Exercise 1.1 The Accounting process

Order	Accounting process
a	*Collecting source documents like receipts and cheque butts*
b	*Recording transactions in journals and inventory cards*
c	*Preparing financial reports*
d	*Providing advice to the owner of the business*

Exercise 1.2 The Accounting process

Action	Accounting process	Stage
Preparing an Income Statement	*Reporting*	*Output*
Filing sales invoices	*Collecting source documents*	*Input*
Entering transactions in a cash journal	*Recording*	*Processing*
Presenting the owner with alternative sources of finance	*Advice*	*Advice*

Exercise 1.3 Accounting assumptions

a

Accounting assumption	*Accounting entity*
Explanation	*The owner and the business are separate accounting entities. Therefore, the business's assets (bank account) should not be used for personal purposes. This payment should be recorded as drawings by the business as the owner has taken business funds for personal use.*

b

Accounting assumption	*Going concern*
Explanation	*Michael thinks that the band (the business) might disband in a year or so and therefore has decided to list all their assets as current and any further asset purchases as expenses.*

c

Accounting assumption	*Period*
Explanation	*Michael cannot wait until the end of a three-year tour to calculate profit. The life of the business must be broken up into periods so that performance can be determined and comparability of results can occur. Also the tax office would require the business's financial statements at the end of each financial year.*

d

Accounting assumption	*Going concern*
Explanation	*The business is deemed to have a continuous life and its records should be kept on that basis. Michael cannot list a three-year loan as current because that implies that this liability and all others will have to be paid within 12 months. This is not the case as the business should be able to distinguish between those liabilities that are current (to be paid within 12 months) and those that are non-current (do not have to be paid for a period greater than 12 months).*

e

Accounting assumption	*Accrual basis*
Explanation	*This Assumption states that revenue is recognized in the period in which the expected economic inflow of economic benefit can be measured in a faithful and verifiable manner. Michael can only recognise the revenue when it has been earned. This revenue will not be earned until the next year and cannot be reported as revenue this year.*

f

Accounting assumption	*Period*
Explanatio n	*Profit determination involves a process of matching revenue earned in a particular period against expenses incurred in the same period. Micheal cannot match 6 months of revenue against a year's worth of expenditure.*

Exercise 1.4 Qualitative characteristics

a

Qualitative characteristic	*Relevance*
Explanation	*Pat does not need to list all 35 individual accounts receivable as this information would not aid or improve decision-making. In fact, it would probably have the opposite effect because it would make the Balance Sheet more difficult to read. The same information could be shown with one 'accounts receivable' figure and have the same impact on decisions.*

b

Qualitative characteristic	*Comparability*
Explanation	*The accounting methods used by the business should be consistent from one period to the next to allow the comparison of reports. If Pat was to change accounting methods every year he would not know whether the business improved due to changes in business performance or the change in accounting method. The change in accounting method should be disclosed in the financial reports of the business.*

c

Qualitative characteristic	*Verifiability*
Explanation	*Pat has recorded the electricity as an estimate. Other independent observers will not reach the same outcome. Hence this information is not faithfully represented as there is no source document evidence to verify the amount and thus the information contained in the reports will not be free from bias.*

d

Qualitative characteristic	*Relevance*
Explanation	*Pat has paid for business expenses using his personal cheque book, which means that the reports of the business will not include all information that will be useful for decision-making. He will need to record these transactions as a capital contribution as he is a separate accounting entity to the business.*

e

Qualitative characteristic	*Faithful representation*
Explanation	*The plumbing equipment must be shown at its original purchase price as this value is verified by source document evidence. Valuing the instruments at their replacement value is not a faithful representation, and thus makes the financial reports biased and not free from material error.*

f

Qualitative characteristic	*Timeliness*
Explanation	*Financial information from 2016 and 2017 is too old and therefore not useful in regards to decisions relating to 2020. Information needs to be the most up to date to be able to have an effective influence on decision making.*

g

Qualitative characteristic	*Understandability*
Explanation	*Pat should display information that is comprehensible to users with a reasonable knowledge of business and finance. Financial information needs to be clear and provide information useful for decision-making.*

Exercise 1.5 Qualitative characteristics

Qualitative characteristic	*Verifiability*
Explanation	*Betty must keep all the firm's source documents as these provide evidence of the asset's original purchase price. This is the only value that can be verified and ensures that the figures in the Balance Sheet are accurate and free from bias. Verifiability is maintained by retention of source documents.*

Exercise 1.6 Accounting assumptions and Qualitative characteristics

a

Qualitative characteristic	*Relevance*
Explanation	*The owner should only include information that relates to the current reporting period that will help to determine the business's performance and provide information useful for decision-making. The receipt is two years old and may have already been recorded. This transaction does not relate to the current reporting period and if included would alter the final result and may mislead decision-makers.*

b

Accounting assumption	*Period*
Explanation	*The business should have recorded and reported the cash receipt two years ago in the reporting period in which the transaction occurred. Then the financial reports would have included all significant information for decision-making.*

Exercise 1.7 Accounting assumptions and Qualitative characteristics

a

Accounting assumption	*Accounting entity*
Explanation	*The owner and the business are separate Accounting entities. Therefore, the business's assets (bank account) should not be used for personal purposes. Beria's payment should be recorded as drawings by the business as the owner has taken business funds for personal use.*

b

Qualitative characteristic	*Relevance*
Explanation	*If this transaction is not recorded or reported, then the reports of the business will not include all information that will be useful for decision-making. Beria has withdrawn business assets for personal use, but this must be recorded from the business's perspective because the business and Beria are separate Accounting entities. By making drawings, she has reduced her claim on the assets of the business.*

Exercise 2.1 Assets, liabilities and owner's equity

Item	Classification
a Inventory of supplies	*Asset*
b Mortgage	*Liability*
c Cash at bank	*Asset*
d Accounts Receivable	*Asset*
e Loan	*Liability*
f Accounts Payable	*Liability*
g Equipment	*Asset*
h Bank overdraft	*Liability*
i Vehicle	*Asset*
j Capital	*Owner's equity*

Exercise 2.2 Accounting equation

a

Calculation

A	=	*L*	+	*OE*
4 500	=	*500*	+	*OE*
OE	=	*4 500*	–	*500*
	=	*4 000*		

Owner's equity $ *4 000*

b

Calculation

A	=	*L*	+	*OE*
5 600	=	*250*	+	*OE*
OE	=	*5 600*	–	*250*
	=	*5 350*		

Owner's equity $ *5 350*

c

Calculation

A	=	*L*	+	*OE*	
35 000	=	*600*	+	*OE*	(A = 15 000 + 20 000)
OE	=	*35 000 – 600*			
	=	*34 400*			

(His car, stereo, clothing and other assets are personal assets and therefore will not be included in the business calculation.)

Owner's equity $ *34 400*

d

Calculation

A	=	*L*	+	*OE*	
23 500	=	*1 000*	+	*OE*	(A = 4500 + 1500 + 17 000 + 500)
OE	=	*23 500 – 1 000*			
	=	*22 500*			

(Visa card is a personal debt and therefore is not included in business calculations.)

Owner's equity $ *22 500*

Exercise 2.3 Accounting equation

a

Calculation

A = L + OE
A = 600 + 3 000
A = 3 600

Assets	**$** *3 600*

b

Calculation

A = L + OE
A = 3 000 + 10 000
A = 13 000

(Personal assets and personal loans are not included in business calculations.)

Assets	**$** *13 000*

Exercise 2.4 Classification

Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities
• *Cash on hand* • *Accounts Receivable* • *Inventory of supplies*	• *Equipment* • *Premises* • *Vehicles*	• *Accounts Payable* • *Bank overdraft* • *Mortgage (this year)* • *Wages owing to employees*	• *Mortgage (remainder)*

Note: Capital is an owner's equity item and is therefore not included in this table.

Exercise 2.5 Accounting equation

	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities	Owner's equity
a	14 200	10 400	***7 900***	6 400	10 300
b	***4 400***	15 800	400	2 000	17 800
c	12 000	18 000	600	1 600	***27 800***
d	41 300	25 200	19 900	***17 000***	29 600

Exercise 2.6 Classified Balance Sheet

a

Qualitative characteristic	*Verifiability*
Explanation	*The shop fittings are valued at $22 000 because that was their original purchase price and there is source document evidence that proves it. Source document evidence verifies the information in the Balance Sheet to ensure it is free from bias. The value of $8 200 is an estimate and cannot be verified and is therefore not a Faithful representation.*

b

Calculation

OE = A – L

= 87 900 – 38 300

Owner's equity **$** *49 600*

c PARIS FOR HAIR

Balance Sheet as at 31 May 2025

	$	$		$	$
Current Assets			**Current Liabilities**		
Inventory of hair care products	*42 000*		*Bank Overdraft*	*4 900*	
Accounts Receivable	*8 600*	*50 600*	*Accounts Payable*	*3 400*	
			Loan – NAB	*6 000*	*14 300*
Non-Current Assets					
Shop fittings	*22 000*		**Non-Current Liabilities**		
Office equipment	*15 300*	*37 300*	*Loan – NAB*		*24 000*
			Owner's equity		
			Capital – Paris		*49 600*
Total Assets		*87 900*	**Total Equities**		*87 900*

d

Explanation	*Office equipment is a non-current asset because it is a present economic resource controlled by the entity as a result of past events from which potential future economic benefits are expected to flow to the entity for a number of years. It is not held for the purpose of resale.*

Exercise 2.7 Classified Balance Sheet

a NOEL'S PLUMBING

Balance Sheet as at 1 February 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
Cash at Bank	*3 000*		*Wages owing*	*400*	
Inventory of parts	*12 000*		*Accounts Payable*	*8 500*	
Accounts Receivable	*1 500*	*16 500*	*Mortgage*	*8 000*	
			Loan – NAB	*20 000*	*36 900*
Non-Current Assets			**Non-Current Liabilities**		
Tools	*12 000*		*Mortgage*		*72 000*
Company vans	*30 000*				
Premises	*90 000*	*132 000*			
			Owner's equity		
			Capital – N. Season		*39 600*
Total Assets		**148 500**	**Total Equities**		**148 500**

b

Explanation	***Inventory of parts*** *is a current asset because it is a present economic resource controlled by the entity as a result of past events from which potential future economic benefits are expected to flow to the entity within 12 months.*

