



Apex Exam Guide

Accounting

Year 12 QCE

Queensland Curriculum

2025 Edition

Timothy Coveney



Apex Exam Guide

Accounting

Year 12 QCE

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Acknowledgements

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Notes	<ul style="list-style-type: none">• The examination includes a combination of multiple-choice items, practical items and short items relating to Unit 4 Topic 2: Complete accounting process for a trading GST business and Unit 4 Topic 3: Performance analysis of a• Unit 4, Topic 1 is assessed through a summative internal assessment.• Stimulus materials from the stimulus book have been included in the relevant questions.
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Unit 4 Accounting – the big picture

Unit 4 – Topic 2: Complete accounting process for a trading GST business

Paper 1 Section 1

<p>2023 Paper 1 Section 1 Question 1</p> <p>Complete accounting process for a trading GST business</p>	<p>On 30 June 2023, a business conducted a stocktake that revealed a shortage of \$6 600 (including GST) between its actual inventories and the book value of inventories. Completing the required balance day adjustment would result in the business's net profit figure</p> <p>(A) increasing by \$6 000. (B) decreasing by \$6 000. (C) increasing by \$6 600. (D) decreasing by \$6 600.</p>
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<p>2023 Paper 1 Section 1 Question 4</p> <p>Complete accounting process for a trading GST business</p>	<p>A business purchased furniture for \$16 500 (including GST) on 30 September 2020. The furniture was to be depreciated at 10% using the straight-line method over 10 years. The owner decided to sell the furniture on 30 June 2023 for \$12 500 cash.</p> <p>Calculate the accumulated depreciation balance to be transferred to the disposal account.</p> <p>(A) \$3 000 (B) \$4 125 (C) \$4 500 (D) \$4 538</p>
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<p>2023 Paper 1 Section 1 Question 6</p> <p>Complete accounting process for a trading GST business</p>	<p>Business A is a suburban hairdressing salon that receives 25% commission, paid at the end of each quarter, for sales of a shampoo. To 31 March, commission of \$560 has been recorded by Business A.</p> <table border="1" style="margin: 10px auto;"> <thead> <tr> <th colspan="3">Sales A/C (extract) for quarter ended 30 June 2023</th> </tr> <tr> <th>April</th> <th>May</th> <th>June</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">\$40.00</td> <td style="text-align: center;">\$45.00</td> <td style="text-align: center;">\$52.00</td> </tr> </tbody> </table> <p>Determine the entry for the Commission account to close off to the Profit or Loss Summary Account.</p> <table border="1" style="margin: 10px auto;"> <thead> <tr> <th></th> <th></th> <th style="text-align: center;">DR \$</th> <th style="text-align: center;">CR \$</th> </tr> </thead> <tbody> <tr> <td rowspan="2" style="text-align: center;">(A)</td> <td>Commission revenue</td> <td style="text-align: center;">594.25</td> <td></td> </tr> <tr> <td>Profit or Loss Summary</td> <td></td> <td style="text-align: center;">594.25</td> </tr> <tr> <td rowspan="2" style="text-align: center;">(B)</td> <td>Profit or Loss Summary</td> <td style="text-align: center;">594.25</td> <td></td> </tr> <tr> <td>Commission revenue</td> <td></td> <td style="text-align: center;">594.25</td> </tr> <tr> <td rowspan="2" style="text-align: center;">(C)</td> <td>Commission revenue</td> <td style="text-align: center;">590.00</td> <td></td> </tr> <tr> <td>Profit or Loss Summary</td> <td></td> <td style="text-align: center;">590.00</td> </tr> <tr> <td rowspan="2" style="text-align: center;">(D)</td> <td>Profit or Loss Summary</td> <td style="text-align: center;">697.00</td> <td></td> </tr> <tr> <td>Commission revenue</td> <td></td> <td style="text-align: center;">697.00</td> </tr> </tbody> </table>	Sales A/C (extract) for quarter ended 30 June 2023			April	May	June	\$40.00	\$45.00	\$52.00			DR \$	CR \$	(A)	Commission revenue	594.25		Profit or Loss Summary		594.25	(B)	Profit or Loss Summary	594.25		Commission revenue		594.25	(C)	Commission revenue	590.00		Profit or Loss Summary		590.00	(D)	Profit or Loss Summary	697.00		Commission revenue		697.00
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**2022
Paper 1
Section 1
Question 3**

**Complete
accounting
process for a
trading GST
business**

The following information has been provided by Business A as at 31 March 2022.

Sales	146 000
Cost of goods sold	102 000
Gross profit	31 000

The missing \$13 000 can be attributed to the

- (A) GST payable account.
- (B) cartage on sales account.
- (C) commission revenue account.
- (D) sales returns and allowances account.

**2022
Paper 1
Section 1
Question 5**

**Complete
accounting
process for a
trading GST
business**

This General Ledger has been provided.

General Ledger (extract)				
Date	Particulars	DR \$	CR \$	Balance \$
Inventories Account				
Jun 01	Balance			12 500
05	Cash at bank	2 400		14 900
	Cost of goods sold		4 600	10 300
07	Cash at bank	1 200		11 500
12	Cost of goods sold		2 200	9 300
19	Cash at bank	3 200		12 500
22	Cost of goods sold		3 800	8 700

These transactions were not entered in the General Ledger (GST not included).

June 30 Purchased goods from supplier: \$3 500
Return of goods sold on June 22: \$1 200 (cost price was \$400)
Stocktake sale confirmed inventory short by \$250.

Calculate the closing balance for Inventories at the end of June using the data provided.

- (A) \$10 750
- (B) \$11 250
- (C) \$12 050
- (D) \$12 350

2022 Paper 1 Section 1 Question 10 Complete accounting process for a trading GST business	<table border="1"> <tr> <th colspan="2">Business C</th> </tr> <tr> <th colspan="2">Statement of Financial Position (extract)</th> </tr> <tr> <th colspan="2">As at 30 June 2021</th> </tr> <tr> <td colspan="2">Current Assets</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">7 500</td> </tr> <tr> <td>Accrued commission</td> <td style="text-align: right;">1 000</td> </tr> <tr> <td colspan="2">Current Liabilities</td> </tr> <tr> <td>Accrued wages</td> <td style="text-align: right;">2 500</td> </tr> </table>	Business C		Statement of Financial Position (extract)		As at 30 June 2021		Current Assets		Bank	7 500	Accrued commission	1 000	Current Liabilities		Accrued wages	2 500
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<p>The reversal of the relevant accounts will have the following impact on Business C in the 2022 financial year.</p> <p>(A) The bank account will decrease by \$2 500. (B) Net profit of the business will increase by \$1 500. (C) Total revenues of the business will increase by \$1 000. (D) Operating cash outflows for the business will increase by \$1 500.</p>																	

2021 Paper 1 Section 1 Question 1 Complete accounting process for a trading GST business	<p>On 1 June 2021, a small business paid \$13 200 (GST inclusive) for 3 months rent (in advance) for their warehouse storage facility.</p>
	<p>On 30 June 2021, the balance of the Prepaid rent account will be</p> <p>(A) \$8 800 (B) \$8 000 (C) \$4 400 (D) \$4 000</p>

2021 Paper 1 Section 1 Question 5 Complete accounting process for a trading GST business	<p>Petra is having her home painted. She gives the painters three 10-litre cans of paint from the hardware store she owns. Each can was originally purchased for \$165.</p>																																															
	<p>This would be recorded by the hardware store as</p> <p>(A)</p> <table border="1"> <tr> <td>Drawings</td> <td>Dr</td> <td>\$495</td> <td></td> </tr> <tr> <td>GST credits received</td> <td>Cr</td> <td></td> <td>\$45</td> </tr> <tr> <td>Inventories</td> <td>Cr</td> <td></td> <td>\$450</td> </tr> </table> <p>(B)</p> <table border="1"> <tr> <td>Operating expenses</td> <td>Dr</td> <td>\$495</td> <td></td> </tr> <tr> <td>GST credits received</td> <td>Cr</td> <td></td> <td>\$45</td> </tr> <tr> <td>Drawings</td> <td>Cr</td> <td></td> <td>\$450</td> </tr> </table> <p>(C)</p> <table border="1"> <tr> <td>Drawings</td> <td>Dr</td> <td>\$495</td> <td></td> </tr> <tr> <td>GST credits received</td> <td>Cr</td> <td></td> <td>\$45</td> </tr> <tr> <td>Operating expenses</td> <td>Cr</td> <td></td> <td>\$450</td> </tr> </table> <p>(D)</p> <table border="1"> <tr> <td>Inventories</td> <td>Dr</td> <td>\$495</td> <td></td> </tr> <tr> <td>GST credits received</td> <td>Cr</td> <td></td> <td>\$45</td> </tr> <tr> <td>Drawings</td> <td>Cr</td> <td></td> <td>\$450</td> </tr> </table>	Drawings	Dr	\$495		GST credits received	Cr		\$45	Inventories	Cr		\$450	Operating expenses	Dr	\$495		GST credits received	Cr		\$45	Drawings	Cr		\$450	Drawings	Dr	\$495		GST credits received	Cr		\$45	Operating expenses	Cr		\$450	Inventories	Dr	\$495		GST credits received	Cr		\$45	Drawings	Cr	
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<p>2021 Paper 1 Section 1 Question 6</p> <p>Complete accounting process for a trading GST business</p>	<p>To review its performance, a sole trader clothing retail business in Queensland should compare its</p> <p>(A) net profit ratio with clothing retailers listed on the ASX. (B) gross profit ratio with clothing retailers with a similar turnover. (C) cost of goods sold with clothing retailers considered to have world's best practice. (D) commission revenue with sales revenue for all other Queensland clothing retailers.</p>
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<p>2021 Paper 1 Section 1 Question 7</p> <p>Complete accounting process for a trading GST business</p>	<p>The following company data has been collected.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3" style="background-color: #444; color: white; text-align: center;">Trial Balance as at 30 June 2021 (extract)</th> </tr> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">Debit \$</th> <th style="width: 20%; text-align: center;">Credit \$</th> </tr> </thead> <tbody> <tr> <td>Accounts receivable control</td> <td style="text-align: center;">45 000</td> <td></td> </tr> <tr> <td>Provision for doubtful debts</td> <td></td> <td style="text-align: center;">5 000</td> </tr> <tr> <td>Bad and doubtful debts</td> <td style="text-align: center;">8 000</td> <td></td> </tr> </tbody> </table> <p>The balance of the provision for doubtful debts is to be set as 20% of accounts receivable.</p> <p>The entry to record the provision for doubtful debts is</p> <p>(A) <table border="1" style="display: inline-table; margin-right: 20px;"> <tr><td>Bad and doubtful debts</td><td>Dr</td><td>\$3 000</td><td></td></tr> <tr><td>Provision for doubtful debts</td><td>Cr</td><td></td><td>\$3 000</td></tr> </table></p> <p>(B) <table border="1" style="display: inline-table; margin-right: 20px;"> <tr><td>Bad and doubtful debts</td><td>Dr</td><td>\$4 000</td><td></td></tr> <tr><td>Provision for doubtful debts</td><td>Cr</td><td></td><td>\$4 000</td></tr> </table></p> <p>(C) <table border="1" style="display: inline-table; margin-right: 20px;"> <tr><td>Bad and doubtful debts</td><td>Dr</td><td>\$9 000</td><td></td></tr> <tr><td>Provision for doubtful debts</td><td>Cr</td><td></td><td>\$9 000</td></tr> </table></p> <p>(D) <table border="1" style="display: inline-table; margin-right: 20px;"> <tr><td>Bad and doubtful debts</td><td>Dr</td><td>\$12 000</td><td></td></tr> <tr><td>Provision for doubtful debts</td><td>Cr</td><td></td><td>\$12 000</td></tr> </table></p>	Trial Balance as at 30 June 2021 (extract)				Debit \$	Credit \$	Accounts receivable control	45 000		Provision for doubtful debts		5 000	Bad and doubtful debts	8 000		Bad and doubtful debts	Dr	\$3 000		Provision for doubtful debts	Cr		\$3 000	Bad and doubtful debts	Dr	\$4 000		Provision for doubtful debts	Cr		\$4 000	Bad and doubtful debts	Dr	\$9 000		Provision for doubtful debts	Cr		\$9 000	Bad and doubtful debts	Dr	\$12 000		Provision for doubtful debts	Cr		\$12 000
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**2021
Paper 1
Section 1
Question 9**

**Complete
accounting
process for a
trading GST
business**

A business has provided the following information from its Statement of Profit or Loss, Statement of Financial Position and Statement of Cash Flows.

	2021 \$	2020 \$
Drawings	60 000	60 000
Capital	390 000	465 000
Mortgage	105 000	30 000
Non-current assets	550 000	390 000
Net cash provided by (used in) investing activities	(150 000)	(60 000)

In 2021, the Statement of Financial Position will show non-current assets of \$550 000 and the Statement of Cash Flows will show outflows for the purchase of the non-current assets of

- (A) \$90 000
- (B) \$150 000
- (C) \$160 000
- (D) \$240 000

**2020
Paper 1
Section 1
Question 1**

**Complete
accounting
process for a
trading GST
business**

James's Business	
List of accounts	\$
Accumulated depreciation — delivery van	6 800
Capital contributions	0
Cost of goods sold	25 000
Depreciation	3 400
Drawings	4 500
GST payable	10 000
Interest received	1 000
Sales	100 000
Sales returns	10 000
Wages	20 000

Following the completion of all closing entries, the owner's equity would increase by

- (A) \$31 300.
- (B) \$38 100.
- (C) \$39 200.
- (D) \$42 600.

**2020
Paper 1
Section 1
Question 2**

**Complete
accounting
process for a
trading GST
business**

Which of the following processes will happen when closing entries are prepared?

- (A) Drawings will be closed to the Profit or Loss Summary Account.
- (B) Asset accounts will be closed to the Profit or Loss Summary Account.
- (C) The Profit or Loss Summary Account will be closed to the Cash Account.
- (D) All relevant expense accounts will be closed to the Profit or Loss Summary Account.

**2020
Paper 1
Section 1
Question 6**

**Complete
accounting
process for a
trading GST
business**

A motor vehicle was purchased on 1 July 2018 for \$50 000 and sold on 31 October 2020 for \$18 000. The depreciation method used is straight line. The useful life is five years, and there is no residual value. As at 30 June 2020, the accumulated depreciation for the motor vehicle was recorded as \$20 000. Based on this data, and rounding to the nearest whole number, the general journal entry to record the disposal would be

(A)	Loss on disposal of motor vehicle	Dr	\$28 667	
	Disposal of motor vehicle	Cr		\$28 667
(B)	Loss on disposal of motor vehicle	Dr	\$12 000	
	Disposal of motor vehicle	Cr		\$12 000
(C)	Loss on disposal of motor vehicle	Dr	\$8 667	
	Disposal of motor vehicle	Cr		\$8 667
(D)	Loss on disposal of motor vehicle	Dr	\$2 000	
	Disposal of motor vehicle	Cr		\$2 000

**2020
Paper 1
Section 1
Question 7**

**Complete
accounting
process for a
trading GST
business**

General Journal (extract)			
Date	Particulars	Debit \$	Credit \$
30 June	Inventory adjustment	2 500	
	Inventories		2 500
	(Adjustment on item 55)		

This inventory adjustment was made because

- (A) a stocktake revealed that the physical count was less than the stock register.
- (B) inventory was damaged on arrival and an adjustment note was issued.
- (C) a purchase order of inventory was received but not recorded.
- (D) a sales return was processed but not recorded.

Read Case study 1 (Stimulus 1) in the stimulus book.

Case study 1 (Stimulus 1) Whitegoods Retailer

Stimulus 1

The owner of Whitegoods Retailer has asked you to finalise their account balances for the year ended 30 June 2023. They have provided a list of account balances, but there are two issues the owner does not know how to record.

Issue 1

A range of freezers had to be heavily discounted to sell. The two remaining freezers in that range are to be recorded at their net realisable value. The details for the two freezers (not including GST) are shown.

Current selling price per freezer	\$975
Original purchase price per freezer	\$1 399.50
Marketing costs for the two freezers	\$145

Issue 2

Whitegoods Retailer's bank statement revealed that on 20 June 2023, the business received 40 cents in the dollar from a customer whose account balance of \$8 790 had been written off as a bad debt on 31 December 2021. GST was applicable on the initial sale. Round any calculations made to the nearest dollar.

a) Record the balance day adjustments in the worksheet for the two issues identified. Add the further accounts required and complete the Adjusted Balance column for the affected accounts. [8 marks]

Worksheet (extract) for Whitegoods Retailer as at 30 June 2023					
Unadjusted Balance of Accounts		Adjustments		Adjusted Balance	
		DR	CR	DR	CR
	\$	\$	\$	\$	\$
Inventories	4 590				
Accounts receivable	13 500				
Bad and doubtful debts (expense)	9 700				
Interest revenue	156				
GST collected	2 300				
Depreciation on retail fittings	4 000				
Cost of goods sold	5 000				
Sales	79 880				
Sales returns and allowances	3 400				
Dividends received	450				
Sales commission paid	3 999				
Office staff salaries	15 976				
Insurance	6 000				
Cartage on sales	700				
Accounts payable	8 700				
Bank charges	320				
Rates	1 700				
Sales staff wages	23 964				
Repairs and maintenance of delivery vehicle	7 000				
Cash at bank	15 000				
Depreciation on delivery vehicle	8 000				

b) Explain one limitation and one benefit of recording inventories at net realisable value. [2 marks]

Read Case study 2 (Stimulus 2-3) in the stimulus book.

Case study 2 (Stimulus 2–3) Camilla’s Coffee Van

Stimulus 2

Camilla sells packets of flavoured coffee beans and ground coffee from her van. She employs a casual to make coffees for customers so they can taste the coffee she is selling. Camilla’s friend lets her park her coffee van overnight on his property, for which she pays rent.

Camilla has established a loyal customer base over three years of operation and has been thinking about converting her business to a shopfront with a cafe. She approached her bank about a loan for this, presenting her account balances for the years ended 30 June 2022 and 30 June 2023. The bank manager has asked for fully classified Statements of Profit or Loss and Financial Position for the two financial years. They said that Camilla’s business would need to be increasing net profit by 10% year-to-year and that the equity ratio in 2023 must be at least 60% for the bank to consider her loan application. Camilla has asked you for help preparing the relevant information for the bank and to advise her as to the likelihood of meeting the bank’s requirements.

