

# Apex Exam Guidebook

**Accounting**  
Year 12 QCE  
Queensland Curriculum

2026 Edition  
Timothy Coveney

# Apex Exam Guidebook

## Accounting

### Year 12 QCE

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- Students can refer to relevant chapters to complete during class or for private study to prepare for topic tests or exams.
- Teachers can use these eBooks as a great reference point for lesson planning, developing internal assessments or when preparing class activities to ensure alignment with exam level questions.
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- Fully worked answers from the QCE marking guide are included for feedback.
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#### Books available in this series

Mathematics	Sciences	English
<ul style="list-style-type: none"> <li>• Essential Mathematics</li> <li>• General Mathematics</li> <li>• Mathematical Methods</li> <li>• Specialist Mathematics</li> </ul>	<ul style="list-style-type: none"> <li>• Biology</li> <li>• Chemistry</li> <li>• Physics</li> <li>• Psychology</li> </ul>	<ul style="list-style-type: none"> <li>• English</li> <li>• Essential English</li> <li>• Literature</li> </ul>
Humanities and Social Sciences	Health and Physical Education	Technologies
<ul style="list-style-type: none"> <li>• Accounting</li> <li>• Ancient History</li> <li>• Business</li> <li>• Economics</li> </ul>	<ul style="list-style-type: none"> <li>• Health</li> <li>• Physical Education</li> </ul>	<ul style="list-style-type: none"> <li>• Design</li> <li>• Digital Solutions</li> <li>• Engineering</li> </ul>

#### Acknowledgements

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<b>Notes</b>	<ul style="list-style-type: none"><li>• 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</li><li>• Unit 4, Topic 1 is assessed through a summative internal assessment.</li><li>• Stimulus materials from the stimulus book have been included in the relevant questions.</li></ul>
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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><b>2024</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 1</b></p> <p><b>Complete accounting process for a trading GST business</b></p>	<p>Reversing entries are performed to</p> <p>(A) close revenue and expense accounts. (B) create temporary asset and liability accounts. (C) cancel relevant balance day adjustment entries. (D) match revenues and expenses to the correct period.</p>
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<p><b>2024</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 3</b></p> <p><b>Complete accounting process for a trading GST business</b></p>	<p>On 31 March 2024, a stationery business purchased the following inventory items on credit.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Item</th> <th>Price (including GST)</th> <th>Quantity</th> </tr> </thead> <tbody> <tr> <td>Red and blue pens</td> <td>\$1.10 per box</td> <td>3 000</td> </tr> <tr> <td>Printing paper</td> <td>\$2.20 per pack</td> <td>5 000</td> </tr> </tbody> </table> <p>Identify the correct recording of this information in the account extracts in the general ledger</p> <p>(A)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Date</th> <th>Particulars</th> <th>DR \$</th> <th>CR \$</th> <th>Bal \$</th> </tr> </thead> <tbody> <tr> <td><b>Inventories</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>31/3/24</td> <td>Accounts payable and GST</td> <td>14 300</td> <td></td> <td>14 300 DR</td> </tr> <tr> <td><b>Accounts payable</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>31/3/24</td> <td>Inventories</td> <td></td> <td>13 000</td> <td>13 000 CR</td> </tr> <tr> <td><b>GST clearing</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>31/3/24</td> <td>Inventories</td> <td></td> <td>1 300</td> <td>1 300 CR</td> </tr> </tbody> </table> <p>(B)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Date</th> <th>Particulars</th> <th>DR \$</th> <th>CR \$</th> <th>Bal \$</th> </tr> </thead> <tbody> <tr> <td><b>Inventories</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>31/3/24</td> <td>Accounts payable</td> <td></td> <td>13 000</td> <td>13 000 CR</td> </tr> <tr> <td><b>Accounts payable</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>31/3/24</td> <td>Inventories and GST</td> <td>14 300</td> <td></td> <td>14 300 DR</td> </tr> <tr> <td><b>GST clearing</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>31/3/24</td> <td>Inventories</td> <td>1 300</td> <td></td> <td>1 300 DR</td> </tr> </tbody> </table> <p>(C)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Date</th> <th>Particulars</th> <th>DR \$</th> <th>CR \$</th> <th>Bal \$</th> </tr> </thead> <tbody> <tr> <td><b>Inventories</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>31/3/24</td> <td>Accounts payable and GST</td> <td></td> <td>14 300</td> <td>14 300 CR</td> </tr> <tr> <td><b>Accounts payable</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>31/3/24</td> <td>Inventories</td> <td>13 000</td> <td></td> <td>13 000 DR</td> </tr> <tr> <td><b>GST clearing</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>31/3/24</td> <td>Inventories</td> <td>1 300</td> <td></td> <td>1 300 DR</td> </tr> </tbody> </table> <p>(D)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Date</th> <th>Particulars</th> <th>DR \$</th> <th>CR \$</th> <th>Bal \$</th> </tr> </thead> <tbody> <tr> <td><b>Inventories</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>31/3/24</td> <td>Accounts payable</td> <td>13 000</td> <td></td> <td>13 000 DR</td> </tr> <tr> <td><b>Accounts payable</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>31/3/24</td> <td>Inventories and GST</td> <td></td> <td>14 300</td> <td>14 300 CR</td> </tr> <tr> <td><b>GST clearing</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>31/3/24</td> <td>Accounts payable</td> <td>1 300</td> <td></td> <td>1 300 DR</td> </tr> </tbody> </table>	Item	Price (including GST)	Quantity	Red and blue pens	\$1.10 per box	3 000	Printing paper	\$2.20 per pack	5 000	Date	Particulars	DR \$	CR \$	Bal \$	<b>Inventories</b>					31/3/24	Accounts payable and GST	14 300		14 300 DR	<b>Accounts payable</b>					31/3/24	Inventories		13 000	13 000 CR	<b>GST clearing</b>					31/3/24	Inventories		1 300	1 300 CR	Date	Particulars	DR \$	CR \$	Bal \$	<b>Inventories</b>					31/3/24	Accounts payable		13 000	13 000 CR	<b>Accounts payable</b>					31/3/24	Inventories and GST	14 300		14 300 DR	<b>GST clearing</b>					31/3/24	Inventories	1 300		1 300 DR	Date	Particulars	DR \$	CR \$	Bal \$	<b>Inventories</b>					31/3/24	Accounts payable and GST		14 300	14 300 CR	<b>Accounts payable</b>					31/3/24	Inventories	13 000		13 000 DR	<b>GST clearing</b>					31/3/24	Inventories	1 300		1 300 DR	Date	Particulars	DR \$	CR \$	Bal \$	<b>Inventories</b>					31/3/24	Accounts payable	13 000		13 000 DR	<b>Accounts payable</b>					31/3/24	Inventories and GST		14 300	14 300 CR	<b>GST clearing</b>					31/3/24	Accounts payable	1 300		1 300 DR
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<b>2024 Paper 1 Section 1 Question 4</b>  <b>Complete accounting process for a trading GST business</b>	A customer has an outstanding debt of \$56 000 that is three months overdue at 30 June. Interest at the rate of 4% p.a. is charged on overdue accounts. How would this be recorded in the general journal?				
	(A)	Interest revenue	DR	560	
		Accounts receivable	CR		560
	(B)	Accounts receivable	DR	560	
		Interest revenue	CR		560
(C)	Accounts receivable	DR	2 240		
	Interest revenue	CR		2 240	
(D)	Interest revenue	DR	2 240		
	Accounts receivable	CR		2 240	

<b>2024 Paper 1 Section 1 Question 5</b>  <b>Complete accounting process for a trading GST business</b>	Business B is a GST-registered business. The owner decided to use funds from the business to pay the \$1 100 electricity bill for her private home. How would this transaction be recorded in the general journal?				
	(A)	Drawings	DR	1 100	
		Cash at bank	CR		1 100
	(B)	Cash at bank	DR	1 100	
		Drawings	CR		1 100
(C)	Drawings	DR	1 100		
	GST credits received	CR		100	
	Cash at bank	CR		1 000	
(D)	Electricity	DR	1 100		
	GST credits received	CR		100	
	Cash at bank	CR		1 000	

<b>2023 Paper 1 Section 1 Question 1</b>  <b>Complete accounting process for a trading GST business</b>	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			
	(A)	increasing by \$6 000.		
	(B) decreasing by \$6 000.			
	(C) increasing by \$6 600.			
	(D) decreasing by \$6 600.			

<p><b>2023 Paper 1 Section 1 Question 4</b></p> <p><b>Complete accounting process for a trading GST business</b></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><b>2023 Paper 1 Section 1 Question 6</b></p> <p><b>Complete accounting process for a trading GST business</b></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 colspan="2"></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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<p><b>2022 Paper 1 Section 1 Question 3</b></p> <p><b>Complete accounting process for a trading GST business</b></p>	<p>The following information has been provided by Business A as at 31 March 2022.</p> <table border="1" style="margin: 10px auto;"> <tbody> <tr> <td>Sales</td> <td style="text-align: right;">146 000</td> </tr> <tr> <td>Cost of goods sold</td> <td style="text-align: right;">102 000</td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">31 000</td> </tr> </tbody> </table> <p>The missing \$13 000 can be attributed to the</p> <p>(A) GST payable account. (B) cartage on sales account. (C) commission revenue account. (D) sales returns and allowances account.</p>	Sales	146 000	Cost of goods sold	102 000	Gross profit	31 000
Sales	146 000						
Cost of goods sold	102 000						
Gross profit	31 000						

**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 \$
<b>Inventories Account</b>				
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**

Business C	
Statement of Financial Position (extract) As at 30 June 2021	
<b>Current Assets</b>	
Bank	7 500
Accrued commission	1 000
<b>Current Liabilities</b>	
Accrued wages	2 500

The reversal of the relevant accounts will have the following impact on Business C in the 2022 financial year.

- (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.

**2021  
Paper 1  
Section 1  
Question 1**

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

On 1 June 2021, a small business paid \$13 200 (GST inclusive) for 3 months rent (in advance) for their warehouse storage facility.

On 30 June 2021, the balance of the Prepaid rent account will be

- (A) \$8 800
- (B) \$8 000
- (C) \$4 400
- (D) \$4 000

**2021  
Paper 1  
Section 1  
Question 5**

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

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.

This would be recorded by the hardware store as

(A)

Drawings	Dr	\$495	
GST credits received	Cr		\$45
Inventories	Cr		\$450

(B)

Operating expenses	Dr	\$495	
GST credits received	Cr		\$45
Drawings	Cr		\$450

(C)

Drawings	Dr	\$495	
GST credits received	Cr		\$45
Operating expenses	Cr		\$450

(D)

Inventories	Dr	\$495	
GST credits received	Cr		\$45
Drawings	Cr		\$450

**2021  
Paper 1  
Section 1  
Question 6**

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

To review its performance, a sole trader clothing retail business in Queensland should compare its

- (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.

**2021  
Paper 1  
Section 1  
Question 7**

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

The following company data has been collected.

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	

The balance of the provision for doubtful debts is to be set as 20% of accounts receivable.

The entry to record the provision for doubtful debts is

- (A) 

Bad and doubtful debts	Dr	\$3 000	
Provision for doubtful debts	Cr		\$3 000
- (B) 

Bad and doubtful debts	Dr	\$4 000	
Provision for doubtful debts	Cr		\$4 000
- (C) 

Bad and doubtful debts	Dr	\$9 000	
Provision for doubtful debts	Cr		\$9 000
- (D) 

Bad and doubtful debts	Dr	\$12 000	
Provision for doubtful debts	Cr		\$12 000

**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]

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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
<b>Account</b>	\$	\$	\$	\$
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	








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

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
<b>Small Business Loan #1</b>		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**

<b>Trial Balance (Extract) at 30 June</b>		
	<b>2022</b>	<b>2021</b>
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**

<b>Monthly Bank Statement</b>				<b>Month</b>
<b>BUSINESS 1</b>				April–May
<hr/>				<b>Previous Balance</b>
				\$2 525.54
<b>Deposits (extract)</b>				<b>Total Deposits</b>
<b>Deposit no.</b>	<b>Date</b>	<b>Amount</b>	<b>Description</b>	<b>\$18 000.00</b>
367	1/05/2021	\$14 850.00	Payment for office rent until 1/02/2022	
<b>Withdrawals (extract)</b>				<b>Year</b>
<b>Type</b>	<b>Date</b>	<b>Amount</b>	<b>Description</b>	2021
EFT	1/04/2021	\$1 452.00	Payment for telephone until 1/10/2021	<b>Ending Balance</b>
				\$6 814.54
				<b>Total Withdrawals</b>
				<b>\$13 711.00</b>

### 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 <sup>1</sup> — 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	

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





**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
<b>Machinery</b>					
<b>Accumulated depreciation</b>					
<b>Disposal of machinery</b>					

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]

