

Achievement Standard 90980

Interpret accounting information for sole proprietors

ACCOUNTING

1.5

Externally assessed 4 credits

Achievement Standard 90980 (Accounting 1.5) involves interpreting information for a sole proprietor or sole proprietors. These are limited to service businesses and/or trading businesses that use a periodic inventory system and that are registered for GST on the payments basis.

A calculator is required, as you will be required to calculate the analysis measures.

Ratio and percentage formulae will be provided. Round calculations to either 1 or 2 decimal places as instructed.

Ratios and percentages

Once the financial statements have been prepared, it is important to analyse them to allow sound decisions to be made for the future.

Analysing information involves calculating analysis measures – formulae will be provided.

Interpreting information involves:

- explaining analysis measures
- recognising satisfactory/unsatisfactory ratios, percentages or trends
- explaining reasons for trends
- making, justifying and stating the consequences of recommendations
- explaining relationships between analysis measures.

Analysis measures are used to measure:

- profitability – mark-up %, gross profit %, expenses %, profit %, percentage changes, comparisons of dollar amounts
- liquidity – current ratio, liquid ratio
- financial stability – equity ratio.

Income Statement

The following examples are for *Skateboys Rollerblade Club*, whose information is shown in the table alongside.

Note: Net sales is calculated by Sales – Sales returns

<i>Skateboys Rollerblade Club</i>	
Income Statement	
for year ended 31 March 2020	
Net sales	132 000
<i>Less</i> Cost of goods sold	<u>108 000</u>
Gross profit	24 000
<i>Less</i> Expenses	
Distribution costs	3 300
Administrative expenses	2 640
Finance costs	<u>1 320</u>
Profit for the year	<u>\$16 740</u>

Mark-up percentage

Mark-up is the extra added on to the cost of goods sold to obtain the selling price. Mark-up percentage measures the percentage of cost price of the inventory which is added on to the inventory cost price to calculate the selling price.

Selling price = Cost price + Mark-up, e.g. cost price is \$10.00, add mark-up \$5.00, selling price is \$15.00.

$$\text{Mark-up percentage} = \frac{\text{Gross profit}}{\text{Cost of goods sold}} \times \frac{100}{1} \quad \text{Example: } \frac{24\,000}{108\,000} \times \frac{100}{1} = 22.2\%$$

Mark-up percentage may be higher or lower than desired, due to the wrong mark-up being placed on purchases, or incorrect stock take.

Mark-up percentage may be lower due to goods being stolen.

Gross profit percentage

$$\text{Gross profit percentage} = \frac{\text{Gross profit}}{\text{Net sales}} \times \frac{100}{1} \quad \text{Example: } \frac{24\,000}{132\,000} \times \frac{100}{1} = 18.2\%$$

The gross profit percentage measures the percentage of sales left as gross profit, after accounting for cost of goods sold. This is used to cover operating expenses and make a profit.

The higher the mark-up, the higher the gross profit. Gross profit needs to be sufficient to cover operating expenses and drawings.

Gross profit variances can be caused by theft of stock, incorrect stock takes, or by a deliberate reduction in price to increase sales volume.

Expenses percentages

Different categories of expenses can be compared with net sales to determine how different parts of a business are performing; e.g., if selling expenses were increasing, the business would hope sales were increasing similarly. Or if administration expenses percentage is decreasing, it could mean the administration of the business is becoming more efficient.

$$\text{Distribution cost percentage} = \frac{\text{Distribution costs}}{\text{Net sales}} \times \frac{100}{1} \quad \text{Example: } \frac{3\,000}{132\,000} \times \frac{100}{1} = 2.5\%$$

$$\text{Administrative expenses percentage} = \frac{\text{Administrative expenses}}{\text{Net sales}} \times \frac{100}{1} \quad \text{Example: } \frac{2\,640}{132\,000} \times \frac{100}{1} = 2\%$$

$$\text{Finance costs percentage} = \frac{\text{Finance costs}}{\text{Net sales}} \times \frac{100}{1} \quad \text{Example: } \frac{1\,320}{132\,000} \times \frac{100}{1} = 1\%$$

An expense percentage measures the percentage of sales used to pay for / incurred by that particular expense or group of expenses.