Stimulus 3

Camilla’s Coffee Van
List of Account balances as at 30 June

	2023		2022	
	DR	CR	DR	CR
Account	\$	\$	\$	\$
Accounts payable		18 000		15 000
Accumulated depreciation — coffee van		3 300		2 000
Advertising	250		460	
Bank loan due 5 November 2025		12 000		13 000
Capital		171 550		168 120
Cash at bank	76 005		70 000	
Coffee van	120 000		120 000	
Coffee van expenses	14 000		12 000	
Cost of goods sold	26 000		25 000	
Depreciation — coffee van	1 300		1 300	
Drawings	1 200		1 000	
Electricity	550		500	
GST clearing		560		450
Insurance	1 500		1 500	
Interest on loan	790		790	
Inventories	13 000		12 000	
Rent	990		900	
Sales		92 300		85 000
Telephone	125		120	
Wages — barista	42 000		38 000	

**2022
Paper 1
Section 2
Question 11**

**Complete
accounting
process for a
trading GST
business**

Read Case study 1 (Stimulus 1 - 5) in the stimulus book.

Stimulus 1

Kurt has been making outdoor furniture covers for friends and family and has decided to set up a business because of an increase in demand for his products. The business commenced on 23 June 2020 with a view to begin trading at the start of the following financial year. Kurt has provided some documents to help in setting up the business called Kurt's Kovers.

Stimulus 2

Monthly Business Bank Statement	Month	Previous Balance	Total Deposits
	June	\$0.00	\$15 000
	Statement Issue Date	Ending Balance	Total Withdrawals
	30/6/2020	\$15 000	\$0.00

Kurt's Kovers

Deposit no.	Transaction ID	Date	Amount	Description	Balance
1	EFT01353	23/6/2020	\$5 000	Deposit from Kurt	\$5 000 CR
2	BNK012	30/6/2020	\$10 000	Opening of Small Business Loan	\$15 000 CR

Stimulus 3

*The supply of completed products on hand today, 20 June 2020, is valued at \$950.00. On 21 June 2020 I will be getting a valuation of some things I want to use in the business.
Kurt*

Stimulus 4

Business Valuation		
Kurt	Date 21/6/2020	
ITEMS	Quantity	Market Valuation \$
Tools	1	2 500
Laptop	1	500
Furniture	1	235
Machinery	1	3 000
Mobile phone	1	975
TOTAL		7 210

Please note: the valuation provided shows the current market value of the assets.

SIGNED: *Kurt Kaymon*

DATE: 21/6/2020

Stimulus 5

Statement of Account		Date of issuance	Loan balance	Interest paid
Small Business Loan #1		30/6/2020	\$10 000	\$0.00
		Repayments per month	Interest rate	Term
		\$300	5%	5 years

Statement Period: 1/6/20 to 30/6/20
Business Name: Kurt's Kovers

Entry	Transaction ID	Date	DR	CR	Balance
1	BNK012 Opening Balance	30/6/2020	\$10 000		\$10 000

**2022
Paper 1
Section 2
Question 12**

**Complete
accounting
process for a
trading GST
business**

a) Read Case study 1 (Stimulus 6 - 8) in the stimulus book.

Stimulus 6

Kurt's outdoor furniture covers business has been trading since 1 July 2020. The shed Kurt has been operating the business out of is available for purchase for \$30 000 plus GST. He is also considering the purchase of a delivery vehicle valued at \$30 000 plus GST. To finance one of these options, Kurt has been pre-approved for a loan of \$30 000 to be taken over 5 years, with monthly repayments of \$649 (principal and interest).

Kurt is not sure which, if either, of these options would be in the best interests of his business and maintain his goal of minimally impacting the profitability of his business. He has asked for your advice to help make this decision. To assist, Kurt has provided relevant documentation.

Stimulus 7

Trial Balance (Extract) at 30 June		
	2022	2021
Accumulated Depreciation — laptop	250	125
Accumulated Depreciation — machinery	600	300
Accumulated Depreciation — mobile telephone	480	240
Accumulated Depreciation — office furniture	48	24
Accumulated Depreciation — tools	1 120	540
Cash at bank	7 800	13 400
Cost of goods sold	22 464	18 720
Electricity expense	1 600	1 600
Fuel — delivery vehicle	1 500	1 250
Hire fees — delivery vehicle	6 000	6 000
Insurance expense	1 750	1 600
Interest expense	200	500
Inventory	1 400	1 250
Lease expense — shed	3 600	3 600
Loan from bank	0	6 900
Sales	74 880	62 400
Telephone expense	1 200	1 200

**2021
Paper 1
Section 2
Question 11**

**Complete
accounting
process for a
trading GST
business**

Read Case study 1 (Stimulus 1–4) in the stimulus book.

Stimulus 1

Business 1 is Jo’s sole trader GST trading business selling furniture and homewares. Balance day adjustments have been partially completed and a net profit of \$55 000 has been calculated for the period ending 30 June 2021. However, Jo has since discovered that a monthly bank statement (Stimulus 2) and a memorandum (Stimulus 3) have not been processed.

Stimulus 2

Monthly Bank Statement

BUSINESS 1

Deposits (extract)

Deposit no.	Date	Amount	Description
367	1/05/2021	\$14 850.00	Payment for office rent until 1/02/2022

Withdrawals (extract)

Type	Date	Amount	Description
EFT	1/04/2021	\$1 452.00	Payment for telephone until 1/10/2021

Month

April–May

Previous Balance

\$2 525.54

Total Deposits

\$18 000.00

Year

2021

Ending Balance

\$6 814.54

Total Withdrawals

\$13 711.00

Stimulus 3

BUSINESS 1
FURNITURE
& HOMEWARES

Memo

To: An accountant **Subject:** Interest
From: Jo **Date:** 31 May 2021

Confirming that quarterly interest of \$750 for the period to 31 May 2021 has been paid as of today on the fixed-term loan due 31 December 2021. The next quarter's interest is payable on 31 August 2021.

Stimulus 4

Business 1 Trial Balance (extract) as at 30 June 2021		
	Debit \$	Credit \$
Accounts payable control		50 000
Accounts receivable control	75 000	
Accumulated amortisation ¹ — patents		3 000
Accumulated depreciation — motor vehicle		12 000
Bank overdraft		3 000
Capital		203 800
Debentures	18 000	
Drawings	42 000	
Fixed-term loan (due 31 December 2021)		50 000
Goodwill	25 000	
GST clearing		4 000
Inventories control	35 800	
Land and buildings	250 000	
Mortgage on land and buildings		160 000
Motor vehicle	80 000	
Patents	15 000	

¹ Amortisation is used for intangible assets in the same way that depreciation is used for non-current assets.

a) Record the additional balance day adjustments in the general journal.
Narrations are not required. [7 marks]

Business 1 General Journal (extract)				
Date	Particulars	Ref	Debit \$	Credit \$

b) Calculate the adjusted net profit as at 30 June 2021. [4 marks]

**2021
Paper 1
Section 2
Question 12**

**Complete
accounting
process for a
trading GST
business**

Read Case study 2 (Stimulus 5–6) in the stimulus book.

Stimulus 5

Business 2 is a local supplier of car parts. The business has been operating for four years, and the accounting records are completed internally by Arman, the owner.

On 1 July 2019, new machinery was purchased and Arman was advised that the reducing balance method should be used to depreciate the machinery at a rate of 20%. On 1 April 2021, the machinery was sold.

Arman recently visited an accountant, who said there were errors in the general journal entries relating to the purchase and sale of the machinery.

Stimulus 6

Business 2 General Journal (extract)				
Date	Particulars	Ref	Debit \$	Credit \$
1/07/2019	Machinery		50 000	
	GST credits received/GST clearing		5 000	
	Accounts payable — Machinery Retailer			55 000
	(Purchase machinery)			
	Installation expense		1 000	
	GST credits received/GST clearing		100	
	Accounts payable — Machinery Installer			1 100
	(Installation machinery)			
1/01/2020	Repairs and maintenance of machinery		800	
	GST credits received/GST clearing		80	
	Accounts payable — Machinery Retailer			880
	(Payment of repairs and maintenance)			
30/06/2020	Depreciation of machinery		8 400	
	Accumulated depreciation of machinery			8 400
	(Depreciation for 2020 financial year)			
1/04/2021	Depreciation of machinery		5 600	
	Accumulated depreciation of machinery			5 600
	(Depreciation for 8 months)			
1/04/2021	Disposal of machinery		50 000	
	Machinery			50 000
	(Transfer of asset to disposal account)			
1/04/2021	Accumulated depreciation of machinery		14 000	
	Disposal of machinery			14 000
	(Transfer of accumulated depreciation to disposal account)			
1/04/2021	Accounts receivable — Machinery Retailer		27 500	
	GST collected/GST clearing			2 500
	Disposal of machinery			25 000
	(Trade-in of the machine)			
1/04/2021	Disposal of machinery		11 000	
	Gain on disposal — machinery			11 000
	(Transfer gain on disposal)			

b) Use your answer for Question 12a) to record the general ledger accounts as they should have been presented. [12 marks]

Business 2 General Ledger (extract)					
Date	Particulars	Debit \$	Credit \$	Balance \$	Dr/Cr
Machinery					
Accumulated depreciation					
Disposal of machinery					

Read Case study 1 (Stimulus 1) in the stimulus book.

Stimulus 1

Xanda owns a store in which she sells children’s clothing and accessories. She also sells Suzanne’s hand-made teddy bears. Proceeds from the sale of the bears go to Suzanne. For each bear sold, Xanda receives a commission of \$10 from Suzanne.

Xanda’s friend, Thomas, has been helping her by completing her accounting process at the end of each month. He was not able to complete the accounts in September.

On Tuesday 1 September, Xanda found the following:

Accrued revenue						
Date	Particulars	Ref	Debit \$	Credit \$	Balance \$	
Aug 31	Commission revenue		20		20	Dr
Prepaid expenses						
Aug 31	Rent expense		500		500	Dr
	Insurance		800		1 300	Dr

Xanda paid rent for the business’s premises on 1 July for three months and also paid the insurance company on 1 August for six months. As these invoices were paid, Xanda was confused as to why these amounts had been recorded in the above accounts.

The following note was also found:



a) Explain why Thomas has used the accrued revenue and prepaid expenses accounts in the ledger. How does this decision impact the next accounting period? [7 marks]

b) Record the opening entries for the month of September in the general journal. [3 marks]

General Journal				
Date	Particulars	Ref	Debit \$	Credit \$

Read Case study 2 (Stimulus 2–3) in the stimulus book.

Stimulus 2

Sam and Minh have owned and operated their packaging business, Business 1, for five years. Two years ago, they employed Jared, their only employee, on a part-time basis to do some of their deliveries. Sam and Minh have signed a contract to supply their packages to a company for an agreed annual fee of \$108 000, commencing on 1 July 2020. To service this contract and maintain their other clients, Jared will commence full-time employment on 1 July at an annual cost of \$60 000. Sam and Minh plan to purchase a second delivery vehicle on 30 September 2020.

A new delivery vehicle will cost \$65 000 and will be depreciated at 12.5% using the straight-line method. All amounts quoted are exclusive of GST. Cost of goods sold is calculated at 40% of sales. Sales returns are typically 5% of sales. It is expected that all other revenues and expenses not directly affected by these decisions will remain the same.

Stimulus 3

Business 1 Trial Balance as at 30 June 2020		
	Debit \$	Credit \$
Accounts payable		1 368
Accounts receivable	52 800	
Accumulated depreciation — delivery vehicle		21 875
Bad debts	1 320	
Capital		205 427
Cash at bank		4 265
Cash sales		82 000
Cost of goods sold	103 200	
Credit sales		176 000
Delivery vehicle	35 000	
Delivery vehicle expense	10 055	
Depreciation — delivery vehicle	4 375	
Dividends		720
Drawings	60 000	
Electricity	1 100	
Insurance expense	7 200	
Interest expense	2 750	
Inventories	25 800	
Inventory adjustment	1 500	
Investment — shares	17 000	
Mortgage on warehouse		55 000
Prepaid insurance	1 350	
Prepaid interest	4 125	
Provision for doubtful debts		2 640
Rates expense	5 600	
Sales returns	12 900	
Telephone expense	1 220	
Wages and salaries	24 000	
Warehouse	175 000	
Website maintenance	3 000	
	\$549 295	\$549 295

Marking Guide – Paper 1 Section 1

<p>2023 Paper 1 Section 1 Question 1</p> <p>Complete accounting process for a trading GST business</p>	<p>On 30 June 2023, a business conducted a stocktake that revealed a shortage of \$6 600 (including GST) between its actual inventories and the book value of inventories. Completing the required balance day adjustment would result in the business’s net profit figure</p> <p>(A) increasing by \$6 000. (B) decreasing by \$6 000. – Answer (C) increasing by \$6 600. (D) decreasing by \$6 600.</p>
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<p>2023 Paper 1 Section 1 Question 4</p> <p>Complete accounting process for a trading GST business</p>	<p>A business purchased furniture for \$16 500 (including GST) on 30 September 2020. The furniture was to be depreciated at 10% using the straight-line method over 10 years. The owner decided to sell the furniture on 30 June 2023 for \$12 500 cash.</p> <p>Calculate the accumulated depreciation balance to be transferred to the disposal account.</p> <p>(A) \$3 000 (B) \$4 125 – Answer (C) \$4 500 (D) \$4 538</p>
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<p>2023 Paper 1 Section 1 Question 6</p> <p>Complete accounting process for a trading GST business</p>	<p>Business A is a suburban hairdressing salon that receives 25% commission, paid at the end of each quarter, for sales of a shampoo. To 31 March, commission of \$560 has been recorded by Business A.</p> <table border="1" style="margin: 10px auto;"> <thead> <tr> <th colspan="3" style="background-color: #d3d3d3;">Sales A/C (extract) for quarter ended 30 June 2023</th> </tr> <tr> <th style="width: 33%;">April</th> <th style="width: 33%;">May</th> <th style="width: 33%;">June</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">\$40.00</td> <td style="text-align: center;">\$45.00</td> <td style="text-align: center;">\$52.00</td> </tr> </tbody> </table> <p>Determine the entry for the Commission account to close off to the Profit or Loss Summary Account.</p> <table border="1" style="margin: 10px auto;"> <thead> <tr> <th colspan="2"></th> <th style="background-color: #d3d3d3;">DR \$</th> <th style="background-color: #d3d3d3;">CR \$</th> </tr> </thead> <tbody> <tr> <td rowspan="2" style="text-align: center; vertical-align: middle;">(A)</td> <td style="padding-left: 20px;">Commission revenue</td> <td style="text-align: center;">594.25</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Profit or Loss Summary</td> <td></td> <td style="text-align: center;">594.25</td> </tr> <tr> <td rowspan="2" style="text-align: center; vertical-align: middle;">(B)</td> <td style="padding-left: 20px;">Profit or Loss Summary</td> <td style="text-align: center;">594.25</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Commission revenue</td> <td></td> <td style="text-align: center;">594.25</td> </tr> <tr> <td rowspan="2" style="text-align: center; vertical-align: middle;">(C)</td> <td style="padding-left: 20px;">Commission revenue</td> <td style="text-align: center;">590.00</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Profit or Loss Summary</td> <td></td> <td style="text-align: center;">590.00</td> </tr> <tr> <td rowspan="2" style="text-align: center; vertical-align: middle;">(D)</td> <td style="padding-left: 20px;">Profit or Loss Summary</td> <td style="text-align: center;">697.00</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Commission revenue</td> <td></td> <td style="text-align: center;">697.00</td> </tr> </tbody> </table> <p>Answer is A.</p>	Sales A/C (extract) for quarter ended 30 June 2023			April	May	June	\$40.00	\$45.00	\$52.00			DR \$	CR \$	(A)	Commission revenue	594.25		Profit or Loss Summary		594.25	(B)	Profit or Loss Summary	594.25		Commission revenue		594.25	(C)	Commission revenue	590.00		Profit or Loss Summary		590.00	(D)	Profit or Loss Summary	697.00		Commission revenue		697.00
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**2022
Paper 1
Section 1
Question 3**

**Complete
accounting
process for a
trading GST
business**

The following information has been provided by Business A as at 31 March 2022.

Sales	146 000
Cost of goods sold	102 000
Gross profit	31 000

The missing \$13 000 can be attributed to the

- (A) GST payable account.
- (B) cartage on sales account.
- (C) commission revenue account.
- (D) sales returns and allowances account. - Answer**

**2022
Paper 1
Section 1
Question 5**

**Complete
accounting
process for a
trading GST
business**

This General Ledger has been provided.

General Ledger (extract)				
Date	Particulars	DR \$	CR \$	Balance \$
Inventories Account				
Jun 01	Balance			12 500
05	Cash at bank	2 400		14 900
	Cost of goods sold		4 600	10 300
07	Cash at bank	1 200		11 500
12	Cost of goods sold		2 200	9 300
19	Cash at bank	3 200		12 500
22	Cost of goods sold		3 800	8 700

These transactions were not entered in the General Ledger (GST not included).

June 30 Purchased goods from supplier: \$3 500
Return of goods sold on June 22: \$1 200 (cost price was \$400)
Stocktake sale confirmed inventory short by \$250.

Calculate the closing balance for Inventories at the end of June using the data provided.