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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><b>2024 Paper 1 Section 1 Question 1</b></p> <p><b>Complete accounting process for a trading GST business</b></p>	<p>Reversing entries are performed to</p> <p>(A) close revenue and expense accounts.                  (B) create temporary asset and liability accounts.  <b>(C) cancel relevant balance day adjustment entries. – Answer</b>                  (D) match revenues and expenses to the correct period.</p>
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<p><b>2024 Paper 1 Section 1 Question 3</b></p> <p><b>Complete accounting process for a trading GST business</b></p>	<p>On 31 March 2024, a stationery business purchased the following inventory items on credit.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Item</th> <th>Price (including GST)</th> <th>Quantity</th> </tr> </thead> <tbody> <tr> <td>Red and blue pens</td> <td>\$1.10 per box</td> <td>3 000</td> </tr> <tr> <td>Printing paper</td> <td>\$2.20 per pack</td> <td>5 000</td> </tr> </tbody> </table> <p>Identify the correct recording of this information in the account extracts in the general ledger</p> <p>(A)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Date</th> <th>Particulars</th> <th>DR \$</th> <th>CR \$</th> <th>Bal \$</th> </tr> </thead> <tbody> <tr> <td colspan="5"><b>Inventories</b></td> </tr> <tr> <td>31/3/24</td> <td>Accounts payable and GST</td> <td>14 300</td> <td></td> <td>14 300 DR</td> </tr> <tr> <td colspan="5"><b>Accounts payable</b></td> </tr> <tr> <td>31/3/24</td> <td>Inventories</td> <td></td> <td>13 000</td> <td>13 000 CR</td> </tr> <tr> <td colspan="5"><b>GST clearing</b></td> </tr> <tr> <td>31/3/24</td> <td>Inventories</td> <td></td> <td>1 300</td> <td>1 300 CR</td> </tr> </tbody> </table> <p>(B)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Date</th> <th>Particulars</th> <th>DR \$</th> <th>CR \$</th> <th>Bal \$</th> </tr> </thead> <tbody> <tr> <td colspan="5"><b>Inventories</b></td> </tr> <tr> <td>31/3/24</td> <td>Accounts payable</td> <td></td> <td>13 000</td> <td>13 000 CR</td> </tr> <tr> <td colspan="5"><b>Accounts payable</b></td> </tr> <tr> <td>31/3/24</td> <td>Inventories and GST</td> <td>14 300</td> <td></td> <td>14 300 DR</td> </tr> <tr> <td colspan="5"><b>GST clearing</b></td> </tr> <tr> <td>31/3/24</td> <td>Inventories</td> <td>1 300</td> <td></td> <td>1 300 DR</td> </tr> </tbody> </table> <p>(C)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Date</th> <th>Particulars</th> <th>DR \$</th> <th>CR \$</th> <th>Bal \$</th> </tr> </thead> <tbody> <tr> <td colspan="5"><b>Inventories</b></td> </tr> <tr> <td>31/3/24</td> <td>Accounts payable and GST</td> <td></td> <td>14 300</td> <td>14 300 CR</td> </tr> <tr> <td colspan="5"><b>Accounts payable</b></td> </tr> <tr> <td>31/3/24</td> <td>Inventories</td> <td>13 000</td> <td></td> <td>13 000 DR</td> </tr> <tr> <td colspan="5"><b>GST clearing</b></td> </tr> <tr> <td>31/3/24</td> <td>Inventories</td> <td>1 300</td> <td></td> <td>1 300 DR</td> </tr> </tbody> </table> <p>(D)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Date</th> <th>Particulars</th> <th>DR \$</th> <th>CR \$</th> <th>Bal \$</th> </tr> </thead> <tbody> <tr> <td colspan="5"><b>Inventories</b></td> </tr> <tr> <td>31/3/24</td> <td>Accounts payable</td> <td>13 000</td> <td></td> <td>13 000 DR</td> </tr> <tr> <td colspan="5"><b>Accounts payable</b></td> </tr> <tr> <td>31/3/24</td> <td>Inventories and GST</td> <td></td> <td>14 300</td> <td>14 300 CR</td> </tr> <tr> <td colspan="5"><b>GST clearing</b></td> </tr> <tr> <td>31/3/24</td> <td>Accounts payable</td> <td>1 300</td> <td></td> <td>1 300 DR</td> </tr> </tbody> </table> <p><b>Answer is D.</b></p>	Item	Price (including GST)	Quantity	Red and blue pens	\$1.10 per box	3 000	Printing paper	\$2.20 per pack	5 000	Date	Particulars	DR \$	CR \$	Bal \$	<b>Inventories</b>					31/3/24	Accounts payable and GST	14 300		14 300 DR	<b>Accounts payable</b>					31/3/24	Inventories		13 000	13 000 CR	<b>GST clearing</b>					31/3/24	Inventories		1 300	1 300 CR	Date	Particulars	DR \$	CR \$	Bal \$	<b>Inventories</b>					31/3/24	Accounts payable		13 000	13 000 CR	<b>Accounts payable</b>					31/3/24	Inventories and GST	14 300		14 300 DR	<b>GST clearing</b>					31/3/24	Inventories	1 300		1 300 DR	Date	Particulars	DR \$	CR \$	Bal \$	<b>Inventories</b>					31/3/24	Accounts payable and GST		14 300	14 300 CR	<b>Accounts payable</b>					31/3/24	Inventories	13 000		13 000 DR	<b>GST clearing</b>					31/3/24	Inventories	1 300		1 300 DR	Date	Particulars	DR \$	CR \$	Bal \$	<b>Inventories</b>					31/3/24	Accounts payable	13 000		13 000 DR	<b>Accounts payable</b>					31/3/24	Inventories and GST		14 300	14 300 CR	<b>GST clearing</b>					31/3/24	Accounts payable	1 300		1 300 DR
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<p><b>2024</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 4</b></p> <p><b>Complete accounting process for a trading GST business</b></p>	<p>A customer has an outstanding debt of \$56 000 that is three months overdue at 30 June. Interest at the rate of 4% p.a. is charged on overdue accounts. How would this be recorded in the general journal?</p>				
	(A)	Interest revenue	DR	560	
		Accounts receivable	CR		560
	(B)	Accounts receivable	DR	560	
		Interest revenue	CR		560
(C)	Accounts receivable	DR	2 240		
	Interest revenue	CR		2 240	
(D)	Interest revenue	DR	2 240		
	Accounts receivable	CR		2 240	
<p><b>Answer is B.</b></p>					

<p><b>2024</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 5</b></p> <p><b>Complete accounting process for a trading GST business</b></p>	<p>Business B is a GST-registered business. The owner decided to use funds from the business to pay the \$1 100 electricity bill for her private home. How would this transaction be recorded in the general journal?</p>				
	(A)	Drawings	DR	1 100	
		Cash at bank	CR		1 100
	(B)	Cash at bank	DR	1 100	
		Drawings	CR		1 100
(C)	Drawings	DR	1 100		
	GST credits received	CR		100	
	Cash at bank	CR		1 000	
(D)	Electricity	DR	1 100		
	GST credits received	CR		100	
	Cash at bank	CR		1 000	
<p><b>Answer is A.</b></p>					

<p><b>2023</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 1</b></p> <p><b>Complete accounting process for a trading GST business</b></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>			
	(A)	increasing by \$6 000.		
	(B)	<b>decreasing by \$6 000. – Answer</b>		
	(C)	increasing by \$6 600.		
	(D)	decreasing by \$6 600.		

<p><b>2023</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 4</b></p> <p><b>Complete accounting process for a trading GST business</b></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>(B) \$4 125 – Answer</b> (C) \$4 500 (D) \$4 538</p>
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<p><b>2023</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 6</b></p> <p><b>Complete accounting process for a trading GST business</b></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> <p><b>Answer is A.</b></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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<p><b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 3</b></p> <p><b>Complete accounting process for a trading GST business</b></p>	<p>The following information has been provided by Business A as at 31 March 2022.</p> <table border="1" style="margin: 10px auto;"> <tr> <td>Sales</td> <td style="text-align: right;">146 000</td> </tr> <tr> <td>Cost of goods sold</td> <td style="text-align: right;">102 000</td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">31 000</td> </tr> </table> <p>The missing \$13 000 can be attributed to the</p> <p>(A) GST payable account. (B) cartage on sales account. (C) commission revenue account. <b>(D) sales returns and allowances account. - Answer</b></p>	Sales	146 000	Cost of goods sold	102 000	Gross profit	31 000
Sales	146 000						
Cost of goods sold	102 000						
Gross profit	31 000						

**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**

<b>Business C</b>	
<b>Statement of Financial Position (extract)</b>	
<b>As at 30 June 2021</b>	
<b>Current Assets</b>	
Bank	7 500
Accrued commission	1 000
<b>Current Liabilities</b>	
Accrued wages	2 500

The reversal of the relevant accounts will have the following impact on Business C in the 2022 financial year.

(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.

**2021  
Paper 1  
Section 1  
Question 1**

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

On 1 June 2021, a small business paid \$13 200 (GST inclusive) for 3 months rent (in advance) for their warehouse storage facility.

On 30 June 2021, the balance of the Prepaid rent account will be

(A) \$8 800  
**(B) \$8 000 - Answer**  
 (C) \$4 400  
 (D) \$4 000

**2021  
Paper 1  
Section 1  
Question 5**

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

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.

This would be recorded by the hardware store as

(A)

Drawings	Dr	\$495	
GST credits received	Cr		\$45
Inventories	Cr		\$450

(B)

Operating expenses	Dr	\$495	
GST credits received	Cr		\$45
Drawings	Cr		\$450

(C)

Drawings	Dr	\$495	
GST credits received	Cr		\$45
Operating expenses	Cr		\$450

(D)

Inventories	Dr	\$495	
GST credits received	Cr		\$45
Drawings	Cr		\$450

**Answer is A.**

<p><b>2021</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 6</b></p> <p><b>Complete accounting process for a trading GST business</b></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>(B) gross profit ratio with clothing retailers with a similar turnover. - Answer</b>  (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><b>2021</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 7</b></p> <p><b>Complete accounting process for a trading GST business</b></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><b>Answer is D.</b></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.

<p><b>2024 Paper 1 Section 2 Question 11</b></p> <p><b>Complete accounting process for a trading GST business</b></p>	<p>Read Case study 1 (Stimulus 1) in the stimulus book.</p> <p>Prepare general journal entries to record all outstanding transactions as at 30 June 2024. Narrations are not required. [9 marks]</p>				
	<p><b>Stimulus 1</b></p> <p>Alfred Smith owns and operates █████ Garden Supplies, a trading GST business that sells various landscape and garden materials. When reviewing the accounts at 30 June 2024, Alfred found that the following information had not been recorded.</p> <p>The bobcat the business acquired was purchased on 1 October 2023 from Bobcat Sellers for \$33 000 including GST. A 5% deposit was paid to Bobcat Sellers and the business immediately took out a loan to pay the amount outstanding. An amount of \$4 400 including GST was paid at that time for the installation of air-conditioning in the bobcat’s cabin. The bobcat, which has an estimated life of five years and a residual value of \$11 000, is to be depreciated using the straight-line method of depreciation.</p>				
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; padding: 5px;">Sample response</th> <th style="width: 50%; padding: 5px;">The response</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">See sample response below.</td> <td style="padding: 5px;"> <ul style="list-style-type: none"> <li>• correctly records                             <ul style="list-style-type: none"> <li>- 6 general journal entries <b>[6 marks]</b></li> <li>- 5 general journal entries <b>[5 marks]</b></li> <li>- 4 general journal entries <b>[4 marks]</b></li> <li>- 3 general journal entries <b>[3 marks]</b></li> <li>- 2 general journal entries <b>[2 marks]</b></li> <li>- 1 general journal entry <b>[1 mark]</b></li> </ul> </li> <li>• correctly records amounts in                             <ul style="list-style-type: none"> <li>- 6 general journal entries <b>[3 marks]</b></li> <li>- 3–5 general journal entries <b>[2 marks]</b></li> <li>- 1–2 general journal entries <b>[1 mark]</b></li> </ul> </li> </ul> </td> </tr> </tbody> </table>	Sample response	The response	See sample response below.	<ul style="list-style-type: none"> <li>• correctly records                             <ul style="list-style-type: none"> <li>- 6 general journal entries <b>[6 marks]</b></li> <li>- 5 general journal entries <b>[5 marks]</b></li> <li>- 4 general journal entries <b>[4 marks]</b></li> <li>- 3 general journal entries <b>[3 marks]</b></li> <li>- 2 general journal entries <b>[2 marks]</b></li> <li>- 1 general journal entry <b>[1 mark]</b></li> </ul> </li> <li>• correctly records amounts in                             <ul style="list-style-type: none"> <li>- 6 general journal entries <b>[3 marks]</b></li> <li>- 3–5 general journal entries <b>[2 marks]</b></li> <li>- 1–2 general journal entries <b>[1 mark]</b></li> </ul> </li> </ul>
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### Question 11 sample response

Garden Supplies — General journal (extract)			
Date	Particulars	DR \$	CR \$
30 June 2024	Machinery/bobcat	30 000	
	GST clearing	3 000	
	Bobcat Sellers		33 000
	(Bought machinery/bobcat from Bobcat Sellers)		
	Machinery/bobcat	4 000	
	GST clearing	400	
	Cash at bank		4 400
	(Paid for installation of air-conditioning)		
	Bobcat Sellers	1 650	
	Cash at bank		1 650
	(Paid 5% deposit)		
	Cash at bank	31 350	
	Loan		31 350
	(Obtained a loan)		
	Bobcat Sellers	31 350	
	Cash at bank		31 350
	(Paid Bobcat Sellers amount owing)		
(30 000 + 4000) - 11 000/5	Depreciation of machinery/bobcat	3 450	
= 4600 × 9/12	Accumulated depreciation of machinery/bobcat		3 450
= 3450	(Depreciation for nine months)		

**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"> <li>• correctly records               <ul style="list-style-type: none"> <li>- 7 adjustments [7 marks]</li> <li>- 6 adjustments [6 marks]</li> <li>- 5 adjustments [5 marks]</li> <li>- 4 adjustments [4 marks]</li> <li>- 3 adjustments [3 marks]</li> <li>- 2 adjustments [2 marks]</li> <li>- 1 adjustment [1 mark]</li> </ul> </li> <li>• correctly totals adjusted accounts [1 mark]</li> </ul>

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]	
	<b>Sample response</b>	<b>The response</b>
	<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"> <li>• explains a plausible limitation [1 mark]</li> <li>• explains a plausible benefit [1 mark]</li> </ul>