Explanation	***Loan – NAB*** *is a current liability because it is a present obligation of the entity arising from past events, the settlement of which is reasonably expected to result in the transfer of economic resources within the next 12 months after the end of the reporting period.*

c

Explanation	*A Balance Sheet is titled 'as at' because the information it provides is only accurate for that particular point in time. The balance of assets, liabilities and owner's equity are likely to change the following day, meaning that the information provided by that Balance Sheet is no longer Relevant.*

d

User 1	*Banks or other financial institutions (lenders)*
User 2	*Accounts Payable OR potential owners*

Exercise 2.8 Classified Balance Sheet

a

Calculation

$OE = A - L$

$= 133\,500 - 85\,700$

Owner's equity $ 47 800

b **ROB'S CD LIBRARY**

Balance Sheet as at 31 December 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
Cash at Bank	*1 000*		*Wages owing*	*1 200*	
Inventory of CDs	*24 000*		*Accounts Payable*	*4 500*	
Accounts Receivable	*1 500*	*26 500*	*Mortgage*	*6 000*	*11 700*
Non-Current Assets			**Non-Current Liabilities**		
Equipment	*12 000*		*Mortgage*		*74 000*
Premises	*95 000*	*107 000*			
			Owner's equity		
			Capital – R. James		*47 800*
Total Assets		***133 500***	**Total Equities**		***133 500***

c

Explanation	***Accounts Receivable*** *is a current asset because it is a present economic resource controlled by the entity as a result of past events from which potential future economic benefits are expected to flow to the entity within 12 months.*

Explanation	***Wages owing*** *is a current liability because it is a present obligation of the entity arising from past events, the settlement of which is reasonably expected to result in the transfer of economic resources within the next 12 months after the end of the reporting period.*

d

Statement	*Liabilities and owner's equity are both equities as they represent claims on the assets of the business. Liabilities are external claims whereas owner's equity is the internal claim of the owner on the assets of the business.*

Exercise 2.9 Transactions and the Accounting equation

a Feb. 1

Assets	=	Liabilities	+	Owner's equity
Increase Office supplies $1000		*Increase Accounts Payable – EZ Supplies $1 000*		*No effect*

Feb. 2

Assets	=	Liabilities	+	Owner's equity
* Bank $700*		* Loan $700*		*No effect*

Feb. 3

Assets	=	Liabilities	+	Owner's equity
* Home office supplies $40*		*No effect*		* Drawings $40/ Capital $40*

Feb. 4

Assets	=	Liabilities	+	Owner's equity
* Data projector $450*		*No effect*		*No effect*
* Bank $450*				

Feb. 5

Assets	=	Liabilities	+	Owner's equity
* Bank $300*		* Accounts Payable – EZ Supplies $300*		*No effect*

b

Accounting assumption	*Entity*
Explanation	*The owner and the business are separate Accounting entities. Therefore, the business's assets (office supplies) should not be used for personal purposes. Jan's removal of business stationery should be recorded as drawings by the business as the owner has taken business assets for*

	personal use.

c

Qualitative characteristic	*Verifiability*
Explanation	*Jan must keep the source document for the purchase of the new data projector as it provides verifiable evidence of the transaction and this ensures that all information contained in the financial reports of the business is free from bias.*

Exercise 2.10 Transactions and the Accounting equation

a April 1

Assets	=	Liabilities	+	Owner's equity
* Supply of ingredients $3 000*		* Accounts Payable – $3 000*		*No effect*

April 2

Assets	=	Liabilities	+	Owner's equity
* Account Receivable $300*		*No effect*		*No effect*
* Bank $300*				

April 3

Assets	=	Liabilities	+	Owner's equity
* Kitchen trolley $700*		*No effect*		*No effect*
* Bank $700*				

April 4

Assets	=	Liabilities	+	Owner's equity
* Computer $1 200*		*No effect*		* Capital contribution $1 200/ Capital $1 200*

April 5

Assets	=	Liabilities	+	Owner's equity
* Bank $10 000*		* Loan – Patterson $10 000*		*No effect*

b

Qualitative characteristic	*Relevance*
Explanation	*The owner and the business are separate Accounting entities. Therefore, when Murray donated his personal computer, it ceased to be his personal asset and became an asset that was controlled by the business. This is seen as a capital contribution as Murray has provided an asset for the business to use and thus Murray has increased his claim on the assets of the business and thus his owner's equity.*

c

Explanation	*Ingredients are supplies used by the business and classified as a current asset as they are a present economic resource controlled by the entity as a result of past events from which potential future economic benefits are expected to flow within the next 12 months.*

Exercise 2.11 Working Capital Ratio

a

Calculation		
Current Assets / *Current Liabilities*	= *40 000* / *30 000*	
	Working Capital Ratio	*1.33* **:** *1*

b

Satisfactory/Unsatisfactory	*Satisfactory*
Explanation	*The ratio indicates that there are sufficient current assets to cover current liabilities as it is above the minimum of 1:1. This indicates that the business will be able to meet its short-term debts as they fall due as they have $1.33 of current assets to every $1 of current liabilities.*

c

Explanation	*A classified Balance Sheet separates assets and liabilities into current and non-current, allowing the comparison of a business's short-term assets to its short-term liabilities to determine whether the business has sufficient liquidity, i.e. enough current assets to meet its short-term obligations as they fall due.*

Exercise 2.12 Debt Ratio

a

Calculation

Debt Ratio =

$$\frac{\textit{Total Liabilities}}{\textit{Total Assets}} \times \frac{100}{1} = \frac{120\,000}{300\,000} \times \frac{100}{1}$$

Debt Ratio	*40* **%**

b

Explanation	*The ratio indicates how much of the business's assets are financed externally as compared to assets financed internally by the owner.*

c

Explanation	*The Debt Ratio provides a good indication of risk. This is the business's risk of financial collapse due to the burden of servicing debt in regards to principal and interest repayments. If a business has too much debt, servicing it may put too much pressure on the cash flow of the business and force it into liquidation.*

Exercise 2.13 Indicators

a

Calculation

$$\frac{\textit{Current Assets}}{\textit{Current Liabilities}} = \frac{5\,000}{20\,000}$$

Working Capital Ratio	*0.25* **:** *1*

b

Satisfactory/Unsatisfactory	*Unsatisfactory*
Explanation	*The ratio indicates that there are insufficient current assets to cover current liabilities as it is below the minimum of 1:1. This indicates that the business will be unable to meet its short-term debts as they fall due, having only 25c of current assets for every $1 of current liabilities. The owner will need to contribute capital, or the business will need to borrow in the short term to cover its short-term debts.*

c

Calculation

Debt Ratio =

$$\frac{\text{Total Liabilities}}{\text{Total Assets}} \times \frac{100}{1} = \frac{105\,000}{210\,000} \times \frac{100}{1}$$

Debt Ratio	*50* **%**

d

Statement	*The owner could contribute capital. This would increase bank, increasing assets but have no impact on the value of the liabilities. Thus would improve both ratios.*

Exercise 2.14 Indicators

a

Qualitative characteristic	*Relevance*
Explanation	*Maria does not need to list all individual Accounts Payable as this information would not be seen as material; that is, it would not aid or improve decision-making. In fact, it would probably have the opposite effect because it would make the Balance Sheet more difficult to read. The same information could be shown with one 'Accounts Payable' figure and have the same impact on decision-making.*

b

Calculation

$$\frac{\textit{Current Assets}}{\textit{Current Liabilities}} = \frac{36\ 000}{18\ 000}$$

Working Capital Ratio	*2 : 1*

c

Satisfactory/Unsatisfactory	*Satisfactory*
Explanation	*The ratio indicates that there are sufficient current assets to cover current liabilities as it is above the minimum of 1:1. This indicates that the business will be able to meet its short-term debts as they fall due as there are $2 of current assets for every $1 of current liabilities.*

d

Calculation

Debt Ratio =

$$\frac{\textit{Total Liabilities}}{\textit{Total Assets}} \times \frac{100}{1} = \frac{90\ 000}{225\ 000} \times \frac{100}{1}$$

Debt Ratio	*40* **%**

e

Ratio	Increase/Decrease/No Effect
Working Capital Ratio	***Decrease*** *– as current assets decrease due to decrease in bank by $11 000 with no change in current liabilities*
Debt Ratio	***No effect*** *– as there is no overall change in assets as bank ↓ $11 000 and vehicle ↑ $11 000, and also liabilities remain unchanged*

Exercise 2.15 Classified Balance Sheet

a

Calculation

OE (Capital) = A – L

= 49 200 – 35 500

Capital | **$** *13 700*

b Oct. 1

Assets	=	Liabilities	+	Owner's equity
* Bank $1 000*		* Accounts Payable $1 000*		*No effect*

Oct. 2

Assets	=	Liabilities	+	Owner's equity
* Bank $8 000*		* Loan – Barry's Bank $8 000*		*No effect*

Oct. 3

Assets	=	Liabilities	+	Owner's equity
* Account Receivable $400*		*No effect*		*No effect*
* Bank $400*				

Oct. 4

Assets	=	Liabilities	+	Owner's equity
* Inventory of paint $2 000*		*Accounts Payable $2 000*		*No effect*

Oct. 5

Assets	=	Liabilities	+	Owner's equity
Inventory of paint $200		*No effect*		*Drawings $200/ Capital $200*

Oct. 6

Assets	=	Liabilities	+	Owner's equity
Equipment $1 500		*No effect*		*No effect*
Bank $1 500				

Oct. 7

Assets	=	Liabilities	+	Owner's equity
Bank $500		*Wages owing – $500*		*No effect*

Oct. 8

Assets	=	Liabilities	+	Owner's equity
Computer $4 000		*No effect*		*Capital $4 000*

c ANDREW'S PAINTING SERVICE

Balance Sheet as at 8 October 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
Cash at Bank	*9 600*		*Accounts Payable*	*6 000*	
Inventory of paint	*11 800*		*Loan – ANZ*	*6 000*	
Accounts Receivable	*600*	*22 000*	*Loan – Barry's Bank*	*8 000*	*20 000*
Non-Current Assets			**Non-Current Liabilities**		
Computer	*4 000*		*Loan – ANZ*		*24 000*
Painting equipment	*10 500*				
Vans	*25 000*	*39 500*			
			Owner's equity		
			Capital – Andrew	*13 700*	
			add Capital contribution	*4 000*	
				17 700	
			less Drawings	*200*	*17 500*
Total Assets		***61 500***	**Total Equities**		***61 500***

d

Explanation	*A classified Balance Sheet separates assets and liabilities into current and non-current, allowing the comparison of a business's short-term assets to its short-term liabilities to determine whether the business has sufficient liquidity, i.e. enough current assets to meet its short-term obligations as they fall due. This allows the business to determine the short-term liquidity and the long-term stability of the business, improving the quality of information and hence decision-making.*