- (A) \$10 750
- (B) \$11 250
- (C) \$12 050
- (D) \$12 350 - Answer**

2022 Paper 1 Section 1 Question 10 Complete accounting process for a trading GST business	<table border="1"> <tr> <th colspan="2">Business C</th> </tr> <tr> <th colspan="2">Statement of Financial Position (extract)</th> </tr> <tr> <th colspan="2">As at 30 June 2021</th> </tr> <tr> <td colspan="2">Current Assets</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">7 500</td> </tr> <tr> <td>Accrued commission</td> <td style="text-align: right;">1 000</td> </tr> <tr> <td colspan="2">Current Liabilities</td> </tr> <tr> <td>Accrued wages</td> <td style="text-align: right;">2 500</td> </tr> </table>	Business C		Statement of Financial Position (extract)		As at 30 June 2021		Current Assets		Bank	7 500	Accrued commission	1 000	Current Liabilities		Accrued wages	2 500
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<p>The reversal of the relevant accounts will have the following impact on Business C in the 2022 financial year.</p> <p>(A) The bank account will decrease by \$2 500. (B) Net profit of the business will increase by \$1 500. - Answer (C) Total revenues of the business will increase by \$1 000. (D) Operating cash outflows for the business will increase by \$1 500.</p>																	

2021 Paper 1 Section 1 Question 1 Complete accounting process for a trading GST business	<p>On 1 June 2021, a small business paid \$13 200 (GST inclusive) for 3 months rent (in advance) for their warehouse storage facility.</p>
	<p>On 30 June 2021, the balance of the Prepaid rent account will be</p> <p>(A) \$8 800 (B) \$8 000 - Answer (C) \$4 400 (D) \$4 000</p>

2021 Paper 1 Section 1 Question 5 Complete accounting process for a trading GST business	<p>Petra is having her home painted. She gives the painters three 10-litre cans of paint from the hardware store she owns. Each can was originally purchased for \$165.</p>																																															
	<p>This would be recorded by the hardware store as</p> <p>(A)</p> <table border="1"> <tr> <td>Drawings</td> <td>Dr</td> <td>\$495</td> <td></td> </tr> <tr> <td>GST credits received</td> <td>Cr</td> <td></td> <td>\$45</td> </tr> <tr> <td>Inventories</td> <td>Cr</td> <td></td> <td>\$450</td> </tr> </table> <p>(B)</p> <table border="1"> <tr> <td>Operating expenses</td> <td>Dr</td> <td>\$495</td> <td></td> </tr> <tr> <td>GST credits received</td> <td>Cr</td> <td></td> <td>\$45</td> </tr> <tr> <td>Drawings</td> <td>Cr</td> <td></td> <td>\$450</td> </tr> </table> <p>(C)</p> <table border="1"> <tr> <td>Drawings</td> <td>Dr</td> <td>\$495</td> <td></td> </tr> <tr> <td>GST credits received</td> <td>Cr</td> <td></td> <td>\$45</td> </tr> <tr> <td>Operating expenses</td> <td>Cr</td> <td></td> <td>\$450</td> </tr> </table> <p>(D)</p> <table border="1"> <tr> <td>Inventories</td> <td>Dr</td> <td>\$495</td> <td></td> </tr> <tr> <td>GST credits received</td> <td>Cr</td> <td></td> <td>\$45</td> </tr> <tr> <td>Drawings</td> <td>Cr</td> <td></td> <td>\$450</td> </tr> </table> <p>Answer is A.</p>	Drawings	Dr	\$495		GST credits received	Cr		\$45	Inventories	Cr		\$450	Operating expenses	Dr	\$495		GST credits received	Cr		\$45	Drawings	Cr		\$450	Drawings	Dr	\$495		GST credits received	Cr		\$45	Operating expenses	Cr		\$450	Inventories	Dr	\$495		GST credits received	Cr		\$45	Drawings	Cr	
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<p>2021 Paper 1 Section 1 Question 6</p> <p>Complete accounting process for a trading GST business</p>	<p>To review its performance, a sole trader clothing retail business in Queensland should compare its</p> <p>(A) net profit ratio with clothing retailers listed on the ASX. (B) gross profit ratio with clothing retailers with a similar turnover. - Answer (C) cost of goods sold with clothing retailers considered to have world's best practice. (D) commission revenue with sales revenue for all other Queensland clothing retailers.</p>
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<p>2021 Paper 1 Section 1 Question 7</p> <p>Complete accounting process for a trading GST business</p>	<p>The following company data has been collected.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3" style="background-color: #444; color: white;">Trial Balance as at 30 June 2021 (extract)</th> </tr> <tr> <th style="width: 60%;"></th> <th style="text-align: center;">Debit \$</th> <th style="text-align: center;">Credit \$</th> </tr> </thead> <tbody> <tr> <td>Accounts receivable control</td> <td style="text-align: center;">45 000</td> <td></td> </tr> <tr> <td>Provision for doubtful debts</td> <td></td> <td style="text-align: center;">5 000</td> </tr> <tr> <td>Bad and doubtful debts</td> <td style="text-align: center;">8 000</td> <td></td> </tr> </tbody> </table> <p>The balance of the provision for doubtful debts is to be set as 20% of accounts receivable.</p> <p>The entry to record the provision for doubtful debts is</p> <p>(A) <table border="1" style="display: inline-table; margin-right: 20px;"> <tr><td>Bad and doubtful debts</td><td>Dr</td><td>\$3 000</td><td></td></tr> <tr><td>Provision for doubtful debts</td><td>Cr</td><td></td><td>\$3 000</td></tr> </table></p> <p>(B) <table border="1" style="display: inline-table; margin-right: 20px;"> <tr><td>Bad and doubtful debts</td><td>Dr</td><td>\$4 000</td><td></td></tr> <tr><td>Provision for doubtful debts</td><td>Cr</td><td></td><td>\$4 000</td></tr> </table></p> <p>(C) <table border="1" style="display: inline-table; margin-right: 20px;"> <tr><td>Bad and doubtful debts</td><td>Dr</td><td>\$9 000</td><td></td></tr> <tr><td>Provision for doubtful debts</td><td>Cr</td><td></td><td>\$9 000</td></tr> </table></p> <p>(D) <table border="1" style="display: inline-table; margin-right: 20px;"> <tr><td>Bad and doubtful debts</td><td>Dr</td><td>\$12 000</td><td></td></tr> <tr><td>Provision for doubtful debts</td><td>Cr</td><td></td><td>\$12 000</td></tr> </table></p> <p>Answer is D.</p>	Trial Balance as at 30 June 2021 (extract)				Debit \$	Credit \$	Accounts receivable control	45 000		Provision for doubtful debts		5 000	Bad and doubtful debts	8 000		Bad and doubtful debts	Dr	\$3 000		Provision for doubtful debts	Cr		\$3 000	Bad and doubtful debts	Dr	\$4 000		Provision for doubtful debts	Cr		\$4 000	Bad and doubtful debts	Dr	\$9 000		Provision for doubtful debts	Cr		\$9 000	Bad and doubtful debts	Dr	\$12 000		Provision for doubtful debts	Cr		\$12 000
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**2021
Paper 1
Section 1
Question 9**

Complete accounting process for a trading GST business

A business has provided the following information from its Statement of Profit or Loss, Statement of Financial Position and Statement of Cash Flows.

	2021 \$	2020 \$
Drawings	60 000	60 000
Capital	390 000	465 000
Mortgage	105 000	30 000
Non-current assets	550 000	390 000
Net cash provided by (used in) investing activities	(150 000)	(60 000)

In 2021, the Statement of Financial Position will show non-current assets of \$550 000 and the Statement of Cash Flows will show outflows for the purchase of the non-current assets of

- (A) \$90 000
- (B) \$150 000
- (C) \$160 000 - Answer**
- (D) \$240 000

**2020
Paper 1
Section 1
Question 1**

Complete accounting process for a trading GST business

James's Business	
List of accounts	\$
Accumulated depreciation — delivery van	6 800
Capital contributions	0
Cost of goods sold	25 000
Depreciation	3 400
Drawings	4 500
GST payable	10 000
Interest received	1 000
Sales	100 000
Sales returns	10 000
Wages	20 000

Following the completion of all closing entries, the owner's equity would increase by

- (A) \$31 300.
- (B) \$38100. - Answer**
- (C) \$39 200.
- (D) \$42 600.

**2020
Paper 1
Section 1
Question 2**

Complete accounting process for a trading GST business

Which of the following processes will happen when closing entries are prepared?

- (A) Drawings will be closed to the Profit or Loss Summary Account.
- (B) Asset accounts will be closed to the Profit or Loss Summary Account.
- (C) The Profit or Loss Summary Account will be closed to the Cash Account.
- (D) All relevant expense accounts will be closed to the Profit or Loss Summary Account. - Answer**

**2020
Paper 1
Section 1
Question 6**

**Complete
accounting
process for a
trading GST
business**

A motor vehicle was purchased on 1 July 2018 for \$50 000 and sold on 31 October 2020 for \$18 000. The depreciation method used is straight line. The useful life is five years, and there is no residual value. As at 30 June 2020, the accumulated depreciation for the motor vehicle was recorded as \$20 000. Based on this data, and rounding to the nearest whole number, the general journal entry to record the disposal would be

(A)	Loss on disposal of motor vehicle	Dr	\$28 667	
	Disposal of motor vehicle	Cr		\$28 667
(B)	Loss on disposal of motor vehicle	Dr	\$12 000	
	Disposal of motor vehicle	Cr		\$12 000
(C)	Loss on disposal of motor vehicle	Dr	\$8 667	
	Disposal of motor vehicle	Cr		\$8 667
(D)	Loss on disposal of motor vehicle	Dr	\$2 000	
	Disposal of motor vehicle	Cr		\$2 000

Answer is C.

**2020
Paper 1
Section 1
Question 7**

**Complete
accounting
process for a
trading GST
business**

General Journal (extract)			
Date	Particulars	Debit \$	Credit \$
30 June	Inventory adjustment	2 500	
	Inventories		2 500
	(Adjustment on item 55)		

This inventory adjustment was made because

- (A) a stocktake revealed that the physical count was less than the stock register. - **Answer**
 (B) inventory was damaged on arrival and an adjustment note was issued.
 (C) a purchase order of inventory was received but not recorded.
 (D) a sales return was processed but not recorded.

**2023
Paper 1
Section 2
Question 11**

**Complete
accounting
process for a
trading
GST
business**

Read Case study 1 (Stimulus 1) in the stimulus book.

a) Record the balance day adjustments in the worksheet for the two issues identified. Add the further accounts required and complete the Adjusted Balance column for the affected accounts. [8 marks]

Sample response	The response
See sample response below.	<ul style="list-style-type: none"> • correctly records <ul style="list-style-type: none"> - 7 adjustments [7 marks] - 6 adjustments [6 marks] - 5 adjustments [5 marks] - 4 adjustments [4 marks] - 3 adjustments [3 marks] - 2 adjustments [2 marks] - 1 adjustment [1 mark] • correctly totals adjusted accounts [1 mark]

Worksheet (extract) for Whitegoods Retailer as at 30 June 2023					
Unadjusted Balance of Accounts		Adjustments		Adjusted Balance	
		DR	CR	DR	CR
	\$	\$	\$	\$	\$
Inventories	4 590		994	3 596	
Accounts receivable	13 500	3 516	3 516	13 500	
Bad and doubtful debts (expense)	9 700				
Interest revenue	156				
GST collected	2 300		320		2 620
Depreciation on retail fittings	4 000				
Cost of goods sold	5 000				
Sales	79 880				
Sales returns and allowances	3 400				
Dividends received	450				
Sales commission paid	3 999				
Office staff salaries	15 976				
Insurance	6 000				
Cartage on sales	700				
Accounts payable	8 700				
Bank charges	320				
Rates	1 700				
Sales staff wages	23 964				
Repairs and maintenance of delivery vehicle	7 000				
Cash at bank	15 000	3 516		18 516	
Depreciation on delivery vehicle	8 000				
<i>Inventory adjustment</i>		994		994	
<i>Bad debts recovered</i>			3 196		3 196

	b) Explain one limitation and one benefit of recording inventories at net realisable value. [2 marks]	
	Sample response	The response
	<p>A limitation of using net realisable value is that the costs associated with the sale of the inventory items are estimates only, as is the sale price.</p> <p>A benefit of using net realisable value is that because its sale price and associated costs are less than the historical cost, the inventory item is more accurately reported in the accounts.</p>	<ul style="list-style-type: none"> • explains a plausible limitation [1 mark] • explains a plausible benefit [1 mark]

<p>2023 Paper 1 Section 2 Question 12</p> <p>Complete accounting process for a trading GST business</p>	Read Case study 2 (Stimulus 2-3) in the stimulus book.	
	a) Prepare a fully classified Statement of Profit or Loss for the years ended 30 June 2022 and 30 June 2023. [12 marks]	
	Sample response	The response
	See sample response below.	<ul style="list-style-type: none"> • correctly presents <ul style="list-style-type: none"> - 4 expense classification headings [3 marks] - 2-3 expense classification headings [2 marks] - 1 expense classification heading [1 mark] • correctly classifies and presents <ul style="list-style-type: none"> - all 11 accounts [5 marks] - 9-10 accounts [4 marks] - 5-8 accounts [3 marks] - 3-4 accounts [2 marks] - 1-2 accounts [1 mark] • correctly calculates <ul style="list-style-type: none"> - 4 sub-totals [2 marks] - 1-3 sub-totals [1 mark] • correctly determines gross profit figures for both years [1 mark] • correctly determines net profit figures for both years [1 mark]

Camilla's Coffee Van Statement of Profit or Loss for year ended 30 June				
	2023		2022	
	\$	\$	\$	\$
Sales	92 300		85 000	
Less Cost of sales				
Cost of Goods Sold	26 000		25 000	
Gross profit		66 300		60 000
Less other expenses				
Selling expenses				
Advertising	250		460	
Coffee van expenses	14 000		12 000	
Depreciation - Coffee van	1 300		1 300	
Wages - Barista	42 000		38 000	
Total Selling expenses		57 550		51 760
Administrative expenses				
Electricity	550		500	
Insurance	1 500		1 500	
Rent	990		900	
Telephone	125		120	
Total administrative expenses		3 165		3 020
Finance expenses				
Interest on loan	790		790	
Total finance expense		790		790
Total expenses		61 505		55 570
Net profit		4 795		4 430

b) Prepare a fully classified Statement of Financial Position for the years ended 30 June 2022 and 30 June 2023. [10 marks]

Sample response	The response
See sample response below.	<ul style="list-style-type: none"> • correctly presents <ul style="list-style-type: none"> - 5–6 classifications [4 marks] - 4 classifications [3 marks] - 2–3 classifications [2 marks] - 1 classification [1 mark] • correctly classifies <ul style="list-style-type: none"> - all 10 accounts [5 marks] - 8–9 accounts [4 marks] - 5–7 accounts [3 marks] - 3–4 accounts [2 marks] - 1–2 accounts [1 mark] • balances the Statement of Financial Position for both years [1 mark]

Camilla's Coffee Van				
Statement of Financial Position for year ended 30 June				
	2023		2022	
	\$	\$	\$	\$
<i>Current assets</i>				
<i>Cash at bank</i>	76 005		70 000	
<i>Inventory</i>	13 000		12 000	
Total Current assets		89 005		82 000
Non-current assets				
<i>Coffee van</i>	120 000		120 000	
<i>Less Accumulated depreciation — coffee van</i>	3 300		2 000	
Total Non-current assets		116 700		118 000
Total assets		205 705		200 000
Current liabilities				
<i>Accounts payable</i>	18 000		15 000	
<i>GST clearing</i>	560		450	
Total Current liabilities		18 560		15 450
Non-current liabilities				
<i>Bank loan</i>	12 000		13 000	
Total Non-current liabilities		12 000		13 000
Total liabilities		30 560		28 450
Net Assets		175 145		171 550
Owner's equity				
<i>Capital</i>	171 550		168 120	
<i>Net profit</i>	4 795		4 430	
<i>Drawings</i>	1 200		1 000	
Total owner's equity		175 145		171 550

c) Advise Camilla of the business's potential to reach its goal. Refer to the bank's requirements and two other ratios in your response. Calculations should be rounded to two decimal points. [7 marks]

Sample response	The response
<p>The bank requires a 10% increase in net profit from year to year and an equity ratio of 60% in 2023. Camilla's Coffee Van's net profit has increased from \$4430 in 2022 to \$4795 in 2023. This is an increase of 8.24%, very close to the bank's requirement.</p> <p>The equity ratio in 2023 is 85.14% — well above the bank's requirement. The gross profit ratio has been at 70.59% and 71.83% over the two years, showing that there has been a consistently high return of gross profit per dollar of sales and efficient management of costs to produce those sales. However, the net profit ratio for each of the two years has been very low, at 5.21% in 2022 and 5.20% in 2023.</p> <p>The main expense item affecting net profit is wages: \$38 000 of \$55 570 total expenses in 2022, and \$42 000 of \$61 505 total expenses in 2023.</p> <p>The current ratio for 2023 of 4.80:1 shows that the business is well able to meet its debts in the short term. If wages can be reduced, by the business owner taking on more work herself, the net profit increase for the next two years would meet the bank's requirement.</p> <p>The business may even consider paying out the loan to reduce interest payments or pay accounts payable with minimal effect on its equity ratio. Camilla's Coffee Van certainly has the potential to achieve its goal in the near future.</p>	<ul style="list-style-type: none"> • correctly calculates the % increase in net profit [1 mark] • correctly calculates the equity ratio for 2023 [1 mark] • identifies and correctly calculates <ul style="list-style-type: none"> – one relevant ratio [1 mark] – a second relevant ratio [1 mark] – relates the calculations to the bank's requirements [1 mark] • provides plausible advice regarding likely potential to achieve the goal [1 mark] • provides a plausible solution to achieve the goal [1 mark]

**2022
Paper 1
Section 2
Question 11**

**Complete
accounting
process for a
trading GST
business**

Read Case study 1 (Stimulus 1 - 5) in the stimulus book.

a) Prepare the General Journal entries to reflect all transactions for June 2020 (narrations not required). [2 marks]

Sample Response	The response
See sample response below.	<ul style="list-style-type: none"> • correctly records - opening entry [1 mark] - entry for receipt of loan [1 mark]

General Journal				
Date	Particulars	Ref	DR \$	CR \$
Jun-23	Cash at Bank		5 000	
	Tools		2 500	
	Laptop		500	
	Office furniture		235	
	Machinery		3 000	
	Mobile phone		975	
	Inventories		950	
	Capital			13 160
Jun-30	Cash at Bank		10 000	
	Loan from Bank			10 000

b) Prepare a fully classified Statement of Financial Position (T format) for the business as at 30 June 2020. [11 marks]

Sample Response	The response
See sample response below.	<ul style="list-style-type: none"> • correctly presents - 7 classification headings [4 marks] - 5–6 classification headings [3 marks] - 3–4 classification headings [2 marks] - 1–2 classification heading/s [1 mark] • correctly classifies - all 9 accounts [5 marks] - 8 accounts [4 marks] - 5–7 accounts [3 marks] - 3–4 accounts [2 marks] - 1–2 accounts [1 mark] • correctly calculates - 4 totals [2 marks] - 2–3 totals [1 mark]

Statement of Financial Position as at 30 June 2020				
Assets			Liabilities	
Current Assets			Non-Current Liabilities	
Cash at Bank	15 000		Loan from Bank	10 000
Inventories	950	15 950		
Non-Current Assets			Owner's Equity	
Property, Plant and Equipment			Capital	13 160
Machinery	3 000			
Tools	2 500			
Laptop	500			
Office furniture	235			
Mobile phone	975	7 210		
		\$23 160		\$23 160