<p><b>2023</b> <b>Paper 1</b> <b>Section 2</b> <b>Question 12</b></p> <p><b>Complete accounting process for a trading GST business</b></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]	
	<b>Sample response</b>	<b>The response</b>
	See sample response below.	<ul style="list-style-type: none"> <li>• correctly presents <ul style="list-style-type: none"> <li>– 4 expense classification headings [3 marks]</li> <li>– 2–3 expense classification headings [2 marks]</li> <li>– 1 expense classification heading [1 mark]</li> </ul> </li> <li>• correctly classifies and presents <ul style="list-style-type: none"> <li>– all 11 accounts [5 marks]</li> <li>– 9–10 accounts [4 marks]</li> <li>– 5–8 accounts [3 marks]</li> <li>– 3–4 accounts [2 marks]</li> <li>– 1–2 accounts [1 mark]</li> </ul> </li> <li>• correctly calculates <ul style="list-style-type: none"> <li>– 4 sub-totals [2 marks]</li> <li>– 1–3 sub-totals [1 mark]</li> </ul> </li> <li>• correctly determines gross profit figures for both years [1 mark]</li> <li>• correctly determines net profit figures for both years [1 mark]</li> </ul>

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				
<b>Selling expenses</b>				
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
<b>Administrative expenses</b>				
Electricity	550		500	
Insurance	1 500		1 500	
Rent	990		900	
Telephone	125		120	
Total administrative expenses		3 165		3 020
<b>Finance expenses</b>				
Interest on loan	790		790	
Total finance expense		790		790
<b>Total expenses</b>		61 505		55 570
<b>Net profit</b>		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"> <li>• correctly presents <ul style="list-style-type: none"> <li>- 5–6 classifications [4 marks]</li> <li>- 4 classifications [3 marks]</li> <li>- 2–3 classifications [2 marks]</li> <li>- 1 classification [1 mark]</li> </ul> </li> <li>• correctly classifies <ul style="list-style-type: none"> <li>- all 10 accounts [5 marks]</li> <li>- 8–9 accounts [4 marks]</li> <li>- 5–7 accounts [3 marks]</li> <li>- 3–4 accounts [2 marks]</li> <li>- 1–2 accounts [1 mark]</li> </ul> </li> <li>• balances the Statement of Financial Position for both years [1 mark]</li> </ul>

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

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"> <li>• correctly calculates the % increase in net profit [1 mark]</li> <li>• correctly calculates the equity ratio for 2023 [1 mark]</li> <li>• identifies and correctly calculates               <ul style="list-style-type: none"> <li>– one relevant ratio [1 mark]</li> <li>– a second relevant ratio [1 mark]</li> <li>– relates the calculations to the bank's requirements [1 mark]</li> </ul> </li> <li>• provides plausible advice regarding likely potential to achieve the goal [1 mark]</li> <li>• provides a plausible solution to achieve the goal [1 mark]</li> </ul>

**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"> <li>• correctly records</li> <li>- opening entry [1 mark]</li> <li>- entry for receipt of loan [1 mark]</li> </ul>

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"> <li>• correctly presents</li> <li>- 7 classification headings [4 marks]</li> <li>- 5–6 classification headings [3 marks]</li> <li>- 3–4 classification headings [2 marks]</li> <li>- 1–2 classification heading/s [1 mark]</li> <li>• correctly classifies</li> <li>- all 9 accounts [5 marks]</li> <li>- 8 accounts [4 marks]</li> <li>- 5–7 accounts [3 marks]</li> <li>- 3–4 accounts [2 marks]</li> <li>- 1–2 accounts [1 mark]</li> <li>• correctly calculates</li> <li>- 4 totals [2 marks]</li> <li>- 2–3 totals [1 mark]</li> </ul>

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><b>2022 Paper 1 Section 2 Question 12</b></p> <p><b>Complete accounting process for a trading GST business</b></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"> <li>correctly records as revenue and expenses for               <ul style="list-style-type: none"> <li>- at least 10 accounts [5 marks]</li> <li>- 9 accounts [4 marks]</li> <li>- 8 accounts [3 marks]</li> <li>- 5 accounts [2 marks]</li> <li>- 3 accounts [1 mark]</li> </ul> </li> <li>correctly determines gross and net profit figures [1 mark]</li> <li>uses correct classifications [1 mark]</li> <li>correctly classifies accounts [1 mark]</li> </ul> </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"> <li>correctly records as revenue and expenses for               <ul style="list-style-type: none"> <li>- at least 10 accounts [5 marks]</li> <li>- 9 accounts [4 marks]</li> <li>- 8 accounts [3 marks]</li> <li>- 5 accounts [2 marks]</li> <li>- 3 accounts [1 mark]</li> </ul> </li> <li>correctly determines gross and net profit figures [1 mark]</li> <li>uses correct classifications [1 mark]</li> <li>correctly classifies accounts [1 mark]</li> </ul>			

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
<b>Gross Profit</b>			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
<b>Net Profit</b>			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"> <li>• constant expenses of the business</li> <li>• constant sales and cost of sales so the GP ratio will not be affected</li> <li>• ongoing costs, e.g. maintenance, insurance, registration, depreciation of both options are similar.</li> </ul> <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"> <li>• provides one or more plausible assumptions that underlie the options [1 mark]</li> <li>• identifies the relevant profitability ratios <ul style="list-style-type: none"> <li>- gross profit ratio [1 mark]</li> <li>- net profit ratio [1 mark]</li> </ul> </li> <li>• calculates the GP and NP ratios for 2021 and 2022 accurately [1 mark]</li> <li>• uses financial data to support the viability of <ul style="list-style-type: none"> <li>- one option [1 mark]</li> <li>- a second option [1 mark]</li> </ul> </li> <li>• explains a plausible effect on profitability for <ul style="list-style-type: none"> <li>- one option [1 mark]</li> <li>- a second option [1 mark]</li> </ul> </li> <li>• provides plausible advice [1 mark]</li> </ul>

**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"> <li>• correctly identifies the accounts affected by transactions               <ul style="list-style-type: none"> <li>- all 6 accounts [4 marks]</li> <li>- 4 accounts [3 marks]</li> <li>- 2 accounts [2 marks]</li> <li>- 1 account [1 mark]</li> </ul> </li> <li>• correctly records amounts for each adjustment for               <ul style="list-style-type: none"> <li>- all 3 entries [3 marks]</li> <li>- 2 entries [2 marks]</li> <li>- 1 entry [1 mark]</li> </ul> </li> </ul>

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"> <li>• correctly adds or subtracts from net profit               <ul style="list-style-type: none"> <li>- all 3 accounts [3 marks]</li> <li>- 2 accounts [2 marks]</li> <li>- 1 account [1 mark]</li> </ul> </li> </ul>
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"> <li>• correctly calculates adjusted net profit [1 mark]</li> </ul>

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

Business 1 Statement of Financial Position as at 30 June 2021				
	\$	\$	\$	\$
<b>Current assets</b>				
Accounts receivable control		75 000		
Inventories control		35 800		
Prepaid expense		660	111 460	
<b>Less Current liabilities</b>				
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	
<b>WORKING CAPITAL</b>				(6 290)
<b>Add Non-current assets</b>				
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
<b>Less Non-current liabilities</b>				
Mortgage on land and buildings				160 000
<b>NET ASSETS</b>				206 710
<b>Represented by Owner's equity</b>				
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"> <li>• Straight line method of depreciation used instead of diminishing value.</li> <li>• Depreciation was calculated for only 8 months, instead of 9 months.</li> <li>• Depreciation was calculated on \$50 000, rather than \$51 000.</li> </ul> <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"> <li>• correctly identifies and explains the incorrectly recorded entries for at least <ul style="list-style-type: none"> <li>- 6 errors [4 marks]</li> <li>- 5 errors [3 marks]</li> <li>- 3 errors [2 marks]</li> <li>- 1 error [1 mark]</li> </ul> </li> </ul>

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

Business 2 General Ledger (extract)					
Date	Particulars	Debit	Credit	Balance	Dr/Cr
<b>Machinery</b>					
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	
<b>Accumulated depreciation</b>					
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	
<b>Disposal of machinery</b>					
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"> <li>• identifies accrual-based and cash-based accounting [1 mark]</li> <li>• explains cash-based accounting [1 mark]</li> <li>• explains accrual-based accounting [1 mark]</li> <li>• explains accrued revenue [1 mark]</li> <li>• explains prepaid expenses [1 mark]</li> <li>• identifies reversing entries [1 mark]</li> <li>• refers to the stimulus [1 mark]</li> </ul>

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

Sample Response	The response																								
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Sept 1 Commission revenue</td> <td style="width: 10%; text-align: right;">Dr</td> <td style="width: 10%; text-align: right;">20</td> <td style="width: 20%;"></td> </tr> <tr> <td style="padding-left: 20px;">Accrued revenue</td> <td style="text-align: right;">Cr</td> <td></td> <td style="text-align: right;">20</td> </tr> <tr> <td colspan="4"> </td> </tr> <tr> <td>Sept 1 Rent expense</td> <td style="text-align: right;">Dr</td> <td style="text-align: right;">500</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Insurance</td> <td style="text-align: right;">Dr</td> <td style="text-align: right;">800</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Prepaid expenses</td> <td style="text-align: right;">Cr</td> <td></td> <td style="text-align: right;">1 300</td> </tr> </table>	Sept 1 Commission revenue	Dr	20		Accrued revenue	Cr		20					Sept 1 Rent expense	Dr	500		Insurance	Dr	800		Prepaid expenses	Cr		1 300	<ul style="list-style-type: none"> <li>• correctly identifies the accrued revenue accounts [1 mark]</li> <li>• correctly identifies the prepaid expense accounts [1 mark]</li> <li>• uses correct amounts [1 mark]</li> </ul>
Sept 1 Commission revenue	Dr	20																							
Accrued revenue	Cr		20																						
Sept 1 Rent expense	Dr	500																							
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"> <li>• correctly identifies the affected accounts and adjusts amounts for</li> <li>- 5 accounts [5 marks]</li> <li>- 4 accounts [4 marks]</li> <li>- 3 accounts [3 marks]</li> <li>- 2 accounts [2 marks]</li> <li>- 1 account [1 mark]</li> <li>• does not satisfy any of the descriptors above [0 marks]</li> </ul>
	<ul style="list-style-type: none"> <li>• correctly classifies and records revenue and expenses for</li> <li>- all 17 accounts [5 marks]</li> <li>- 14 accounts [4 marks]</li> <li>- 10 accounts [3 marks]</li> <li>- 6 accounts [2 marks]</li> <li>- 3 accounts [1 mark]</li> <li>• does not satisfy any of the descriptors above [0 marks]</li> </ul>
	<ul style="list-style-type: none"> <li>• correctly determines gross and net profit figures [1 mark]</li> </ul>
	<ul style="list-style-type: none"> <li>• correctly classifies Statement of Profit or Loss [1 mark]</li> </ul>

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"> <li>• provides plausible assumptions [2 marks]</li> <li>• provides one plausible assumption [1 mark]</li> <li>• does not satisfy any of the descriptors above [0 marks]</li> </ul>

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"> <li>states a plausible strategy</li> <li>explains this strategy</li> <li>identifies source of funding in this explanation</li> <li>supports this strategy with relevant financial data and information</li> </ul>	<p>[4 marks]</p> <ul style="list-style-type: none"> <li>states a plausible strategy</li> <li>explains this strategy</li> <li>identifies source of funding in this explanation</li> <li>supports this strategy with relevant financial data and information</li> </ul>
	<p>[3 marks]</p> <ul style="list-style-type: none"> <li>states a plausible strategy</li> <li>explains this strategy</li> <li>refers to the stimulus</li> </ul>	<p>[3 marks]</p> <ul style="list-style-type: none"> <li>states a plausible strategy</li> <li>explains this strategy</li> <li>refers to the stimulus</li> </ul>
	<p>[2 marks]</p> <ul style="list-style-type: none"> <li>states a plausible strategy</li> <li>explains this strategy</li> </ul>	<p>[2 marks]</p> <ul style="list-style-type: none"> <li>states a plausible strategy</li> <li>explains this strategy</li> </ul>
	<p>[1 mark]</p> <ul style="list-style-type: none"> <li>states a plausible strategy</li> </ul>	<p>[1 mark]</p> <ul style="list-style-type: none"> <li>states a plausible strategy</li> </ul>
	<p>[0 marks]</p> <ul style="list-style-type: none"> <li>does not satisfy any of the descriptors above.</li> </ul>	<p>[0 marks]</p> <ul style="list-style-type: none"> <li>does not satisfy any of the descriptors above.</li> </ul>