Exercise 3.1 Business ownership

a

Feature 1	*The owner and the manager are the same person (Travis). This differs from a large business, where there tends to be a separation of ownership and management.*
Feature 2	*The business employs fewer than 20 employees. On commencement Travis may be the only employee. Large businesses employ over 200 people.*

b

Reason 1	*Profit motive*
Reason 2	*Greater freedom/independence OR identifying a market opportunity OR unemployment*

c

Quality 1	*Expertise in chosen field*
Quality 2	*Entrepreneurship – good business sense OR determination OR confidence OR cordiality OR patience OR humility*

d

Issue 1	*A description of the business and its proposed structure*
Issue 2	*A description of the product or service*
Issue 3	*Market strategies*
Issue 4	*A personal analysis of strengths and weaknesses OR establishment costs and sources of finance OR projected sales and running costs*

Exercise 3.2 Nature of operations

a

	Business	Nature of Business
a	Q-Mart Clothing Emporium	*Trading*
b	Ken Farthington, accountant	*Service*
c	Mac Walter Textiles factory	*Manufacturing*
d	First Rate Plumbing	*Service*
e	The Book Store	*Trading*
f	Digby Recording Studios	*Service/Manufacturing*

Exercise 3.3 Partnerships

a

Reason	*Maxine would be willing to accept less in profit due to the greater independence and personal satisfaction she would gain by running her own business. Also, as the business is relatively new, she would be willing to accept less as the business establishes itself.*

b

Nature of operations	*Manufacturing (she makes the pyjamas) and trading (she sells the pyjamas)*

c

Accounting assumption	*Entity*
Explanation	*Maxine and Nigel and the business are separate Accounting entities. Therefore, Maxine and Nigel's personal assets are not the assets of the business (not under the business's control) and therefore will not be listed in the Balance Sheet of the business.*

d

Explanation	*Maxine and Nigel would be able to benefit from distinct tax advantages if they established their business as a partnership as the profits could be split between them, giving them two tax-free thresholds. As a sole proprietorship, all profits would go to Maxine as taxable income and thus perhaps be taxed at a higher marginal rate.*

e

Explanation	*Maxine and Nigel would need to establish their business as a proprietary company that provides limited liability. Therefore, if the business goes bankrupt then only the assets of the business can be used to extinguish debt (provided no fraud or negligence was committed by Maxine or Nigel).*

f

Explanation	*Maxine and Nigel would consider where they sourced their product from e.g. local production or if from overseas that does not take advantage of people in third world countries. Also, that their products meet safety standards such as being fire resistant and provide all necessary information in regards to sizing and taking care of the product such as washing. Also, packaging and other factors can be discussed.*

Exercise 3.4 Partnerships

a

Benefit 1	*Greater access to capital and skills*
Benefit 2	*Sharing of workload and any potential losses*

b

Benefit	*The partnership agreement would set out clearly in writing all aspects of the partnership in terms of the role of each partner and also have a section regarding dispute resolution. This should reduce the possibility of any disagreements occurring.*

c

Reason	*When one of the partners dies, the partnership is dissolved and ceases to exist.*

d

Reason	*Vince's small business may fail due to a variety of reasons, including poor management skills, poor customer relations, lack of willingness to seek professional advice and a lack of capital.*

Exercise 3.5 Companies

a

Nature of operations	*Manufacturing (he makes the games) and trading (he sells the games).*

b

Quality 1	*Expertise in chosen field*
Quality 2	*Entrepreneurship – good business sense*
Quality 3	*Determination OR confidence OR cordiality OR patience OR humility*

c

Advantage	*Limited liability – With a proprietary company only the assets of the business can be used to settle the debts of the business, whereas a partnership has unlimited liability.*
Disadvantage	*To establish the business as a proprietary company Lucas could face costs up to $1 000, whereas the cost to establish the business as a partnership would be much lower. Also, there are more compliance costs associated with a proprietary company than a partnership.*

d

Explanation	*If Lucas and Sky's relationship ends this would have no bearing on the business if it was structured as a company because the business has its own separate legal existence. Thus, ownership can be transferred without affecting the business's existence. It exists until it is wound up.*

e

Advantage	*Greater ability to attract capital with a public company as they can advertise for funds through share issues on the ASX.* *Greater transferability of ownership as shares easily traded on ASX.*
Disadvantage	*Due to the nature of a public company being public – there is much more scrutiny. The company's constitution/charter, company officers and financial records all have to be made public. Also greater scrutiny via ATO and ASIC with separate financial reports required and the need to hold public Annual General Meetings.* *To publicly advertise for funds the public company needs to produce a prospectus, which is a legal document provided to the public and ASIC outlining information about the company and the intended use of the funds raised.* *There is a greater separation between ownership and control. The majority of those who own shares in a public company would have nothing to do with the daily running of it.*

f

Argument 1	*Total freedom in establishing the business as he sees fit*
Argument 2	*Satisfaction and reward of commencing a business from scratch OR no need to pay for goodwill*

Exercise 3.6 Business issues

a

Reason 1	*Profit motive*
Reason 2	*Identifying a market opportunity OR unemployment*

b

Cost 1	*Loss of secure income through paid employment*
Cost 2	*Potential risk of losing life savings if the business does not succeed OR loss of other benefits associated with paid employment e.g. paid sick leave and holidays*

c

Explanation	*A company has its own separate legal existence from that of its owner(s) and thus can sue or be sued in its own right and provides the owner(s) limited liability due to this. A sole proprietorship is not a separate legal entity and can only exist legally through its owner. Therefore, it has unlimited liability as if the business is to be sued it must be sued through the owner.*

d

Disadvantag e	*Greater establishment costs OR more compliance costs OR greater regulation*

e

Benefit	*Greater access to capital and skills OR sharing of workload and any potential losses*

f

Benefit 1	*Proven track record*
Benefit 2	*All assets and customers are established OR an immediate income stream OR previous owner and employees can assist in changeover*

g

Explanation	*The previous success of the business may have been dependant on the skills and customer relations of the previous owner and Elena cannot replicate this. This may cause customers to shop elsewhere causing a loss of sales (income) and potential business failure. Other explanations are possible.*

h

Source 1	*Accountants*
Source 2	*Solicitors OR bank managers OR small business agencies e.g. SBCS*

Exercise 3.7 Business issues

a

Explanation	*When Jane left her job as a journalist to commence Bronte's Books, she gave up a secure income and all the benefits associated with it. As she is just commencing her business, it may be some time until a regular income stream can be generated by the business. Also, if Jane invested her life savings into the business to commence it and it fails then she stands to lose her savings and could forego personal assets if the business structure is not incorporated.*

b

Explanation	*The establishment costs for a new business would be less than that of buying an established business because it would not include goodwill, which represents the cost of the firm's reputation, client base and future potential. This intangible (non-physical) asset does not exist for brand new and unproven businesses.*

c

Explanation	*The benefit of joining a franchise is that it provides a proven product and business practices that ensure success. The franchisor has an invested interest in ensuring that the franchise is successful. It provides a name and product that is recognised and would be marketed widely, improving the chances of success for the small business owner.*

d

Financial	*High purchase price plus ongoing fees*
Non-financial	*Loss of individuality as rigid guidelines must be followed*

e

Nature of operations	*Trading (she sells the books) and service (she lends the books)*

f

Explanation	*The books should be reported as an asset because they are a resource controlled by Bronte's Books as a result of a past event from which future economic benefits are expected to flow to Bronte's Books.*

g

Explanation	*The books should be reported as a current asset if they are to be treated as inventory and sold. This is because they are a resource controlled by Bronte's Books as a result of a past event from which future economic benefits are expected to flow to Bronte's Books within 12 months.*

h

Explanation	*The books should be reported as a non-current asset if they are to be put in the library and be available to be borrowed. This is because they are a resource controlled by Bronte's Books as a result of a past event from which future economic benefits are expected to flow to Bronte's Books for a period greater than 12 months.*

Exercise 3.8

Alternate investments

a /b

Calculation **6% Simple interest**		**Calculation** **6% Compounding yearly**	
SI = $20 000 x 6% x 5 *= $6 000*		*CI = 20 000(1 + 0.06)^5* *20 000 x 1.338 = $ 26 764.51* *$26 760 – $20 000 = $6 764.51*	
Interest earned	*$6 000*	**Interest earned**	*$6 764.51*

c

Explanation 1	*The risk of the investment – the chance of the investment*
	not making a return or losing the initial investment.
Explanation 2	*The term of the investment – short, medium or long*
	and will it be subject to business cycles.
OR Explanation 3	*The liquidity of the investment – how easy it is to convert back into cash funds.*

Exercise 3.9 Cash investments

a

Advantage 1	*There is no risk of the business losing its investment.*
Advantage 2	*The business' cash is readily accessible at call.*

b

Explanation *Interest rates on term deposits are higher than on-call accounts*
because this is the reward/incentive the bank offers an investor to invest their money for
a fixed period of time, in this case, five years.

c

Calculation		**Calculation**	
Alpha Bank 5% simple interest		**Bank of Brunswick 4.8% compounding yearly**	
SI = $8 000 x 5% x 5		*CI = 8 000(1 + 0.048)^5*	
= $2 000		*8 000 x 1.264 = $ 10 113.38*	
		$10 112 – $8 000 = $2 113.38	
Interest earned	*$2 000*	**Interest earned**	*$2 113.38*

d

Explanation *Despite the interest rate being lower for investment option 3, it is able to*
earn a higher return because it uses compounding interest that allows any interest to be
added back to the initial investment so that the investor can earn interest on his interest.
The simple interest method always calculates interest on the original amount invested so
the return remains the same each year, while the compounding return earns more
interest each year as long as the previous years interest is added back to the original
investment.