<p>2022 Paper 1 Section 2 Question 12</p> <p>Complete accounting process for a trading GST business</p>	<p>a) Read Case study 1 (Stimulus 6 - 8) in the stimulus book.</p> <p>Prepare a fully classified Statement of Profit or Loss for the years ended 30 June 2021 and 2022. [8 marks]</p>			
	<table border="1"> <thead> <tr> <th>Sample Response</th> <th>The response</th> </tr> </thead> <tbody> <tr> <td>See sample response below.</td> <td> <ul style="list-style-type: none"> • correctly records as revenue and expenses for - at least 10 accounts [5 marks] - 9 accounts [4 marks] - 8 accounts [3 marks] - 5 accounts [2 marks] - 3 accounts [1 mark] correctly determines gross and net profit figures [1 mark] <ul style="list-style-type: none"> • uses correct classifications [1 mark] • correctly classifies accounts [1 mark] </td> </tr> </tbody> </table>	Sample Response	The response	See sample response below.
Sample Response	The response			
See sample response below.	<ul style="list-style-type: none"> • correctly records as revenue and expenses for - at least 10 accounts [5 marks] - 9 accounts [4 marks] - 8 accounts [3 marks] - 5 accounts [2 marks] - 3 accounts [1 mark] correctly determines gross and net profit figures [1 mark] <ul style="list-style-type: none"> • uses correct classifications [1 mark] • correctly classifies accounts [1 mark] 			

Statement of Profit or Loss for year ended 30 June						
	2022			2021		
	\$	\$	\$	\$	\$	\$
Sales			74 880			62 400
Less Cost of Sales						
Cost of goods sold			22 464			18 720
Gross Profit			52 416			43 680
Less Other Expenses						
Selling Expenses						
Fuel - Delivery Vehicle	15 00			1 250		
Hire - Delivery Vehicle	6 000	7 500		6 000	7 250	
Administrative Expenses						
Depreciation - Equipment	1 245			1 205		
Depreciation – Office	24			24		
Electricity expense	1 600			1 600		
Insurance expense	1 750			1 600		
Lease expense - shed	3 600			3 600		
Telephone expense	1 200	9 419		1 200	9 229	
Finance Expenses						
Interest expense		200	17 119		500	16 979
Net Profit			35 297			26 701

b) Stimulus 6 identifies a goal-oriented problem for Kurt's Kovers. Using Stimulus 6–8 and your response to Q12a), justify your advice to Kurt. [9 marks]

Sample Response	The response
<p>Profitability ratios will be used in providing advice: The gross profit (GP) ratio (70% for each year) and the net profit (NP) ratio for the two years are 43% (2021) and 47% (2022).</p> <p>Assumptions:</p> <ul style="list-style-type: none"> • constant expenses of the business • constant sales and cost of sales so the GP ratio will not be affected • ongoing costs, e.g. maintenance, insurance, registration, depreciation of both options are similar. <p>Loan repayments total \$38 940 over the five years (\$7 788 per year) including interest of \$8 940 over the 5 years (\$1 788 per year).</p> <p>Over the five years, lease payments (\$18 000) for the shed and vehicle hire costs (\$30 000) would be incurred.</p> <p>The vehicle is a depreciable non-current asset, but its lifespan could mean the need to acquire another vehicle in the near future.</p> <p>The annual cash outflow is \$9 600 for both shed lease and vehicle rental. Purchasing the shed would increase the cash outflow to \$13 788 and purchasing the vehicle would increase the cash outflow to \$11 388 annually. The vehicle purchase assists short term cash flow.</p> <p>Expenses would decrease by \$1 812 per year if the shed is purchased and by \$4 212 if the van is purchased. Both options produce a positive effect on NP ratio bringing it to 49% with shed purchase or 52% with van purchase.</p> <p>Purchasing the shed provides an appreciating asset with the potential for access to future funding for the purchase of a delivery vehicle. Kurt will maintain his goal with this option.</p>	<ul style="list-style-type: none"> • provides one or more plausible assumptions that underlie the options [1 mark] • identifies the relevant profitability ratios <ul style="list-style-type: none"> - gross profit ratio [1 mark] - net profit ratio [1 mark] • calculates the GP and NP ratios for 2021 and 2022 accurately [1 mark] • uses financial data to support the viability of <ul style="list-style-type: none"> - one option [1 mark] - a second option [1 mark] • explains a plausible effect on profitability for <ul style="list-style-type: none"> - one option [1 mark] - a second option [1 mark] • provides plausible advice [1 mark]

**2021
Paper 1
Section 2
Question 11**

**Complete
accounting
process for a
trading GST
business**

Read Case study 1 (Stimulus 1–4) in the stimulus book.

a) Record the additional balance day adjustments in the general journal.
Narrations are not required. [7 marks]

Sample Response	The response
See sample response below.	<ul style="list-style-type: none"> • correctly identifies the accounts affected by transactions <ul style="list-style-type: none"> - all 6 accounts [4 marks] - 4 accounts [3 marks] - 2 accounts [2 marks] - 1 account [1 mark] • correctly records amounts for each adjustment for <ul style="list-style-type: none"> - all 3 entries [3 marks] - 2 entries [2 marks] - 1 entry [1 mark]

Business 1 General Journal (extract)				
Date	Particulars	Ref	Debit \$	Credit \$
2021				
30 June	<i>Interest expense</i>		250	
	<i>Accrued expense</i>			250
	<i>(Interest payable for 1 month)</i>			
	<i>Rent revenue</i>		10 500	
	<i>Unearned revenue</i>			10 500
	<i>(Rent received in advance for 7 months)</i>			
	<i>Prepaid expense</i>		660	
	<i>Telephone expense</i>			660
	<i>(Prepayment for telephone for 3 months)</i>			

b) Calculate the adjusted net profit as at 30 June 2021. [4 marks]

Sample Response		The response
Net profit	\$55 000	<ul style="list-style-type: none"> • correctly adds or subtracts from net profit <ul style="list-style-type: none"> - all 3 accounts [3 marks] - 2 accounts [2 marks] - 1 account [1 mark]
Less Accrued interest expense	\$250	
Less Unearned rent revenue	\$10 500	
Add Prepaid telephone expense	\$660	
Adjusted net profit	\$44 910	<ul style="list-style-type: none"> • correctly calculates adjusted net profit [1 mark]

c) Prepare a fully classified Statement of Financial Position, showing working capital. [11 marks]

Sample Response	The response
See sample response below.	<ul style="list-style-type: none"> • correctly lists accounts within the main headings of classifications for - all 5 sections [5 marks] - 4 sections [4 marks] - 3 sections [3 marks] - 2 sections [2 marks] - 1 section [1 mark]
	<ul style="list-style-type: none"> • correctly incorporates adjustments to prepaid expenses, accrued expenses and unearned revenue for - all 3 accounts [3 marks] - 2 accounts [2 marks] - 1 account [1 mark]
	<ul style="list-style-type: none"> • correctly calculates working capital [1 mark] • correctly calculates net assets [1 mark] • correctly calculates owner's equity [1 mark]

Business I				
Statement of Financial Position as at 30 June 2021				
	S	S	S	S
Current assets				
Accounts receivable control		75 000		
Inventories control		35 800		
Prepaid expense		660	111 460	
Less Current liabilities				
Bank overdraft		3 000		
Accounts payable control		50 000		
GST clearing		4 000		
Accrued expense		250		
Unearned revenue		10 500		
Fixed-term loan (due 31 December 2021)		50 000	117 750	
WORKING CAPITAL				(6 290)
Add Non-current assets				
Property, plant and equipment				
Motor vehicle	80 000			
Less Accumulated depreciation — motor vehicle	12 000	68 000		
Land and buildings		250 000	318 000	
Investments				
Debentures			18 000	
Intangibles				
Goodwill		25 000		
Patents	15 000			
Less Accumulated amortisation — patents	3 000	12 000	37 000	373 000
Less Non-current liabilities				
Mortgage on land and buildings				160 000
NET ASSETS				206 710
Represented by Owner's equity				
Capital		203 800		
Add Net profit		44 910	248 710	
Less Drawings			42 000	206 710

**2021
Paper 1
Section 2
Question 12**

**Complete
accounting
process for a
trading GST
business**

Read Case study 2 (Stimulus 5–6) in the stimulus book.

a) Identify and explain the errors in Stimulus 6. [4 marks]

Sample Response	The response
<p>1/7/2019: Installation of machinery incorrectly recorded as revenue expenditure. Should be capitalised.</p> <p>1/1/2020: Accounts payable should be Bank. 30/6/2020: Depreciation amount is incorrect due to incorrect recording of capital expenditure on</p> <p>1/7/2019 (calculated on amount of \$50 000, rather than \$51 000).</p> <p>1/4/2021: Accumulated depreciation is incorrect, due to previous years' incorrect depreciation calculations.</p> <p>1/4/2021:</p> <ul style="list-style-type: none"> • Straight line method of depreciation used instead of diminishing value. • Depreciation was calculated for only 8 months, instead of 9 months. • Depreciation was calculated on \$50 000, rather than \$51 000. <p>1/4/2021: Accumulated depreciation amount will need to change to reflect different depreciation figures in previous years.</p> <p>1/4/2021: Not a gain on disposal; a loss on disposal.</p>	<ul style="list-style-type: none"> • correctly identifies and explains the incorrectly recorded entries for at least <ul style="list-style-type: none"> - 6 errors [4 marks] - 5 errors [3 marks] - 3 errors [2 marks] - 1 error [1 mark]

b) Use your answer for Question 12a) to record the general ledger accounts as they should have been presented. [12 marks]

Sample Response	The response
<p>See sample response below.</p>	<ul style="list-style-type: none"> • correctly records particulars and amounts in the machinery ledger account for <ul style="list-style-type: none"> - 3 entries, including balance [2 marks] - 2 entries [1 mark] • correctly calculates and records the depreciation of machinery amount <ul style="list-style-type: none"> - using correct method of depreciation [1 mark] - using 9 months: \$6 120 [1 mark] • correctly records particulars and amounts in the accumulated depreciation ledger account for <ul style="list-style-type: none"> - 3 entries, including balance [3 marks] - 2 entries [2 marks] - 1 entry [1 mark] • calculates the loss on disposal [1 mark] • correctly records particulars and amounts in the disposal of machinery ledger account for <ul style="list-style-type: none"> - 4 entries, including balance [4 marks] - 3 entries [3 marks] - 2 entries [2 marks] - 1 entry [1 mark]

Business 2 General Ledger (extract)					
Date	Particulars	Debit	Credit	Balance	Dr/Cr
Machinery					
1/7/2019	Accounts payable — Machinery Retailer	50 000		50 000	
	Accounts payable — Machinery Installer	1 000		51 000	
1/4/2021	Disposal of machinery		51 000	0	
Accumulated depreciation					
30/6/2020	Depreciation of machinery		10 200	10 200	
1/4/2020	Depreciation of machinery		6 120	16 320	
1/4/2020	Disposal of machinery	16 320		0	
Disposal of machinery					
1/4/2021	Machinery	51 000		51 000	
	Accumulated depreciation of machinery		16 320	34 680	
	Accounts receivable — Machinery Retailer		25 000	9 680	
	Loss on disposal		9 680	0	

**2020
Paper 1
Section 2
Question 11**

**Complete
accounting
process for a
trading GST
business**

Read Case study 1 (Stimulus 1) in the stimulus book.

a) Explain why Thomas has used the accrued revenue and prepaid expenses accounts in the ledger. How does this decision impact the next accounting period? [7 marks]

Sample Response	The response
<p>Thomas has been using an accrual-based accounting process. Xanda is looking at her accounts from a cash-based perspective, which is why she is confused.</p> <p>Under the cash method, recording of expenses and revenue occurs at the point of payment and receipt (exchange of cash). The accrual method requires matching of expenses incurred against revenue earned in that period, regardless of the date of payment or receipt.</p> <p>Accrued revenue is revenue earned but not yet received. The IOU shows that 2 bears were sold so the business earned that commission in August.</p> <p>The rent and insurance payments relate to a future period so have not yet been incurred but have been paid for. When they are incurred in the future they will be recorded as expenses. At the beginning of the next month, these adjustments will be reversed.</p>	<ul style="list-style-type: none"> • identifies accrual-based and cash-based accounting [1 mark] • explains cash-based accounting [1 mark] • explains accrual-based accounting [1 mark] • explains accrued revenue [1 mark] • explains prepaid expenses [1 mark] • identifies reversing entries [1 mark] • refers to the stimulus [1 mark]

b) Record the opening entries for the month of September in the general journal. [3 marks]

Sample Response				The response	
Sept 1 Commission revenue	Dr	20		• correctly identifies the accrued revenue accounts [1 mark]	• correctly identifies the prepaid expense accounts [1 mark]
Accrued revenue	Cr		20		
Sept 1 Rent expense	Dr	500		• uses correct amounts [1 mark]	
Insurance	Dr	800			
Prepaid expenses	Cr		1 300		

**2020
Paper 1
Section 2
Question 12**

**Complete
accounting
process for a
trading GST
business**

Read Case study 2 (Stimulus 2–3) in the stimulus book.

a) Prepare a fully classified Statement of Profit or Loss to project the profitability of Business 1 at 30 June 2021 after implementing the proposed changes. Round to the nearest dollar. [12 marks]

Sample Response	The response
Note: No sample response provided. Exams from 2021 onwards include sample responses.	<ul style="list-style-type: none"> • correctly identifies the affected accounts and adjusts amounts for <ul style="list-style-type: none"> - 5 accounts [5 marks] - 4 accounts [4 marks] - 3 accounts [3 marks] - 2 accounts [2 marks] - 1 account [1 mark] • does not satisfy any of the descriptors above [0 marks]
	<ul style="list-style-type: none"> • correctly classifies and records revenue and expenses for <ul style="list-style-type: none"> - all 17 accounts [5 marks] - 14 accounts [4 marks] - 10 accounts [3 marks] - 6 accounts [2 marks] - 3 accounts [1 mark] • does not satisfy any of the descriptors above [0 marks]
	• correctly determines gross and net profit figures [1 mark]
	• correctly classifies Statement of Profit or Loss [1 mark]

b) List all underlying assumptions you have made in 12a). [2 marks]

Sample Response	The response
Depreciation on Vehicle 1 was using the straight-line method. Purchase of vehicle was paid in cash.	<ul style="list-style-type: none"> • provides plausible assumptions [2 marks] • provides one plausible assumption [1 mark] • does not satisfy any of the descriptors above [0 marks]

c) Use Stimulus 2 and 3 to propose and justify two strategies to fund the purchase of the second delivery vehicle. [8 marks]

Sample Response	The response for one strategy	The response for another strategy
<p>Actively manage accounts receivable by following up with outstanding amounts. Tighten credit sales policy, e.g. provide incentives for cash sales or early payment (discount). This will also reduce bad debts and administration loads. Currently, accounts receivable are at \$52 800, which is 30% of credit sales. Cash collected from outstanding debtors could be used to partially finance the purchase of a new vehicle or purchase a second-hand vehicle.</p> <p>Sell some or all of the shares held. The shares have a value of \$17 000 and are returning 4.2% (\$720), so they do not make a high contribution to the overall revenue. They are reported at historical cost, so may be sold at a higher value. The cash flow from selling the shares could be used to partially finance the purchase of a new or used vehicle.</p>	<p>[4 marks]</p> <ul style="list-style-type: none"> states a plausible strategy explains this strategy identifies source of funding in this explanation supports this strategy with relevant financial data and information 	<p>[4 marks]</p> <ul style="list-style-type: none"> states a plausible strategy explains this strategy identifies source of funding in this explanation supports this strategy with relevant financial data and information
	<p>[3 marks]</p> <ul style="list-style-type: none"> states a plausible strategy explains this strategy refers to the stimulus 	<p>[3 marks]</p> <ul style="list-style-type: none"> states a plausible strategy explains this strategy refers to the stimulus
	<p>[2 marks]</p> <ul style="list-style-type: none"> states a plausible strategy explains this strategy 	<p>[2 marks]</p> <ul style="list-style-type: none"> states a plausible strategy explains this strategy
	<p>[1 mark]</p> <ul style="list-style-type: none"> states a plausible strategy 	<p>[1 mark]</p> <ul style="list-style-type: none"> states a plausible strategy
	<p>[0 marks]</p> <ul style="list-style-type: none"> does not satisfy any of the descriptors above. 	<p>[0 marks]</p> <ul style="list-style-type: none"> does not satisfy any of the descriptors above.

Unit 4 – Topic 3: Performance analysis of a public company

Paper 1 Section 1

2023 Paper 1 Section 1 Question 2	Performance analysis of a public company	A business is making good profits, but the owners have raised concerns regarding the trend in the turnover of inventory ratio.				
			2021	2022	2023	Industry benchmark
		Turnover of inventory ratio	4.5 times	4.3 times	4.0 times	5.15 times

The data shows that the

(A) inventory is slow moving and could affect the business's liquidity.
(B) business has strong sales and is making profits, so the trend is not a concern.
(C) turnover of inventory ratio is likely to fluctuate from year to year, so is not a concern.
(D) trend is not a concern because the turnover ratios are close to the industry benchmark.