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

### Paper 1 Section 1

<p><b>2024 Paper 1 Section 1 Question 2</b></p> <p><b>Performance analysis of a public company</b></p>	<p>Gross profit and net profit ratios are above industry benchmarks for Company A, and credit sales have increased by 20% on the previous year. However, the net cash flows from operating activities have decreased. This is because</p> <p>(A) cost of goods sold has increased.                  (B) payment of dividends has increased.                  (C) inflows have increased proportionally more than outflows.                  (D) customers buying on credit are not paying their accounts on time.</p>
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<p><b>2024 Paper 1 Section 1 Question 6</b></p> <p><b>Performance analysis of a public company</b></p>	<p>An analysis of Company C's financial reports shows a decrease in the shareholder equity ratio over the past two years. This could indicate that the company</p> <p>(A) has a falling net profit.                  (B) has a high level of debt.                  (C) needs to issue more shares.                  (D) has reduced its final dividend.</p>
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<p><b>2024 Paper 1 Section 1 Question 7</b></p> <p><b>Performance analysis of a public company</b></p>	<p>The following financial data has been provided for █████ Ltd.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;">Extract of accounts</th> <th style="text-align: right;">\$</th> </tr> </thead> <tbody> <tr><td>Cash sales</td><td style="text-align: right;">220 000</td></tr> <tr><td>Credit sales</td><td style="text-align: right;">270 000</td></tr> <tr><td>Cost of goods sold</td><td style="text-align: right;">170 000</td></tr> <tr><td>Repairs and maintenance</td><td style="text-align: right;">5 000</td></tr> <tr><td>Sales salaries</td><td style="text-align: right;">125 000</td></tr> <tr><td>Rent expense</td><td style="text-align: right;">6 000</td></tr> <tr><td>Depreciation on delivery vehicles</td><td style="text-align: right;">8 000</td></tr> <tr><td>Rates</td><td style="text-align: right;">1 200</td></tr> <tr><td>Depreciation on building</td><td style="text-align: right;">6 000</td></tr> <tr><td>Office expenses</td><td style="text-align: right;">2 000</td></tr> <tr><td>Amortisation of goodwill</td><td style="text-align: right;">4 000</td></tr> <tr><td>Interest paid</td><td style="text-align: right;">23 000</td></tr> <tr><td>Net profit before tax</td><td style="text-align: right;">139 800</td></tr> <tr><td>Income tax</td><td style="text-align: right;">41 940</td></tr> <tr><td>Net profit after tax</td><td style="text-align: right;">97 860</td></tr> </tbody> </table> <p>█████ Ltd's EBITDA margin ratio, rounded to two decimal places, is</p> <p>(A) 45.46%                  (B) 43.82%                  (C) 36.90%                  (D) 36.08%</p>	Extract of accounts	\$	Cash sales	220 000	Credit sales	270 000	Cost of goods sold	170 000	Repairs and maintenance	5 000	Sales salaries	125 000	Rent expense	6 000	Depreciation on delivery vehicles	8 000	Rates	1 200	Depreciation on building	6 000	Office expenses	2 000	Amortisation of goodwill	4 000	Interest paid	23 000	Net profit before tax	139 800	Income tax	41 940	Net profit after tax	97 860
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<p><b>2024 Paper 1 Section 1 Question 8</b></p> <p><b>Performance analysis of a public company</b></p>	<p>The following financial data has been provided for Company D as at 30 June 2024.</p> <table border="1"> <thead> <tr> <th><b>Financial data</b></th> <th><b>\$</b></th> </tr> </thead> <tbody> <tr> <td>Cash flows from operating activities</td> <td>810 000</td> </tr> <tr> <td>Cash flows from financing activities</td> <td>45 000</td> </tr> <tr> <td>Loan from bank (due 30/6/2030)</td> <td>250 000</td> </tr> <tr> <td>Dividends paid</td> <td>25 000</td> </tr> <tr> <td>Mortgage on land and buildings (due 30/6/2026)</td> <td>400 000</td> </tr> <tr> <td>Taxation payable</td> <td>61 000</td> </tr> <tr> <td>Trade creditors</td> <td>48 000</td> </tr> </tbody> </table> <p>Company D's long-term debt coverage ratio, rounded to two decimal places, is</p> <p>(A) 0.98 (B) 1.03 (C) 1.21 (D) 1.96</p>	<b>Financial data</b>	<b>\$</b>	Cash flows from operating activities	810 000	Cash flows from financing activities	45 000	Loan from bank (due 30/6/2030)	250 000	Dividends paid	25 000	Mortgage on land and buildings (due 30/6/2026)	400 000	Taxation payable	61 000	Trade creditors	48 000
	<b>Financial data</b>	<b>\$</b>															
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<p><b>2024 Paper 1 Section 1 Question 9</b></p> <p><b>Performance analysis of a public company</b></p>	<p>After completing their final reports for the 2024 financial year, a business has calculated the data shown.</p> <table border="1"> <thead> <tr> <th><b>Data</b></th> <th><b>2023</b></th> <th><b>2024</b></th> </tr> </thead> <tbody> <tr> <td>Current ratio</td> <td>3.5:1</td> <td>3:1</td> </tr> <tr> <td>Turnover of accounts receivable</td> <td>90 days</td> <td>70 days</td> </tr> <tr> <td>Turnover of inventories</td> <td>5 times</td> <td>3.5 times</td> </tr> <tr> <td>Cash at bank</td> <td>(\$567 556)</td> <td>(\$478 321)</td> </tr> </tbody> </table> <p>The ratios show that in 2024, accounts receivable are</p> <p>(A) paying their accounts more slowly and inventory is moving quickly. (B) paying their accounts more quickly and inventory is moving slowly. (C) paying their accounts more slowly and inventory turnover has improved. (D) paying their accounts more quickly and inventory turnover has improved.</p>	<b>Data</b>	<b>2023</b>	<b>2024</b>	Current ratio	3.5:1	3:1	Turnover of accounts receivable	90 days	70 days	Turnover of inventories	5 times	3.5 times	Cash at bank	(\$567 556)	(\$478 321)
	<b>Data</b>	<b>2023</b>	<b>2024</b>													
	Current ratio	3.5:1	3:1													
	Turnover of accounts receivable	90 days	70 days													
	Turnover of inventories	5 times	3.5 times													
	Cash at bank	(\$567 556)	(\$478 321)													

<p><b>2024 Paper 1 Section 1 Question 10</b></p> <p><b>Performance analysis of a public company</b></p>	<p>In 2023 and 2024, Company E had a rate of turnover of accounts receivable of 35 days and 32 days respectively. The industry benchmark for 2024 was 12.2 times a year. Company E's rate of turnover of accounts receivable has</p> <p>(A) improved and is underperforming the industry benchmark. (B) worsened and is underperforming the industry benchmark. (C) worsened and is outperforming the industry benchmark. (D) improved and is outperforming the industry benchmark.</p>
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**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
<b>Turnover of inventory ratio</b>	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.

<b>Partial list of balances for the year ended 30 June 2023</b>	
<b>Account</b>	<b>\$</b>
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><b>2023</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 5</b></p> <p><b>Performance analysis of a public company</b></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><b>2023</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 7</b></p> <p><b>Performance analysis of a public company</b></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><b>2023</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 8</b></p> <p><b>Performance analysis of a public company</b></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
	2023												
Shareholder’s equity (10 365 shares @ \$2.40 per share)	\$24 876.00												
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Dividends paid	\$20 146.00												

<p><b>2023</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 9</b></p> <p><b>Performance analysis of a public company</b></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><b>2023</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 10</b></p> <p><b>Performance analysis of a public company</b></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><b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 1</b></p> <p><b>Performance analysis of a public company</b></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><b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 2</b></p> <p><b>Performance analysis of a public company</b></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><b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 4</b></p> <p><b>Performance analysis of a public company</b></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><b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 6</b></p> <p><b>Performance analysis of a public company</b></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><b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 7</b></p> <p><b>Performance analysis of a public company</b></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><b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 8</b></p> <p><b>Performance analysis of a public company</b></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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<b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 9</b>  <b>Performance analysis of a public company</b>	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.

<b>2021</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 2</b>  <b>Performance analysis of a public company</b>	<p>A times interest earned ratio is used</p> <p>(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</p>
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<b>2021</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 3</b>  <b>Performance analysis of a public company</b>	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.

<b>2021</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 4</b>  <b>Performance analysis of a public company</b>	<p>The shareholder equity ratio is used by external stakeholders to determine</p> <p>(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>
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<p><b>2021</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 8</b></p> <p><b>Performance analysis of a public company</b></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><b>2021</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 10</b></p> <p><b>Performance analysis of a public company</b></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: #cccccc;">Account Balances as at 30 June (extract)</th> </tr> <tr> <th style="background-color: #cccccc;">Account</th> <th style="background-color: #cccccc;">2021 \$</th> <th style="background-color: #cccccc;">2020 \$</th> </tr> </thead> <tbody> <tr> <td>Net sales</td> <td style="text-align: right;">420 064</td> <td style="text-align: right;">765 347</td> </tr> <tr> <td>Sales returns</td> <td style="text-align: right;">23 934</td> <td style="text-align: right;">15 867</td> </tr> <tr> <td>Net purchases</td> <td style="text-align: right;">315 000</td> <td style="text-align: right;">268 000</td> </tr> <tr> <td>Purchases returns</td> <td style="text-align: right;">15 728</td> <td style="text-align: right;">13 246</td> </tr> <tr> <td>Inventories</td> <td style="text-align: right;">271 932</td> <td style="text-align: right;">347 890</td> </tr> <tr> <td>Cash at bank</td> <td style="text-align: right;">168 423</td> <td style="text-align: right;">249 628</td> </tr> <tr> <td>Accounts receivable</td> <td style="text-align: right;">732 649</td> <td style="text-align: right;">627 385</td> </tr> <tr> <td>Inventory adjustment (shortage)</td> <td style="text-align: right;">4 798</td> <td style="text-align: right;">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><b>2020</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 3</b></p> <p><b>Performance analysis of a public company</b></p>	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="5" style="background-color: #cccccc;">Statement of Cash Flows (extract)</th> </tr> <tr> <th rowspan="2" style="background-color: #cccccc;">Cash flows from financing activities</th> <th colspan="2" style="background-color: #cccccc;">Previous year</th> <th colspan="2" style="background-color: #cccccc;">Current year</th> </tr> <tr> <th style="background-color: #cccccc;">\$</th> <th style="background-color: #cccccc;">\$</th> <th style="background-color: #cccccc;">\$</th> <th style="background-color: #cccccc;">\$</th> </tr> </thead> <tbody> <tr> <td colspan="5"><i>Inflows</i></td> </tr> <tr> <td>Proceeds from loans and borrowings</td> <td style="text-align: right;">25 000</td> <td></td> <td style="text-align: right;">75 000</td> <td></td> </tr> <tr> <td>Capital contributions</td> <td style="text-align: right;">5 000</td> <td style="text-align: right;">30 000</td> <td style="text-align: right;">0</td> <td style="text-align: right;">75 000</td> </tr> <tr> <td colspan="5"><i>Outflows</i></td> </tr> <tr> <td>Payment of drawings</td> <td style="text-align: right;">(2 750)</td> <td></td> <td style="text-align: right;">(10 000)</td> <td></td> </tr> <tr> <td>Repayment of loans and borrowings</td> <td style="text-align: right;">(10 000)</td> <td style="text-align: right;">(12 750)</td> <td style="text-align: right;">(25 000)</td> <td style="text-align: right;">(35 000)</td> </tr> <tr> <td>Net cash provided by financing activities</td> <td></td> <td style="text-align: right;">17 250</td> <td></td> <td style="text-align: right;">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><b>2020</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 4</b></p> <p><b>Performance analysis of a public company</b></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><b>2020</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 5</b></p> <p><b>Performance analysis of a public company</b></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><b>2020</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 8</b></p> <p><b>Performance analysis of a public company</b></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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<p><b>2020</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 9</b></p> <p><b>Performance analysis of a public company</b></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.</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								
Rate of turnover of accounts receivable	6.44 times	8.69 times								

<b>2020 Paper 1 Section 1 Question 10 Performance analysis of a public company</b>	<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"><li>(A) a lenient credit policy.</li><li>(B) high demand for stock.</li><li>(C) strict credit sales protocols.</li><li>(D) poor internal controls over creditors.</li></ul>
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2024  
Paper 1  
Section 2  
Question 12  
  
Performance  
analysis of a  
public  
company

Read Case study 2 (Stimulus 2, 3 and 4) in the stimulus book.

**Stimulus 2**

Tamara Jones owns and operates a successful online business, Health Foods. The owners of a chain of health food shops, Health in Your Kitchen, have approached Tamara with a view to buying her business. They have asked her to produce a set of financial reports and calculate some profitability and liquidity ratios for their consideration.

Tamara estimates that, in the next financial year, sales are likely to increase by 30% and cost of goods sold by 15%. At the end of the financial year 30 June 2025, she has a projected cash at bank balance of \$36 889 and other expenses, revenue and drawings are expected to remain the same. Accounts payable and inventories are also projected to remain the same.

Tamara's goal is to present her current and projected financial statements and data (ratios) for the financial years ended 30 June 2024 and 30 June 2025 to her prospective purchaser to convince them that her business would be a suitable addition to their operations.

**Stimulus 3**

List of account balances for year ended 30 June 2024

	\$
Accounts payable	5 290
Accumulated depreciation on computer equipment	1 200
Accumulated depreciation on delivery vehicles	8 500
Advertising	2 331
Bookkeeping expenses	1 665
Capital (1/7/2023)	39 892
Cash at bank	14 000
Computer equipment	2 500
Cost of goods sold	17 000
Delivery vehicle expenses	3 663
Delivery vehicles	45 000
Depreciation on computer equipment	1 000
Depreciation on delivery vehicles	1 021
Drawings	2 000
Electricity	4 650
Insurance	555
Interest on loan	821
Interest revenue	790
Inventories	5 800
Loan due 30 June 2030 (interest only loan repayments)	7 000
Net sales	60 000
Wages — office staff	20 000
Website maintenance	666





c) Using Stimulus 2 and 3 and your responses to Questions 12a) and 12b), calculate the following ratios for 30 June 2024 and projected ratios for 30 June 2025. Calculations should be rounded to two decimal places. [4 marks]

	2025	2024
<b>Gross profit ratio</b>		
<b>Net profit ratio</b>		
<b>Return on owner's equity</b>		
<b>Current ratio</b>		

d) Using Stimulus 2, 3 and 4 and your responses to Questions 12a), 12b) and 12c), advise Tamara on how to convince Health in Your Kitchen to buy her business. [5 marks]

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**2024  
Paper 1  
Section 2  
Question 13**

**Performance  
analysis of a  
public  
company**

Read Case study 3 (Stimulus 5–6) in the stimulus book.

Use horizontal analysis to analyse and evaluate the financial data and information. Make recommendations to the board of directors about whether they should progress with the expansion. [10 marks]

XYZ Catering Company has been operating a number of stores across eastern Australia for five years, leasing catering equipment to cafes and restaurants. They recently trialled selling new equipment in one of their stores and had much customer interest. The board of directors is considering expanding the business by creating a division that sells new catering equipment in all stores.