Exercise 3.10 Cash investments

a

Explanation *'At call' refers to the liquidity of the investment and is the most liquid*
form of an investment because the funds that Con has invested can be withdrawn
whenever he wishes, at any time (if he has internet access) – basically it is his call!

b

Calculation **Cash management** **6% compounding quarterly**	**Calculation** **Debenture** **6.5% simple interest**	**Calculation** **Unsecured note** **7% compounding yearly**
Four interest calculations per year over 10 years = 40 interest calculations. Therefore: *6%/4 = 1.5% per quarter* *= 50 000(1 + 0.015)^{40}* *= 50 000 x 1.814* *= 90 700* *$90 700 – $50 000*	*$50 000 x 6.5/100 x 10 years:* *24 000/4 = $6 000* *the loan will reduce by $6 000 prior to each interest calculation.* *24 000 x 12/100 x ½* *= 1 440* *18 000 x 12/100 x ½* *= 1 080* *12 000 x 12/100 x ½ = 720* *6 000 x 12/100 x ½ = 360*	*= 50 000(1 + 0.07)^{10}* *= 50 000 x 1.967* *= 98 357.57* *$98 350 – $50 000*
Interest **$** *$40 700*	**Interest** **$** *32 500*	**Interest** **$** *48 357.57*

c

Explanation *The difference between a debenture and an unsecured note is that a*
debenture is a secured investment, which means that Con's investment is secured
against the assets of the company. Whereas an unsecured note is not secured against
the assets of the business and Con is essentially loaning a company money without any
form of collateral.

d

Choice	*Cash Management Account*
Justification	*Con has these funds set aside purely for investment purposes; however, Con cannot predict the future and there may come a time when he needs to access this cash. Ten years is a long time to lock funds away. With this investment he gets the best of all worlds because he gets a good return, with minimal to zero risk and has his cash at call should he require it.*

Exercise 3.11 Cash and property investments

a

Benefit 1	*Opportunity for capital gains as the factory increases in value over time*
Benefit 2	*Reduced expenses as the business no longer has to pay rent. (Rent money is dead money, loan repayments and interest go towards the ownership of an asset).*

b

Reason 1	*The property market is subject to fluctuations and investor fickleness. There is no certainty to the size or the occurrence of any potential capital gain.*
Reason 2	*The purchase of property is a long-term investment and the money invested would be tied up until the sale of the property. It is a risk if the business needed to access this cash quickly or it was forced to sell its property.*

c

Reason	*The purchase of shares allows the investment to remain in a liquid form since shares are quite easily traded on the stock exchange and would be easy to turn back into cash.*

d

Explanation	*Diversification is a sound investment decision as a business would not want to invest all its funds into one particular type of investment (not put all its eggs into one basket). In this case the business diversifies its risk and return as the share market would be seen as a higher risk with potentially high returns but balances it with*

Government bonds, which provide a smaller return but with no risk.

Exercise 3.12 Property investments

a

Calculation	
Capital gain = Sale price of property – Initial cost of property	
= $300 000 – $240 000	
Capital gain	**$** *60 000*

b

Calculation **Rate of Return over 4 years** $\frac{60\,000}{240\,000} \times \frac{100}{1} = 25\%$		**Calculation** **Rate of Return per year** $\frac{25\%}{4}$	
Rate of Return over 4 years	*25 %*	**Rate of Return per year**	*6.25 %*

c

Explanation *The rate of return on the property can only really be assessed and realised if the property had been sold. Since the asset is still in the possession of Frank he can assess his return so far, but the property market could change in the future and lead to a different rate of return. If the market declined dramatically it may reduce his capital gains to zero or even to the point of a capital loss.*

d

Benefit 1 *It allows Frank to diversify into a number of property assets instead of just one.*
Benefit 2 *The investment is more liquid – Frank would be able to liquidate his investment much more easily*

Exercise 3.13 Cash and property investments

a

Calculation	
Bjorn's Auto Spares	
6500 / 40 000 x 100 / 1 = 16.25%	
Rate of Return	*16.25 %*

Calculation	
Wilma's Pizza House	
5 000 / 25 000 x 100 / 1 = 12.5%	
Rate of Return	*20%*

Calculation	
Term deposit	
2 240 / 40 000 x 100 / 1 = 5.6 %	
Rate of Return	*5.6 %*

b

Investment	*Wilma's Pizza House*
Justification	*It provides the greatest rate of return*
for the least amount of investment	
and she spreads the risk of investment as she	
shares it with two others.	

c

Explanation *It does not take into account other factors such as the risk of each investment, the reason why these businesses are seeking additional funds and the future performance of these businesses. Molly would want to determine how much she knows about each type of business, her involvement, whether she needs the investment to be liquid and the term of her investment.*

d

Explanation *If Molly wanted her investment to remain particularly liquid so that she could access her investment when she needed to. If she invested into either business, she could not be guaranteed that she could find another buyer. Also she may not want to accept the risk of unlimited liability and wants an investment option with minimum risk.*

Exercise 3.14 Alternative investments

a

Calculation

Government bonds

Rate of Return *5 %*

Calculation *Return = $12 000 capital gain + $9 000 rental income*

Factory

$$\frac{(12\,000 + 9\,000)}{150\,000} \times \frac{100}{1} = 14\%$$

14% / 2 years

Rate of Return *7 %*

Calculation *Return = $33 000 capital gain*

Share portfolio

$$\frac{33\,000}{150\,000} \times \frac{100}{1} = 22\text{ \% over 10 years}$$

22% /10 years

Rate of Return *2.2 %*

b

Explanation *It may be premature to sell the factory at this time because it is providing a return per annum in excess of what the shares have. It has taken 10 years for the shares to generate this return. David may also benefit from greater capital gains if he holds on to the property for a longer period of time. On the other hand, it could be the market is going into a downturn and that he could suffer a capital loss if he tries to sell during this period.*

c

Explanation *The poor rental return would allow David to take advantage of negative gearing if he has finance on the property. This would occur if the interest expense of the loan was greater than the rental income he was receiving. This loss could then be offset against other income to reduce his tax.*

d

Explanation *The income that shareholders receive in the form of dividends are profits that already has company tax deducted from them. This is called a franking credit and essentially means that 30% of the tax has already been paid. If you are in a higher tax bracket, for example 40c in the dollar, you would only pay 10c on each dollar of dividend income rather than 40c. If you are in a lower bracket you get this dividend income tax free.*

e

Explanation *Diversification is a sound investment decision as David would not want to invest all his funds into one particular type of investment (not put all his eggs into one basket). At the moment David is diversifying his risk and return over a number of sectors; however, if David invests everything into the share market his investment risk becomes much higher with potentially higher returns but with the greater chance of him losing return and his investment especially if the stock market goes into a downturn, which it could do at any point because of its volatility.*

Exercise 3.15 Alternative investments

a

Explanation *When an investor purchases a share, they are buying a unit of ownership that gives them some say in the running of the company – the right to vote at AGM.A debenture is a form of secured borrowing that allows a company to raise funds from the general public by offering a fixed rate of return. Debenture holders are not owners but are secured creditors.*

b

Explanation *The difference between a debenture and an unsecured note is that a debenture is a secured investment, which means that Michael's investment is secured against the assets of the company. Whereas an unsecured note is not secured against the assets of the business and Michael is essentially loaning a company money without any form of collateral.*

c

<table>
<tr>
<td colspan="2">Calculation
Debentures
5% compounding quarterly
Four interest calculations per year over 1 years = 4 interest calculations. Therefore:
5%/4 = 1.5% per quarter
$= 20\ 000(1+0.0125)^4$
= 20 000 x 1.051
= 21 020
$21 020 – $20 000</td>
<td colspan="2">Calculation
Shares
$90 000 – $65 000</td>
<td colspan="2">Calculation
Unsecured note
9% simple interest
= 80 000 x 9%
= 80 000 x 0.09
= 7 200</td>
<td colspan="2">Calculation
Cash management account 4.5% compounding monthly
Twelve interest calculations per year over 1 years = 12 interest calculations. Therefore =
$10\ 000(1 + 0.00375)^{12}$
4.5%/12 = 3.75% per month
= 10 000 x 1.0459
= 10 459
$10 459 – $10 000</td>
</tr>
<tr>
<td>Interest</td><td>$1 020</td>
<td>Capital gain</td><td>$25 000</td>
<td>Interest</td><td>$7 200</td>
<td>Interest</td><td>$459</td>
</tr>
</table>

d

Calculation

Debentures

$\frac{1\,020}{20\,000} \times \frac{100}{1} = 5.1\,\%$

Rate of Return | *5.1 %*

Calculation

Shares

$\frac{25\,000}{65\,000} \times \frac{100}{1} = 38.5\,\%$

Rate of Return | *38.5 %*

Calculation

Unsecured notes

$\frac{7\,200}{80\,000} \times \frac{100}{1} = 9\%$

Rate of Return | *9 %*

Calculation

Cash management account

$\frac{460}{10\,000} \times \frac{100}{1} = 4.6\,\%$

Rate of Return | *4.6 %*

e

Explanation *Diversification is a sound investment decision as investing in a number of sectors allows Michael to protect his overall return. If one sector is under-performing this may be offset by a strong performance in another.*

f

Explanation *Michael has larger amounts invested in high-risk investments. He should ensure that he spreads risk and return evenly over his investment portfolio by making sure he invests more in lower risk investments. He needs to make sure that if the high-risk investments do not pay off then gains in the other sectors can offset that loss.*

g

Benefit 1 *It would further diversify his investments allowing Michael to further protect his overall return.*
Benefit 2 *Michael may be able to lower his risk as he would be investing into a well established business, which may be a less volatile investment than the share market. Also potential for greater growth in returns and greater control over his money as he would be a part owner in the business.*

h

Disadvantage *Shares are providing the highest form of returns for Michael at the moment. Despite the sound returns of the business it is almost half the return Michael was getting on his shares.*

i

Advice *Shares are providing the highest form of returns for Michael at the moment. He should keep the shares and get the necessary funds from his unsecured note as that is a very high risk but only providing a moderate return at 9%.*
Justification *By doing this he reduces his risk and increases his overall return on his investment.*

Exercise 4.1 Sources of finance

Example	Type of Finance	Justification
a Premises	*Term loan – mortgage*	*Premises is a very large purchase and a financial institution would offer a secured loan in the form of a mortgage to allow the business to repay the loan over a long period of time (20–30 years) and also protect its interests in case the borrower defaults by having the premises as security.*
b Inventory of materials	*Trade credit*	*This is short-term finance that allows the business to obtain the goods and hopefully sell them in time to raise the cash to repay creditors.*
c Equipment	*Lease*	*Since the useful life is so short it would be worthwhile leasing so as to update the equipment on a regular basis.*
d Wages	*Bank/Bank overdraft*	*Wages should be paid from the business funds available as it is an ongoing expense of the business.*
e Vehicle	*Term loan*	*Due to necessary modifications the vehicle will need to be purchased through a term loan that can be spread over the useful life of the asset.*
f GST Settlement	*Bank/Bank overdraft*	*This is a short-term debt that will need to be paid via the cash reserves of the business.*
g Franchise license	*Term loan*	*This is a large payment that will require a term loan to allow the repayment to occur over an extended period of time.*

