Accounting marking guide and response

External assessment 2023

Combination response (78 marks)

Assessment objectives

This assessment instrument is used to determine student achievement in the following objectives:

1. comprehend accounting concepts, principles and processes relating to the complete accounting process for a trading GST business and performance analysis of a public company
2. apply accounting principles and processes for a trading GST business and a public company
3. analyse and interpret financial data and information relating to the performance of a public company
4. evaluate accounting practices relating to the performance of a public company to make decisions and propose recommendations
5. synthesise and solve accounting problems relating to the complete accounting process for a trading GST business.

Note: Objective 6 is not assessed in this instrument.

Queensland Government
Queensland Curriculum & Assessment Authority

Purpose

This document consists of a marking guide and a sample response.

The marking guide:

- provides a tool for calibrating external assessment markers to ensure reliability of results
- indicates the correlation, for each question, between mark allocation and qualities at each level of the mark range
- informs schools and students about how marks are matched to qualities in student responses.

The sample response:

- demonstrates the qualities of a high-level response
- has been annotated using the marking guide.

Mark allocation

Where a response does not meet any of the descriptors for a question or a criterion, a mark of ‘0’ will be recorded.

Where no response to a question has been made, a mark of ‘N’ will be recorded.

Allow FT mark/s — refers to ‘follow through’, where an error in the prior section of working is used later in the response, a mark (or marks) for the rest of the response can still be awarded so long as it still demonstrates the correct conceptual understanding or skill in the rest of the response.

Marking guide

Multiple choice

Question	Response
1	B
2	A
3	C
4	B
5	D
6	A
7	C
8	B
9	C
10	D

Short response

Q	Sample response	The response:
11a)	See sample response below.	• correctly records – 7 adjustments **[7 marks]** – 6 adjustments **[6 marks]** – 5 adjustments **[5 marks]** – 4 adjustments **[4 marks]** – 3 adjustments **[3 marks]** – 2 adjustments **[2 marks]** – 1 adjustment **[1 mark]** • correctly totals adjusted accounts **[1 mark]**
11b)	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. 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.	• explains a plausible limitation **[1 mark]** • explains a plausible benefit **[1 mark]**

Q	Sample response	The response:
12a)	See sample response below.	• correctly presents – 4 expense classification headings **[3 marks]** – 2–3 expense classification headings **[2 marks]** – 1 expense classification heading **[1 mark]** • correctly classifies and presents – all 11 accounts **[5 marks]** – 9–10 accounts **[4 marks]** – 5–8 accounts **[3 marks]** – 3–4 accounts **[2 marks]** – 1–2 accounts **[1 mark]** • correctly calculates – 4 sub-totals **[2 marks]** – 1–3 sub-totals **[1 mark]** • correctly determines gross profit figures for both years **[1 mark]** • correctly determines net profit figures for both years **[1 mark]**
12b)	See sample response below.	• correctly presents – 5–6 classifications **[4 marks]** – 4 classifications **[3 marks]** – 2–3 classifications **[2 marks]** – 1 classification **[1 mark]** • correctly classifies – all 10 accounts **[5 marks]** – 8–9 accounts **[4 marks]** – 5–7 accounts **[3 marks]** – 3–4 accounts **[2 marks]** – 1–2 accounts **[1 mark]** • balances the Statement of Financial Position for **both** years **[1 mark]**

Q	Sample response	The response:
12c)	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. 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. 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. 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. 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.	• correctly calculates the % increase in net profit **[1 mark]** • correctly calculates the equity ratio for 2023 **[1 mark]** • identifies and correctly calculates – one relevant ratio **[1 mark]** – a second relevant ratio **[1 mark]** – relates the calculations to the bank's requirements **[1 mark]** • provides plausible advice regarding likely potential to achieve the goal **[1 mark]** • provides a plausible solution to achieve the goal **[1 mark]**

Q	Sample response	The response:
13a)	Current ratio Current assets/current liabilities = 210 465/181 996 = 1.16 = 221 573/169 305 = 1.31 Quick Asset ratio: Current assets –(Inventories + Prepayments)/current liabilities = 210 465 – 130 782/181 996 = 79 685/181 996 = 0.44 = 221 573 – 124 701/169 305 = 96 872/169 305 = 0.57 Turnover of inventories CoGS/Av inventories = 1 089 921/((124 701 + 130 780)/2) = 1 089 921/127 741 = 8.53 times p.a. or 365/8.53 = 42.79 days = 1 512 885/((86 272 + 124 701)/2) = 1 512 885/105 487 = 14.34 times p.a. or 365/14.34 = 25.45 days A/c Receivable turnover Net Credit Sales/Av Accts Receivable = 713 132/((91 360 + 71 174)/2) = 713 132/81 267 = 8.775 times p.a. or 365/8.775 = 41.595 days = 951 585/((64 635 + 91 360)/2) = 951 585/77 998 = 12.2 times p.a. or 365/12.2 = 29.91 days	• correctly calculates – 4 liquidity ratios **[4 marks]** – 3 liquidity ratios **[3 marks]** – 2 liquidity ratios **[2 marks]** – 1 liquidity ratio **[1 mark]**