**Stimulus 5**

**XYZ Catering Company  
Statement of Profit or Loss and Other Comprehensive Income**

	2024 \$	Difference \$	2023 \$
<b>Revenue</b>			
Revenue from operations	678 811	9 094	669 717
Other revenue	7 685	24	7 661
<b>Total revenue</b>	<b>686 496</b>	9 118	<b>677 378</b>
Other income	511	–2 743	3 254
Share of profit of joint ventures and associates	600	327	273
<b>Expenses</b>			
Employee benefits	–372 062	–4 678	–367 384
Sales and marketing	–51 263	–204	–51 059
Rental expense relating to operating leases	–41 752	–1 091	–40 661
Depreciation	–19 224	–2 278	–16 946
Finance costs	–7 308	26	–7 334
Other expenses	–112 551	–3 503	–109 048
<b>Profit before income tax expense</b>	<b>83 447</b>	–5 026	<b>88 473</b>
Income tax expense	–24 274	1 492	–25 766
<b>Profit attributable to members of XYZ Catering Company</b>	<b>59 173</b>	–3 534	<b>62 707</b>

	2024 \$	Difference \$	2023 \$
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Changes in the fair value of available-for-sale financial assets	0	46	-46
Income tax on items of other comprehensive income	0	-14	14
	0	32	-32
<b>Items that may be reclassified to profit or loss</b>			
Net exchange differences on translation of foreign operations	-4 375	-2 718	-1 657
Income tax on items of other comprehensive income	-10	-36	26
	-4 385	-2 754	-1 631
Total other comprehensive income for the year attributable to owners	<b>-4 385</b>	<b>-2 722</b>	<b>-1 663</b>
Total comprehensive income for the year attributable to owners	<b>54 788</b>	<b>-6 256</b>	<b>61 044</b>

<b>Earnings per share (EPS) for profit attributable to the ordinary equity holders of the company</b>	cents	cents	cents
Basic EPS	229	-13	242
Diluted EPS	228	-15	243

**Stimulus 6****XYZ Catering Company****Statement of Financial Position as at 30 June 2023 and 30 June 2024**

	2024 \$	Difference \$	2023 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	328 628	-8 804	337 432
Financial asset investments	51 275	-1 167	52 442
Trade and other receivables	195 455	23 102	172 353
Other assets	17 780	2 769	15 011
Current tax receivables	4 047	2 544	1 503
Inventories	319	-122	441
Other financial assets	1 932	798	1 134
<b>Total current assets</b>	<b>599 436</b>	<b>19 120</b>	<b>580 316</b>
<b>Non-current assets</b>			
Property, plant and equipment	65 691	10 245	55 446
Intangible assets	120 896	6 131	114 765
Investments in joint ventures and associates	16 579	12 741	3 838
Other financial assets	16 754	1 065	15 689
<b>Total non-current assets</b>	<b>219 920</b>	<b>30 182</b>	<b>189 738</b>
<b>Total assets</b>	<b>819 356</b>	<b>49 302</b>	<b>770 054</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	390 370	22 466	367 904
Borrowings	15 908	-5 782	21 690
Provisions	10 949	1 176	9 773
Current tax liabilities	1 977	-380	2 357
<b>Total current liabilities</b>	<b>419 204</b>	<b>17 480</b>	<b>401 724</b>

	2024 \$	Difference \$	2023 \$
<b>Non-current liabilities</b>			
Borrowings	21 283	8 447	12 836
Provisions (employee long-service leave)	9 482	1 643	7 839
Deferred tax liabilities	3 039	498	2 541
<b>Total non-current liabilities</b>	<b>33 804</b>	<b>10 588</b>	<b>23 216</b>
<b>Total liabilities</b>	<b>453 008</b>	<b>28 068</b>	<b>424 940</b>
<b>Net assets</b>	<b>366 348</b>	<b>21 234</b>	<b>345 114</b>
<b>Equity</b>			
Contributed equity	103 272	904	102 368
Treasury shares	-462	-462	0
Reserves	3 273	-2 909	6 182
Retained profits	260 265	23 701	236 564
<b>Total equity</b>	<b>366 348</b>	<b>21 234</b>	<b>345 114</b>
EBITDA	402		414
Return on equity	16.2%		18.2%




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)
<b>Current assets</b>				
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
<b>Total current assets</b>	<b>210 465</b>	<b>221 573</b>	<b>161 986</b>	<b>154 725</b>
<b>Non-current assets</b>				
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
<b>Total non-current assets</b>	<b>279 907</b>	<b>297 534</b>	<b>233 734</b>	<b>239 159</b>
<b>Total assets</b>	<b>490 372</b>	<b>519 107</b>	<b>395 720</b>	<b>393 884</b>
<b>Current liabilities</b>				
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
<b>Total current liabilities</b>	<b>181 996</b>	<b>169 305</b>	<b>116 042</b>	<b>93 962</b>

	2023 \$ ('000)	2022 \$ ('000)	2021 \$ ('000)	2020 \$ ('000)
<b>Non-current liabilities</b>				
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
<b>Total non-current liabilities</b>	<b>68 569</b>	<b>88 300</b>	<b>84 263</b>	<b>84 814</b>
<b>Total liabilities</b>	<b>250 565</b>	<b>257 605</b>	<b>200 305</b>	<b>178 776</b>
<b>Net assets</b>	<b>239 807</b>	<b>261 502</b>	<b>195 415</b>	<b>215 108</b>
<b>Equity</b>				
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
<b>Total equity</b>	<b>239 807</b>	<b>261 502</b>	<b>195 415</b>	<b>215 108</b>

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]

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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**

	<b>2022 Sm</b>	<b>% Sales</b>	<b>2021 Sm</b>	<b>% Sales</b>
<b>Continuing operations</b>				
Sales	91.31	100.00	89.56	100.00
Other revenue	3.69	4.04	1.17	1.31
<b>Revenue</b>	<b>95.00</b>	<b>104.04</b>	<b>90.73</b>	<b>101.31</b>
Cost of sales	-58.41	-63.97	-39.87	-44.52
<b>Gross profit</b>	<b>36.59</b>	<b>40.07</b>	<b>50.86</b>	<b>56.79</b>
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
<b>Profit from continuing operations before income tax</b>	<b>33.45</b>	<b>36.63</b>	<b>87.56</b>	<b>97.77</b>
Income tax expense	-8.34	-9.13	-9.43	-10.53
<b>Profit for the year</b>	<b>25.11</b>	<b>27.50</b>	<b>78.13</b>	<b>87.24</b>
<b>Profit for the year is attributable to:</b>				
Owners of The Motel Company	20.84	22.82	72.66	81.13
Non-controlling interests	3.77	4.12	4.69	5.23
<b>Net profit after tax attributable to shareholders</b>	<b>24.61</b>	<b>26.95</b>	<b>77.35</b>	<b>86.37</b>
Other non-controlling interests	0.50	0.55	0.78	0.87
	<b>25.11</b>	<b>27.50</b>	<b>78.13</b>	<b>87.24</b>

**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
<b>Other comprehensive income</b>				
<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
<b>Other comprehensive income for the year, net of tax</b>	<b>0.11</b>		<b>0.94</b>	
<b>Total comprehensive income for the year</b>	<b>25.22</b>	27.62	<b>79.07</b>	88.29
<b>Total comprehensive income for the year is attributable to:</b>				
Owners of The Motel Company	20.94	22.92	73.54	82.11
Non-controlling interest	3.78	4.14	4.74	5.30
<b>Total comprehensive income for the year attributable to shareholders</b>	<b>24.72</b>	27.07	<b>78.28</b>	87.40
Other non-controlling interests	0.50	0.55	0.79	0.88
	<b>25.22</b>	27.62	<b>79.07</b>	88.29

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

<b>Industry benchmarks</b>	<b>2022</b>	<b>2021</b>
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]

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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
<b>Total revenue</b>	<b>154 891</b>	<b>66 959</b>	<b>87 932</b>		
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		
<b>Operating profit</b>	<b>93 667</b>	<b>47 467</b>	<b>46 200</b>		
Interest income	790	495	295		
Finance cost	-46	-1	-45		
Net finance income	744	494	250		
<b>Profit before tax</b>	<b>94 411</b>	<b>47 961</b>	<b>46 450</b>		
Income tax expense	-29 183	-12 948	-16 235		
<b>Profit after tax for the year</b>	<b>65 228</b>	<b>35 013</b>	<b>30 215</b>		
<b>Other comprehensive income</b>					
<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		
<b>Total comprehensive income</b>	<b>101 450</b>	<b>67 409</b>	<b>34 041</b>		

<b>Earnings per share</b>				
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%	

<b>Additional notes</b>			
Market share Australia	32.00%		
Market share India	5.10%		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Total assets</b>	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
<b>Cash flows from operating activities</b>							
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
<b>Net cash inflow from operating activities</b>	<b>77 036</b>	<b>52 050</b>	<b>24 986</b>	<b>39.71</b>	<b>33 315</b>	<b>-8 329</b>	<b>43 721</b>
<b>Cash flows from investing activities</b>							
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
<b>Net cash outflow from investing activities</b>	<b>-6 973</b>	<b>5 814</b>	<b>-12 787</b>	<b>4.44</b>	<b>-17 049</b>	<b>4 262</b>	<b>10 076</b>
<b>Cash flows from financing activities</b>							
Proceeds from issue of equity shares	2 421	1 482	939	1.13	1 251	-312	1 170
<b>Net cash flow from financing activities</b>	<b>2 421</b>	<b>1 482</b>	<b>939</b>	<b>1.13</b>	<b>1 251</b>	<b>-312</b>	<b>1 170</b>
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
<b>Cash and short-term deposits at the end of the year</b>	<b>113 487</b>	<b>73 145</b>	<b>40 342</b>	<b>55.80</b>	<b>27 426</b>	<b>12 916</b>	<b>86 061</b>

<b>Other Industry Ratios — Benchmark</b>	2021	2020	2019	2020	2021	2020
				Industry	Industry	Industry
Cash generating power ratio	0.97	0.86	0.96	0.65	0.70	0.70
Operating cash flow ratio	0.25	0.28	0.06	0.20	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]

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



**Stimulus 4 (continued)**

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

	2020		Diff \$'000	2019		2020 % Total	2019 % Assets	Material % Diff/ TA		Benchmark
	\$'000	\$'000		\$'000	\$'000			TA	TA	
<b>Non-current liabilities</b>										
Payables	2.10	0.23	1.87	0.10	0.09	0.10	0.09	0.01		
Interest-bearing liabilities	717.47	-40.20	757.67	33.87	36.73	33.87	36.73	-1.90		
Derivative financial instruments <sup>1</sup>	2.13	2.06	0.07	0.10	0.00	0.10	0.00	0.10		
Provisions	87.83	-4.70	92.53	4.15	4.49	4.15	4.49	-0.22		
Other	1.70	-2.66	4.36	0.08	0.21	0.08	0.21	-0.13		
<b>Total non-current liabilities</b>	<b>811.23</b>	<b>-45.27</b>	<b>856.50</b>	<b>38.29</b>	<b>41.52</b>	<b>38.29</b>	<b>41.52</b>	<b>-2.14</b>		
<b>Total liabilities</b>	<b>1 594.00</b>	<b>-103.80</b>	<b>1 697.80</b>	<b>75.24</b>	<b>82.31</b>	<b>75.24</b>	<b>82.31</b>	<b>-4.90</b>	<b>60.20%</b>	<b>65.00%</b>
<b>Net assets</b>	<b>524.60</b>	<b>159.60</b>	<b>365.00</b>	<b>24.76</b>	<b>17.69</b>	<b>24.76</b>	<b>17.69</b>	<b>7.53</b>		
<b>Equity</b>										
Share capital	747.90	1.60	746.30	35.30	36.18	35.30	36.18	0.08		
Reserves	19.60	-69.83	89.43	0.93	4.34	0.93	4.34	-3.30		
Retained earnings	-244.93	227.00	-471.93	-11.56	-22.88	-11.56	-22.88	10.71		
Equity attributable to the owners of the Company	<b>522.57</b>	<b>158.77</b>	<b>363.80</b>	<b>24.67</b>	<b>17.64</b>	<b>24.67</b>	<b>17.64</b>	<b>7.49</b>		
Non-controlling interests	2.03	0.83	1.20	0.10	0.06	0.10	0.06	0.04		
<b>Total equity</b>	<b>524.60</b>	<b>159.60</b>	<b>365.00</b>	<b>24.76</b>	<b>17.69</b>	<b>24.76</b>	<b>17.69</b>	<b>7.53</b>	<b>39.80%</b>	<b>35.00%</b>

**Other Industry Ratios — Benchmark**

	2020	2019	2020 Industry	2019 Industry
Gearing Ratio	3.04	4.65	1.51	1.86
Current Asset Ratio	0.76	0.78	2.20	2.45
Acid test	0.74	0.76	1.05	1.10

<sup>1</sup> 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
<b>Cash flows from operating activities</b>			
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
<b>Net cash from operating activities</b>	<b>91.30</b>	<b>-98.84</b>	<b>190.14</b>
<b>Cash flows from investing activities</b>			
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
<b>Net cash used in investing activities (including operating lease refinancing)</b>	<b>-210.50</b>	<b>-20.93</b>	<b>-189.57</b>
<b>Cash flows from financing activities</b>			
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
<b>Net cash (used in)/from financing activities</b>	<b>112.73</b>	<b>115.60</b>	<b>-2.87</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>-6.47</b>		<b>-2.30</b>
Cash and cash equivalents at 1 July	471.83		474.13
<b>Cash and cash equivalents at 30 June</b>	<b>465.37</b>		<b>471.83</b>

