Time allowed
- Perusal time: 10 minutes
- Working time: 3 hours

Examination materials provided
- Paper Two — Question book
- Paper Two — Response book

Equipment allowed
- QSA-approved equipment
- non-programmable calculator
- Accounting Package and Cash Budgets prepared-task material completed during the year to use when responding to Part B Questions 2 and 3

Paper Two is an open-book examination. You may refer to any paper-based written or printed materials you have brought into the examination room. You may write on your material at any time during the examination.

Directions
You may write in this book during perusal time.

Paper Two has three parts, each of equal value:
- Part A — Knowledge, interpretation and evaluation
- Part B — Routine practical procedures
- Part C — Challenging practical application

Attempt all questions.

Suggested time allocation
- Part A: 70 minutes
- Part B: 50 minutes
- Part C: 60 minutes

Assessment
Assessment standards are at the end of this book.

After the examination session
Take this book when you leave.
The prepared task material will be collected by the supervisor.
Planning space
**Part A — Knowledge, interpretation and evaluation**

Part A has two questions. Respond to both questions.
Suggested time allocation: 70 minutes.
Write your responses in the response book.

**Question 1**

Andrew Smith wants to know if his business should limit the varieties of perfumes offered to customers. The following information is provided.

<table>
<thead>
<tr>
<th>Perfume 1</th>
<th>Perfume 2</th>
<th>Perfume 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>72000</td>
<td>48000</td>
</tr>
<tr>
<td>Less Variable costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>19200</td>
<td>18620</td>
</tr>
<tr>
<td>Delivery Expenses</td>
<td>180</td>
<td>120</td>
</tr>
<tr>
<td>Wages</td>
<td>2580</td>
<td>1760</td>
</tr>
<tr>
<td>Total Variable costs</td>
<td>21960</td>
<td>20500</td>
</tr>
<tr>
<td>Contribution margin</td>
<td>50040</td>
<td>27500</td>
</tr>
<tr>
<td>Contribution margin %</td>
<td>70%</td>
<td>57%</td>
</tr>
</tbody>
</table>

In 150–250 words, advise Andrew Smith on the two best perfumes for his business. Justify your answer with reference to the following:

- Sales
- Variable costs
- Contribution margin.
Question 2

The table below has the industry averages along with the financial stability and management effectiveness ratios for “ICAN DOIT”, which have been calculated for you.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>ICAN DOIT</th>
<th>Industry average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>3.5:1</td>
<td>5:1</td>
</tr>
<tr>
<td>Quick</td>
<td>2:1</td>
<td>4:1</td>
</tr>
<tr>
<td>Equity</td>
<td>40%</td>
<td>65%</td>
</tr>
<tr>
<td>Debt (Gearing)</td>
<td>60%</td>
<td>35%</td>
</tr>
<tr>
<td>Turnover of Inventories</td>
<td>85 days</td>
<td>55 days</td>
</tr>
<tr>
<td>Turnover of Accounts Receivable</td>
<td>45 days</td>
<td>30 days</td>
</tr>
</tbody>
</table>

Ms Ican is the owner of a business which has been operating for only one year. Ms Ican is thinking about expanding the business. She believes the financial data above indicates that she has made a profit and meets all the necessary criteria to expand.

Using the above financial data, write a report of 350–500 words to Ms Ican advising her on the financial stability and management effectiveness ratios when compared to the industry averages.

Your report should also include recommendations as to whether she should go ahead with her intended expansion plans.

End of Part A
Question 1

The following Income Statement, Balance Sheet and additional information have been provided by ABC Industries, owned by P Peters, who has asked you to prepare a Cash Flow Statement for the year ended 30 June 2012. It is suggested that you reconstruct the Capital and Inventories accounts.

ABC Industries
Income Statement for year ended 30 June 2012

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>145000</td>
</tr>
<tr>
<td>Less Cost of Goods Sold</td>
<td>132000</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>13000</td>
</tr>
<tr>
<td>Add Dividend Received</td>
<td>1000</td>
</tr>
<tr>
<td></td>
<td>14000</td>
</tr>
</tbody>
</table>

Less Expenses

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Paid</td>
<td>11000</td>
</tr>
<tr>
<td>Other Operating Expenses</td>
<td>27000</td>
</tr>
<tr>
<td></td>
<td>38000</td>
</tr>
<tr>
<td>Net Loss</td>
<td>24000</td>
</tr>
</tbody>
</table>

Question 1 continues overleaf
ABC Industries
Balance Sheet as at
30 June 2012 30 June 2011
$ $

Assets
Cash at Bank 0 10000
Inventories 45000 47000
Land 160000 110000
Shares in Proctors Ltd 30000

$235000 $167000

Liabilities and
Owner’s Equity
Bank Overdraft 70000 0
Loan on Mortgage 110000 100000
Capital 55000 67000

$235000 $167000

Additional information
• The owner made no drawings during the year. However, he did contribute some extra capital to keep
the business operating.
• All expenses were paid in cash.
• All sales were received in cash.