Profit percentage

$$\text{Profit percentage} = \frac{\text{Profit for the year}}{\text{Net sales}} \times \frac{100}{1} \quad \text{Example: } \frac{16\,740}{132\,000} \times \frac{100}{1} = 12.7\%$$

Profit percentage shows how much of each dollar of sales is profit; in the example, for every \$1.00 of sales, 12.7 cents is profit retained in the business after all expenses have been accounted for.

A higher net profit percentage is not necessarily all good – a corner dairy has a high net profit percentage compared with the net profit percentage of supermarkets, which have low net profit percentages in order to generate more turnover and thus more dollar profits.

Statement of Financial Position

Balance Sheet has been an alternative name for *Statement of Financial Position*.

Statement of Financial Position		
For E X Ample as at 31 March 2020		
Current assets		
Prepayments	200	
Accounts receivable	6 700	
Inventory	<u>2 100</u>	9 000
Non-current assets		
Property, plant and equipment		
Total carrying amount		<u>101 500</u>
Total assets		110 500
Less Liabilities		
Current liabilities		
Bank overdraft (secured)	2 500	
Accounts payable	<u>4 500</u>	7 000
Non-current liabilities		
Bank loan		<u>24 600</u>
Total liabilities		<u>31 600</u>
Net assets		\$78 900
Equity		
Opening capital		88 500
Plus Profit for the year	16 740	
Less Drawings	<u>26 340</u>	<u>(9 600)</u>
Closing capital		\$78 900

Working capital

This is the difference between current assets and current liabilities.

$$\text{Working capital} = \text{Current assets less Current liabilities} \quad \text{Example: } 9\,000 - 7\,000 = \$2\,000$$

Current assets should exceed current liabilities so that the business is able to pay its debts that fall due in the next accounting period.

Current ratio

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} \quad \text{Example: } \frac{9\,000}{7\,000} = 1.29:1$$

The ratio should always be greater than 1:1, i.e. current assets exceeding current liabilities.

The business has \$1.29 in current assets to meet every \$1.00 of current liabilities – it can thus meet its **short-term debts** as they fall due.

Liquid ratio

Establishes whether a business can pay its **immediate debts**, i.e. those due within a month or two. It is an 'acid test' or test of solvency.

$$\text{Liquid ratio} = \frac{\text{Current assets} - (\text{Inventory and prepayments})}{\text{Current liabilities} - \text{Secured bank overdraft}} \quad \text{Example: } \frac{9\,000 - (2\,100 + 200)}{7\,000 - (2\,500)} = \frac{6\,700}{4\,500} = 1.49:1$$

This result shows that the business has \$1.49 in liquid assets to repay every \$1.00 of liquid liability. This means that the business should be able to repay its immediate debts.

If the ratio is less than 1:1, the business is described as one that cannot meet its immediate debts.

Equity ratio

$$\text{Equity ratio} = \frac{\text{Equity}}{\text{Total assets}} \quad \text{Example: } \frac{78\,900}{110\,500} = 0.71:1$$

Total assets = current assets plus non-current assets.

Equity = closing capital or final balance in equity.

The owner has financed \$0.71 (71 cents) for every \$1.00 of assets of the business – outsiders have financed \$0.29 (29 cents).

Percentage changes

Percentage change calculations are the difference between the final and the original amount divided by the original amount $\times 100$.

$$\frac{\text{Final amount} - \text{Original amount}}{\text{Original amount}} \times 100$$

Percentage change calculations show the trends in \$ amounts from year to year.