### 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**

<p><b>2024 Paper 1 Section 1 Question 2</b></p> <p><b>Performance analysis of a public company</b></p>	<p>Gross profit and net profit ratios are above industry benchmarks for Company A, and credit sales have increased by 20% on the previous year. However, the net cash flows from operating activities have decreased. This is because</p> <p>(A) cost of goods sold has increased.                  (B) payment of dividends has increased.                  (C) inflows have increased proportionally more than outflows.  <b>(D) customers buying on credit are not paying their accounts on time. – Answer</b></p>
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<p><b>2024 Paper 1 Section 1 Question 6</b></p> <p><b>Performance analysis of a public company</b></p>	<p>An analysis of Company C’s financial reports shows a decrease in the shareholder equity ratio over the past two years. This could indicate that the company</p> <p><b>(A) has a falling net profit. – Answer</b>                  (B) has a high level of debt.                  (C) needs to issue more shares.                  (D) has reduced its final dividend.</p>
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<p><b>2024 Paper 1 Section 1 Question 7</b></p> <p><b>Performance analysis of a public company</b></p>	<p>The following financial data has been provided for █████ Ltd.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #e0e0e0;">Extract of accounts</th> <th style="background-color: #e0e0e0;">\$</th> </tr> </thead> <tbody> <tr><td>Cash sales</td><td>220 000</td></tr> <tr><td>Credit sales</td><td>270 000</td></tr> <tr><td>Cost of goods sold</td><td>170 000</td></tr> <tr><td>Repairs and maintenance</td><td>5 000</td></tr> <tr><td>Sales salaries</td><td>125 000</td></tr> <tr><td>Rent expense</td><td>6 000</td></tr> <tr><td>Depreciation on delivery vehicles</td><td>8 000</td></tr> <tr><td>Rates</td><td>1 200</td></tr> <tr><td>Depreciation on building</td><td>6 000</td></tr> <tr><td>Office expenses</td><td>2 000</td></tr> <tr><td>Amortisation of goodwill</td><td>4 000</td></tr> <tr><td>Interest paid</td><td>23 000</td></tr> <tr><td>Net profit before tax</td><td>139 800</td></tr> <tr><td>Income tax</td><td>41 940</td></tr> <tr><td>Net profit after tax</td><td>97 860</td></tr> </tbody> </table> <p>█████ Ltd’s EBITDA margin ratio, rounded to two decimal places, is</p> <p>(A) 45.46%                  (B) 43.82%                  (C) 36.90%                  (D) 36.08%</p> <p><b>Answer is C.</b></p>	Extract of accounts	\$	Cash sales	220 000	Credit sales	270 000	Cost of goods sold	170 000	Repairs and maintenance	5 000	Sales salaries	125 000	Rent expense	6 000	Depreciation on delivery vehicles	8 000	Rates	1 200	Depreciation on building	6 000	Office expenses	2 000	Amortisation of goodwill	4 000	Interest paid	23 000	Net profit before tax	139 800	Income tax	41 940	Net profit after tax	97 860
Extract of accounts	\$																																
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Interest paid	23 000																																
Net profit before tax	139 800																																
Income tax	41 940																																
Net profit after tax	97 860																																

**2024 Paper 1 Section 1 Question 8**  
Performance analysis of a public company

The following financial data has been provided for Company D as at 30 June 2024.

Financial data	\$
Cash flows from operating activities	810 000
Cash flows from financing activities	45 000
Loan from bank (due 30/6/2030)	250 000
Dividends paid	25 000
Mortgage on land and buildings (due 30/6/2026)	400 000
Taxation payable	61 000
Trade creditors	48 000

Company D's long-term debt coverage ratio, rounded to two decimal places, is

(A) 0.98  
(B) 1.03  
**(C) 1.21 – Answer**  
(D) 1.96

**2024 Paper 1 Section 1 Question 9**  
Performance analysis of a public company

After completing their final reports for the 2024 financial year, a business has calculated the data shown.

Data	2023	2024
Current ratio	3.5:1	3:1
Turnover of accounts receivable	90 days	70 days
Turnover of inventories	5 times	3.5 times
Cash at bank	(\$567 556)	(\$478 321)

The ratios show that in 2024, accounts receivable are

(A) paying their accounts more slowly and inventory is moving quickly.  
**(B) paying their accounts more quickly and inventory is moving slowly. – Answer**  
(C) paying their accounts more slowly and inventory turnover has improved.  
(D) paying their accounts more quickly and inventory turnover has improved.

**2024 Paper 1 Section 1 Question 10**  
Performance analysis of a public company

In 2023 and 2024, Company E had a rate of turnover of accounts receivable of 35 days and 32 days respectively. The industry benchmark for 2024 was 12.2 times a year. Company E's rate of turnover of accounts receivable has

**(A) improved and is underperforming the industry benchmark. – Answer**  
(B) worsened and is underperforming the industry benchmark.  
(C) worsened and is outperforming the industry benchmark.  
(D) improved and is outperforming the industry benchmark.

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><b>2023 Paper 1 Section 1 Question 5</b></p> <p><b>Performance analysis of a public company</b></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. <b>(D) shareholder equity ratio. – Answer</b></p>
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<p><b>2023 Paper 1 Section 1 Question 7</b></p> <p><b>Performance analysis of a public company</b></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. <b>(C) operating profit after tax. – Answer</b> (D) share price.</p>
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<p><b>2023 Paper 1 Section 1 Question 8</b></p> <p><b>Performance analysis of a public company</b></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>(B) 0.62 – Answer</b> (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><b>2023 Paper 1 Section 1 Question 9</b></p> <p><b>Performance analysis of a public company</b></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. <b>(C) \$320 000 increase in cash sales. – Answer</b> (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><b>2023</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 10</b></p> <p><b>Performance analysis of a public company</b></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.  <b>(D) under both structures, finance can be raised by debt and/or equity. – Answer</b></p>
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<p><b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 1</b></p> <p><b>Performance analysis of a public company</b></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><b>(A) \$180 500. - Answer</b>          (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><b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 2</b></p> <p><b>Performance analysis of a public company</b></p>	<p>Vertical analysis is useful in</p> <p>(A) assessing the adequacy of the return to owners on their investment.  <b>(B) highlighting exposure to potential increases in interest rates. - Answer</b>          (C) determining how effectively assets are used to earn income.          (D) predicting future direction based on past performance.</p>
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<p><b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 4</b></p> <p><b>Performance analysis of a public company</b></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><b>(A) the owner's investment into the business is yielding increased returns. - Answer</b>          (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><b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 6</b></p> <p><b>Performance analysis of a public company</b></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. <b>(D) could improve its collection rate of credit accounts. - Answer</b></p>
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<p><b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 7</b></p> <p><b>Performance analysis of a public company</b></p>	<p>The Debt ratio of a business indicates the</p> <p><b>(A) extent of the business’s borrowing and risk implications. - Answer</b> (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><b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 8</b></p> <p><b>Performance analysis of a public company</b></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 <b>(C) 16.3 - Answer</b> (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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<b>2022</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 9</b>  <b>Performance analysis of a public company</b>	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.

<b>2021</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 2</b>  <b>Performance analysis of a public company</b>	<p>A times interest earned ratio is used</p> <p>(A) to measure a business's fixed debt obligations on lease payments.  <b>(B) by lenders to ascertain whether a business can afford additional debt. - Answer</b>          (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</p>
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<b>2021</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 3</b>  <b>Performance analysis of a public company</b>	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.

<b>2021</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 4</b>  <b>Performance analysis of a public company</b>	<p>The shareholder equity ratio is used by external stakeholders to determine</p> <p>(A) the extent to which a company's profit is affected by shareholder contributions.          (B) the total amount owed to shareholders on liquidation.  <b>(C) how much of a company's assets shareholders own. - Answer</b>          (D) the return on dividends provided to shareholders.</p>
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<p><b>2021</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 8</b></p> <p><b>Performance analysis of a public company</b></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>(B) complicated the comparison of its financial statements over time. - Answer</b>  (C) had no effect on horizontal ratio analysis.  (D) affected the industry benchmarks.</p>
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<p><b>2021</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 10</b></p> <p><b>Performance analysis of a public company</b></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: #cccccc;">Account Balances as at 30 June (extract)</th> </tr> <tr> <th style="background-color: #cccccc;">Account</th> <th style="background-color: #cccccc;">2021 \$</th> <th style="background-color: #cccccc;">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  <b>(C) 1.26 - Answer</b>  (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><b>2020</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 3</b></p> <p><b>Performance analysis of a public company</b></p>	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="5" style="background-color: #cccccc;">Statement of Cash Flows (extract)</th> </tr> <tr> <th rowspan="2" style="background-color: #cccccc;">Cash flows from financing activities</th> <th colspan="2" style="background-color: #cccccc;">Previous year</th> <th colspan="2" style="background-color: #cccccc;">Current year</th> </tr> <tr> <th style="background-color: #cccccc;">\$</th> <th style="background-color: #cccccc;">\$</th> <th style="background-color: #cccccc;">\$</th> <th style="background-color: #cccccc;">\$</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 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><b>(A) weakened, as there was an increase in debt finance. - Answer</b>  (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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<b>2020</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 4</b>  <b>Performance analysis of a public company</b>	Industry benchmarks are useful for (A) analysing the effectiveness of a marketing campaign. (B) explaining variations in financial data across industries. <b>(C) identifying areas of financial performance that can be improved. - Answer</b> (D) evaluating the appropriateness of pricing strategies in the local market.
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<b>2020</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 5</b>  <b>Performance analysis of a public company</b>	BAR Ltd, TGF Ltd and AQP Ltd operate within the same industry.  <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> An investor seeking growth would choose shares in  (A) AQP Ltd, because its higher market price per share indicates future growth. <b>(B) TGF Ltd, because its high price to earnings ratio indicates high growth potential. - Answer</b> (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.		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																		
Market price per share	\$4.83	\$28.54	\$83.29																		
Operating profit (after tax)	\$6 900 m	\$6 732 m	\$9 375 m																		
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Price to earnings ratio	6.04	23.98	7.89																		

<b>2020</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 8</b>  <b>Performance analysis of a public company</b>	Companies A and B operate within the same industry  <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> By comparing the results of the two businesses, management of Company A can conclude that  (A) Company A's selling prices are competitive. (B) both companies have the same gross profit result. <b>(C) the quality of Company A's inventory should be reviewed. - Answer</b> (D) Company A's purchasing policy is better than Company B's purchasing policy		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%
	Comparative Statement of Profit or Loss for the year ending 30 June 2020 (extract)																													
	Company A		Company B																											
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<b>2020</b> <b>Paper 1</b> <b>Section 1</b> <b>Question 9</b>  <b>Performance analysis of a public company</b>	The following company data has been collected.  <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> This data shows that  (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. <b>(D) strategies for improving sales and collection of outstanding debts were effective. - Answer</b>		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								
Rate of turnover of accounts receivable	6.44 times	8.69 times								

<b>2020 Paper 1 Section 1 Question 10  Performance analysis of a public company</b>	<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><b>(A) a lenient credit policy. - Answer</b> (B) high demand for stock. (C) strict credit sales protocols. (D) poor internal controls over creditors.</p>
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2024  
Paper 1  
Section 2  
Question 12

Performance analysis of a public company

Read Case study 2 (Stimulus 2, 3 and 4) in the stimulus book.

**Stimulus 2**

Tamara Jones owns and operates a successful online business, Health Foods. The owners of a chain of health food shops, Health in Your Kitchen, have approached Tamara with a view to buying her business. They have asked her to produce a set of financial reports and calculate some profitability and liquidity ratios for their consideration.

Tamara estimates that, in the next financial year, sales are likely to increase by 30% and cost of goods sold by 15%. At the end of the financial year 30 June 2025, she has a projected cash at bank balance of \$36 889 and other expenses, revenue and drawings are expected to remain the same. Accounts payable and inventories are also projected to remain the same.

Tamara’s goal is to present her current and projected financial statements and data (ratios) for the financial years ended 30 June 2024 and 30 June 2025 to her prospective purchaser to convince them that her business would be a suitable addition to their operations.

**Stimulus 3**

List of account balances for year ended 30 June 2024

	\$
Accounts payable	5 290
Accumulated depreciation on computer equipment	1 200
Accumulated depreciation on delivery vehicles	8 500
Advertising	2 331
Bookkeeping expenses	1 665
Capital (1/7/2023)	39 892
Cash at bank	14 000
Computer equipment	2 500
Cost of goods sold	17 000
Delivery vehicle expenses	3 663
Delivery vehicles	45 000
Depreciation on computer equipment	1 000
Depreciation on delivery vehicles	1 021
Drawings	2 000
Electricity	4 650
Insurance	555
Interest on loan	821
Interest revenue	790
Inventories	5 800
Loan due 30 June 2030 (interest only loan repayments)	7 000
Net sales	60 000
Wages — office staff	20 000
Website maintenance	666

**Stimulus 4**

Industry benchmarks 2024	
Gross profit ratio	75%
Net profit ratio	30%
Return on owner's equity	40%
Current ratio	2:1

a) Use Stimulus 2 and 3 to prepare a fully classified Statement of Profit or Loss for the years ended 30 June 2024 and (projected) 30 June 2025. [12 marks]

Sample response	The response
See sample response below.	<ul style="list-style-type: none"> <li>• correctly presents               <ul style="list-style-type: none"> <li>- 4 classification headings [3 marks]</li> <li>- 2-3 classification headings [2 marks]</li> <li>- 1 classification heading [1 mark]</li> </ul> </li> <li>• correctly classifies accounts and accurately records amounts for both years               <ul style="list-style-type: none"> <li>- all 13 accounts [5 marks]</li> <li>- 9-12 accounts [4 marks]</li> <li>- 6-8 accounts [3 marks]</li> <li>- 3-5 accounts [2 marks]</li> <li>- 1-2 accounts [1 mark]</li> </ul> </li> <li>• correctly calculates for both years               <ul style="list-style-type: none"> <li>- 4 sub-totals [2 marks]</li> <li>- 1-3 sub-totals [1 mark]</li> </ul> </li> <li>• correctly determines gross profit figures for both years [1 mark]</li> <li>• determines net profit figures for both years [1 mark]</li> </ul>