2023 Paper 1 Section 1 Question 3	Performance analysis of a public company	Financial information for a business is provided.	
		Partial list of balances for the year ended 30 June 2023	
		Account	\$
		Loss from theft	520
		Cash at bank	(8 000)
		Inventories	4 322
		Loan to Business Y (due to be repaid 30 September 2023)	12 000
		Accrued rent revenue	4 220
		Unearned revenue	600
		Accounts payable	1 600
		Shares in Company A	6 800
		Accounts receivable (net)	2 600
		GST clearing (receivable)	2 451
		Cost of goods sold	1 800
		Credit/debit card fees	400
		Provision for doubtful debts	300
		Loan from bank (due to be repaid 01 January 2025)	15 000
		Gain on disposal of equipment	350

The working capital calculated from the information provided is

(A) \$15 093
(B) \$15 293
(C) \$15 393
(D) \$15 493

<p>2023 Paper 1 Section 1 Question 5</p> <p>Performance analysis of a public company</p>	<p>Taylor is considering investing some money in shares of a publicly listed company. To determine which company may be the most financially stable in the long-term, the most relevant ratio is the</p> <p>(A) current ratio. (B) net profit ratio. (C) gross profit ratio. (D) shareholder equity ratio.</p>
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<p>2023 Paper 1 Section 1 Question 7</p> <p>Performance analysis of a public company</p>	<p>The price–earnings ratio would realistically be reduced by an increase in the</p> <p>(A) average number of ordinary shares issued. (B) amount of preference dividends. (C) operating profit after tax. (D) share price.</p>
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<p>2023 Paper 1 Section 1 Question 8</p> <p>Performance analysis of a public company</p>	<p>Information on a company’s shareholdings is provided.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">2023</th> </tr> </thead> <tbody> <tr> <td>Shareholder’s equity (10 365 shares @ \$2.40 per share)</td> <td style="text-align: right;">\$24 876.00</td> </tr> <tr> <td>Reserves</td> <td style="text-align: right;">\$12 160.00</td> </tr> <tr> <td>Retained earnings</td> <td style="text-align: right;">\$16 873.00</td> </tr> <tr> <td>Market value per share</td> <td style="text-align: right;">\$3.12</td> </tr> <tr> <td>Dividends paid</td> <td style="text-align: right;">\$20 146.00</td> </tr> </tbody> </table> <p>What is the dividend yield ratio?</p> <p>(A) 0.51 (B) 0.62 (C) 0.77 (D) 0.81</p>		2023	Shareholder’s equity (10 365 shares @ \$2.40 per share)	\$24 876.00	Reserves	\$12 160.00	Retained earnings	\$16 873.00	Market value per share	\$3.12	Dividends paid	\$20 146.00
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<p>2023 Paper 1 Section 1 Question 9</p> <p>Performance analysis of a public company</p>	<p>The following information is provided for a business.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tbody> <tr> <td>Cash flows from operating activities</td> <td style="text-align: right;">\$634 000</td> </tr> <tr> <td>Cash inflows from investing activities</td> <td style="text-align: right;">\$425 000</td> </tr> <tr> <td>Cash inflows from financing activities</td> <td style="text-align: right;">\$50 000</td> </tr> </tbody> </table> <p>For this business, the greatest increase in the cash generating power ratio would be caused by a</p> <p>(A) \$500 000 loan from a bank. (B) \$485 000 increase in net profit. (C) \$320 000 increase in cash sales. (D) \$324 000 injection from the sale of a building.</p>	Cash flows from operating activities	\$634 000	Cash inflows from investing activities	\$425 000	Cash inflows from financing activities	\$50 000
Cash flows from operating activities	\$634 000						
Cash inflows from investing activities	\$425 000						
Cash inflows from financing activities	\$50 000						

<p>2023 Paper 1 Section 1 Question 10</p> <p>Performance analysis of a public company</p>	<p>A similarity in accounting for a sole trader and accounting for a public company is that</p> <p>(A) both structures require bank accounts that are separate from those of the owner/s. (B) dividends and drawings are withdrawals from the business by the owner/s. (C) owners under both structures are personally liable for business debts. (D) under both structures, finance can be raised by debt and/or equity.</p>
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<p>2022 Paper 1 Section 1 Question 1</p> <p>Performance analysis of a public company</p>	<p>The following company data has been collected.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Bad debt expense</td> <td style="text-align: right;">4 000</td> </tr> <tr> <td>Cost of goods sold</td> <td style="text-align: right;">85 000</td> </tr> <tr> <td>Depreciation on delivery van</td> <td style="text-align: right;">8 000</td> </tr> <tr> <td>Electricity</td> <td style="text-align: right;">12 000</td> </tr> <tr> <td>Interest expense</td> <td style="text-align: right;">5 000</td> </tr> <tr> <td>Inventory adjustment (for lower NRV)</td> <td style="text-align: right;">4 500</td> </tr> <tr> <td>Rent expense</td> <td style="text-align: right;">20 000</td> </tr> <tr> <td>Sales</td> <td style="text-align: right;">280 000</td> </tr> <tr> <td>Sales returns</td> <td style="text-align: right;">10 000</td> </tr> <tr> <td>Telephone expense — sales staff</td> <td style="text-align: right;">2 500</td> </tr> <tr> <td>Wages — sales staff</td> <td style="text-align: right;">75 000</td> </tr> </tbody> </table> <p>The gross profit figure is</p> <p>(A) \$180 500. (B) \$185 000. (C) \$189 500. (D) \$195 000.</p>		\$	Bad debt expense	4 000	Cost of goods sold	85 000	Depreciation on delivery van	8 000	Electricity	12 000	Interest expense	5 000	Inventory adjustment (for lower NRV)	4 500	Rent expense	20 000	Sales	280 000	Sales returns	10 000	Telephone expense — sales staff	2 500	Wages — sales staff	75 000
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<p>2022 Paper 1 Section 1 Question 2</p> <p>Performance analysis of a public company</p>	<p>Vertical analysis is useful in</p> <p>(A) assessing the adequacy of the return to owners on their investment. (B) highlighting exposure to potential increases in interest rates. (C) determining how effectively assets are used to earn income. (D) predicting future direction based on past performance.</p>
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<p>2022 Paper 1 Section 1 Question 4</p> <p>Performance analysis of a public company</p>	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3" style="text-align: center;">Return on owner's equity</th> </tr> <tr> <th></th> <th style="text-align: center;">2022</th> <th style="text-align: center;">2021</th> </tr> </thead> <tbody> <tr> <td>Business B</td> <td style="text-align: center;">9.5%</td> <td style="text-align: center;">8.5%</td> </tr> </tbody> </table> <p>The Return on owner's equity for Business B indicates that</p> <p>(A) the owner's investment into the business is yielding increased returns. (B) the business is undercapitalised and the owner should invest further funds. (C) the owner has been effective in maximising net profit and managing equity. (D) the business is overcapitalised and the owner should investigate other investments.</p>	Return on owner's equity				2022	2021	Business B	9.5%	8.5%
Return on owner's equity										
	2022	2021								
Business B	9.5%	8.5%								

<p>2022 Paper 1 Section 1 Question 6</p> <p>Performance analysis of a public company</p>	<p>The Rate of turnover of accounts receivable for a business is 45 days. The industry average is 28 days. This means the business</p> <p>(A) should make more sales on credit terms. (B) pays its accounts 45 days after purchase. (C) is outperforming the industry average by 17 days. (D) could improve its collection rate of credit accounts.</p>
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<p>2022 Paper 1 Section 1 Question 7</p> <p>Performance analysis of a public company</p>	<p>The Debt ratio of a business indicates the</p> <p>(A) extent of the business's borrowing and risk implications. (B) debt that needs to be repaid in the next financial period. (C) percentage of debt to be covered by the owner/s. (D) investment made by the owner/s of the business.</p>
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<p>2022 Paper 1 Section 1 Question 8</p> <p>Performance analysis of a public company</p>	<p>Calculate the Price-earnings ratio using the data in the table (round to one decimal place).</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>Gross profit</td> <td style="text-align: right;">220 000</td> </tr> <tr> <td>Other revenue</td> <td style="text-align: right;">2 000</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">8 000</td> </tr> <tr> <td>Advertising</td> <td style="text-align: right;">5 000</td> </tr> <tr> <td>Administration expenses</td> <td style="text-align: right;">22 000</td> </tr> <tr> <td>Loss on sale of motor vehicle</td> <td style="text-align: right;">10 000</td> </tr> <tr> <td>Number of ordinary shares</td> <td style="text-align: right;">40 000</td> </tr> <tr> <td>Price per share</td> <td style="text-align: right;">72</td> </tr> </table> <p>(A) 13.1 (B) 14.8 (C) 16.3 (D) 16.5</p>	Gross profit	220 000	Other revenue	2 000	Depreciation	8 000	Advertising	5 000	Administration expenses	22 000	Loss on sale of motor vehicle	10 000	Number of ordinary shares	40 000	Price per share	72
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2022 Paper 1 Section 1 Question 9 Performance analysis of a public company	Statement of Cash Flows (extract)			
		2022	2021	2020
	Cash flows from operating activities			
	Receipts from customers	4 601 235	4 448 735	4 520 184
	Payments to suppliers	-1 752 378	-1 716 713	-1 744 982
	Payments to employees	-1 811 978	-1 540 181	-1 463 172
	Interest and other costs of finance	-18 458	-7 565	-14 162
	Income taxes paid	-98 000	-80 306	-79 448
	Net cash flows from operating activities	920 421	1 103 970	1 218 420
	Cash flow ratio	0.20	0.25	0.27

A trend analysis of the extract of Statement of Cash Flows indicates

(A) a failure to tighten credit policies.
 (B) a reduction in the amount owing to lenders.
 (C) an increase in the number of staff employed and/or wage rates.
 (D) an improvement in the business's ability to meet long-term debts.

2021 Paper 1 Section 1 Question 2 Performance analysis of a public company	A times interest earned ratio is used
	(A) to measure a business's fixed debt obligations on lease payments. (B) by lenders to ascertain whether a business can afford additional debt. (C) to count net earnings against total outstanding shares over a fixed period of time. (D) to measure financial leverage indicating the degree to which a firm's operations are funded by equity

2021 Paper 1 Section 1 Question 3 Performance analysis of a public company	EBITDA (\$m) for XYZ Company Ltd					
		2017	2018	2019	2020	2021
	NSW	415.3	298.2	499.5	374.7	511.9
	QLD	420.7	566.7	320.6	479.8	507.3
	WA	354.6	323.4	399.5	465.4	499.2

Which statement is correct?

(A) Western Australia had a 43% growth in EBITDA from 2018 to 2020.
 (B) XYZ Company Ltd had the most unstable EBITDA trend in 2018.
 (C) New South Wales had a 28% EBITDA result from 2017 to 2018.
 (D) Queensland had a total EBITDA of \$578.8 m from 2017 to 2021.

2021 Paper 1 Section 1 Question 4 Performance analysis of a public company	The shareholder equity ratio is used by external stakeholders to determine
	(A) the extent to which a company's profit is affected by shareholder contributions. (B) the total amount owed to shareholders on liquidation. (C) how much of a company's assets shareholders own. (D) the return on dividends provided to shareholders.

<p>2021 Paper 1 Section 1 Question 8</p> <p>Performance analysis of a public company</p>	<p>In January 2021, a public company acquired a business using cash basis accounting, which</p> <p>(A) changed when the company reported its end of financial year results. (B) complicated the comparison of its financial statements over time. (C) had no effect on horizontal ratio analysis. (D) affected the industry benchmarks.</p>
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<p>2021 Paper 1 Section 1 Question 10</p> <p>Performance analysis of a public company</p>	<p>The following company data has been collected.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3" style="background-color: #d3d3d3;">Account Balances as at 30 June (extract)</th> </tr> <tr> <th style="background-color: #d3d3d3;">Account</th> <th style="background-color: #d3d3d3;">2021 \$</th> <th style="background-color: #d3d3d3;">2020 \$</th> </tr> </thead> <tbody> <tr><td>Net sales</td><td>420 064</td><td>765 347</td></tr> <tr><td>Sales returns</td><td>23 934</td><td>15 867</td></tr> <tr><td>Net purchases</td><td>315 000</td><td>268 000</td></tr> <tr><td>Purchases returns</td><td>15 728</td><td>13 246</td></tr> <tr><td>Inventories</td><td>271 932</td><td>347 890</td></tr> <tr><td>Cash at bank</td><td>168 423</td><td>249 628</td></tr> <tr><td>Accounts receivable</td><td>732 649</td><td>627 385</td></tr> <tr><td>Inventory adjustment (shortage)</td><td>4 798</td><td>700</td></tr> </tbody> </table> <p>The Rate of turnover of inventories for this business is</p> <p>(A) 1.21 (B) 1.24 (C) 1.26 (D) 1.27</p>	Account Balances as at 30 June (extract)			Account	2021 \$	2020 \$	Net sales	420 064	765 347	Sales returns	23 934	15 867	Net purchases	315 000	268 000	Purchases returns	15 728	13 246	Inventories	271 932	347 890	Cash at bank	168 423	249 628	Accounts receivable	732 649	627 385	Inventory adjustment (shortage)	4 798	700
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<p>2020 Paper 1 Section 1 Question 3</p> <p>Performance analysis of a public company</p>	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="5" style="background-color: #d3d3d3;">Statement of Cash Flows (extract)</th> </tr> <tr> <th rowspan="2" style="background-color: #d3d3d3;">Cash flows from financing activities</th> <th colspan="2" style="background-color: #d3d3d3;">Previous year</th> <th colspan="2" style="background-color: #d3d3d3;">Current year</th> </tr> <tr> <th style="background-color: #d3d3d3;">\$</th> <th style="background-color: #d3d3d3;">\$</th> <th style="background-color: #d3d3d3;">\$</th> <th style="background-color: #d3d3d3;">\$</th> </tr> </thead> <tbody> <tr><td colspan="5"><i>Inflows</i></td></tr> <tr><td>Proceeds from loans and borrowings</td><td>25 000</td><td></td><td>75 000</td><td></td></tr> <tr><td>Capital contributions</td><td>5 000</td><td>30 000</td><td>0</td><td>75 000</td></tr> <tr><td></td><td></td><td></td><td></td><td></td></tr> <tr><td colspan="5"><i>Outflows</i></td></tr> <tr><td>Payment of drawings</td><td>(2 750)</td><td></td><td>(10 000)</td><td></td></tr> <tr><td>Repayment of loans and borrowings</td><td>(10 000)</td><td>(12 750)</td><td>(25 000)</td><td>(35 000)</td></tr> <tr><td>Net cash provided by financing activities</td><td></td><td>17 250</td><td></td><td>40 000</td></tr> </tbody> </table> <p>Based on the data, the financial stability of the business has</p> <p>(A) weakened, as there was an increase in debt finance. (B) remained consistent, as the business has increased its payments to suppliers. (C) strengthened, as the net cash provided from financing activities has increased. (D) improved, as the owner did not contribute any further capital in the current year.</p>	Statement of Cash Flows (extract)					Cash flows from financing activities	Previous year		Current year		\$	\$	\$	\$	<i>Inflows</i>					Proceeds from loans and borrowings	25 000		75 000		Capital contributions	5 000	30 000	0	75 000						<i>Outflows</i>					Payment of drawings	(2 750)		(10 000)		Repayment of loans and borrowings	(10 000)	(12 750)	(25 000)	(35 000)	Net cash provided by financing activities		17 250		40 000
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<p>2020 Paper 1 Section 1 Question 4</p> <p>Performance analysis of a public company</p>	<p>Industry benchmarks are useful for</p> <p>(A) analysing the effectiveness of a marketing campaign. (B) explaining variations in financial data across industries. (C) identifying areas of financial performance that can be improved. (D) evaluating the appropriateness of pricing strategies in the local market.</p>
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<p>2020 Paper 1 Section 1 Question 5</p> <p>Performance analysis of a public company</p>	<p>BAR Ltd, TGF Ltd and AQP Ltd operate within the same industry.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>BAR Ltd</th> <th>TGF Ltd</th> <th>AQP Ltd</th> </tr> </thead> <tbody> <tr> <td>Market price per share</td> <td>\$4.83</td> <td>\$28.54</td> <td>\$83.29</td> </tr> <tr> <td>Operating profit (after tax)</td> <td>\$6 900 m</td> <td>\$6 732 m</td> <td>\$9 375 m</td> </tr> <tr> <td>Earnings per share</td> <td>\$0.80</td> <td>\$1.19</td> <td>\$10.56</td> </tr> <tr> <td>Price to earnings ratio</td> <td>6.04</td> <td>23.98</td> <td>7.89</td> </tr> </tbody> </table> <p>An investor seeking growth would choose shares in</p> <p>(A) AQP Ltd, because its higher market price per share indicates future growth. (B) TGF Ltd, because its high price to earnings ratio indicates high growth potential. (C) BAR Ltd, because its low price to earnings ratio indicates it is a lower risk investment. (D) BAR Ltd, because its market price per share provides the best indicator for upward movement.</p>		BAR Ltd	TGF Ltd	AQP Ltd	Market price per share	\$4.83	\$28.54	\$83.29	Operating profit (after tax)	\$6 900 m	\$6 732 m	\$9 375 m	Earnings per share	\$0.80	\$1.19	\$10.56	Price to earnings ratio	6.04	23.98	7.89
	BAR Ltd	TGF Ltd	AQP Ltd																		
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<p>2020 Paper 1 Section 1 Question 8</p> <p>Performance analysis of a public company</p>	<p>Companies A and B operate within the same industry</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2"></th> <th colspan="4">Comparative Statement of Profit or Loss for the year ending 30 June 2020 (extract)</th> </tr> <tr> <th colspan="2">Company A</th> <th colspan="2">Company B</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td>95 000</td> <td></td> <td>95 000</td> <td></td> </tr> <tr> <td>Sales returns</td> <td>(10 000)</td> <td></td> <td>(2 500)</td> <td></td> </tr> <tr> <td>Cost of goods sold</td> <td>59 500</td> <td>70%</td> <td>64 750</td> <td>70%</td> </tr> <tr> <td>Gross profit ratio</td> <td></td> <td>30%</td> <td></td> <td>30%</td> </tr> </tbody> </table> <p>By comparing the results of the two businesses, management of Company A can conclude that</p> <p>(A) Company A's selling prices are competitive. (B) both companies have the same gross profit result. (C) the quality of Company A's inventory should be reviewed. (D) Company A's purchasing policy is better than Company B's purchasing policy</p>		Comparative Statement of Profit or Loss for the year ending 30 June 2020 (extract)				Company A		Company B		Sales	95 000		95 000		Sales returns	(10 000)		(2 500)		Cost of goods sold	59 500	70%	64 750	70%	Gross profit ratio		30%		30%
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	Previous year	Current year								
Rate of turnover of inventories	6.65 times	9.17 times								
Rate of turnover of accounts receivable	6.44 times	8.69 times								

2020 Paper 1 Section 1 Question 10 Performance analysis of a public company	<p>A public company's turnover of accounts receivable is 45 days. The industry average is 30 days. The company most likely has</p> <ul style="list-style-type: none">(A) a lenient credit policy.(B) high demand for stock.(C) strict credit sales protocols.(D) poor internal controls over creditors.
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Read Case study 3 (Stimulus 4) in the stimulus book.