Percentage change calculations for <i>E X Ample's</i> Income Statement					
	2004	2005	Calculations	% change	Satisfactory / unsatisfactory
Sales	120 000	140 000	$\frac{20\,000}{120\,000} \times 100$	+16.67%	Satisfactory
Cost of goods sold	40 000	45 000	$\frac{5\,000}{40\,000} \times 100$	+12.5%	Satisfactory
Gross profit	80 000	95 000	$\frac{15\,000}{80\,000} \times 100$	+18.75%	Satisfactory
Distribution costs	15 000	18 000	$\frac{3\,000}{15\,000} \times 100$	+20%	Unsatisfactory
Administrative expenses	10 000	9 000	$\frac{-1\,000}{10\,000} \times 100$	-10%	Satisfactory
Finance costs	5 000	6 000	$\frac{1\,000}{5\,000} \times 100$	+20%	Unsatisfactory
Net profit	50 000	62 000	$\frac{12\,000}{50\,000} \times 100$	+24%	Satisfactory

Analysis of percentage calculations for *E X Ample's* financial performance follows.

- Because sales have increased, it is expected that cost of goods and most other expenses will also increase in order to increase sales volume.
- Gross profit has increased more than sales or cost of goods – indicates the business might have found a cheaper supplier, changed its sales mix, or increased mark up.
- The increase in distribution costs might be due to an advertising campaign to promote new products or increase turnover, in which case these can be expected to decrease next year. It might be due to increasing sales staff salaries or shop rent/electricity increasing.
- The decrease in administrative expenses is very satisfactory, and shows efficiency in this area – perhaps a decrease in office wages, rent, telephone or electricity.
- The increase in finance costs might be the result of increased borrowing, or an increase in interest rates.

Trends and recommendations

Comparing trends in ratios and percentages is an important tool in analysing the performance and financial position of a business, and giving advice for decision making.

All ratios and percentages should be compared with actual \$ figures – e.g. if sales figures increase, it is expected the expenses to generate sales will also increase.

	Satisfactory trend	Ideas to improve
Measures of profitability		
Mark-up %	Increase or decrease	Must compare with sales figure – higher mark-up will increase the sale price of individual items, but may lose volume of sales; a lower mark-up may increase sales volume, and therefore the \$ amount of sales.
Gross profit %	Increase	Check there has been no theft of stock or errors in stock takes, find a cheaper supplier for goods.
Distribution cost %	Decrease	Reduce shop expenses, advertising, petrol.
Administrative expense %	Decrease	Reduce office expenses such as telephone, stationery, etc.
Finance costs %	Decrease	Reduce interest / Repay a loan to decrease interest expense.
Net profit %	Increase	Reduce any expense category, increase mark-up or find a cheaper supplier of inventory.
Measures of liquidity		
Current ratio	2:1 is adequate	Could take out a long-term loan, sell a fixed asset, or owner could invest more cash; if too high, could have too much stock.
Liquid ratio	At least 1:1	Owner to invest more cash, sell fixed asset, take out a loan.
Measures of financial stability		
Equity ratio	> 0.5:1	Owner should invest more capital; if too high, good use is not being made of outside sources of finance to expand the business.

Explaining a reason for a trend and making recommendations

When explaining a reason for the trend it is important to read the resource carefully. What have you been told that happened or didn't happen? What changes were made this year? Do you have comparative numbers to check that can give you reasons?

Your answer needs to provide details, and then link through the components of the analysis measure to fully explain your reason.

For example: A reason for the increase in distribution cost percentage from 15% to 19.5% is that XYZ (business name) opened a new shop (reason from the resource), which therefore meant it had to hire more staff, and therefore had to pay more shop wages (account name). The increase in shop wages increased the (classification) distribution cost by (use dollar amount here if you can), and therefore increased the distribution cost percentage (analysis measure), because the sales did not increase by as big a percentage.

The same technique is used to justify a recommendation; however, this is written in a future tense. It is important to discuss the 'other half' of the analysis measure formulae but 'not changing' or 'how it changes' to fully explain/justify your idea.