**Q12a) Sample response**

Health Foods						
Statement of Profit or Loss for year ended 30 June						
	2025			2024		
	\$	\$	\$	\$	\$	\$
Sales		78 000			60 000	
<b>Less Cost of sales</b>						
Cost of goods sold		19 550			17 000	
<b>Gross profit</b>			58 450			43 000
<b>Add Other Revenue</b>						
Interest revenue		790	790		790	790
			59 240			43 790
<b>Less Other Expenses</b>						
<b>Selling Expenses</b>						
Advertising	2 331			2 331		
Delivery vehicle expenses	3 663			3 663		
Depreciation on delivery vehicles	1 021			1 021		
Website maintenance	666	7 681		666	7 681	
<b>Administrative Expenses</b>						
Bookkeeping expenses	1 665			1 665		
Depreciation on computer equipment	1 000			1 000		
Electricity	4 650			4 650		
Insurance	555			555		
Wages — office staff	20 000	27 870		20 000	27 870	
<b>Finance Expenses</b>						
Interest on loan	821	821		821	821	
<b>Total Expenses</b>			36 372			36 372
<b>Net profit</b>			22 868			7 418

b) Use Stimulus 2 and 3 to prepare a fully classified Statement of Financial Position for the years ended 30 June 2024 and (projected) 30 June 2025. [10 marks]

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

**Q12b) Sample response**

Health Foods								
Statement of Financial Position as at 30 June								
	2025				2024			
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>								
<b>Current assets</b>								
Cash at bank		36 889			14 000			
Inventories		5 800	42 689		5 800	19 800		
<b>Non-current assets</b>								
<b>Property, plant and equipment</b>								
Computer equipment	2 500				2 500			
Less accumulated depreciation on computer equipment	2 200	300			1 200	1 300		
Delivery vehicles	45 000				45 000			
Less Accumulated depreciation on delivery vehicles	9 521	35 479	35 779	78 468	8 500	36 500	37 800	57 600
<b>Liabilities</b>								
<b>Current liabilities</b>								
A/c payable		5 290	5 290		5 290	5 290		
<b>Non-current liabilities</b>								
Loan due 30 June 2030		7 000	7 000	12 290	7 000	7 000	12 290	
<b>Net assets</b>				66 178				45 310
<b>Owner's equity</b>								
Capital		45 310				39 892		
Add Net profit		22 868				7 418		
		68 178				47 310		
Less drawings		2 000		66 178		20 00		45 310

c) Using Stimulus 2 and 3 and your responses to Questions 12a) and 12b), calculate the following ratios for 30 June 2024 and projected ratios for 30 June 2025. Calculations should be rounded to two decimal places. [4 marks]

Sample response	The response
See sample response below.	<ul style="list-style-type: none"> <li>correctly calculates for both years                             <ul style="list-style-type: none"> <li>– 4 ratios <b>[4 marks]</b></li> <li>– 3 ratios <b>[3 marks]</b></li> <li>– 2 ratios <b>[2 marks]</b></li> <li>– 1 ratio <b>[1 mark]</b></li> </ul> </li> </ul>

**Q12c) Sample response**

	2025	2024
<b>Gross profit ratio</b>	$\frac{58\,450}{78\,000} \times 100$	$\frac{43\,000}{60\,000} \times 100$
	<b>74.94%</b>	<b>71.67%</b>
<b>Net profit ratio</b>	$\frac{22\,868}{78\,000} \times 100$	$\frac{7\,418}{60\,000} \times 100$
	<b>29.32%</b>	<b>12.36%</b>
<b>Return on owner's equity</b>	$\frac{22\,868}{0.5(45\,310 + 66\,178)} \times 100$	$\frac{7\,418}{0.5(39\,892 + 45\,310)} \times 100$
	<b>41.02%</b>	<b>17.41%</b>
<b>Current ratio</b>	$\frac{42\,689}{5\,290}$	$\frac{19\,800}{5\,290}$
	<b>8.07:1</b>	<b>3.74:1</b>

d) Using Stimulus 2, 3 and 4 and your responses to Questions 12a), 12b) and 12c), advise Tamara on how to convince Health in Your Kitchen to buy her business. [5 marks]

Sample response	The response
<p>Owing to the projected increases in sales of 30% and cost of goods sold of 15%, Tamara's gross profit is estimated to increase from 71.67% to 74.94% or by \$15 450 in 2025. This reaches the benchmark of 75%. There is also a very pleasing increase in net profit from \$7 418 to a projected \$22 868 or from 12.36% in 2024 to 29.32% in 2025. Once again, these compare favourably with the current benchmark of 30%.</p> <p>With the ROE of 17.41% increasing to 41.02% and the current ratio increasing from 3.74:1 to 8.07:1, the benchmark results of 40% and 2:1 respectively have been easily met. The ROE shows a healthy return and the level of the current ratio suggests the business is well able to meet its debts in the short term. With the cash balance of \$36 889, Tamara could consider repaying the loan of \$7 000 before the due date.</p> <p>The expenses are projected to remain constant at 2024 levels.</p> <p>Tamara's results are excellent overall and represent an outstanding opportunity for a 'bricks and mortar' business to acquire a profitable and growing 'online' business in order to diversify and expand.</p>	<ul style="list-style-type: none"> <li>• discusses <ul style="list-style-type: none"> <li>- 4 ratios [4 marks]</li> <li>- 3 ratios [3 marks]</li> <li>- 2 ratios [2 marks]</li> <li>- 1 ratio [1 mark]</li> </ul> </li>   <li>• provides justified advice regarding the sale of her business [1 mark]</li> </ul>

**2024  
Paper 1  
Section 2  
Question 13**

**Performance  
analysis of a  
public  
company**

Read Case study 3 (Stimulus 5–6) in the stimulus book.

Use horizontal analysis to analyse and evaluate the financial data and information. Make recommendations to the board of directors about whether they should progress with the expansion. [10 marks]

XYZ Catering Company has been operating a number of stores across eastern Australia for five years, leasing catering equipment to cafes and restaurants. They recently trialled selling new equipment in one of their stores and had much customer interest. The board of directors is considering expanding the business by creating a division that sells new catering equipment in all stores.

**Stimulus 5**

**XYZ Catering Company  
Statement of Profit or Loss and Other Comprehensive Income**

	2024 \$	Difference \$	2023 \$
<b>Revenue</b>			
Revenue from operations	678 811	9 094	669 717
Other revenue	7 685	24	7 661
<b>Total revenue</b>	<b>686 496</b>	9 118	<b>677 378</b>
Other income	511	–2 743	3 254
Share of profit of joint ventures and associates	600	327	273
<b>Expenses</b>			
Employee benefits	–372 062	–4 678	–367 384
Sales and marketing	–51 263	–204	–51 059
Rental expense relating to operating leases	–41 752	–1 091	–40 661
Depreciation	–19 224	–2 278	–16 946
Finance costs	–7 308	26	–7 334
Other expenses	–112 551	–3 503	–109 048
<b>Profit before income tax expense</b>	<b>83 447</b>	–5 026	<b>88 473</b>
Income tax expense	–24 274	1 492	–25 766
<b>Profit attributable to members of XYZ Catering Company</b>	<b>59 173</b>	–3 534	<b>62 707</b>

	2024 \$	Difference \$	2023 \$
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Changes in the fair value of available-for-sale financial assets	0	46	-46
Income tax on items of other comprehensive income	0	-14	14
	0	32	-32
<b>Items that may be reclassified to profit or loss</b>			
Net exchange differences on translation of foreign operations	-4 375	-2 718	-1 657
Income tax on items of other comprehensive income	-10	-36	26
	-4 385	-2 754	-1 631
Total other comprehensive income for the year attributable to owners	<b>-4 385</b>	<b>-2 722</b>	<b>-1 663</b>
Total comprehensive income for the year attributable to owners	<b>54 788</b>	<b>-6 256</b>	<b>61 044</b>

<b>Earnings per share (EPS) for profit attributable to the ordinary equity holders of the company</b>	cents	cents	cents
Basic EPS	229	-13	242
Diluted EPS	228	-15	243

**Stimulus 6****XYZ Catering Company****Statement of Financial Position as at 30 June 2023 and 30 June 2024**

	2024 \$	Difference \$	2023 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	328 628	-8 804	337 432
Financial asset investments	51 275	-1 167	52 442
Trade and other receivables	195 455	23 102	172 353
Other assets	17 780	2 769	15 011
Current tax receivables	4 047	2 544	1 503
Inventories	319	-122	441
Other financial assets	1 932	798	1 134
<b>Total current assets</b>	<b>599 436</b>	<b>19 120</b>	<b>580 316</b>
<b>Non-current assets</b>			
Property, plant and equipment	65 691	10 245	55 446
Intangible assets	120 896	6 131	114 765
Investments in joint ventures and associates	16 579	12 741	3 838
Other financial assets	16 754	1 065	15 689
<b>Total non-current assets</b>	<b>219 920</b>	<b>30 182</b>	<b>189 738</b>
<b>Total assets</b>	<b>819 356</b>	<b>49 302</b>	<b>770 054</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	390 370	22 466	367 904
Borrowings	15 908	-5 782	21 690
Provisions	10 949	1 176	9 773
Current tax liabilities	1 977	-380	2 357
<b>Total current liabilities</b>	<b>419 204</b>	<b>17 480</b>	<b>401 724</b>

	2024 \$	Difference \$	2023 \$
<b>Non-current liabilities</b>			
Borrowings	21 283	8 447	12 836
Provisions (employee long-service leave)	9 482	1 643	7 839
Deferred tax liabilities	3 039	498	2 541
<b>Total non-current liabilities</b>	<b>33 804</b>	<b>10 588</b>	<b>23 216</b>
<b>Total liabilities</b>	<b>453 008</b>	<b>28 068</b>	<b>424 940</b>
<b>Net assets</b>	<b>366 348</b>	<b>21 234</b>	<b>345 114</b>
<b>Equity</b>			
Contributed equity	103 272	904	102 368
Treasury shares	-462	-462	0
Reserves	3 273	-2 909	6 182
Retained profits	260 265	23 701	236 564
<b>Total equity</b>	<b>366 348</b>	<b>21 234</b>	<b>345 114</b>
EBITDA	402		414
Return on equity	16.2%		18.2%

Sample response	The response	The response
<p>XYZ Catering Company's net profit has decreased to \$59 173 in 2023. Total revenue increased by 1.35%, while expenses increased by 1.98%. This has resulted in a decrease of 13 cents in EPS and ROE decreasing from 18.2% to 16.2%.</p> <p>The 84.3% decrease in Other income from \$3 254 to \$511 has negatively impacted profitability. Reasons could include a reduction in interest revenue due to decreases in cash and equivalents, and/or financial asset investments.</p> <p>If the expansion proceeds, inventories costs may increase significantly to stock the additional equipment. Liquidity should not be negatively impacted, as inventories could be funded from cash and cash equivalents.</p> <p>Trade and other receivables have increased \$23 102. Further credit sales could increase the risk of bad debts. If liquidity and cash flow are not monitored closely, payment of trade and other payables, which have increased \$22 466, could be further impacted. If equipment is</p>	<p>[5 marks]</p> <ul style="list-style-type: none"> <li>provides a detailed horizontal analysis of the scenario</li> <li>supports this analysis with relevant financial data and information from Stimulus 5 and 6</li> </ul>	<p>[5 marks]</p> <ul style="list-style-type: none"> <li>provides valid and justified decisions</li> <li>proposes two valid recommendations</li> <li>supports these two recommendations with relevant financial data and information</li> </ul>
	<p>[4 marks]</p> <ul style="list-style-type: none"> <li>provides a horizontal analysis of the scenario</li> <li>refers to relevant financial data and information from Stimulus 5 and 6</li> </ul>	<p>[4 marks]</p> <ul style="list-style-type: none"> <li>provides a valid decision</li> <li>proposes two valid recommendations</li> <li>supports these two recommendations with financial data and information</li> </ul>
	<p>[3 marks]</p> <ul style="list-style-type: none"> <li>explains the scenario</li> <li>refers to financial data or information from Stimulus 5 and 6</li> </ul>	<p>[3 marks]</p> <ul style="list-style-type: none"> <li>provides a valid decision</li> <li>proposes a valid recommendation</li> <li>supports this recommendation with financial data or information</li> </ul>
	<p>[2 marks]</p> <ul style="list-style-type: none"> <li>makes a statement about the scenario</li> <li>refers to financial data or information from Stimulus 5 or 6</li> </ul>	<p>[2 marks]</p> <ul style="list-style-type: none"> <li>makes a decision</li> <li>proposes a recommendation</li> </ul>
	<p>[1 mark]</p> <ul style="list-style-type: none"> <li>makes a statement about the scenario</li> </ul>	<p>[1 mark]</p> <ul style="list-style-type: none"> <li>states a recommendation or decision</li> </ul>

	<p>sold, as well as leased, the possible decrease in lease revenue could be offset somewhat if the business moves into repairs and maintenance of equipment that has been sold.</p> <p>The board should proceed with the expansion, especially given the success of the trial. Once established, additional sales should increase net profit. The introduction of a tight credit policy is recommended to ensure prompt payment is received from trade and other receivables. This should result in an improved cash position, a reduction in bad debts and the ability to pay trade and other payables in a timely manner to maintain an excellent business reputation.</p>	<p>[0 marks]</p> <ul style="list-style-type: none"> <li>• does not satisfy any of the descriptors above.</li> </ul>	<p>[0 marks]</p> <ul style="list-style-type: none"> <li>• does not satisfy any of the descriptors above.</li> </ul>
<p><b>Notes</b></p> <p><i>Valid:</i> sound, well-founded; legitimate and able to be supported.  <i>Relevant financial data and information</i> may include:</p> <p><b>Profitability</b></p> <ul style="list-style-type: none"> <li>- net profit ratio</li> <li>- NP/net sales x 100</li> <li>▪ 2023: <math>\frac{62\,707}{677\,378} \times 100 = 9.26\%</math></li> <li>▪ 2024: <math>\frac{59\,173}{686\,496} \times 100 = 8.62\%</math>.</li> <li>- ROE: is provided in stimulus</li> </ul> <p><b>Liquidity</b></p> <ul style="list-style-type: none"> <li>- Current ratio</li> <li>▪ 2023: <math>\frac{580\,316}{401\,724} = 1.44:1</math></li> <li>▪ 2024: <math>\frac{599\,436}{419\,204} = 1.43:1</math></li> <li>- Turnover of a/c receivable</li> <li>▪ 2024: <math>\frac{678\,811}{(172\,353 + \frac{195\,455}{2})} = 3.69</math> times or 99 days approximately</li> </ul> <p><b>Stability</b></p> <ul style="list-style-type: none"> <li>- Equity: 45%</li> <li>- Liabilities: 55%</li> </ul> <p>Other <i>relevant relationships/trends/ratios</i> may include:</p> <ul style="list-style-type: none"> <li>- current tax receivables increased by 169.26% or \$2 544</li> <li>- investment in joint ventures increased by 331.94% or \$12 741</li> <li>- PPE increased by 18.48% or \$10 245</li> <li>- intangibles increased by 5.34% or \$6 131</li> <li>- trade and other payables increased by 6.1% or \$22 466</li> <li>- borrowings increased by 65.81% or \$8 447</li> <li>- or other suitable response consistent with a reasonable understanding.</li> </ul>			