Exercise 4.2 Sources of finance

a

Explanation	*The new printing equipment should be classified as a non-current asset because it is a present economic resource controlled by the entity as a result of past events from which potential future economic benefits are expected to flow to the entity for a number of years. It is not held for the purpose of resale.*

b

Advantage	*It does not have to be paid back and there is no interest charge.*

c

Explanation	*There will be no overall effect on the Accounting equation as there will just be a transfer of assets from current assets (bank decreases) to non-current assets (printing equipment increases). Therefore, assets remain the same and there is no impact on liabilities or owner's equity.*

d

Explanation	*The printing equipment is subject to constant technological advancements, which means that it has a very short useful life before it is outdated and superseded by more efficient equipment. Leasing would allow Perfect Printing to update the equipment on a regular basis.*

Exercise 4.3 Sources of finance and interest

a

Advantage	*A loan allows the purchase of expensive assets by allowing the business to repay the debt over an extended period of time.*

b

Calculation *40 000 x 10% x 5 = 20 000*	
Interest	**$** *20 000*

c

Explanation	*The interest is always charged on the original amount borrowed regardless of how much of the principal has been paid back. Therefore, even when half the loan is repaid the business is still paying interest on the full amount originally borrowed. This means that the business is effectively paying a higher rate of interest than that stipulated on the loan.*

d

Calculation *40 000 (principal)* *+ 20 000 (interest)* *60 000 (total cost)* *– 25 000 (selling price)* *= 35 000*	
Overall cost	**$** *35 000*

e

Calculation *100 x 52 x 5*	
Total cost of lease	**$** *26 000*

f

Alternative	*Lease*
Reason	*This allows the business to regularly upgrade the vehicle.*

Exercise 4.4 Sources of finance and interest

a

Calculation	
4 quarterly payments over 2 years	
4 x 2	
Number of repayments	*8*

b

Calculation	
$3 600/8	
Amount of principal paid each quarter	**$** *450*

c

Calculation **16% p.a. simple interest** *$3 600 x 16/100 x 2 years*	**Calculation** **16% p.a. reducing annually** *One interest calculation per year over 2 years = 2 interest calculations. Therefore:* *3 600/2 = $1 800* *The loan will reduce by $1 800 prior to each interest calculation.* *3 600 x 16/100 x 1 = 576* *1 800 x 16/100 x 1 = 288*	**Calculation** **16% p.a. reducing quarterly** *Four interest calculations per year over 2 years = 8 interest calculations. Therefore:* *3 600/8 = $450* *The loan will reduce by $450 prior to each interest calculation.* *3 600 x 16/100 x ¼ = 144* *3 150 x 16/100 x ¼ = 126* *2 700 x 16/100 x ¼ = 108* *2 250 x 16/100 x ¼ = 90* *1 800 x 16/100 x ¼ = 72* *1 350 x 16/100 x ¼ = 54* *900 x 16/100 x ¼ = 36* *450 x 16/100 x ¼ = 18*
Interest **$** *1 152*	**Interest** **$** *864*	**Interest** **$** *648*
Calculation *Total repaid =* *Principal + Total interest* *= $3 600 + $1 152*	**Calculation** *Total repaid =* *Principal + Total interest* *= $3 600 + $864*	**Calculation** *Total repaid =* *Principal + Total interest* *= $3 600 + $648*
Total repaid **$** *4 752*	**Total repaid** **$** *4 464*	**Total repaid** **$** *4 248*
Calculation *Each instalment =* *Total repaid/No. of instalments* *= $4 752/8*	**Calculation** *Each instalment =* *Total repaid/No. of instalments* *= $4 464/8*	**Calculation** *Each instalment =* *Total repaid/No. of instalments* *= $4 248/8*
Instalment **$** *594*	**Instalment** **$** *558*	**Instalment** **$** *531*

Exercise 4.5 Interest

a

Calculation *question says paid monthly* *12 x 2*	
Number of repayments	*24*

b

Calculation *$24 000/24*	
Amount of principal paid each month	**$** *1 000*

c

Calculation **12% p.a. simple interest** *$24 000 x 12/100 x 2 years*	**Calculation** **12% p.a. reducing half yearly** *Two interest calculations per year over 2 years = 4 interest calculations. Therefore:* *24 000/4 = $6 000* *The loan will reduce by $6 000 prior to each interest calculation.* *24 000 x 12/100 x ½ = 1 440* *18 000 x 12/100 x ½ = 1 080* *12 000 x 12/100 x ½ = 720* *6 000 x 12/100 x ½ = 360*	**Calculation** **12% p.a. reducing every four months** *Three interest calculations per year over 2 years = 6 interest calculations. Therefore:* *24 000/6 = $4 000* *The loan will reduce by $4 000 prior to each interest calculation.* *24 000 x 12/100 x 1/3 = 960* *20 000 x 12/100 x 1/3 = 800* *16 000 x 12/100 x 1/3 = 640* *12 000 x 12/100 x 1/3 = 480* *8 000 x 12/100 x 1/3 = 320* *4 000 x 12/100 x 1/3 = 160*
Interest **$** *5 760*	**Interest** **$** *3 600*	**Interest** **$** *3 360*
Calculation *Total repaid =* *Principal + Total interest* *= $24 000 + $5 760*	**Calculation** *Total repaid =* *Principal + Total interest* *= $24 000 + $ 3 600*	**Calculation** *Total repaid =* *Principal + Total interest* *= $24 000 + $ 3 360*
Total repaid **$** *29 760*	**Total repaid** **$** *27 600*	**Total repaid** **$** *27 360*
Calculation *Each instalment =* *Total repaid/No. of instalments* *= $29 760/24*	**Calculation** *Each instalment =* *Total repaid/No. of instalments* *= $27 600/24*	**Calculation** *Each instalment =* *Total repaid/No. of instalments* *= $27 360/24*
Instalment **$** *1 240*	**Instalment** **$ 1 150**	**Instalment** **$** *1 140*

Exercise 4.6 Sources of finance and interest

a

Limitation	*The amount is limited to previous profits, which may not exist or may have been used up by drawings.*

b

Calculation		**Calculation**	
ANZ – 8% p.a. simple interest		**NAB – 10% p.a. reducing half yearly**	
I = $30 000 x 8% x 3		*I = 30 000 x 10% x ½ = 1 500*	
= $7 200		*25 000 x 10% x ½ = 1 250*	
		20 000 x 10% x ½ = 1 000	
		15 000 x 10% x ½ = 750	
		10 000 x 10% x ½ = 500	
		5 000 x 10% x ½ = 250	
Interest charge	**$** *7 200*	**Interest charge**	**$** *5 250*

c

Explanation	*The NAB loan uses the reducing balance rate that calculates interest on the amount owing rather than the amount borrowed. The ANZ loan calculates interest only on the original amount borrowed regardless of how much principal has been repaid. Over time the amount owing is usually less than the amount borrowed.*

d

Explanation	*It would be inappropriate to use the lease to obtain the van because the van requires modification to ensure the safe transport of the plants. Assets that are leased do not belong to the business (despite being under their control) and thus cannot be modified and have to be returned to the lessor in the same condition as it was leased.*

Exercise 4.7 Sources of finance and interest

a

Advantage	*It does not have to be repaid and does not have an interest charge.*
Disadvantage	*It is limited to the resources of the owner and Vicki may not have this amount of cash available.*

b

Calculation	
$1 500 x 26 x 4 = 156 000	
Cost of lease	**$** *156 000*

c

Explanatio n	*A secured loan provides security to the lender in the form of an asset that can be claimed if the borrower defaults and is unable to repay the loan. An unsecured loan provides no asset as security for the loan so the lender faces a higher risk of not getting their money back in case the borrower defaults. To accept this higher risk the lender would want a greater return. Thus, a higher rate of interest is charged.*

d

Calculation

One interest calculation per year over 4 years = 4 interest calculations. Therefore:

$120 000/4 = $30 000

The loan will reduce by $30 000 prior to each interest calculation.

120 000 x 10% x 1 = 12 000

90 000 x 10% x 1 = 9 000

60 000 x 10% x 1 = 6 000

30 000 x 10% x 1 = 3 000

Total interest charge	**$** *30 000*

e

Calculation	
Total repaid = Principal + Total interest = $120 000 + $30 000	
Total cost of the loan	**$** *150 000*

f

Explanatio n	*Despite the loan being a cheaper option than the lease the new digital imaging equipment is subject to constant technological advancements, which means that it has a very short useful life before it is outdated and superseded by more efficient equipment. By the time Clear Shot had paid off the digital imaging equipment it would be just about technically obsolete. Leasing would allow Clear Shot to update the equipment on a regular basis.*

Exercise 4.8 Debt Ratio

a

Definition	*The Debt Ratio indicates how much of the business's assets are financed externally as compared to assets financed internally by the owner.*

b

Calculation

Debt Ratio = TL/TA

= 190 000/250 000

Debt Ratio	*76 %*

c

Explanation	*The Debt Ratio provides an indication of risk. This is the business's risk of financial collapse due to the burden of serving debt in regards to principal and interest repayments. If a business has too much debt, servicing it may put too much pressure on the cash flow of the business and force it into liquidation.*

d

Factor	Effect on Debt Ratio Increase/Decrease/No Effect
Capital contribution	*Decrease*
External finance	*Increase*

Exercise 4.9 Debt Ratio and Return on Owner's Investment

a

Calculation

Debt Ratio = TL/TA

= 40 000/125 000

Debt Ratio	*32 %*

b

Calculation

$$ROI = \frac{\text{Net Profit}}{\text{Average OE}} \times \frac{100}{1}$$

Average OE = (75 000 + 85 000)/2 = $80 000

$$= \frac{10\,000}{80\,000} \times \frac{100}{1}$$

ROI	*12.5 %*

c

Explanation	*Risk provides an indication of the possibility of financial loss, i.e. losing your financial investment. The greater the risk the greater the chance of financial loss. Reward has a direct relationship with risk as it is the possibility of greater than normal returns or rewards that encourages business owners to accept higher levels of risk. Therefore, the greater the risk, the greater the reward for accepting that risk.*

d

Explanation	*The owner could increase her ROI without changing profit by decreasing the level of her financial investment in the business. This means she must decrease the level of her owner's equity in the business. This could be achieved by greater drawings by the owner.*