Case study 3 (Stimulus 4) The Supermarket Company**Stimulus 4****The Supermarket Company
Statement of Financial Position as at 30 June**

	2023 \$ ('000)	2022 \$ ('000)	2021 \$ ('000)	2020 \$ ('000)
Current assets				
Cash and cash equivalents	3 435	474	4 099	20 352
Receivables	71 174	91 360	64 635	52 588
Inventories	130 780	124 701	86 272	74 837
Prepayments	2	0	4 376	3 948
Other	5 074	5 038	2 604	3 000
Total current assets	210 465	221 573	161 986	154 725
Non-current assets				
Loans to other parties	840	624	250	218
Investments	877	11 377	1 866	726
Intangibles	39 882	42 764	14 521	14 092
Property, plant and equipment	217 466	222 983	182 382	200 838
Other	20 842	19 786	34 715	23 285
Total non-current assets	279 907	297 534	233 734	239 159
Total assets	490 372	519 107	395 720	393 884
Current liabilities				
Payables (trade and other creditors and accrued expenses)	133 893	140 985	90 703	74 599
Interest bearing liabilities	20 854	11 607	8	9
Current tax liabilities	11 724	5 070	0	2 352
Other	15 525	11 643	25 331	17 002
Total current liabilities	181 996	169 305	116 042	93 962

	2023 \$ ('000)	2022 \$ ('000)	2021 \$ ('000)	2020 \$ ('000)
Non-current liabilities				
Payables (other creditors)	838	3 217	590	752
Interest bearing liabilities (long-term)	45 421	62 571	53 408	53 645
Other	22 310	22 512	30 265	30 417
Total non-current liabilities	68 569	88 300	84 263	84 814
Total liabilities	250 565	257 605	200 305	178 776
Net assets	239 807	261 502	195 415	215 108
Equity				
Issued capital	40 505	40 505	41 930	41 930
Reserves	-3 142	672	-317	-761
Retained earnings	201 404	219 318	152 880	172 992
Total parent entity interest	238 767	260 495	194 493	214 161
Non-controlling interest	1 040	1 007	922	947
Total equity	239 807	261 502	195 415	215 108

Net Profit	47 898	43 333	1 749	40 326
Gross Profit	166 700	163 916	115 863	153 462
Total sales	1 256 621	1 676 801	1 869 691	1 545 315
Cash sales	543 489	725 216	808 642	668 349

EPS (cents per share)	66	60	2	54
Trade creditors are paid, on average, at 45 days				
Gearing ratio	28%	22%	20%	13%

The Supermarket Company is considering expansion through the purchase of local grocery stores in regional Queensland towns in the next financial year. The board of directors has approached you with their comparative financial statements for analysis and evaluation, and is seeking your advice on the feasibility of the proposed expansion plans.

a) Using four relevant ratios, analyse and interpret the liquidity of The Supermarket Company across the financial years 2022 and 2023. Show your working for the ratio calculations. [12 marks]

b) Using Stimulus 4, trend analysis and two relevant ratios, analyse and interpret the stability of the company across the four years. Show your working for the ratio calculations. [12 marks]

c) Evaluate the performance of the company using Stimulus 4 and your analysis from Questions 13a) and 13b) to provide a justified decision and recommendation to the board of directors about the proposed plans. [5 marks]

**2022
Paper 1
Section 2
Question 13**

**Performance
analysis of a
public
company**

Read Case study 2 (Stimulus 9 - 10) in the stimulus book.

Stimulus 9

**The Motel Company
Statement of Profit or Loss
For the year ended 30 June**

	2022 Sm	% Sales	2021 Sm	% Sales
Continuing operations				
Sales	91.31	100.00	89.56	100.00
Other revenue	3.69	4.04	1.17	1.31
Revenue	95.00	104.04	90.73	101.31
Cost of sales	-58.41	-63.97	-39.87	-44.52
Gross profit	36.59	40.07	50.86	56.79
Change in fair value of investment properties	13.46	14.74	63.49	70.89
Employee expenses	-8.41	-9.21	-12.18	-13.60
Marketing expenses	-3.07	-3.36	-6.70	-7.48
Occupancy expenses	-0.30	-0.33	-0.51	-0.57
Property expenses	-0.62	-0.68	-0.49	-0.55
Administration expenses	-2.60	-2.85	-4.07	-4.54
Finance costs	0.00	0.00	-0.92	-1.03
Other expenses	-3.95	-4.33	-2.09	-2.33
Share of net gain/(loss) of associates and joint ventures accounted for using the equity method	2.35	2.57	0.17	0.19
Profit from continuing operations before income tax	33.45	36.63	87.56	97.77
Income tax expense	-8.34	-9.13	-9.43	-10.53
Profit for the year	25.11	27.50	78.13	87.24
Profit for the year is attributable to:				
Owners of The Motel Company	20.84	22.82	72.66	81.13
Non-controlling interests	3.77	4.12	4.69	5.23
Net profit after tax attributable to shareholders	24.61	26.95	77.35	86.37
Other non-controlling interests	0.50	0.55	0.78	0.87
	25.11	27.50	78.13	87.24

Stimulus 10

**The Motel Company
Consolidated Statement of Comprehensive Income
For the year ended 30 June**

	2022 \$m	% Sales	2021 \$m	% Sales
Profit for the year	25.11	27.50	78.13	87.24
Other comprehensive income				
<i>Items that may be reclassified to profit or loss</i>				
Foreign currency translation differences for foreign operations	0.11	0.12	0.94	1.05
Other comprehensive income for the year, net of tax	0.11		0.94	
Total comprehensive income for the year	25.22	27.62	79.07	88.29
Total comprehensive income for the year is attributable to:				
Owners of The Motel Company	20.94	22.92	73.54	82.11
Non-controlling interest	3.78	4.14	4.74	5.30
Total comprehensive income for the year attributable to shareholders	24.72	27.07	78.28	87.40
Other non-controlling interests	0.50	0.55	0.79	0.88
	25.22	27.62	79.07	88.29

Earnings per share (cents per share)	2022	2021
Basic earnings per share	22.10	63.30
Diluted earnings per share	22.10	63.30
EBITDA	159.40	417.70

Industry benchmarks	2022	2021
Net profit ratio	21.65321	22.85231
Gross profit ratio	47.28396	48.43051

Analyse and evaluate the performance of The Motel Company to propose two recommendations to improve the profitability of the company. [10 marks]

**2021
Paper 1
Section 2
Question 13**

**Performance
analysis of a
public
company**

Read Case study 3 (Stimulus 7–8) in the stimulus book.

Stimulus 7

**Business 3
Consolidated Statement of Comprehensive Income
for the year ended 30 June 2021**

	2021 S'000	Diff S'000	2020 S'000	2021 % Sales	2020 % Sales
Sales	307 451	124 369	183 082		
Cost of sales	-152 668	-57 425	-95 243	-49.66	-52.02
Gross profit	154 783	66 944	87 839		
Other revenue	108	15	93	0.04	0.05
Total revenue	154 891	66 959	87 932		
Distribution expenses	-8 942	-2 214	-6 728		
Administrative expenses	-15 754	-4 939	-10 815		
Marketing expenses	-24 549	-10 546	-14 003		
Other expenses	-11 979	-1 793	-10 186		
Operating profit	93 667	47 467	46 200		
Interest income	790	495	295		
Finance cost	-46	-1	-45		
Net finance income	744	494	250		
Profit before tax	94 411	47 961	46 450		
Income tax expense	-29 183	-12 948	-16 235		
Profit after tax for the year	65 228	35 013	30 215		
Other comprehensive income					
<i>Items that may be reclassified to profit or loss</i>					
Foreign currency translation loss	-25	606	-631		
<i>Items not to be reclassified to profit or loss</i>					
Listed investment fair value gain	36 247	31 790	4 457		
Total comprehensive income	101 450	67 409	34 041		

Earnings per share				
Basic (cents per share)	27.00	14.34	12.66	113%
EBITDA increase on previous year	101.00%			
Gross profit ratio	50.34%		47.98%	

Additional notes			
Market share Australia	32.00%		
Market share India	5.10%		
	2021	2020	2019
Total assets	240 859	114 643	95 463

Stimulus 8

Business 3
Consolidated Statement of Cash Flows
for the year ended 30 June 2021

	2021 \$'000	Diff \$'000	2020 \$'000	Diff %	2019 \$'000	Diff \$'000	Diff \$'000
							2019/20
Cash flows from operating activities							
Receipts from customers	309 234	178 153	131 081	135.91	174 774	-43 693	134 460
Payments to suppliers and employees	-209 884	-111 356	-98 528	-84.95	-131 370	32 842	-78 514
Interest received	790	568	222	0.43	296	-74	494
Taxes paid	-23 104	-15 315	-7 789	-11.68	-10 385	2 596	-12 719
Net cash inflow from operating activities	77 036	52 050	24 986	39.71	33 315	-8 329	43 721
Cash flows from investing activities							
Payments for property, plant and equipment	-842	-429	-413	-0.33	-550	137	-292
Payments for intangible assets	-773	-568	-205	-0.43	-273	68	-500
Payment for listed investment	-5 358	6 811	-12 169	5.20	-16 226	4 057	10 868
Net cash outflow from investing activities	-6 973	5 814	-12 787	4.44	-17 049	4 262	10 076
Cash flows from financing activities							
Proceeds from issue of equity shares	2 421	1 482	939	1.13	1 251	-312	1 170
Net cash flow from financing activities	2 421	1 482	939	1.13	1 251	-312	1 170
Net increase in cash and short-term deposits	72 484	59 346	13 138	45.28	17 517	-4 379	54 967
Cash and short-term deposits at the beginning of the year	40 342	12 916	27 426	9.85	10 206	17 220	30 136
Effect of exchange rate changes on cash	661	883	-222	0.67	-297	75	958
Cash and short-term deposits at the end of the year	113 487	73 145	40 342	55.80	27 426	12 916	86 061

Other Industry Ratios — Benchmark	2021	2020	2019	2021 Industry	2020 Industry
Cash generating power ratio	0.97	0.86	0.96	0.65	0.70
Operating cash flow ratio	0.25	0.28	0.06	0.20	0.20
Sales — 2019 ('000s)	549 247				

In 2019, Business 3 expanded into India.

a) Using Stimulus 7, evaluate the profitability of Business 3 for the year ended 30 June 2021. Propose recommendations regarding the future operations and direction of the business. [9 marks]

b) Analyse Stimulus 8 using trend analysis to determine the business's stability and liquidity. [8 marks]

**2020
Paper 1
Section 2
Question 13**

**Performance
analysis of a
public
company**

Read Case study 3 (Stimulus 4–6) in the stimulus book.

	2020		2019		2020		2019		Material	
	\$'000	Diff \$'000	\$'000	% Total	% Total	% Assets	% Assets	% Diff/TA	Benchmark	
Stimulus 4										
Bus Company										
Statement of Financial Position										
as at 30 June 2020										
Current assets										
Cash and cash equivalents	465.37	-6.46	471.83	21.97	21.97	22.87	-0.31			
Receivables	102.97	9.10	93.87	4.86	4.86	4.55	0.43			
Inventories	15.43	-0.44	15.87	0.73	0.73	0.77	-0.02			
Derivative financial instruments ¹	8.80	-72.53	73.33	0.04	0.04	3.56	-3.42			
Other financial assets	8.40	4.37	4.03	0.40	0.20	0.20	0.21			
Assets classified as held for sale	1.43	1.43	0.00	0.07	0.00	0.00	0.07			
Prepayments	1.43	0.53	0.90	0.07	0.07	0.04	0.03			
Total current assets	595.83	-64.00	659.83	28.12	28.12	31.99	-3.02			
Non-current assets										
Maintenance prepayments	54.13	-9.74	63.87	2.56	2.56	3.10	-0.46			
Derivative financial instruments ¹	2.20	-19.13	21.33	0.10	0.10	1.03	-0.90			
Other financial assets	97.50	2.76	94.74	4.60	4.60	4.59	0.13			
Investment accounted for using the equity method	1.53	-1.20	2.73	0.07	0.07	0.13	-0.06			
Bank bonds	99.97	99.97	0.00	4.72	0.00	0.00	4.72			
Deferred tax assets	84.76	84.76	0.00	4.00	4.00	0.00	4.00			
Property, plant and equipment	972.20	-38.13	1010.33	45.89	45.89	48.98	-1.80			
Intangible assets	205.74	0.07	205.67	9.71	9.71	9.97	0.00			
Other	4.74	0.44	4.30	0.22	0.22	0.21	0.02			
Total non-current assets	1522.77	119.80	1402.97	71.88	71.88	68.01	5.65			
Total assets	2118.60	55.80	2062.80	100.00	100.00	100.00	2.63			
Current liabilities										
Payables	226.63	-42.53	269.16	10.70	10.70	13.05	-2.01			
Interest-bearing liabilities	93.63	-4.74	98.37	4.42	4.42	4.77	-0.22			
Derivative financial instruments ¹	19.04	16.84	2.20	0.90	0.11	0.11	0.79			
Provisions	78.07	-11.60	89.67	3.68	3.68	4.35	-0.55			
Unearned revenue	358.07	-22.63	380.70	16.90	16.90	18.46	-1.07			
Other	7.33	6.13	1.20	0.35	0.35	0.06	0.29			
Total current liabilities	782.77	-58.53	841.30	36.95	36.95	40.78	-2.76			

Stimulus 4 (continued)

**Bus Company
Statement of Financial Position (continued)
as at 30 June 2020**

	2020 \$'000	Diff \$'000	2019 \$'000	2020 % Total	2019 % Assets	Material	
						% Diff/ TA	Benchmark
Non-current liabilities							
Payables	2.10	0.23	1.87	0.10	0.09	0.01	
Interest-bearing liabilities	717.47	-40.20	757.67	33.87	36.73	-1.90	
Derivative financial instruments ¹	2.13	2.06	0.07	0.10	0.00	0.10	
Provisions	87.83	-4.70	92.53	4.15	4.49	-0.22	
Other	1.70	-2.66	4.36	0.08	0.21	-0.13	
Total non-current liabilities	811.23	-45.27	856.50	38.29	41.52	-2.14	
Total liabilities	1 594.00	-103.80	1 697.80	75.24	82.31	-4.90	60.20%
Net assets	524.60	159.60	365.00	24.76	17.69	7.53	
Equity							
Share capital	747.90	1.60	746.30	35.30	36.18	0.08	
Reserves	19.60	-69.83	89.43	0.93	4.34	-3.30	
Retained earnings	-244.93	227.00	-471.93	-11.56	-22.88	10.71	
Equity attributable to the owners of the Company	522.57	158.77	363.80	24.67	17.64	7.49	
Non-controlling interests	2.03	0.83	1.20	0.10	0.06	0.04	
Total equity	524.60	159.60	365.00	24.76	17.69	7.53	35.00%

Other Industry Ratios — Benchmark	2020		2019		2019 Industry	
Gearing Ratio		3.04		4.65		1.86
Current Asset Ratio		0.76		0.78		2.45
Acid test		0.74		0.76		1.10

¹ derivatives are a specific form of financial asset or liability

Stimulus 5

Bus Company
Statement of Cash Flows
for the year ended 30 June 2020

	2020 S'000	Diff S'000	2019 S'000
Cash flows from operating activities			
Cash receipts from customers	1 885.70	-147.53	2 033.23
Cash payments to suppliers and employees	-1 710.40	78.26	-1 788.66
Cash generated from operating activities	175.30	-69.27	244.57
Finance income received	5.67	-0.73	6.40
Finance costs paid	-89.67	-28.84	-60.83
Net cash from operating activities	91.30	-98.84	190.14
Cash flows from investing activities			
Acquisition of property, plant and equipment	-145.57	36.60	-182.17
Proceeds on disposal of property, plant and equipment	62.67	60.10	2.57
Acquisition of intangible assets	-12.40	2.40	-14.80
Payments for other deposits	-116.10	-95.26	-20.84
Proceeds from other deposits	0.40	-25.27	25.67
Dividends	0.50	0.50	0.00
Net cash used in investing activities (including operating lease refinancing)	-210.50	-20.93	-189.57
Cash flows from financing activities			
Proceeds from borrowings	185.67	66.70	118.97
Repayments of borrowings	-366.30	-263.93	-102.37
Payments of transaction costs related to borrowings	-4.37	-2.37	-2.00
Net proceeds from share issue	310.46	310.46	0.00
Net payment for share buy-back	0.00	1.77	-1.77
Equity distributions paid to non-controlling interests	-12.73	2.97	-15.70
Net cash (used in)/from financing activities	112.73	115.60	-2.87
Net increase/(decrease) in cash and cash equivalents	-6.47		-2.30
Cash and cash equivalents at 1 July	471.83		474.13
Cash and cash equivalents at 30 June	465.37		471.83

Stimulus 6

Earnings per share	2020	2019
Basic earnings per share	-2.8	-8.1
Diluted earnings per share	-2.8	-8.1

Bus Company has gradually expanded its fleet to increase the number of routes it can cover. In the financial year ended 30 June 2019, the company finalised its purchase of offices across Queensland. In the 2019–2020 financial year, it completed the expansion of its Queensland routes. The company's Board of Directors wants to determine the impact of expanding operations into New South Wales.

Evaluate the company's financial stability in order to support its future expansion.

Propose recommendations for the future operations and direction of the business. [9 marks]

Marking Guide – Paper 1 Section 1

**2023
Paper 1
Section 1
Question 2**

Performance analysis of a public company

A business is making good profits, but the owners have raised concerns regarding the trend in the turnover of inventory ratio.

	2021	2022	2023	Industry benchmark
Turnover of inventory ratio	4.5 times	4.3 times	4.0 times	5.15 times

The data shows that the

(A) **inventory is slow moving and could affect the business’s liquidity.** – Answer
 (B) business has strong sales and is making profits, so the trend is not a concern.
 (C) turnover of inventory ratio is likely to fluctuate from year to year, so is not a concern.
 (D) trend is not a concern because the turnover ratios are close to the industry benchmark.

**2023
Paper 1
Section 1
Question 3**

Performance analysis of a public company

Financial information for a business is provided.