**2023**  
**Paper 1**  
**Section 2**  
**Question 13**  
  
**Performance analysis of a public company**

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

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]

Sample response	The response
<p><b>Current ratio</b> Current assets/current liabilities = 210 465/181 996 = 1.16 = 221 573/169 305 = 1.31</p> <p><b>Quick Asset ratio:</b> 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><b>Turnover of inventories</b> 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><b>A/c Receivable turnover</b> 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"> <li>• correctly calculates <ul style="list-style-type: none"> <li>– 4 liquidity ratios [4 marks]</li> <li>– 3 liquidity ratios [3 marks]</li> <li>– 2 liquidity ratios [2 marks]</li> <li>– 1 liquidity ratio [1 mark]</li> </ul> </li> </ul>

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>	[4 marks]	[4 marks]
	<ul style="list-style-type: none"> <li>• provides an analysis of the liquidity of the company</li> <li>• identifies relevant relationships</li> <li>• refers to relevant financial data and information from the stimulus</li> </ul>	<ul style="list-style-type: none"> <li>• states a valid and justified conclusion on the liquidity of the company</li> <li>• supports conclusion with <ul style="list-style-type: none"> <li>– four relevant ratios</li> <li>– identified trends</li> </ul> </li> </ul>
	[3 marks]	[3 marks]
	<ul style="list-style-type: none"> <li>• provides an explanation of the liquidity of the company</li> <li>• refers to financial data or information from the stimulus</li> </ul>	<ul style="list-style-type: none"> <li>• states a valid conclusion on liquidity of the company</li> <li>• supports conclusion with <ul style="list-style-type: none"> <li>– two or three relevant ratios</li> <li>– an identified trend</li> </ul> </li> </ul>
	[2 marks]	[2 marks]
<ul style="list-style-type: none"> <li>• makes a statement about the liquidity of the company</li> <li>• refers to financial data or information from the stimulus</li> </ul>	<ul style="list-style-type: none"> <li>• supports conclusion with one relevant ratio</li> <li>• identifies a trend</li> </ul>	
[1 mark]	[1 mark]	
<ul style="list-style-type: none"> <li>• makes a statement about the liquidity of the company</li> </ul>	<ul style="list-style-type: none"> <li>• states a relevant ratio</li> </ul> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>• identifies a trend</li> </ul>	
[0 marks]	[0 marks]	
<ul style="list-style-type: none"> <li>• does not satisfy any of the descriptors above.</li> </ul>	<ul style="list-style-type: none"> <li>• does not satisfy any of the descriptors above.</li> </ul>	

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
<b>Ratio</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<ul style="list-style-type: none"> <li>• correctly calculates                             <ul style="list-style-type: none"> <li>– one stability ratio [1 mark]</li> <li>– another stability ratio [1 mark]</li> </ul> </li> </ul>
Debt ratio	250 565/490 372	257 605/519 107	200 305/395 720	178 776/393 884	
Total liab/total assets	= 51.096%	= 49.62%	= 50.62%	= 45.39%	
Debt to equity ratio	250 565/239 807	257 605/261 502	200 305/195 415	178 776/215 108	
Total debt/Total equity	=1.04:1	= 0.985:1	= 1.025:1	= 0.83:1	
Other plausible ratios that could have been used:					
<b>Ratio</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	
Shareholder equity ratio	239 807/490 372	261 502/519 107	195 415/395 720	215 108/393 884	
Total equity/Total assets	= 48.9%	= 50.4%	= 49.4%	= 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"> <li>• provides a detailed analysis of the stability of the company</li> <li>• identifies relevant relationships</li> <li>• supports analysis with relevant relationships drawn from financial data and information in the stimulus</li> </ul>	<p>[5 marks]</p> <ul style="list-style-type: none"> <li>• provides a valid and justified conclusion about the stability of the company</li> <li>• supports conclusion with                             <ul style="list-style-type: none"> <li>– two relevant ratios</li> <li>– identified trends</li> </ul> </li> </ul>
	<p>[4 marks]</p> <ul style="list-style-type: none"> <li>• provides an analysis of the stability of the company</li> <li>• identifies relevant relationships</li> <li>• refers to relevant financial data and information in the stimulus</li> </ul>	<p>[4 marks]</p> <ul style="list-style-type: none"> <li>• provides a valid and justified conclusion about the stability of the company</li> <li>• supports conclusion with                             <ul style="list-style-type: none"> <li>– one relevant ratio</li> <li>– identified trends</li> </ul> </li> </ul>
	<p>[3 marks]</p> <ul style="list-style-type: none"> <li>• provides an explanation of the stability of the company</li> <li>• refers to financial data or information in the stimulus</li> </ul>	<p>[3 marks]</p> <ul style="list-style-type: none"> <li>• states a valid conclusion about the stability of the company</li> <li>• supports conclusion with                             <ul style="list-style-type: none"> <li>– one relevant ratio</li> <li>– an identified trend</li> </ul> </li> </ul>
	<p>[2 marks]</p> <ul style="list-style-type: none"> <li>• makes a statement about the stability of the company</li> <li>• refers to financial data or information in the stimulus</li> </ul>	<p>[2 marks]</p> <ul style="list-style-type: none"> <li>• supports conclusion with a                             <ul style="list-style-type: none"> <li>– relevant ratio,</li> </ul> </li> </ul> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>– trend</li> </ul>
	<p>[1 mark]</p> <ul style="list-style-type: none"> <li>• makes a statement about the stability of the company</li> </ul>	<p>[1 mark]</p> <ul style="list-style-type: none"> <li>• states a                             <ul style="list-style-type: none"> <li>– relevant ratio</li> </ul> </li> </ul> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>– trend</li> </ul>
	<p>[0 marks]</p> <ul style="list-style-type: none"> <li>• does not satisfy any of the descriptors above.</li> </ul>	<p>[0 marks]</p> <ul style="list-style-type: none"> <li>• does not satisfy any of the descriptors above.</li> </ul>

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"> <li>clearly explains the scenario</li> <li>makes a clear decision to propose a valid recommendation</li> <li>supports recommendation with relevant financial data and information relating to liquidity and stability</li> </ul>
	<p>[4 marks]</p> <ul style="list-style-type: none"> <li>explains the scenario</li> <li>makes a clear decision to propose a valid recommendation</li> <li>supports recommendation with relevant financial data and information relating to liquidity and stability</li> </ul>
	<p>[3 marks]</p> <ul style="list-style-type: none"> <li>explains the scenario</li> <li>states a valid recommendation</li> <li>supports recommendation with financial data or information</li> </ul>
	<p>[2 marks]</p> <ul style="list-style-type: none"> <li>makes a statement about the scenario</li> <li>states a recommendation</li> <li>refers to financial data or information</li> </ul>
	<p>[1 mark]</p> <ul style="list-style-type: none"> <li>makes a statement about the scenario</li> </ul> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>refers to financial data or information</li> </ul>
	<p>[0 marks]</p> <ul style="list-style-type: none"> <li>does not satisfy any of the descriptors above.</li> </ul>

<p><b>2022 Paper 1 Section 2 Question 13</b></p> <p><b>Performance analysis of a public company</b></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>		
	<b>Sample Response</b>	<b>The response</b>	<b>The response</b>
	<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>[5 marks]</p> <ul style="list-style-type: none"> <li>provides a detailed analysis of the scenario</li> <li>supports this analysis with relevant financial data and information from the stimuli</li> </ul>	<p>[5 marks]</p> <ul style="list-style-type: none"> <li>provides valid and justified decisions, assessing strengths and limitations</li> <li>proposes two valid recommendations</li> <li>supports these two recommendations with relevant financial data and information</li> </ul>
	<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>[4 marks]</p> <ul style="list-style-type: none"> <li>provides an analysis of the scenario</li> <li>refers to relevant financial data and information from the stimuli</li> </ul>	<p>[4 marks]</p> <ul style="list-style-type: none"> <li>provides valid decisions</li> <li>proposes two valid recommendations</li> <li>supports these recommendations with financial data and information</li> </ul>
	<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>[3 marks]</p> <ul style="list-style-type: none"> <li>explains the scenario</li> <li>refers to financial data or information from the stimuli</li> </ul>	<p>[3 marks]</p> <ul style="list-style-type: none"> <li>proposes a valid recommendation</li> <li>supports this recommendation with financial data or information</li> </ul>
	<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>[2 marks]</p> <ul style="list-style-type: none"> <li>makes a statement about the scenario</li> <li>refers to financial data or information from the stimuli</li> </ul>	<p>[2 marks]</p> <ul style="list-style-type: none"> <li>states a recommendation</li> </ul>
	<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>[1 mark]</p> <ul style="list-style-type: none"> <li>makes a statement about the scenario</li> </ul>	<p>[1 mark]</p> <ul style="list-style-type: none"> <li>infers a recommendation</li> </ul>
	<p>The profitability of the Motel Company could improve by changing purchasing policies (suppliers and quantities) and increasing selling prices.</p>	<p>[0 marks]</p> <ul style="list-style-type: none"> <li>does not satisfy any of the descriptors above.</li> </ul>	<p>[0 marks]</p> <ul style="list-style-type: none"> <li>does not satisfy any of the descriptors above.</li> </ul>

<p><b>2021 Paper 1 Section 2 Question 13</b></p> <p><b>Performance analysis of a public company</b></p>	<p>Read Case study 3 (Stimulus 7–8) in the stimulus book.</p> <p>In 2019, Business 3 expanded into India.</p> <p>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]</p>		
	<p><b>Sample Response</b></p> <p>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.</p>	<p><b>The response</b></p> <p>[5 marks]</p> <ul style="list-style-type: none"> <li>clearly explains the scenario</li> <li>supports this explanation with relevant financial data and information</li> </ul>	<p><b>The response</b></p> <p>[5 marks]</p> <ul style="list-style-type: none"> <li>makes clear decisions to propose valid recommendations</li> <li>supports these recommendations with relevant financial data and information</li> </ul>
	<p>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.</p> <p>The significant increase in interest income from 2020 to 2021 could allow funding for future strategies to increase market share in India.</p>	<p>[4 marks]</p> <ul style="list-style-type: none"> <li>explains the scenario</li> <li>refers to relevant financial data and information</li> </ul>	<p>[4 marks]</p> <ul style="list-style-type: none"> <li>states a valid recommendation</li> <li>supports this recommendation with financial data or information</li> </ul>
	<p>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.</p>	<p>[3 marks]</p> <ul style="list-style-type: none"> <li>explains the scenario</li> <li>refers to financial data or information</li> </ul>	<p>[3 marks]</p> <ul style="list-style-type: none"> <li>states a recommendation</li> </ul>
	<p>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.</p>	<p>[2 marks]</p> <ul style="list-style-type: none"> <li>makes a statement about the scenario</li> <li>refers to financial data or information</li> </ul>	<p>[2 marks]</p> <ul style="list-style-type: none"> <li>infers a recommendation</li> </ul>
	<p>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.</p>	<p>[1 mark]</p> <ul style="list-style-type: none"> <li>makes a statement about the scenario or refers to financial data or information</li> </ul>	<p>[1 mark]</p> <ul style="list-style-type: none"> <li>does not satisfy any of the descriptors above.</li> </ul>
		<p>[0 marks]</p> <ul style="list-style-type: none"> <li>does not satisfy any of the descriptors above.</li> </ul>	
		<p>Note: A clear explanation of the scenario must include reference to the expansion into India.</p> <p>An explanation of the scenario refers to profitability and includes reasons drawn from the stimulus.</p>	

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"> <li>clearly explains the scenario</li> <li>supports this explanation with relevant financial data and information</li> </ul>	<p>[3 marks]</p> <ul style="list-style-type: none"> <li>states a valid conclusion</li> <li>supports this conclusion with relevant financial data and information</li> </ul>
	<p>[4 marks]</p> <ul style="list-style-type: none"> <li>explains the scenario</li> <li>refers to relevant financial data and information</li> </ul>	<p>[2 marks]</p> <ul style="list-style-type: none"> <li>states a conclusion about the liquidity or stability of the company</li> <li>supports this conclusion with financial data and information</li> </ul>
	<p>[3 marks]</p> <ul style="list-style-type: none"> <li>explains the scenario</li> <li>refers to financial data or information</li> </ul>	<p>[1 mark]</p> <ul style="list-style-type: none"> <li>states a conclusion about the liquidity or stability of the company</li> </ul>
	<p>[2 marks]</p> <ul style="list-style-type: none"> <li>makes a statement about the scenario</li> <li>refers to financial data or information</li> </ul>	<p>[0 marks]</p> <ul style="list-style-type: none"> <li>does not satisfy any of the descriptors above.</li> </ul>
	<p>[1 mark]</p> <ul style="list-style-type: none"> <li>makes a statement about the scenario or refers to financial data or information</li> </ul>	
	<p>[0 marks]</p> <ul style="list-style-type: none"> <li>does not satisfy any of the descriptors above</li> </ul>	

**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.	