Exercise 4.10 Debt Ratio and Return on Owner's Investment

a

Financial report	*Statement of Receipts and Payments/Cash Budget*
Justification	*This would show the bank that the business is able to generate sufficient cash flows in order to meet the debt servicing requirements of the loan.*

b

Calculation

Debt Ratio = TL/TA

= 200 000/320 000

Debt Ratio *62.5* **%**

c

Calculation

$$ROI = \frac{\text{Net Profit}}{\text{Average OE}} \times \frac{100}{1}$$

$$= \frac{12\ 000}{120\ 000} \times \frac{100}{1}$$

ROI *10* **%**

d

Explanation	*Woodie should be happy with this ROI as a 10% return was achieved in a quarter. If the business can maintain this performance Woodie is on track to double his ROI from the last financial year (10% x 4 = 40% as compared to 20% last financial year).*

e

Explanation	*Even though a high level of Debt Ratio means high risk it gives the owner an opportunity to earn a higher ROI as the business is able to earn profits by using outside funds instead of the owners.*

Exercise 4.11 Sources of finance, interest and Debt Ratio

a

Calculation	
Current Liabilities indicate how much is owing within the next 12 months. Therefore:	
= *3 000/12*	
Monthly instalment on the mortgage	**$** *250*

b

Explanation	*A mortgage is a secured loan that provides property as security to the lender. This property can be claimed by the lender if the borrower defaults and is unable to repay the loan. Therefore, a lower interest rate is charged because there is less risk to the lender. A term loan is normally an unsecured loan and provides no asset as security so the lender faces a higher risk of not getting their money back in case the borrower defaults. To accept this higher risk the lender would charge a higher rate of interest.*

c

Calculation	
WCR = CA/CL	
= *7 000/10 000*	
Working Capital Ratio	*0.7 : 1*

d

Satisfactory/Unsatisfactory	*Unsatisfactory*
Explanation	*The ratio indicates that there are insufficient current assets to cover current liabilities as it is below the minimum of 1:1. This indicates that the business will be unable to meet its short-term debts as they fall due and the owner will need to contribute capital or the business will need to borrow in the short term to cover its short-term debts.*

e

Explanation	*The business still has half of its overdraft balance available ($6 000) to meet its short-term debts as they fall due. This form of short-term finance will be sufficient to cover the business's obligations; however, the business would want the WCR to improve, to above 1:1, so it does not negatively impact on the business's long-term future (stability).*

f

Calculation	
Debt Ratio = TL/TA	
= 54 000/120 000	
Debt Ratio	*45* **%**

g

Calculation	
$350 x 12 x 2 = $8 400	
Cost of lease	**$** *8 400*

h

Calculation	
Two interest calculation per year over 2 years = 4 interest calculations. Therefore:	
$8 000/4 = $2 000	
The loan will reduce by $2 000 prior to each interest calculation.	
8 000 x 7% x ½ = 280	
6 000 x 7% x ½ = 210	
4 000 x 7% x ½ = 140	
2 000 x 7% x ½ = 70	
Total interest charge	**$** *700*

i

Explanatio n	*Option B – Borrowing would increase the Debt Ratio of Traveller's Friend. Initially this will have no impact on Imelda's ROI as it does not change the level of owner's equity in the business as only liabilities and assets increase due to the purchase of the computer on credit. However, in the longer term this may allow Imelda to earn a higher ROI as greater assets, financed by outside entities, may allow the business to earn a greater profit without any additional investment by Imelda.*

j

Explanation	*Option C – Capital contribution would decrease the Debt Ratio of Traveller's Friend. Assets will increase but there is no change in liabilities. This will decrease Imelda's ROI as the capital contribution increases her level of owner's equity in the business. The same profit with a larger owner's equity will cause the ROI ratio to fall.*

k

Explanation	*The lease is a cheaper option than the loan and Imelda may be better off saving her $8 000 rather than spending it on a computer network that would be outdated in two years. Leasing would allow Traveller's Friend to update the computer network on a regular basis. It would also cover all maintenance and repairs thus providing additional cost savings.*

Exercise 5.1 Quotes

a

Calculation *360 + (6 x 30) + (4 x 55) + (4 x 25)* *= 360 + 180 + 220 + 100* *= $860* *Profit per hour = 900/36 = $25 per hour*	
Price of Quote	**$** *860*

b

Explanation	*If Phil does not check his competitors' prices, then he runs the risk of*
perhaps setting his prices too high and missing out on the job. It would also allow him to	
determine if the job was worthwhile doing if competitors have set a low quote.	

Exercise 5.2 Quotes

a

Calculation *400 + (10 x 14) + (20 x 14) + (2 x 40) + (2 x 20) + (2 x 80)* *= 400 + 140 + 280 + 80 + 40 + 160* *= $1 100* *Profit per hour = 3 200/40 = $80 per hour*	
Price of Quote	**$** *1 100*

b

Reason 1	*Valued customer OR Trying to establish a name also build up and improve*
Reason 2	*Business is slow OR can still make $50 profit on the job at $990*

c

Explanation	*If prices are set too low, it could mean little or no profit may be achieved*
by the business. Profit would be one of the main reasons why Andrew accepted the risk	
of commencing his own business. If this cannot be achieved, then he would be better off	
working for someone else. It could also mean that Andrew's business occurred a loss on	

the job if prices were too low.

Exercise 5.3 Quotes

a

Calculation *450 + (4 x 25) + (40) + (4 x 20)* *= 450 + 100 + 40 + 80* *= $670* *Profit per hour = 720/36 = $20 per hour*	
Price of Quote	**$** *670*

b

Explanation	*The cost of the tools was not included in the quoted price as the tools are*
not specific to the job and will be able to be used on other jobs. Therefore, the tools	
should be treated as an asset of the business and their cost should not be borne by this	
particular customer as it was not a direct cost of completing this job.	

c

Explanation	*If prices are set too high, it could mean that she misses out on the job due*
to being beyond what the customer is willing to pay. This could have a follow-on effect in	
that the customer will be reluctant to offer work to Simone again if she knows that she is	
too expensive.	

Exercise 5.4 Percentage mark-up

a
Calculation

		Selling price if the following mark-up applied		
Type of tyre	**Cost price $**	**40%**	**50%**	**100%**
A16 MaxiGrip	*120*	*SP = CP (1 + % mark-up)* *SP = 120 (1 + 0.4)* *SP = 120 (1.4)* *SP = 120 x 1.4* *SP = $168*	*SP = 120 (1 + 0.5)* *SP = 120 (1.5)* *SP = 120 x 1.5* *SP = $180*	*SP = 120 (1 + 1)* *SP = 120 (2)* *SP = 120 x 2* *SP = $240*
Roadrunner 1600	*90*	*SP = 90 (1 + 0.4)* *SP = 90 (1.4)* *SP = 90 x 1.4* *SP = $126*	*SP = 90 (1+ 0.5)* *SP = 90 (1.5)* *SP = 90 x 1.5* *SP = $135*	*SP = 90 (1 + 1)* *SP = 90 (2)* *SP = 90 x 2* *SP = $180*
Mudrunner 2400	*140*	*SP = 140 (1 + 0.4)* *SP = 140 (1.4)* *SP = 140 x 1.4* *SP = $196*	*SP = 140 (1 + 0.5)* *SP = 140 (1.5)* *SP = 140 x 1.5* *SP = $210*	*SP = 140 (1 + 1)* *SP = 140 (2)* *SP = 140 x 2* *SP = $280*

b

Reason 1	*It may be dependent on the cost price of the stock: if the cost price is high then applying a large mark-up may make that item too expensive.*
Reason 2	*It may not be practical to have one fixed mark-up as the business needs to be able to react to market conditions and competitors' prices.*

Also:
High demand might allow a higher mark-up; low demand might require a lower mark-up
Level of competition
Level of supply

Exercise 5.5 Percentage mark-up

a

Calculation	
CP = SP/(1 + % mark-up) *CP = 80/(1 + 0.6)* *CP = 80/1.6 = 50*	
Cost Price of Viewmaster goggles	**$** *50*

b

Calculation	
Mark-up = (SP/CP) – 1 *Mark-up = (300/200) – 1* *Mark-up = 1.5 – 1* *Mark-up = 0.5 x 100 = 50%*	
Percentage mark-up applied to Blinder jackets	*50* **%**

c

Calculation	
SP = CP (1 + % mark-up) *SP = 150 (1 + 0.4)* *SP = 150 x 1.4* *SP = 210 + 21 GST = $231*	
Selling price (inclusive of GST) of Yeti Boots	**$** *231*

d

Explanatio n	*Some businesses are of a service nature and therefore have to take various costs into account before setting a price.* *Where costs are not well defined it is difficult to calculate cost price, making the application of a percentage mark-up impossible.* *Some franchise agreements may dictate selling prices making the application of a mark-up a breach of the agreement.*

Exercise 5.6 Cost-volume-profit analysis

a

Calculation	
40 + 40/5 + 2 *= 40 + 8 + 2* *= 50*	
Variable cost	**$** *50*

b

Calculation	
700 + 200 + 300 = 1200	
Fixed costs	**$** *1 200*

c

Calculation	
$CVP_{units} = \dfrac{FC}{SP_{pu} - VC_{pu}} = \dfrac{1\ 200}{75 - 50} = 48$	
Break-even point	*48 tables*

d

Calculation	
Sales revenue = CVP_{units} *x $SP = 48 x $75 = 3 600*	
Sales revenue	**$** *3 600*

e

Calculation	
$CVP_{units} = \dfrac{FC + DP}{SP_{pu} - VC_{pu}} = \dfrac{1\ 200 + 400}{75 - 50} = 64$	
Profit point	*64 tables*

f

Calculation $CVP_{units} = \dfrac{FC + DP}{SP_{pu} - VC_{pu}}$ $50 = \dfrac{1\,200 + 400}{SP - 50}$ *SP – 50 = 1600/50* *SP = $82 + $8.20 GST = 90.20*	
Selling price including GST	**$** *90.20*

g

Explanation	*Profit will decrease if the decrease in sales volume due to the excessive increase in selling price is greater then the effect of the increase in contribution margin per sale.*

Exercise 5.7 Cost-volume-profit analysis

a

(Variable cost)

Calculation	
3.50 + 450/100 + 0.50 + 15/10 *= 3.50 + 4.50 + 0.50 + 1.50* *= 10*	
Variable cost	**$** *10*

(Fixed cost)