Question 2
Using the Accounting Package prepared task material that you brought into the examination room,
respond to the following questions:

a. What was the total amount of deposits received into the business’s bank account that was listed
on the Bank Reconciliation Report?
b. Did the business have a credit or debit bank account balance and what was the amount?
c. How much GST appeared in the Trial Balance?
d. What was the balance of the Trial Balance?
e. What was the total Owner’s Equity figure from the Balance Sheet?
f. What was the retained earnings or end of year adjustment recorded due to the rollover to the next
accounting period?
g. Outline the steps followed to record the entry on 4 June.
h. Outline the steps followed to record the entry on 8 June.
i. Outline the steps followed to record the entry on 18 June.
Question 3

Using the Cash Budgets prepared task material that you brought into the examination room, respond to the following questions:

a. In the table provided in the response book, complete the required amounts and formulas:
   • From the Statement of Estimated Receipts from Accounts Receivable, the amount of credit sales from September that would be likely to be received in November
   • From the Statement of Estimated Receipts from Accounts Receivable, the total expected receipts for November
   • From the Statement of Estimated GST Payments, the total of GST Paid for November
   • From the Cash Budget, the total estimated receipts for November
   • From the Cash Budget, the total estimated payments for December
   • From the Cash Budget, the excess receipts over payments for December.

b. In the table provided in the response book, state the amounts for the entries listed and show the steps used to calculate each amount:
   • GST paid for General Expenses for December
   • Motor Vehicles for December
   • Estimated receipts from Accounts Receivable for the month of October that would be received in November
   • Excess receipts over payments for November
   • Cash at Bank balance as at the end of December.

End of Part B
Question 1

From the information provided below for J Johnson, you are required to prepare:

- balance day adjustments (no narrations are required)
- a fully classified Income Statement
- a fully classified Balance Sheet as at 30 June 2012.

**Trial Balance of J Johnson as at 30 June 2012**

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Debit $</th>
<th>Credit $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td></td>
<td>10300</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td></td>
<td>20000</td>
</tr>
<tr>
<td>Accumulated Depreciation on Computer Equipment</td>
<td></td>
<td>2000</td>
</tr>
<tr>
<td>Bad and Doubtful Debts</td>
<td></td>
<td>360</td>
</tr>
<tr>
<td>Bad Debts Recovered</td>
<td></td>
<td>1200</td>
</tr>
<tr>
<td>Bank</td>
<td></td>
<td>4000</td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td>81360</td>
</tr>
<tr>
<td>Commission Revenue</td>
<td></td>
<td>3600</td>
</tr>
<tr>
<td>Computer Equipment</td>
<td></td>
<td>8000</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td></td>
<td>45000</td>
</tr>
<tr>
<td>Corporate Promotional Expense</td>
<td></td>
<td>900</td>
</tr>
<tr>
<td>Drawings</td>
<td></td>
<td>3000</td>
</tr>
<tr>
<td>Garbage Collection Fees</td>
<td></td>
<td>1500</td>
</tr>
<tr>
<td>Goodwill</td>
<td></td>
<td>1000</td>
</tr>
<tr>
<td>GST Collected</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GST Paid</td>
<td></td>
<td>300</td>
</tr>
<tr>
<td>Insurance on Delivery Vehicles</td>
<td></td>
<td>1900</td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
<td>18000</td>
</tr>
<tr>
<td>Land and Buildings</td>
<td></td>
<td>135000</td>
</tr>
<tr>
<td>Loan to an Employee ( repayable 30.9.12)</td>
<td></td>
<td>400</td>
</tr>
<tr>
<td>Loss by Burglary</td>
<td></td>
<td>200</td>
</tr>
<tr>
<td>Mortgage on Land and Buildings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patents</td>
<td></td>
<td>1500</td>
</tr>
<tr>
<td>Provision for Doubtful Debts</td>
<td></td>
<td>400</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td>125000</td>
</tr>
<tr>
<td>Sales Returns</td>
<td></td>
<td>4000</td>
</tr>
<tr>
<td>Shares in Westpac Bank</td>
<td></td>
<td>15000</td>
</tr>
<tr>
<td>Telephone</td>
<td></td>
<td>2500</td>
</tr>
</tbody>
</table>

$258 560  $258 560
Adjustments

• Inventories at 30 June 2012 are at $17,800
• Insurance on Delivery Vehicles paid in advance $800
• Dividends on shares for the year are still to be received — these are guaranteed at 6% p.a.
• Interest on Mortgage owing — to be 2% of the Mortgage on Land and Buildings
• Commission received in advance $400
• Provision for Doubtful Debts to be 3% of Accounts Receivable
• Computer Equipment — to be depreciated at 20% of reduced balance
• Split Telephone expense 40/60 between Selling and General
• Salespersons’ Commission owing (10% of Sales)
• Clear the GST accounts.