<table>
<tr><th>Q</th><th>Sample response</th><th>The response:</th><th>M</th><th>The response:</th><th>M</th></tr>
<tr><td rowspan="5">13a) continued</td><td rowspan="5">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.
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.
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.
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.</td><td>• provides an analysis of the liquidity of the company
• identifies relevant relationships
• refers to relevant financial data and information from the stimulus</td><td>4</td><td>• states a valid and justified conclusion on the liquidity of the company
• supports conclusion with
– four relevant ratios
– identified trends</td><td>4</td></tr>
<tr><td>• provides an explanation of the liquidity of the company
• refers to financial data or information from the stimulus</td><td>3</td><td>• states a valid conclusion on liquidity of the company
• supports conclusion with
– two or three relevant ratios
– an identified trend</td><td>3</td></tr>
<tr><td>• makes a statement about the liquidity of the company
• refers to financial data or information from the stimulus</td><td>2</td><td>• supports conclusion with one relevant ratio
• identifies a trend</td><td>2</td></tr>
<tr><td>• makes a statement about the liquidity of the company</td><td>1</td><td>• states a relevant ratio
OR
• identifies a trend</td><td>1</td></tr>
<tr><td>• does not satisfy any of the descriptors above.</td><td>0</td><td>• does not satisfy any of the descriptors above.</td><td>0</td></tr>
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<table>
<tr><th>Q</th><th>Sample response</th><th>The response:</th></tr>
<tr><td>13b)</td><td>

Ratio	2023	2022	2021	2020
Debt ratio Total liab/total assets	250 565/490 372 = 51.096%	257 605/519 107 = 49.62%	200 305/395 720 = 50.62%	178 776/393 884 = 45.39%
Debt to equity ratio Total debt/Total equity	250 565/239 807 =1.04:1	257 605/261 502 = 0.985:1	200 305/195 415 = 1.025:1	178 776/215 108 = 0.83:1

Other plausible ratios that could have been used:

Ratio	2023	2022	2021	2020
Shareholder equity ratio Total equity/Total assets	239 807/490 372 = 48.9%	261 502/519 107 = 50.4%	195 415/395 720 = 49.4%	215 108/393 884 = 54.61%
Gearing ratio (Provided)	28%	22%	30%	13%

</td><td>

- correctly calculates
  - one stability ratio **[1 mark]**
  - another stability ratio **[1 mark]**

</td></tr>
</table>

Q	Sample response	The response:	M	The response:	M
13b)	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%. 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. 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. 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.	• provides a detailed analysis of the stability of the company • identifies relevant relationships • supports analysis with relevant relationships drawn from financial data and information in the stimulus	5	• provides a valid and justified conclusion about the stability of the company • supports conclusion with – two relevant ratios – identified trends	5
		• provides an analysis of the stability of the company • identifies relevant relationships • refers to relevant financial data and information in the stimulus	4	• provides a valid and justified conclusion about the stability of the company • supports conclusion with – one relevant ratio – identified trends	4
		• provides an explanation of the stability of the company • refers to financial data or information in the stimulus	3	• states a valid conclusion about the stability of the company • supports conclusion with – one relevant ratio – an identified trend	3
		• makes a statement about the stability of the company • refers to financial data or information in the stimulus	2	• supports conclusion with a – relevant ratio, **OR** – trend	2
		• makes a statement about the stability of the company	1	• states a – relevant ratio **OR** – trend	1
		• does not satisfy any of the descriptors above.	0	• does not satisfy any of the descriptors above.	0

Q	Sample response	The response:	M
13c)	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. 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.	• clearly explains the scenario • makes a clear decision to propose a valid recommendation • supports recommendation with relevant financial data and information relating to liquidity and stability	5
		• explains the scenario • makes a clear decision to propose a valid recommendation • supports recommendation with relevant financial data and information relating to liquidity and stability	4
		• explains the scenario • states a valid recommendation • supports recommendation with financial data or information	3
		• makes a statement about the scenario • states a recommendation • refers to financial data or information	2
		• makes a statement about the scenario **OR** • refers to financial data or information	1
		• does not satisfy any of the descriptors above.	0

Sample responses

Question 11a)

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		2620
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				
Inventory adjustment		994		994	
Bad debts recovered			3 196		3 196

Question 12a)

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

Question 12b)

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