Calculation	
500 + (50 x 4) + (30 x 4) + 70 + 120/12 *= 500 + 200 + 120 + 70 + 10* = 900	
Fixed cost	**$** *900*

b

Calculation	
$CVP_{units} = \dfrac{FC}{SP_{pu} - VC_{pu}} = \dfrac{900}{25 - 10} = 60$	
Break-even point	*60 pots*

c

Calculation	
Desired profit = previous wage plus return on savings *8400/12 + (6 000 x 10%)/12* *= 700 + 600/12* *= 700 + 50 = 750*	
Desired profit	**$** *750*

d

Calculation

$$CVP_{units} = \frac{FC + DP}{SP_{pu} - VC_{pu}} = \frac{900 + 750}{25 - 10} = 110$$

Profit point	*110 pots*

e

Explanation	*Molly thinks that she will only be able to produce 90 pots, which is 20 pots short of what she needs to produce and sell in order to achieve her desired profit.*

f

Calculation

$$CVP_{units} = \frac{FC + DP}{SP_{pu} - VC_{pu}} \qquad 90 = \frac{900 + 750}{SP - 10}$$

$SP - 10 = 1650/90 \qquad SP - 10 = 18.33$

$SP = \$28.33 + \$2.83\ GST = 31.16$

Selling price (plus GST)	**$** *31.16*

Exercise 5.8 Cost-volume-profit analysis

a

Definition	*Variable costs are costs that vary directly with the level of activity.*

b

Calculation

Variable cost = 145 + 5 + 20 = $170 per skateboard

Variable profit = Contribution margin = Selling price – Variable cost = 220 – 170 = 50

Variable profit	**$** *50*

c

Definition	*Break-even point is the level of sales where total revenue equals total expenses and the business makes neither a profit nor a loss.*

d

Calculation

1800/12 = 150

Desired monthly profit	**$** *150*

Calculation

80 + 120 + 2 400/12

= 80 + 120 + 200

= 400

Fixed cost	**$** *400*

Calculation

$$CVP_{units} = \frac{FC + DP}{SP_{pu} - VC_{pu}} = \frac{400 + 150}{220 - 170} = 11$$

Profit point	*11 skateboards*

e

Calculation	
Sales revenue = PP_{units} x $SP = 11 x $220 = 2 420	
Sales revenue	**$** *2 420*

f

Calculation	
The cost of wheels and metal frames increase by 10% (10% of $20 is $2, thus the cost is increased from $20 to $22). Therefore, VC are now $172. $BEP_{units} = \frac{FC + DP}{SP_{pu} - VC_{pu}}$ $10 = \frac{400 + 200}{SP - 172}$ *SP – 172 = 600/10* *SP – 172 = 60* *SP = $232 + $23.20 GST = 255.20*	
Selling price including GST	**$** *255.20*

g

Explanatio n	*If the decrease in sales volume due to the increase in selling price is greater than the effect of the increase in contribution margin per sale, then the business's profit will decrease.*

Exercise 5.9 Cost-volume-profit graphs

a

Calculation	
Sale price per unit =	
$1 000 / 10 units = $100 per unit	
$100 + $10 GST is $110 including GST	
Sale price including GST	**$** *110*

b

Amount of mirrors	*10 mirrors need to be sold to break even.*
Justification	*As indicated on the graph, it is the point where Total Revenue equals Total Costs so neither a profit nor loss is made.*

Exercise 5.10 Graphical representations

a

Break-even point in units	*20 units*
Break even point (sales revenue)	*$800*
Selling price per unit	*$400/10 units or $600/15 units = $40 per unit*
Total fixed cost	*$300*

b

Calculation

$$CVP = \frac{TFC + DP}{SP - VC}$$

$$20 = \frac{300 + 0}{40 - VC}$$

40 – VC = 300 / 20 => 40 – VC = 15

VC = 40 – 15 = 25

Variable cost per unit	**$** *25*

Exercise 5.11 Graphical representations

a

Explanation	*A loss has been made by the business as the Total Revenue line has yet to cross the Total Cost line. At this point the business has yet to cover all its costs or break even. While the Total Cost line is above the Total Revenue line the business will continue to make a loss.*

b

Suggestion 1	*Simone needs to increase the selling price of her cubby houses to provide a greater contribution margin per cubby house so that she can generate profit sooner.*
Suggestion 2	*Simone either needs to try to reduce her costs in order to increase her contribution margin per sale or increase her efficiency at building so she can produce sufficient units to generate a profit in a year.*

Exercise 5.12 Income Statement

a

Definition	*Fixed costs are costs that do not vary with the level of activity. They remain constant*

b

Calculation

9450/35 or 4050/15 = 270

Number of candelabras sold	*270*

c

Calculation

$$BEP_{units} = \frac{FC + DP}{SP_{pu} - VC_{pu}} = \frac{2\,400 + 0}{35 - 15} = 120$$

Break-even point	*120 candelabras*

d

Calculation

$$CVP_{units} = \frac{FC + DP}{SP_{pu} - VC_{pu}} \qquad 200 = \frac{2400 + 4000}{SP - 15}$$

SP – 15 = 6400/200 *SP – 15 = 32* *SP = 47*

Selling price (excluding GST)	**$** *47*

e

Factor	Increase/Decrease/No Effect
Contribution margin	*No Effect*
Break-even point in units	*Increase*

Exercise 5.13 Income Statement

a

Calculation *1800/50* *= \$36 + \$3.60 GST* *= 39.60*	
Selling price	**\$** *39.60*

b

Calculation *VP = 800/50 = 16*	
Variable profit	**\$** *16*

c

Calculation $CVP_{units} = \dfrac{FC + DP}{SP_{pu} - VC_{pu}} = \dfrac{880 + 0}{16} = 55$	
Break-even point	*55 kites*

d

Calculation *Sales revenue =* CVP_{units} *x \$SP = 55 x 36 = 1 980*	
Sales revenue	**\$** *1 980*

e

Method 1	*Competitors' prices: he would need to ensure that his prices are relative to the competition.*
Method 2	*Market reaction: he would set the selling price according to the level of demand in the market place for kites.*

f

Calculation	
Mark-up = (SP/CP) – 1 *Mark-up = (36/20) – 1* *Mark-up = 1.8 – 1* *0.8 x 100 = 80*	
Percentage mark-up	*80* **%**

g

Calculation	
New FC = Rent $400 + Electricity $80 + Wages (500 x 1.05) *= 400 + 80 + 525* $CVP_{units} = \frac{FC + DP}{SP_{pu} - VC_{pu}} = \frac{1005 + 0}{16}$ *Approx. 63 kites. Therefore, 63 – 55 = 8*	
Extra kites required to be sold	*8*

Exercise 5.14 Cost-volume-profit analysis

a

Definition	Fixed costs are costs that do not vary with the level of activity. They remain constant.

b

Calculation

Fixed costs = Variable profit – Net profit

= 9 000 – 2 000 = 7 000

Fixed costs	$ *7 000*

c

Calculation

Units = Total variable cost/Variable cost per unit

= 6 000/40 = 150

Number of benches	*150*

d

Definition	*Break-even point is the level of sales where total revenue equals total expenses and the business makes neither a profit nor a loss.*

e

Calculation

Contribution margin = Selling price – Variable cost

CM = 90 – 40 = 50

Contribution margin per bench	$ *50*

f

Calculation

$$CVP_{units} = \frac{FC}{SP_{pu} - VC_{pu}} = \frac{4\ 500}{50} = 90$$

Break-even point	*90 benches*

g

Calculation $CVP_{units} = \frac{FC + DP}{SP_{pu} - VC_{pu}} = \frac{4\,500 + 3\,000}{50}$ *7 500/5 = 150 benches. Therefore, 150 – 90 = 60*	
How many more benches	*60 benches*

h **JEROME'S GARDEN FURNITURE**

Income Statement for February 2025

Revenue	**$**
Sales ($90 x 100)	*9 000*
Less Cost of Sales ($40 x 100)	*4 000*
Gross Profit ($50 x 100)	*5 000*
Less Other Expenses	
Fixed Costs	*4 500*
Net Profit	*500*

i

Calculation $CVP_{units} = \frac{FC + DP}{CM_{pu}} \quad 60 = \frac{4\,500 + 3\,000}{SP - 40}$ $SP - 40 = \frac{7\,500}{60} \quad SP - 40 = 125 \quad SP = 165$	
Selling price	**$** *165*

Exercise 5.15 Cost-volume-profit analysis

a

Explanation	*A cost-volume-profit analysis is a cost versus volume analysis that allows the business to determine a selling price that will let Sophie achieve a specific profit goal.*

b

Definition	*Variable costs are costs that vary directly with the level of activity.*
Definition	*Fixed costs are costs that do not vary with the level of activity.*

c

Calculation

VC = 12 + 7.50 + 5/10

VC = 12 + 7.50 + 0.50

VC = 20

Variable cost	$ *20 per costume*

d

Calculation

1 200/12 + 50 + 40 + (2 x 10)

= 100 + 50 + 40 + 20 = 210

Fixed costs	$ *210*

e

Calculation

$$CVP_{units} = \frac{FC + DP}{SP_{pu} - VC_{pu}} = \frac{210 + 0}{30 - 20} = 21$$

Break-even point	*21 costumes*

f

Calculation

Sales revenue = CVP_{units} *x $SP = 21 x 30 = 630*

Sales revenue	$ *630*

g

Calculation	
$CVP_{units} = \dfrac{FC + DP}{SP_{pu} - VC_{pu}} = \dfrac{210 + 100}{10} = 31$	
Profit point	*31 costumes*

h

Calculation	
$BEP_{units} = \dfrac{FC + DP}{SP_{pu} - VC_{pu}}$ $\quad 100 = \dfrac{210 + 100}{SP - 20}$	
$SP - 20 = 310/100 \quad SP - 20 = 3.1$	
$SP = \$23.10 + \$2.31\ GST = 25.41$	
Selling price plus GST	**$** *25.41*

i

Factor	**Increase/Decrease/No Effect**
Contribution margin	*Decrease*
Break-even point (in units)	*Increase*