End of Part C

End of Paper Two
## Assessment standards from the Accounting Senior External Syllabus 2007

|------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------|
| **Knowledge, interpretation and evaluation**  | The candidate:  
• recalls, describes and explains a comprehensive range of relevant  
  facts, concepts, and principles  
• applies an extensive knowledge of  
  accounting concepts and principles  
  to analyse and interpret information  
  to solve problems and make valid  
  decisions and recommendations  
• communicates a comprehensive  
  range of accounting information  
  and understandings clearly,  
  accurately and cohesively in  
  written form, using appropriate  
  terminology.              | The candidate:  
• recalls, describes and explains  
  a substantial range of relevant  
  facts, concepts and principles  
• applies knowledge of  
  accounting concepts and  
  principles on most occasions  
  to analyse and interpret  
  information to solve problems  
  and make valid decisions and  
  recommendations  
• communicates a substantial  
  range of accounting information  
  and understandings which are  
  usually expressed clearly,  
  accurately and cohesively in  
  written form, using appropriate  
  terminology.              | The candidate:  
• recalls and describes relevant  
  facts and generally explains  
  concepts and principles  
• analyses and generally  
  interprets accounting  
  information to make valid  
  decisions  
• communicates a range of  
  accounting information and  
  understandings in written form,  
  in a manner which is generally  
  clear and accurate, using some  
  appropriate terminology.  | The candidate:  
• states some relevant facts  
  and concepts  
• identifies relevant facts from  
  accounting information  
• communicates some accounting  
  information in written form,  
  although the communication  
  sometimes lacks clarity and  
  accuracy.                  | The candidate:  
• states some facts  
• communicates little accounting  
  information in written form,  
  and this communication lacks  
  clarity and accuracy.       |
| **Routine practical procedures**              | The candidate:  
• accurately applies fundamental  
  accounting concepts to select and  
  organise relevant data to record a  
  wide range of routine transactions  
• consistently demonstrates  
  knowledge of fundamental  
  accounting concepts to correctly  
  process accounting information in  
  usual situations  
• accurately prepares and effectively  
  presents accounting reports.  | The candidate:  
• applies fundamental accounting  
  concepts to select and organise  
  relevant data to record a wide  
  range of routine transactions in  
  most situations  
• usually demonstrates  
  knowledge of fundamental  
  accounting concepts to  
  correctly process accounting  
  information in usual situations  
• accurately prepares and  
  presents accounting reports on  
  most occasions.              | The candidate:  
• applies fundamental accounting  
  concepts to select and organise  
  relevant data to record a range  
  of routine transactions  
• generally processes accounting  
  information correctly in usual  
  situations  
• prepares and presents  
  accounting reports with some  
  inaccuracies.                | The candidate:  
• selects relevant data and  
  records routine transactions  
  on some occasions  
• occasionally processes some  
  accounting information  
  correctly in usual situations  
• prepares and presents  
  accounting reports which  
  frequently lack accuracy.    | The candidate:  
• seldom records routine  
  transactions accurately  
• rarely processes accounting  
  information correctly in usual  
  situations  
• rarely prepares and  
  presents accounting reports  
  accurately.                  |
### Challenging practical application

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The candidate:</td>
<td>The candidate:</td>
<td>The candidate:</td>
<td>The candidate:</td>
<td>The candidate:</td>
</tr>
<tr>
<td></td>
<td>• effectively applies accounting knowledge and concepts to accurately record a variety of transactions which include complex elements</td>
<td>• applies accounting knowledge and concepts to correctly process accounting information which includes complex elements</td>
<td>• accurately prepares and effectively presents accounting reports involving complex processing</td>
<td>• occasionally records accurately transactions which include complex elements</td>
<td>• seldom records transactions or processes information which include complex elements</td>
</tr>
<tr>
<td></td>
<td>• applies accounting knowledge and concepts to consistently and correctly process accounting information which includes complex elements</td>
<td>• applies accounting knowledge and concepts to correctly process, in most situations, accounting information which includes complex elements</td>
<td>• accurately prepares and effectively presents, on most occasions, accounting reports involving complex processing</td>
<td>• follows a given procedure, in part, to process accounting information which includes complex elements</td>
<td>• rarely prepares or presents accounting reports involving complex processing.</td>
</tr>
<tr>
<td></td>
<td>• accurately prepares and effectively presents accounting reports involving complex processing</td>
<td>• usually solves problems involving complex practical processes.</td>
<td>• usually solves problems involving complex practical processes.</td>
<td>• prepares and presents accounting reports involving complex processing with varying degrees of accuracy</td>
<td>• solves problems involving complex practical processes on some occasions.</td>
</tr>
<tr>
<td></td>
<td>• consistently and effectively solves problems involving complex practical processes.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(continued)