Consequences of recommendations

To gain 'Excellence' for Achievement Standard 90980 (Accounting 1.5), you may be required to evaluate the consequences of recommendations made, both in financial and non-financial terms. Some suggestions of things to think of when evaluating consequences follow.

- If mark-up is increased – prices will increase, might lose customers to competitors who offer goods at a lower price.
- If cheaper supplier is found – goods might be of lower quality – more returns – might lose customers – might, however, gain more customers if the quality of goods remains the same.
- Reducing rent might mean having to find different premises, therefore is this an appropriate recommendation?
- Reducing advertising might have an impact on the sales figures, because it will bring about less exposure to potential customers.
- Investment of more capital by the owner is a solution to improve unsatisfactory current/liquid ratios – however, can the owner afford it? What impact will it have on the owner personally (might have to sell family home, reduce personal spending)?

Justifying recommendations

When explaining your recommendation (i.e. when giving your justification) you need to explain how your suggestion improves that particular analysis measure.

Example: Recommend how to improve current ratio.

Answer: The owner should invest more money in the business to increase bank.

Reason/Justification: This will *increase* the money in the business's *bank account*, which *increases* its *current assets*, and as a result, *increases the current ratio*, as current liabilities have not changed.

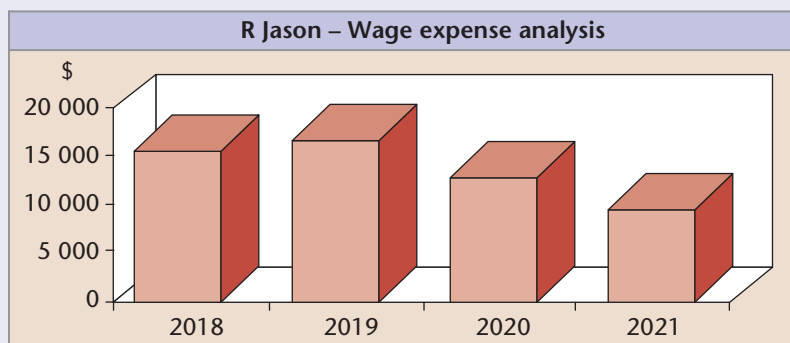
Interpreting financial information presented in graphs

Pie charts, bar graphs, pictograms, pictures, and other graphics can all be used in financial reports in an endeavour to make the report more easily understood or to emphasise key features. The analysis is identical, but pictures are often easier to understand than numbers.

Look at a graph closely and read the axes carefully. Try to identify trends, because many graphs show information over time.

In the graph below:

- Trend – wage expense is decreasing.
- Wage expenses \$10 000 in 2021.

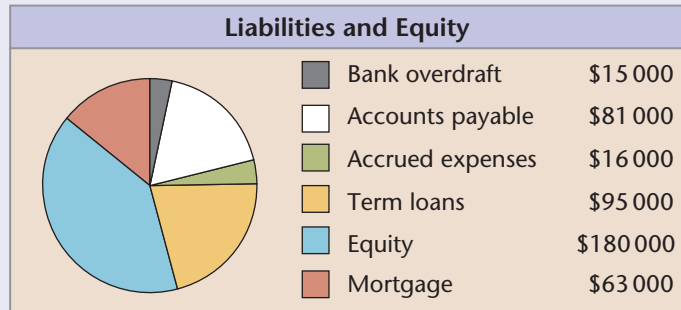


Statement of Financial Position – Graphical summary

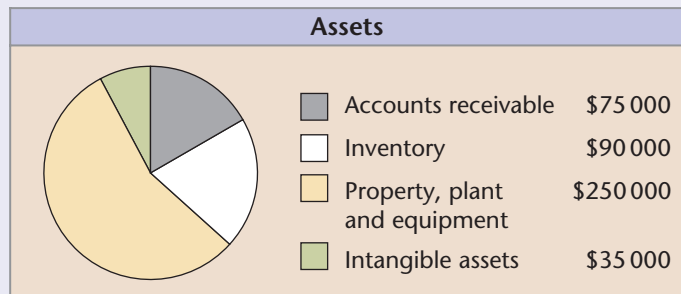
Pie graphs show shares of a total.
Calculate the total.

