing from suppliers who *“… ensure the sports shoes are made in a safe and inclusive work environment, whereby all employees are paid a fair wage and have regular rest breaks. Each shoe is made from 100% recycled materials.”*

The business prepares financial reports on the last day of March, June, September and December. Sam’s Sports Shoes uses the accrual basis of accounting and the perpetual method of inventory recording. Inventory is sold for cash and on credit, but is purchased only on credit.

|  |  |  |
| --- | --- | --- |
|  |  |  |

Sam has provided you with the following information for the quarter ended 31 March 2020.

|  |  |
| --- | --- |
| * Cash sales $40 000 | * Wages $25 000 |
| * Credit sales $30 000 | * Rent $2 000 |
| * Inventory gain $300 | * GST refund $200 |
| * Collections from accounts receivable $22 000 | * Interest revenue $400 |
| * Payments to accounts payable $33 000 | * Interest expense $500 |
| * Discount revenue $2 000 | * Credit purchase of inventory $40 000, plus GST |
| * Sales returns $1 500 | * Capital contributions $4 000 cash and $2 000 computer |

**Additional information:**

* The business has a 50% mark-up on cost.
* On 1 March 2020, Sam’s Sports Shoes changed the supplier of basketball shoes. Sam hoped that by paying less for each pair of basketball shoes, the business could achieve a higher profit result. The new supplier could not verify that it paid a fair wage to its employees and had a reputation for not allowing its workers to take any rest breaks, despite making them work 12 hour shifts. However, Sam decided that as most of its inventory was bought from suppliers that did match the promise to customers, this was not a problem and he was not obliged to let his customers know.

1. Prepare the General Journal entries to close all revenue accounts to the Profit and Loss Summary account.

A narration is **not** required.

5 marks

1. Referring to **one** accounting assumption, explain **one** reason for closing revenue and expense accounts to the Profit and Loss Summary account.

3 marks

1. Discuss **one** ethical issue that the owner should consider.

4 marks

1. Suggest **one** reason for the Sales Returns of $1 500 and explain why Sam should be concerned about the Sales Returns.

2 marks

**Question 3** (6 marks)

Discuss the profitability of Wood Craft Tables, as shown by the following data relating to key financial indicators for the year ended 30 June 2019 and the year ended 30 June 2020.

|  |  |  |
| --- | --- | --- |
|  | **30 June 2019** | **30 June 2020** |
| **Return on Owner’s Investment** | 11.3% | 13.5% |
| **Return on Assets** | 6.7% | 9.2% |
| **Asset Turnover** | 1.6 times | 1.5 times |
| **Debt Ratio** | 45% | 65% |
| **Gross Profit Margin** | 20% | 17% |
| **Net Profit Margin** | 16% | 18% |

**END OF QUESTION BOOK**