Partial list of balances for the year ended 30 June 2023	
Account	\$
Loss from theft	520
Cash at bank	(8 000)
Inventories	4 322
Loan to Business Y (due to be repaid 30 September 2023)	12 000
Accrued rent revenue	4 220
Unearned revenue	600
Accounts payable	1 600
Shares in Company A	6 800
Accounts receivable (net)	2 600
GST clearing (receivable)	2 451
Cost of goods sold	1 800
Credit/debit card fees	400
Provision for doubtful debts	300
Loan from bank (due to be repaid 01 January 2025)	15 000
Gain on disposal of equipment	350

The working capital calculated from the information provided is

(A) \$15 093
 (B) \$15 293
 (C) **\$15 393** – Answer
 (D) \$15 493

<p>2023 Paper 1 Section 1 Question 5</p> <p>Performance analysis of a public company</p>	<p>Taylor is considering investing some money in shares of a publicly listed company. To determine which company may be the most financially stable in the long-term, the most relevant ratio is the</p> <p>(A) current ratio. (B) net profit ratio. (C) gross profit ratio. (D) shareholder equity ratio. – Answer</p>
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<p>2023 Paper 1 Section 1 Question 7</p> <p>Performance analysis of a public company</p>	<p>The price–earnings ratio would realistically be reduced by an increase in the</p> <p>(A) average number of ordinary shares issued. (B) amount of preference dividends. (C) operating profit after tax. – Answer (D) share price.</p>
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<p>2023 Paper 1 Section 1 Question 8</p> <p>Performance analysis of a public company</p>	<p>Information on a company’s shareholdings is provided.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="background-color: #d3d3d3;">2023</th> </tr> </thead> <tbody> <tr> <td>Shareholder’s equity (10 365 shares @ \$2.40 per share)</td> <td>\$24 876.00</td> </tr> <tr> <td>Reserves</td> <td>\$12 160.00</td> </tr> <tr> <td>Retained earnings</td> <td>\$16 873.00</td> </tr> <tr> <td>Market value per share</td> <td>\$3.12</td> </tr> <tr> <td>Dividends paid</td> <td>\$20 146.00</td> </tr> </tbody> </table> <p>What is the dividend yield ratio?</p> <p>(A) 0.51 (B) 0.62 – Answer (C) 0.77 (D) 0.81</p>		2023	Shareholder’s equity (10 365 shares @ \$2.40 per share)	\$24 876.00	Reserves	\$12 160.00	Retained earnings	\$16 873.00	Market value per share	\$3.12	Dividends paid	\$20 146.00
	2023												
Shareholder’s equity (10 365 shares @ \$2.40 per share)	\$24 876.00												
Reserves	\$12 160.00												
Retained earnings	\$16 873.00												
Market value per share	\$3.12												
Dividends paid	\$20 146.00												

<p>2023 Paper 1 Section 1 Question 9</p> <p>Performance analysis of a public company</p>	<p>The following information is provided for a business.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tbody> <tr> <td>Cash flows from operating activities</td> <td>\$634 000</td> </tr> <tr> <td>Cash inflows from investing activities</td> <td>\$425 000</td> </tr> <tr> <td>Cash inflows from financing activities</td> <td>\$50 000</td> </tr> </tbody> </table> <p>For this business, the greatest increase in the cash generating power ratio would be caused by a</p> <p>(A) \$500 000 loan from a bank. (B) \$485 000 increase in net profit. (C) \$320 000 increase in cash sales. – Answer (D) \$324 000 injection from the sale of a building.</p>	Cash flows from operating activities	\$634 000	Cash inflows from investing activities	\$425 000	Cash inflows from financing activities	\$50 000
Cash flows from operating activities	\$634 000						
Cash inflows from investing activities	\$425 000						
Cash inflows from financing activities	\$50 000						

<p>2023 Paper 1 Section 1 Question 10</p> <p>Performance analysis of a public company</p>	<p>A similarity in accounting for a sole trader and accounting for a public company is that</p> <p>(A) both structures require bank accounts that are separate from those of the owner/s. (B) dividends and drawings are withdrawals from the business by the owner/s. (C) owners under both structures are personally liable for business debts. (D) under both structures, finance can be raised by debt and/or equity. – Answer</p>
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<p>2022 Paper 1 Section 1 Question 1</p> <p>Performance analysis of a public company</p>	<p>The following company data has been collected.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Bad debt expense</td> <td style="text-align: right;">4 000</td> </tr> <tr> <td>Cost of goods sold</td> <td style="text-align: right;">85 000</td> </tr> <tr> <td>Depreciation on delivery van</td> <td style="text-align: right;">8 000</td> </tr> <tr> <td>Electricity</td> <td style="text-align: right;">12 000</td> </tr> <tr> <td>Interest expense</td> <td style="text-align: right;">5 000</td> </tr> <tr> <td>Inventory adjustment (for lower NRV)</td> <td style="text-align: right;">4 500</td> </tr> <tr> <td>Rent expense</td> <td style="text-align: right;">20 000</td> </tr> <tr> <td>Sales</td> <td style="text-align: right;">280 000</td> </tr> <tr> <td>Sales returns</td> <td style="text-align: right;">10 000</td> </tr> <tr> <td>Telephone expense — sales staff</td> <td style="text-align: right;">2 500</td> </tr> <tr> <td>Wages — sales staff</td> <td style="text-align: right;">75 000</td> </tr> </tbody> </table> <p>The gross profit figure is</p> <p>(A) \$180 500. - Answer (B) \$185 000. (C) \$189 500. (D) \$195 000.</p>		\$	Bad debt expense	4 000	Cost of goods sold	85 000	Depreciation on delivery van	8 000	Electricity	12 000	Interest expense	5 000	Inventory adjustment (for lower NRV)	4 500	Rent expense	20 000	Sales	280 000	Sales returns	10 000	Telephone expense — sales staff	2 500	Wages — sales staff	75 000
	\$																								
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Sales	280 000																								
Sales returns	10 000																								
Telephone expense — sales staff	2 500																								
Wages — sales staff	75 000																								

<p>2022 Paper 1 Section 1 Question 2</p> <p>Performance analysis of a public company</p>	<p>Vertical analysis is useful in</p> <p>(A) assessing the adequacy of the return to owners on their investment. (B) highlighting exposure to potential increases in interest rates. - Answer (C) determining how effectively assets are used to earn income. (D) predicting future direction based on past performance.</p>
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<p>2022 Paper 1 Section 1 Question 4</p> <p>Performance analysis of a public company</p>	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3" style="text-align: center;">Return on owner's equity</th> </tr> <tr> <th></th> <th style="text-align: center;">2022</th> <th style="text-align: center;">2021</th> </tr> </thead> <tbody> <tr> <td>Business B</td> <td style="text-align: center;">9.5%</td> <td style="text-align: center;">8.5%</td> </tr> </tbody> </table> <p>The Return on owner's equity for Business B indicates that</p> <p>(A) the owner's investment into the business is yielding increased returns. - Answer (B) the business is undercapitalised and the owner should invest further funds. (C) the owner has been effective in maximising net profit and managing equity. (D) the business is overcapitalised and the owner should investigate other investments.</p>	Return on owner's equity				2022	2021	Business B	9.5%	8.5%
Return on owner's equity										
	2022	2021								
Business B	9.5%	8.5%								

<p>2022 Paper 1 Section 1 Question 6</p> <p>Performance analysis of a public company</p>	<p>The Rate of turnover of accounts receivable for a business is 45 days. The industry average is 28 days. This means the business</p> <p>(A) should make more sales on credit terms. (B) pays its accounts 45 days after purchase. (C) is outperforming the industry average by 17 days. (D) could improve its collection rate of credit accounts. - Answer</p>
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<p>2022 Paper 1 Section 1 Question 7</p> <p>Performance analysis of a public company</p>	<p>The Debt ratio of a business indicates the</p> <p>(A) extent of the business’s borrowing and risk implications. - Answer (B) debt that needs to be repaid in the next financial period. (C) percentage of debt to be covered by the owner/s. (D) investment made by the owner/s of the business.</p>
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<p>2022 Paper 1 Section 1 Question 8</p> <p>Performance analysis of a public company</p>	<p>Calculate the Price-earnings ratio using the data in the table (round to one decimal place).</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr><td>Gross profit</td><td style="text-align: right;">220 000</td></tr> <tr><td>Other revenue</td><td style="text-align: right;">2 000</td></tr> <tr><td>Depreciation</td><td style="text-align: right;">8 000</td></tr> <tr><td>Advertising</td><td style="text-align: right;">5 000</td></tr> <tr><td>Administration expenses</td><td style="text-align: right;">22 000</td></tr> <tr><td>Loss on sale of motor vehicle</td><td style="text-align: right;">10 000</td></tr> <tr><td>Number of ordinary shares</td><td style="text-align: right;">40 000</td></tr> <tr><td>Price per share</td><td style="text-align: right;">72</td></tr> </table> <p>(A) 13.1 (B) 14.8 (C) 16.3 - Answer (D) 16.5</p>	Gross profit	220 000	Other revenue	2 000	Depreciation	8 000	Advertising	5 000	Administration expenses	22 000	Loss on sale of motor vehicle	10 000	Number of ordinary shares	40 000	Price per share	72
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2022 Paper 1 Section 1 Question 9 Performance analysis of a public company	Statement of Cash Flows (extract)			
		2022	2021	2020
	Cash flows from operating activities			
	Receipts from customers	4 601 235	4 448 735	4 520 184
	Payments to suppliers	-1 752 378	-1 716 713	-1 744 982
	Payments to employees	-1 811 978	-1 540 181	-1 463 172
	Interest and other costs of finance	-18 458	-7 565	-14 162
	Income taxes paid	-98 000	-80 306	-79 448
	Net cash flows from operating activities	920 421	1 103 970	1 218 420
	Cash flow ratio	0.20	0.25	0.27

A trend analysis of the extract of Statement of Cash Flows indicates

(A) a failure to tighten credit policies.
 (B) a reduction in the amount owing to lenders.
(C) an increase in the number of staff employed and/or wage rates. - Answer
 (D) an improvement in the business's ability to meet long-term debts.

2021 Paper 1 Section 1 Question 2 Performance analysis of a public company	A times interest earned ratio is used
	(A) to measure a business's fixed debt obligations on lease payments. (B) by lenders to ascertain whether a business can afford additional debt. - Answer (C) to count net earnings against total outstanding shares over a fixed period of time. (D) to measure financial leverage indicating the degree to which a firm's operations are funded by equity

2021 Paper 1 Section 1 Question 3 Performance analysis of a public company	EBITDA (\$m) for XYZ Company Ltd					
		2017	2018	2019	2020	2021
	NSW	415.3	298.2	499.5	374.7	511.9
	QLD	420.7	566.7	320.6	479.8	507.3
	WA	354.6	323.4	399.5	465.4	499.2

Which statement is correct?

(A) **Western Australia had a 43% growth in EBITDA from 2018 to 2020. - Answer**
 (B) XYZ Company Ltd had the most unstable EBITDA trend in 2018.
 (C) New South Wales had a 28% EBITDA result from 2017 to 2018.
 (D) Queensland had a total EBITDA of \$578.8 m from 2017 to 2021.

2021 Paper 1 Section 1 Question 4 Performance analysis of a public company	The shareholder equity ratio is used by external stakeholders to determine
	(A) the extent to which a company's profit is affected by shareholder contributions. (B) the total amount owed to shareholders on liquidation. (C) how much of a company's assets shareholders own. - Answer (D) the return on dividends provided to shareholders.

<p>2021 Paper 1 Section 1 Question 8</p> <p>Performance analysis of a public company</p>	<p>In January 2021, a public company acquired a business using cash basis accounting, which</p> <p>(A) changed when the company reported its end of financial year results. (B) complicated the comparison of its financial statements over time. - Answer (C) had no effect on horizontal ratio analysis. (D) affected the industry benchmarks.</p>
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<p>2021 Paper 1 Section 1 Question 10</p> <p>Performance analysis of a public company</p>	<p>The following company data has been collected.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3" style="background-color: #d3d3d3;">Account Balances as at 30 June (extract)</th> </tr> <tr> <th style="background-color: #d3d3d3;">Account</th> <th style="background-color: #d3d3d3;">2021 \$</th> <th style="background-color: #d3d3d3;">2020 \$</th> </tr> </thead> <tbody> <tr><td>Net sales</td><td>420 064</td><td>765 347</td></tr> <tr><td>Sales returns</td><td>23 934</td><td>15 867</td></tr> <tr><td>Net purchases</td><td>315 000</td><td>268 000</td></tr> <tr><td>Purchases returns</td><td>15 728</td><td>13 246</td></tr> <tr><td>Inventories</td><td>271 932</td><td>347 890</td></tr> <tr><td>Cash at bank</td><td>168 423</td><td>249 628</td></tr> <tr><td>Accounts receivable</td><td>732 649</td><td>627 385</td></tr> <tr><td>Inventory adjustment (shortage)</td><td>4 798</td><td>700</td></tr> </tbody> </table> <p>The Rate of turnover of inventories for this business is</p> <p>(A) 1.21 (B) 1.24 (C) 1.26 - Answer (D) 1.27</p>	Account Balances as at 30 June (extract)			Account	2021 \$	2020 \$	Net sales	420 064	765 347	Sales returns	23 934	15 867	Net purchases	315 000	268 000	Purchases returns	15 728	13 246	Inventories	271 932	347 890	Cash at bank	168 423	249 628	Accounts receivable	732 649	627 385	Inventory adjustment (shortage)	4 798	700
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<p>2020 Paper 1 Section 1 Question 4</p> <p>Performance analysis of a public company</p>	<p>Industry benchmarks are useful for</p> <p>(A) analysing the effectiveness of a marketing campaign. (B) explaining variations in financial data across industries. (C) identifying areas of financial performance that can be improved. - Answer (D) evaluating the appropriateness of pricing strategies in the local market.</p>
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<p>2020 Paper 1 Section 1 Question 5</p> <p>Performance analysis of a public company</p>	<p>BAR Ltd, TGF Ltd and AQP Ltd operate within the same industry.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>BAR Ltd</th> <th>TGF Ltd</th> <th>AQP Ltd</th> </tr> </thead> <tbody> <tr> <td>Market price per share</td> <td>\$4.83</td> <td>\$28.54</td> <td>\$83.29</td> </tr> <tr> <td>Operating profit (after tax)</td> <td>\$6 900 m</td> <td>\$6 732 m</td> <td>\$9 375 m</td> </tr> <tr> <td>Earnings per share</td> <td>\$0.80</td> <td>\$1.19</td> <td>\$10.56</td> </tr> <tr> <td>Price to earnings ratio</td> <td>6.04</td> <td>23.98</td> <td>7.89</td> </tr> </tbody> </table> <p>An investor seeking growth would choose shares in</p> <p>(A) AQP Ltd, because its higher market price per share indicates future growth. (B) TGF Ltd, because its high price to earnings ratio indicates high growth potential. - Answer (C) BAR Ltd, because its low price to earnings ratio indicates it is a lower risk investment. (D) BAR Ltd, because its market price per share provides the best indicator for upward movement.</p>		BAR Ltd	TGF Ltd	AQP Ltd	Market price per share	\$4.83	\$28.54	\$83.29	Operating profit (after tax)	\$6 900 m	\$6 732 m	\$9 375 m	Earnings per share	\$0.80	\$1.19	\$10.56	Price to earnings ratio	6.04	23.98	7.89
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<p>2020 Paper 1 Section 1 Question 8</p> <p>Performance analysis of a public company</p>	<p>Companies A and B operate within the same industry</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2"></th> <th colspan="4">Comparative Statement of Profit or Loss for the year ending 30 June 2020 (extract)</th> </tr> <tr> <th colspan="2">Company A</th> <th colspan="2">Company B</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td>95 000</td> <td></td> <td>95 000</td> <td></td> </tr> <tr> <td>Sales returns</td> <td>(10 000)</td> <td></td> <td>(2 500)</td> <td></td> </tr> <tr> <td>Cost of goods sold</td> <td>59 500</td> <td>70%</td> <td>64 750</td> <td>70%</td> </tr> <tr> <td>Gross profit ratio</td> <td></td> <td>30%</td> <td></td> <td>30%</td> </tr> </tbody> </table> <p>By comparing the results of the two businesses, management of Company A can conclude that</p> <p>(A) Company A's selling prices are competitive. (B) both companies have the same gross profit result. (C) the quality of Company A's inventory should be reviewed. - Answer (D) Company A's purchasing policy is better than Company B's purchasing policy</p>		Comparative Statement of Profit or Loss for the year ending 30 June 2020 (extract)				Company A		Company B		Sales	95 000		95 000		Sales returns	(10 000)		(2 500)		Cost of goods sold	59 500	70%	64 750	70%	Gross profit ratio		30%		30%
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<p>2020 Paper 1 Section 1 Question 9</p> <p>Performance analysis of a public company</p>	<p>The following company data has been collected.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>Previous year</th> <th>Current year</th> </tr> </thead> <tbody> <tr> <td>Rate of turnover of inventories</td> <td>6.65 times</td> <td>9.17 times</td> </tr> <tr> <td>Rate of turnover of accounts receivable</td> <td>6.44 times</td> <td>8.69 times</td> </tr> </tbody> </table> <p>This data shows that</p> <p>(A) short-term financial stability has decreased. (B) the earning capacity of the company has improved. (C) improvements to the company's credit policies are required. (D) strategies for improving sales and collection of outstanding debts were effective. - Answer</p>		Previous year	Current year	Rate of turnover of inventories	6.65 times	9.17 times	Rate of turnover of accounts receivable	6.44 times	8.69 times
	Previous year	Current year								
Rate of turnover of inventories	6.65 times	9.17 times								
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2020 Paper 1 Section 1 Question 10 Performance analysis of a public company	<p>A public company's turnover of accounts receivable is 45 days. The industry average is 30 days. The company most likely has</p> <p>(A) a lenient credit policy. - Answer (B) high demand for stock. (C) strict credit sales protocols. (D) poor internal controls over creditors.</p>
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<p>2023 Paper 1 Section 2 Question 13</p> <p>Performance analysis of a public company</p>	<p>Read Case study 3 (Stimulus 4) in the stimulus book.</p> <p>The Supermarket Company is considering expansion through the purchase of local grocery stores in regional Queensland towns in the next financial year. The board of directors has approached you with their comparative financial statements for analysis and evaluation, and is seeking your advice on the feasibility of the proposed expansion plans.</p> <p>a) Using four relevant ratios, analyse and interpret the liquidity of The Supermarket Company across the financial years 2022 and 2023. Show your working for the ratio calculations. [12 marks]</p>	
	Sample response	The response
	<p>Current ratio Current assets/current liabilities = 210 465/181 996 = 1.16 = 221 573/169 305 = 1.31</p> <p>Quick Asset ratio: Current assets –(Inventories + Prepayments)/current liabilities = 210 465 – 130 782/181 996 = 79 685/181 996 = 0.44 = 221 573 – 124 701/169 305 = 96 872/169 305 = 0.57</p> <p>Turnover of inventories CoGS/Av inventories = 1 089 921/((124 701 + 130 780)/2) = 1 089 921/127 741 = 8.53 times p.a. or 365/8.53 = 42.79 days = 1 512 885/((86 272 + 124 701)/2) = 1 512 885/105 487 = 14.34 times p.a. or 365/14.34 = 25.45 days</p> <p>A/c Receivable turnover Net Credit Sales/Av Accts Receivable = 713 132/((91 360 + 71 174)/2) = 713 132/81 267 = 8.775 times p.a. or 365/8.775 = 41.595 days = 951 585/((64 635 + 91 360)/2) = 951 585/77 998 = 12.2 times p.a. or 365/12.2 = 29.91 days</p>	<ul style="list-style-type: none"> • correctly calculates <ul style="list-style-type: none"> – 4 liquidity ratios [4 marks] – 3 liquidity ratios [3 marks] – 2 liquidity ratios [2 marks] – 1 liquidity ratio [1 mark]
Sample response	The response	The response
<p>Total sales have decreased from \$1 676 801 in 2022 to \$1 256 621 in 2023 — a decrease of 25%. Further, there has been a decline in the rate of collection of cash from credit customers from 30 days in 2022 to 42 days in 2023. This signifies serious issues with the credit policies of the business. The turnover of inventories has increased from 25 days (2022) to 43 days (2023), indicating that inventories are taking longer to sell.</p> <p>Current ratios are below the benchmark of 2:1 and worsening, with a decrease from 1.31 in 2022 to 1.16 in 2023. This indicates a poor ability to cover current debts with current assets, especially with accounts receivable collections slower and interest bearing short-term liabilities increasing.</p> <p>The Quick ratio has also worsened from 2022 to 2023, reflecting increasing inability to meet immediate debts and results are less than the benchmark of 1:1. This reflects the drop in current assets, notably accounts receivables, while current liabilities have increased since 2022. There has been an increase in cash and cash equivalents, but that would seem to have been influenced by the sale of \$10 500 in investments and \$5 518 of property, plant and equipment, which could reduce future earning potential.</p> <p>Overall, the ratios are showing a decline in liquidity, placing the business in a poor cash position and at risk of defaulting on its debts, particularly with a doubling of tax liability and a high level of accounts payable.</p>	<p>[4 marks]</p> <ul style="list-style-type: none"> • provides an analysis of the liquidity of the company • identifies relevant relationships • refers to relevant financial data and information from the stimulus <p>[3 marks]</p> <ul style="list-style-type: none"> • provides an explanation of the liquidity of the company • refers to financial data or information from the stimulus <p>[2 marks]</p> <ul style="list-style-type: none"> • makes a statement about the liquidity of the company • refers to financial data or information from the stimulus <p>[1 mark]</p> <ul style="list-style-type: none"> • makes a statement about the liquidity of the company <p>[0 marks]</p> <ul style="list-style-type: none"> • does not satisfy any of the descriptors above. 	<p>[4 marks]</p> <ul style="list-style-type: none"> • states a valid and justified conclusion on the liquidity of the company • supports conclusion with <ul style="list-style-type: none"> – four relevant ratios – identified trends <p>[3 marks]</p> <ul style="list-style-type: none"> • states a valid conclusion on liquidity of the company • supports conclusion with <ul style="list-style-type: none"> – two or three relevant ratios – an identified trend <p>[2 marks]</p> <ul style="list-style-type: none"> • supports conclusion with one relevant ratio • identifies a trend <p>[1 mark]</p> <ul style="list-style-type: none"> • states a relevant ratio OR • identifies a trend <p>[0 marks]</p> <ul style="list-style-type: none"> • does not satisfy any of the descriptors above.