In the graphs alongside:

- Total liabilities = \$270 000,
plus equity = \$180 000.



- Total assets = \$450 000.

**Industry averages**

Sometimes you are provided with industry averages and expected to use them when commenting on trends or recommendations. You do not need to worry about this – they are there to help you answer the question. Think about whether the business result is better or worse than the industry average and what that might mean.

Example:

	Your business	Industry average
Distribution costs %	12%	16%
Profit for year percentage	20%	22%

One possible reason for your business having a lower profit for the year than the industry average is that it did not spend enough on advertising, compared with its competitors, to encourage more customers and more sales, which decreased the business profit and profit percentage.

Questions: Interpreting accounting information

Formulae sheet

In the examination, you will be provided with a Table of Analysis Measure Formulae like the one below to assist you in calculating percentages and ratios.

Analysis ratios – Formulae sheet

Mark-up %	$\frac{\text{Gross profit}}{\text{Cost of goods sold}} \times \frac{100}{1}$
Profit for year %	$\frac{\text{Profit for the year}}{\text{Sales}} \times \frac{100}{1}$
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Liquid ratio	$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities} - \text{Secured bank overdraft}}$
Equity ratio	$\frac{\text{Equity}}{\text{Total assets}}$
Gross profit %	$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$
Distribution cost %	$\frac{\text{Distribution cost}}{\text{Sales}} \times \frac{100}{1}$
Administrative expense %	$\frac{\text{Administrative expense}}{\text{Sales}} \times \frac{100}{1}$
Finance cost %	$\frac{\text{Finance cost}}{\text{Sales}} \times \frac{100}{1}$
Individual expense %	$\frac{\text{Individual expense}}{\text{Sales}}$
Percentage change	$\frac{\text{Year 2} - \text{Year 1}}{\text{Year 1}} \times \frac{100}{1}$

Note: If a service business, replace 'sales' with 'fees received'.

Question One

Resource One

Max owns *Mobile World*, a sole proprietorship business specialising in selling popular portable communication devices. *Mobile World* has been operating for three years, selling mobile phones and accessories. This year, *Mobile World* also began selling laptops, tablets, and their relevant accessories.

Mobile World employs four shop assistants, who have worked the same hours every year it has been operating. Max does not take wages, but withdraws cash as drawings when needed.

Mobile World prepares its financial statements for the year ended 31 March each year.

Resource Two

The table below shows the income and expenses information for *Mobile World* for the year ended 31 March 2018 and for the year ended 31 March 2019.

Mobile World		
Income and Expenses information for the year ended 31 March		
	2018	2019
	\$	\$
Sales	480 000	564 000
Cost of goods sold	288 000	360 960
Gross profit	192 000	203 040
Distribution costs	144 00	187 250
Administrative expenses	19 200	16 920
Finance costs	7 200	11 840
Profit (loss) for the year	21 600	(12 970)

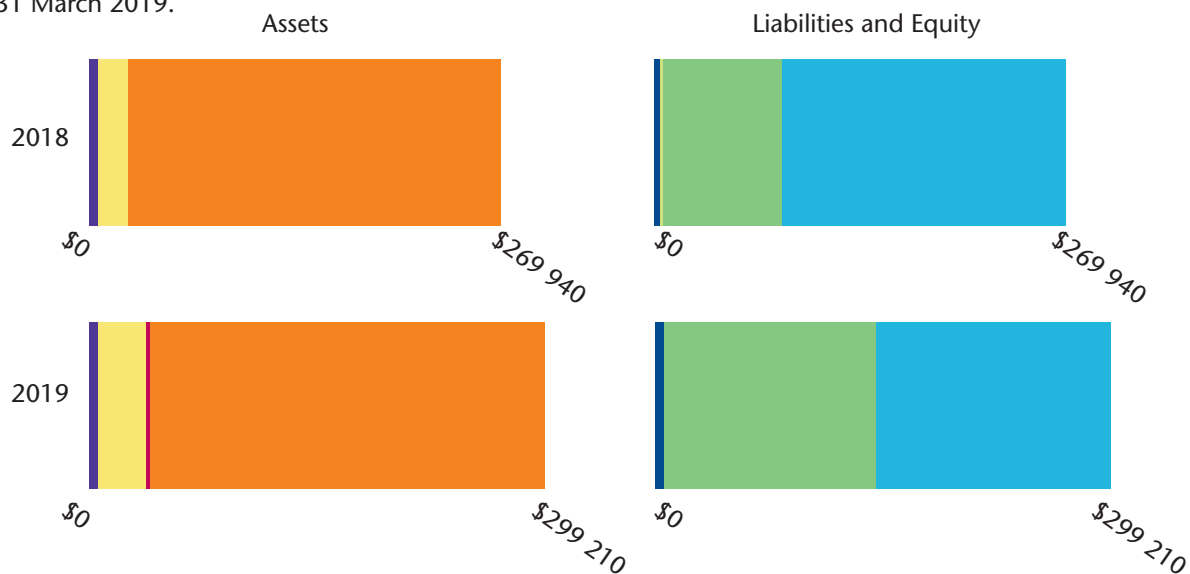
Notes

Distribution costs include advertising, shop rates, sales staff training and wages, and shop insurance.

Max renegotiated the interest rate on the business loan from 9% p.a. to 7.8% p.a in July 2018 (in the financial year ended 31 March 2019).

Resource Three

The graphs below show the assets, liabilities and equity for *Mobile World* as at 31 March 2018 and 31 March 2019.



Mobile World			
Assets, Liabilities, and Equity as at 31 March			
		2018	2019
		\$	\$
Bank		5 280	4 390
Inventory		18 600	32 840
Accounts receivable		1 260	1 780
Property, plant, and equipment		244 800	260 200
Accounts payable		2 800	4 850
GST payable		840	260
Accrued expenses		380	240
Loan		80 000	140 000
Equity		185 920	153 860

Answers and explanations

The 'Achieved' A, 'Merit' M, and 'Excellence' E, ratings given with the answers to NCEA questions for the externally assessed Achievement Standards chapters are based upon the professional judgements of the author.

A The answer is required to be correct and complete to gain 'Achieved' for that part of the overall question.

A ($\frac{5}{7}$) To gain 'Achieved', the candidate must score 5 correct responses out of the total of 7 for the question. Responses could be explanations, entries, balances, calculations, etc., or any combination of responses.

M The answer required is to be correct and complete to gain 'Merit'. Candidate gains 'Merit' or nothing.

M ($\frac{6}{7}$) To gain 'Merit', the candidate must score 6 correct responses out of 7 for the question.

M/E Answer is E level, but M standard of answer possible – A possible if explanation not fully applied to the examples.

E ($\frac{7}{7}$) To gain 'Excellence' the candidate must score 7 correct responses out of 7 for the question.

Achievement Standard 90976 (Accounting 1.1): Demonstrate understanding of accounting concepts for small entities

1.1 Nature of accounting

Question One

p.5

- a. To calculate the profit for the period for Yours to View. / To calculate the income and expenses for Yours to View for the period and to compare these results with those of previous years. (A)
- b. Brian gets to make all the decisions. / Brian gets to keep all the profits of Yours to View. (A)
- c. This means that if Yours to View (i.e. the business) gets into financial difficulty and cannot meet its debts, Brian (i.e. the owner) can be forced to sell personal assets to repay the business's debts. (M/E)
- d. (1) Getting a bank loan.
(2) Brian (i.e. the owner) could invest more money in the business. (A)
- e. ii. E iii. A iv. B v. F vi. C (A)

1.1 Financial elements and depreciation

Many questions in this section can be graded as either 'Merit' or 'Excellence'. Students will achieve a 'Merit' grade if their answer defines concepts, but there is insufficient linkage of the concept with the context of the question. An 'Excellence'-level answer is one that fully integrates examples that are relevant to the context of the question into the definition, and so clearly answers what has been asked.