b) Using Stimulus 4, trend analysis and two relevant ratios, analyse and interpret the stability of the company across the four years. Show your working for the ratio calculations. [12 marks]

Sample response					The response
Ratio	2023	2022	2021	2020	<ul style="list-style-type: none"> • correctly calculates <ul style="list-style-type: none"> – one stability ratio [1 mark] – another stability ratio [1 mark]
Debt ratio Total liab/total assets	250 565/490 372 = 51.096%	257 605/519 107 = 49.62%	200 305/395 720 = 50.62%	178 776/393 884 = 45.39%	
Debt to equity ratio Total debt/Total equity	250 565/239 807 = 1.04:1	257 605/261 502 = 0.985:1	200 305/195 415 = 1.025:1	178 776/215 108 = 0.83:1	
Other plausible ratios that could have been used:					
Ratio	2023	2022	2021	2020	
Shareholder equity ratio Total equity/Total assets	239 807/490 372 = 48.9%	261 502/519 107 = 50.4%	195 415/395 720 = 49.4%	215 108/393 884 = 54.61%	
Gearing ratio (Provided)	28%	22%	30%	13%	

Sample response	The response	The response
<p>Long-term stability for The Supermarket Company is favourable. The reliance on debt to finance assets has increased from 45.39% in 2020 to just over 51% in 2023, due to fluctuations in total assets. As an example, investments were at a low in 2020 (\$726 000), rose to \$11 377 000 in 2022 and dropped in 2023 closer to the 2020 value. The ratio shows that the funding from external parties has been relatively stable since the rise in 2021 to 50.62% and has remained close to the benchmark of 50%.</p> <p>While there have been fluctuations in the total non-current assets over the four years, the current assets have shown a marked increase from 2021 to 2022, but then seem to have stabilised. Current liabilities increased from 2021 with rises in interest bearing and tax liabilities.</p> <p>Accounts payable also increased from 2021 to 2022, but appear to have stabilised since. Non-current liabilities increased in 2022 but were paid down in 2023, as were interest bearing liabilities, contributing to the decrease in 2023 from 2022 in the total value of non-current liabilities.</p> <p>The Supermarket Company has maintained a relatively constant debt-to-equity ratio close to 1:1 over the four years, so repayments on external funds can be met. The fluctuations discussed above have contributed to the total liabilities balance being relatively stable across the four years. The total equity figure has shown fluctuation in reserves and increases in retained earnings, particularly since 2021, providing evidence of stability.</p>	<p>[5 marks]</p> <ul style="list-style-type: none"> • provides a detailed analysis of the stability of the company • identifies relevant relationships • supports analysis with relevant relationships drawn from financial data and information in the stimulus 	<p>[5 marks]</p> <ul style="list-style-type: none"> • provides a valid and justified conclusion about the stability of the company • supports conclusion with <ul style="list-style-type: none"> – two relevant ratios – identified trends
	<p>[4 marks]</p> <ul style="list-style-type: none"> • provides an analysis of the stability of the company • identifies relevant relationships • refers to relevant financial data and information in the stimulus 	<p>[4 marks]</p> <ul style="list-style-type: none"> • provides a valid and justified conclusion about the stability of the company • supports conclusion with <ul style="list-style-type: none"> – one relevant ratio – identified trends
	<p>[3 marks]</p> <ul style="list-style-type: none"> • provides an explanation of the stability of the company • refers to financial data or information in the stimulus 	<p>[3 marks]</p> <ul style="list-style-type: none"> • states a valid conclusion about the stability of the company • supports conclusion with <ul style="list-style-type: none"> – one relevant ratio – an identified trend
	<p>[2 marks]</p> <ul style="list-style-type: none"> • makes a statement about the stability of the company • refers to financial data or information in the stimulus 	<p>[2 marks]</p> <ul style="list-style-type: none"> • supports conclusion with a <ul style="list-style-type: none"> – relevant ratio, <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> – trend
	<p>[1 mark]</p> <ul style="list-style-type: none"> • makes a statement about the stability of the company 	<p>[1 mark]</p> <ul style="list-style-type: none"> • states a <ul style="list-style-type: none"> – relevant ratio <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> – trend
	<p>[0 marks]</p> <ul style="list-style-type: none"> • does not satisfy any of the descriptors above. 	<p>[0 marks]</p> <ul style="list-style-type: none"> • does not satisfy any of the descriptors above.

c) Evaluate the performance of the company using Stimulus 4 and your analysis from Questions 13a) and 13b) to provide a justified decision and recommendation to the board of directors about the proposed plans. [5 marks]

Sample response	The response
<p>The purchase of local grocery stores by The Supermarket Company should not be considered at this point in time. While stability of The Supermarket Company aligns with benchmarks, the company faces serious short-term liquidity issues. Cash flow is inhibited by a declining inventory turnover, with funds tied up in slow-moving stock. Significant credit policy issues are evident — cash collection rates increased over time, with a 12-day or 40% increase from 2022 to 2023. These trends must be addressed to prevent the company from defaulting on current obligations, particularly its tax liability of \$11 724 000 — more than double that of 2022.</p> <p>The desired expansion may place the company at a greater risk. Therefore, this proposal to purchase local grocery stores cannot be supported in the near future, as it will place even greater debt leverage on The Supermarket Company when it is already facing major liquidity problems.</p>	<p>[5 marks]</p> <ul style="list-style-type: none"> clearly explains the scenario makes a clear decision to propose a valid recommendation supports recommendation with relevant financial data and information relating to liquidity and stability
	<p>[4 marks]</p> <ul style="list-style-type: none"> explains the scenario makes a clear decision to propose a valid recommendation supports recommendation with relevant financial data and information relating to liquidity and stability
	<p>[3 marks]</p> <ul style="list-style-type: none"> explains the scenario states a valid recommendation supports recommendation with financial data or information
	<p>[2 marks]</p> <ul style="list-style-type: none"> makes a statement about the scenario states a recommendation refers to financial data or information
	<p>[1 mark]</p> <ul style="list-style-type: none"> makes a statement about the scenario <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> refers to financial data or information
	<p>[0 marks]</p> <ul style="list-style-type: none"> does not satisfy any of the descriptors above.

<p>2022 Paper 1 Section 2 Question 13</p> <p>Performance analysis of a public company</p>	<p>Read Case study 2 (Stimulus 9 - 10) in the stimulus book.</p> <p>Analyse and evaluate the performance of The Motel Company to propose two recommendations to improve the profitability of the company. [10 marks]</p>		
	Sample Response	The response	The response
	<p>Gross profit (\$50.86 m to \$36.59 m) and net profit (\$78.13 m to \$25.11 m) decreased from 2021. The gross margin dropped from 56.79 in 2021 above the industry benchmark of 48.43 to 40.07 in 2022, below the industry benchmark of 47.28. Net profit ratios for both years are consistently above the industry benchmarks of 22.85 and 21.65.</p> <p>Cost of sales as a percentage of sales has increased by 19.45 percentage points, therefore gross profit has decreased by \$14.27 m or 16.72 percentage points. Changing suppliers should be considered to reduce these costs or reduce the amount of stock kept on hand.</p> <p>Sales have increased by 1% in 2022 yet the cost of these sales has increased by 46% since 2021. Considering increasing sales prices could recoup some costs. Other revenue has increased since 2021 and it may be profitable to increase these items.</p> <p>Effective management of most expenses resulted in consistent or decreasing costs. The revaluation of investment properties with gains of \$63.49 m in 2021 and \$13.46 m in 2022 overinflated the net profit figures, particularly in 2021. This explains the positive comparison with industry benchmarks. Without the revaluation, the net profit ratios would be 16.34% (2021) and 12.76% (2022), both below the industry benchmarks.</p> <p>Employee expenses decreased by \$3.77 m, indicating a reduction in staff or movement from casual to permanent positions. Marketing and administrative expenses have halved, indicating a reduction in spending or change of suppliers.</p> <p>The profitability of the Motel Company could improve by changing purchasing policies (suppliers and quantities) and increasing selling prices.</p>	<p>[5 marks]</p> <ul style="list-style-type: none"> provides a detailed analysis of the scenario supports this analysis with relevant financial data and information from the stimuli 	<p>[5 marks]</p> <ul style="list-style-type: none"> provides valid and justified decisions, assessing strengths and limitations proposes two valid recommendations supports these two recommendations with relevant financial data and information
		<p>[4 marks]</p> <ul style="list-style-type: none"> provides an analysis of the scenario refers to relevant financial data and information from the stimuli 	<p>[4 marks]</p> <ul style="list-style-type: none"> provides valid decisions proposes two valid recommendations supports these recommendations with financial data and information
		<p>[3 marks]</p> <ul style="list-style-type: none"> explains the scenario refers to financial data or information from the stimuli 	<p>[3 marks]</p> <ul style="list-style-type: none"> proposes a valid recommendation supports this recommendation with financial data or information
		<p>[2 marks]</p> <ul style="list-style-type: none"> makes a statement about the scenario refers to financial data or information from the stimuli 	<p>[2 marks]</p> <ul style="list-style-type: none"> states a recommendation
		<p>[1 mark]</p> <ul style="list-style-type: none"> makes a statement about the scenario 	<p>[1 mark]</p> <ul style="list-style-type: none"> infers a recommendation
		<p>[0 marks]</p> <ul style="list-style-type: none"> does not satisfy any of the descriptors above. 	<p>[0 marks]</p> <ul style="list-style-type: none"> does not satisfy any of the descriptors above.

**2021
Paper 1
Section 2
Question 13**

Performance analysis of a public company

Read Case study 3 (Stimulus 7–8) in the stimulus book.

In 2019, Business 3 expanded into India.

a) Using Stimulus 7, evaluate the profitability of Business 3 for the year ended 30 June 2021. Propose recommendations regarding the future operations and direction of the business. [9 marks]

Sample Response	The response	The response
Operating profit has increased by \$47 467 since 2020, indicating that the expansion into India was positive. An increase in marketing expenses and a 102.74% increase in sales is consistent with this, indicating that current marketing strategies have been effective.	[5 marks] • clearly explains the scenario • supports this explanation with relevant financial data and information	[5 marks] • makes clear decisions to propose valid recommendations • supports these recommendations with relevant financial data and information
Control over gross profit is reflected by a relatively constant gross profit ratio of 47.98% and 50.34%. While the cost of sales has increased by \$57 425 from 2020 to 2021, as a proportion of sales, it has improved in 2021.	[4 marks] • explains the scenario • refers to relevant financial data and information	[4 marks] • states a valid recommendation • supports this recommendation with financial data or information
The significant increase in interest income from 2020 to 2021 could allow funding for future strategies to increase market share in India.	[3 marks] • explains the scenario • refers to financial data or information	[3 marks] • states a recommendation
EPS increased 14.34 cents per share in 2021, so for every issued share, more earnings are made by shareholders. This is consistent with the company's increasing profitability.	[2 marks] • makes a statement about the scenario • refers to financial data or information	[2 marks] • infers a recommendation
Another factor that had an impact on profit included an increase in total assets from \$95 463 in 2019 to \$240 859 in 2021. This aligns with an increased potential to generate revenue from an increased asset base, and with the company's expansion into India. There has also been an increase in the tax expense, which is in line with increasing profitability.	[1 mark] • makes a statement about the scenario or refers to financial data or information	[1 mark] • does not satisfy any of the descriptors above.
The marked upward trend in profitability indicates that an increase in the Indian market share, without compromising the Australian market share, would be beneficial. The expansion has had a positive outcome for the company. The company should maintain its successful control over its cost of sales and continue with its highly effective marketing strategies.	[0 marks] • does not satisfy any of the descriptors above. Note: A clear explanation of the scenario must include reference to the expansion into India. An explanation of the scenario refers to profitability and includes reasons drawn from the stimulus.	

b) Analyse Stimulus 8 using trend analysis to determine the business's stability and liquidity. [8 marks]

Sample Response	The response	The response
<p>The principal source of cash is derived from operations (\$77 036 in 2021, \$24 986 in 2020 and \$33 315 in 2019) against net cash flows of \$72 484 in 2021, \$13 138 in 2020 and \$17 516 in 2019.</p> <p>The cash generating power ratio of .97 is ahead of the industry benchmark of .65, indicating that cash flow from operations contributes at a level that is significantly higher than cash inflows from investing and financing to cash reserves. There is a trend of staying ahead of the industry benchmark. Of the total receipts from customers, 25% are converted to operating cash flows.</p> <p>The trend shows that from entry into India in 2019 to the latest results, the operating cash flow ratio has significantly improved, with the increase from 0.06 to 0.25 showing improved liquidity. The net cash flow dollar result supports this conclusion, with \$77 036 being an increase of \$43 722 from 2019, when the company started in India.</p> <p>The company is benefiting from past investments in Listed Investments (\$12 169 in 2020 and \$16 226 in 2019), with interest income increasing.</p> <p>With its performance ahead of industry benchmarks, the business is in a good financial position in terms of its liquidity, and the growth in receipts from customers supports its stability.</p>	<p>[5 marks]</p> <ul style="list-style-type: none"> clearly explains the scenario supports this explanation with relevant financial data and information 	<p>[3 marks]</p> <ul style="list-style-type: none"> states a valid conclusion supports this conclusion with relevant financial data and information
	<p>[4 marks]</p> <ul style="list-style-type: none"> explains the scenario refers to relevant financial data and information 	<p>[2 marks]</p> <ul style="list-style-type: none"> states a conclusion about the liquidity or stability of the company supports this conclusion with financial data and information
	<p>[3 marks]</p> <ul style="list-style-type: none"> explains the scenario refers to financial data or information 	<p>[1 mark]</p> <ul style="list-style-type: none"> states a conclusion about the liquidity or stability of the company
	<p>[2 marks]</p> <ul style="list-style-type: none"> makes a statement about the scenario refers to financial data or information 	<p>[0 marks]</p> <ul style="list-style-type: none"> does not satisfy any of the descriptors above.
	<p>[1 mark]</p> <ul style="list-style-type: none"> makes a statement about the scenario or refers to financial data or information 	
	<p>[0 marks]</p> <ul style="list-style-type: none"> does not satisfy any of the descriptors above 	

**2020
Paper 1
Section 2
Question 13**

Performance analysis of a public company

Read Case study 3 (Stimulus 4–6) in the stimulus book.

Bus Company has gradually expanded its fleet to increase the number of routes it can cover. In the financial year ended 30 June 2019, the company finalised its purchase of offices across Queensland. In the 2019–2020 financial year, it completed the expansion of its Queensland routes. The company’s Board of Directors wants to determine the impact of expanding operations into New South Wales.

Evaluate the company’s financial stability in order to support its future expansion.

Propose recommendations for the future operations and direction of the business. [9 marks]

Sample Response	The response	The response
A purchase of bank bonds for \$99 970 is reflected in non-current assets and the cash flow. This money could have been used to reduce operating costs, attract more passengers and improve profitability.	[5 marks] • clearly explains the scenario • supports this explanation with relevant financial data and information	[4 marks] • states valid recommendations • supports these recommendations with relevant financial data and information
Deferred tax assets have appeared in 2020. These will offset future tax debts and reduce cash outflows in a future period.	[4 marks] • explains the scenario • refers to relevant financial data and information	[3 marks] • states a valid recommendation • supports this recommendation with financial data or information
The business has purchased (\$145 570) and sold (\$62 670) property, plant and equipment during the year, reflecting the expansion of its fleet and offices.	[3 marks] • explains the scenario • refers to financial data or information	[2 marks] • states a recommendation
The business is highly geared at 75% against the industry benchmark of 60%, so it would need to issue shares and pay down debt. Finance costs have been growing, supporting the interpretation of the business being highly geared.	[2 marks] • explains the scenario • refers to financial data or information	[1 mark] • infers a recommendation
Income from operations has dropped by \$98 830 from 2019 (see cash receipts from customers, which have reduced by \$147 530). Borrowings have increased by \$1156 000. One share issue raised \$310 460, so another share issue may be needed to increase cash flow. The share issue has been put towards paying off existing borrowings. More borrowings were needed to help meet the cost of payments for other deposits and for purchases of property, plant and equipment. The current ratio and acid test for the business are below the industry average, indicating liquidity issues.	[1 mark] • makes a statement about the scenario	[0 marks] • does not satisfy any of the descriptors above.
The company must focus on consolidation in Queensland as a priority before expansion. It should show improvements in liquidity and gearing. Expansion requires extensive capital expenditure with high risk, particularly when considering the drop in operating cash inflows.	[0 marks] • does not satisfy any of the descriptors above.	