Question One

p.8

Part A

- a. i. Expenses: Advertising; Interest on loan; Telephone; Wages (A = any 3; no abbreviations used)
- ii. Sources of income: Dividends; Interest received; DVD rentals; Sales (A = any 3; no abbreviations used)

- b. Video game rental is an income for Yours to View because there will be an increase in the asset 'Bank' when the customers pay to hire the video games. Video game rental increases the profit, which increases the equity, and the rentals are not a contribution by the owner / by Brian. (M, E)
- c. Yours to View paid for the wide-screen television in the past. The TV is a resource (currently) controlled by the entity as they have it locked in their shop and only they decide what is shown on the TV.
The wide-screen television will provide future economic benefit for Yours to View because the customers will see the DVDs playing and this will encourage them to hire more DVDs, and thus increase the DVD rental income, and the Bank account when paid for. (A/M/E)
- d. Yours to View depreciates the wide-screen television each year to systematically allocate the loss in future economic benefit this year / to systematically allocate the cost of the television over its useful life. (NOT loss in value.) (M/E)
- e. Wages paid to staff is a decrease in assets as the asset 'Bank' will decrease as the money is paid to Yours to View employees for the work done.
The wages decreases equity because paying wages causes a decrease in profit for Yours to View which in turn decreases the equity and the wages are not a distribution to Brian the owner. (M/E)

Part B

- a. i. Capital expenditure.
ii. Capital expenditure.
iii. Revenue expenditure.
iv. Revenue expenditure. (A – 3)
- b. Aronui Marae received the money in the form of a loan (from a bank) at some time in the past.
Aronui Marae is presently obliged to (they know now that they have to) repay the money to the bank / they have a contract that states how much they currently have to repay and there will be a future sacrifice of assets when Aronui Marae repays the loan which decreases their asset 'Bank'. (A/M/E)

1.1 The accounting equation

Question One

p. 12

a. *Ashleigh's Performance Studio accounting equation*

	Bank	Accounts receivable	Musical equipment	Expenses	Accounts payable	Loan	Equity	Income	
A	+10 000					+10 000			
i.	+1 500							+1 500	✓ (A)
ii.		+2 000						+2 000	✓ (A)
iii.	+200						+200		✓ (A)
iv.	-550			+50		-500			✓ (M)
v.	-80				-90			+10	✓ (M)

- b. i. Paid studio electricity \$200; paid for musical supplies \$200 (NOT bill / account); (paid any relevant expenses for a performance studio). ✓ (A)
- ii. Ashleigh took \$300 cash for personal use (or Cash drawings \$300 or Owner paid personal expenses with business money \$300) ✓ (A)
- iii. Purchased new stereo (or other musical equipment) costing \$900. Paid \$100 deposit and put the rest on credit. ✓ (M)
- iv. The business received \$70 in full settlement of \$80 account (giving a \$10 discount). ✓ (M)
- v. Sold musical equipment (e.g. old stereo) which had originally cost \$250, for \$300 on credit (making a gain of \$50 on the sale). ✓ (M)

has broken the life into monthly periods to make comparisons and make changes as required. For example, if one month's report predicts a negative bank balance, Chris can cut back some payments to avoid this.

(A = definition period reporting, M = Achieved plus applied to *Cycle Supreme*, E = Merit plus link to months and how it is used)

- d. The bike repair fees are an income for *Cycle Supreme* because the fees increase the asset bank when customers pay for their bikes to be repaired and maintained. The bike repair fees increase the profit and therefore increase the equity for *Cycle Supreme*. The bike repair fees are not a contribution by Chris the owner but cash from customers. Therefore, the bike repair fees are an income for *Cycle Supreme*.

(A = definition income, M = Achieved plus applied to *Cycle Supreme* and bank increases when the customers pay for the bike repairs, E = Merit plus profit increasing equity)

- e. The accounting entity states that the personal finances (financial affairs) of Chris the owner must be kept separate and distinct from the finances of his business *Cycle Supreme*. This means that when Chris takes the bike home for his son's birthday, he needs to record the \$850 as drawings in the Equity section of the Statement of Financial Position because this is a personal expense for Chris, not a business expense.

(A = definition of accounting entity (first sentence), M = report the \$850 as drawings because it's a personal expense for Chris, not a business expense *Cycle Supreme*, E = explains, using the definition, the reporting of the \$850 bike as drawings in the statement of financial position for *Cycle Supreme* because it is a personal expense of Chris (E).)

Part B

- a. Bank, Inventory, Prepayments, Shop fittings
(3 = A)
- b. Unlimited liability means that if *Cycle Supreme* gets into financial difficulty and is unable to pay its debts, Chris the owner can be forced to use his personal assets to pay these debts.

(A = idea of personal assets paying business debts, M = *Cycle Supreme's* inability to pay debts, therefore Chris's assets have to be used.)

- c. i. *Cycle Supreme* must report the repair tools in the statement of financial position as a non-current asset at \$14 500, which is the original purchase price paid to purchase the tools. This is in accordance with the historical cost concept, stating the tools must be reported at the original price they were purchased for.
- ii. The maintenance on the tools used by *Cycle Supreme* to repair the bikes is revenue expenditure because maintenance is a regular expense *Cycle Supreme* will have to pay every year or more often, and it will therefore decrease the profit in the income statement. Maintenance is not improving the value of the tools, but restoring them.

(A = report at original purchase price, revenue expenditure being a regular payment, M = *Cycle Supreme*, tools, reported at original purchase price, maintenance regular and decreases profit, E = Merit plus \$14 500, reference to statement of financial position)

- d. The building that *Cycle Supreme* operates from is an asset for *Cycle Supreme* because the company purchased it in the past,

Question Two

p. 13

- a. Assets will increase as van will increase in *Merv's Movers'* accounts by \$15 000. (A) Liabilities will increase as *Merv's Movers* purchased the van on credit, so accounts payable increases by \$15 000. (A)
- b. Assets will decrease by \$360 as the asset 'Bank' will decrease when *Merv's Movers* pays its workers. (A) Expenses will increase by \$360 as Wages increase. (A)
- c. Asset 'Bank' will increase by \$3 200. (A) Income will increase by \$3 200 as Fees received will increase. (A)
- d. Assets will decrease as Bank will decrease by \$2 300. (A) Equity will decrease as Drawings will increase by \$2 300. (A)
(A = element increasing or decreasing, M = A plus correct amount and account)

1.1 Accounting concepts reinforcement

Many questions in this section can be graded as either 'Merit' or 'Excellence'. Students will achieve a 'Merit' grade if their answer defines concepts, but there is insufficient linkage of the concept with the context of the question. An 'Excellence'-level answer is one that fully integrates examples that are relevant to the context of the question into the definition, and so clearly answers what has been asked.

Question One

p. 15

Part A

- a. The main role of the financial accountant for *Cycle Supreme* is to give Chris financial advice to help his business / interpret the financial statement to assist with decisions. (A)
- b. The purpose of the Cash Budget for *Cycle Supreme* is to predict the estimated receipts and estimated payments each month to forecast the bank balance, and make changes if necessary. (A)
- c. The period reporting concept states that the life of *Cycle Supreme* must be broken into time periods of equal length for reporting purposes. By preparing a budget each month, Chris