Exercise 6.1 Cash transaction

a

Source document	*Cash receipt*
Description	*A cash receipt is issued to verify cash received by the business. The business has received $550 cash for repair work completed that includes $50 GST collected on behalf of the ATO.*

b

Explanation	*When the business sets its price for the service it has completed it must also add GST. In this example fees of $550 were collected. The business is entitled to keep the $500 it received for the repairs it carried out, but the $50 GST is collected on the government's behalf. So the business owes the GST to the Australian government, thus creating a GST liability. This is a future economic sacrifice that the firm is obliged to make to the ATO within the next 12 months.*

c

Qualitative characteristics	*Verifiability and Faithful Representation*
Explanation	*Source documents are the starting point of the Accounting process and contain all the raw data that will be used to create financial information. Source documents play a vital role as they record the original purchase price and provide evidence that a transaction has occurred. Therefore, source document evidence verifies the information in the financial statements is a faithful representation of the business' position and ensures its financial information is complete, free from material error and free from bias.*

Exercise 6.2 Cash transaction

a

Stage of Accounting process	*Input*

b

Source document	*Cheque butt*
Description	*A cheque butt is completed to verify cash paid by the business. The business has paid $715 for electricity that includes $65 GST that can be used as a GST credit.*

c

Explanatio n	*When the business pays GST on a purchase or a payment, it is allowed to deduct this GST from the GST it owes to the Australian government (i.e. reduce its GST liability). This is because when the business pays the GST to its suppliers, the suppliers will pass on the GST to the ATO, so it is treated as if the business has directly paid the GST to the ATO.*

d

Reason 1	*The owner cannot verify how much has been taken.*
Reason 2	*The owner cannot verify if money is taken for proper purposes.*

e

Reason 1	*The words 'Tax Invoice' do not appear on the cheque butt.*
Reason 2	*A cheque butt does not convey the ABN number of the supplier.*

Exercise 6.3 Cash transaction

a

Description	*A cheque was written, and the business has paid $935 cash to Barbeques Galore.*

b

Explanatio n	*Clarke's Catering needs the cheque butt as evidence as well as the resulting tax invoice (cash receipt) to verify this transaction. The cheque is given to Barbeques Galore who will bank the cheque into their bank account.*

c

Drawee	*Westpac Bank*
Payee	*Barbeques Galore*
Drawer	*Clarke's Catering*

d

Explanatio n	*A cheque that is crossed 'Not negotiable' can only be deposited into the account of the nominated payee. This ensures that the only party that can receive the payment is the intended recipient.*

e

Benefit 1	*It allows the owner to make large payments without having to carry large amounts of cash*
Benefit 2	*A cheque can be signed 'Not negotiable' to ensure it only goes to the nominated payee. OR Cheques can be traced to determine who has deposited the funds as they must be deposited into a bank account. OR A cheque butt can provide evidence of the transaction.*

Exercise 6.4 Credit transaction

a

Source document A	*Sales invoice*
Description	*Music Tuition Services has performed 15 individual half-hour lessons for Lakeside Primary School at $30 per hour plus GST on credit and has sent an account for $495 including $45 GST, which is to be paid in 30 days*

Source document B	*Purchase invoice*
Description	*Music Tuition Services has purchased two 3-drawer desks on credit from Office Plan for a total cost of $3 300 including $300 GST.*

b

Explanation	*Document A, being a sales invoice, verifies a service that has been completed on credit. In this example, fees of $495 were charged. The business is entitled to the $450 that it earned for the music lessons, but it has also charged $45 GST to the customer on the government's behalf. So the business owes $45 GST to the ATO, thus increasing its GST liability.*

c

Original or Copy	*Copy*
Justification	*Music Tuition Services would issue this source document to the customer, so it would be the customer who receives the original while the business would retain a copy for their records.*

d

Explanation	*When the business is charged GST on a purchase the GST payment will still occur but just at a later date and it is deducted from the GST it owes to the ATO (i.e. reduce the GST liability). This is because when the business pays the GST to its supplier (creditor), the supplier will pass on the GST to the ATO, so it is treated as if the business has directly paid the GST to the ATO.*

e

Explanation	*Assets would increase by $3 000 due to the acquisition of two 3-drawer desks. (Note: GST is not part of the assets cost.) Liabilities would increase due to the creation of creditors to whom the business owes $3 300; however, liabilities decrease by $300 due to the GST credit that the business can use to offset against its GST liability.*

f

Statement	*Office Plan would send Music Tuition Services a Statement of Account.*
Justification	*The Statement of Account would provide a summary of all transactions that Music Tuition would have engaged with Office Plan. This would highlight the outstanding balance and give Music Tuition Services the opportunity to check the accuracy of the account against their own source documents.*

Exercise 6.5 Credit note

a

Source document	*Credit note*
Description	*B. W. Lawyers is receiving $385 credit on his account (therefore owes $385 less than before) due to the fact that 2 outdoor heaters he had hired did not work.*

b

Original or Copy	*Copy*
Justification	*Peta's Party Hire would issue this source document to the customer, so it would be B. W. Lawyers who receives the original while the business would retain a copy for their records.*

c

Explanation	*This transaction would have the effect of decreasing the amount owed by B. W. Lawyers to Peta's Party Hire as by issuing the credit note Peta's Party Hire has stated that they are reducing B. W Lawyers account by the amount of $385.*

d

Explanation	*This transaction would decrease Peta's Party Hires GST liability as they are reducing the amount of revenue they are receiving and therefore B. W. Lawyers GST liability would increase as their expense of hiring has decreased, thus reducing their GST credit amount.*

Exercise 6.6 Delivery docket

a

Source document	*Delivery docket*
Explanation	*It is a document used to verify the delivery of goods, to ensure what was ordered is what was received.*

b

Original or Copy	*Original*
Justification	*Potty Plant Hire would issue this source document to the customer, so it would be Julie's Modelling Agency who receives the original while Potty Plant Hire would retain a copy for their records.*

c

Explanation	*There are no amounts on this source document because its purpose is to ensure the correct items in the correct quantities were delivered. It is not a document that charges the customer, that is the job of an invoice.*

d

Action 1	*Ask for a credit note for the items not received.*
Action 2	*Ask the company to deliver the shortfall.*

Exercise 6.7 Shipping and order confirmation

a

Source document	*Shipping and order confirmation*
Explanation	*To provide information to the purchaser of a good online that their order has been shipped and that they can expect delivery of that good within a specified period of time. It can also provide tracking details so the customer can track their orders progress.*

b

Business 1	*Ebay*
Business 2	*Amazon / any form of online store.*

c

Explanation	*This document tends to be electronic in nature as the order and purchase was done all online. Email address as well as physical address is given by the customer and the company saves costs by emailing documentation.*

Exercise 6.8 Memorandums

a

Source document	*Memorandum*
Description	*An internal source document recording the fact that the owner has taken $300 worth of stationery home for personal use*

b

Accounting assumption	*Accounting entity*
Explanation	*The owner and the business are separate accounting entities. Therefore, the business's assets (stationery) should not be used for personal purposes. This transaction should be recorded as drawings by the business as the owner has taken business stationery for personal use.*

c

Element	Overstated/Understated/No Effect	Amount $
Asset	*Overstated – Stationery overstated*	*$300*
Liability	*No effect*	
Owner's equity	*Overstated – Drawings understated*	*$300*

Exercise 7.1 Cash journals

a Cash Receipts Journal

Date	Details	Rec. No.	Bank	Washing fees	Detailing fees	Sundries	GST
May 1	*Car washing fees*	*1–16*	*660*	*600*			*60*
8	*Car detailing fees*	*17–25*	*770*		*700*		*70*
9	*Interest SEC Bonds*	*B/S*	*75*			*75*	
12	*Car washing fees*	*26–33*	*550*	*500*			*50*
15	*Car detailing fees*	*34–46*	*715*		*650*		*65*
22	*Car washing fees*	*47–52*	*484*	*440*			*44*
29	*Car detailing fees*	*53–58*	*396*		*360*		*36*
	TOTALS	**$**	*3 650*	*1 540*	*1 710*	*75*	*325*

Cash Payments Journal

Date	Details	Doc.	Bank	Detergents & Wax	Water rec. bill	Sundries	GST
May 2	*Mortgage (principal)*	*D/D 603*	*1 100*			*400*	
	Interest on mortgage					*700*	
13	*Water recycling bill*	*Bpay 724*	*385*		*350*		*35*
	Detergents and wax	*EFT 013*	*55*	*50*			*5*
14	*Insurance*	*Bpay 813*	*264*			*240*	*24*
18	*Detergents and wax*	*EFT 027*	*33*	*30*			*3*
20	*Water recycling bill*	*Bpay 293*	*440*		*400*		*40*
24	*Repairs vac. cleaner*	*EFT 312*	*132*			*120*	*12*
26	*Detergents and wax*	*EFT 422*	*44*	*40*			*4*
27	*Water recycling bill*	*132*	*275*		*250*		*25*
30	*Telephone*	*Bpay 025*	*187*			*170*	*17*
	TOTALS	**$**	*2 915*	*120*	*1 000*	*1 630*	*165*

b STAN'S CAR WASH

Statement of Receipts and Payments for May 2025

Cash Receipts	**$**	**$**
Car washing fees	*1540*	
Car detailing fees	*1710*	
GST	*325*	
Interest from SEC bonds	*75*	*3650*
Less Cash Payments		
Detergents and wax	*120*	
GST	*165*	
Mortgage principal	*400*	
Interest on mortgage	*700*	
Insurance	*240*	
Water recycling bill	*1 000*	
Repairs – vacuum cleaner	*120*	
Telephone	*170*	*2915*
Cash Surplus (Deficit)		*735*
Add Bank Balance at start (1 May 2025)		*750*
Bank balance at end (31 May 2025)		*1 485*

c

Explanation	*The cash journals summarise and classify raw data (the source documents) so that it can become information that can be presented in financial reports.*

d

Element	**Increase/Decrease/No Effect**	**Amount $**
Asset	*Increase – Equipment increase*	*$500*
Liability	*Increase – Creditors increase $550; GST liability decrease $50*	*$500*
Owner's equity	*No effect*	

e STAN'S CAR WASH

Cash Flow Statement for May 2025

	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
Car washing fees	*1540*	
Car detailing fees	*1710*	
GST received	*325*	
Interest from SEC bonds	*75*	*3 650*
Less Cash Outflows		
Detergents and wax	*120*	
GST Paid	*165*	
Interest on mortgage	*700*	
Insurance	*240*	
Water recycling bill	*1 000*	
Repairs – vacuum cleaner	*120*	
Telephone	*170*	*2 515*
Net Cash Flows from Operations		***1 135***
CASH FLOW FROM INVESTING ACTIVITIES		
Cash Inflows		
Less Cash Outflows		
Net Cash Flows from Investing activities		
CASH FLOW FROM FINANCING ACTIVITIES		
Cash Inflows		
Less Cash Outflows		
Mortgage principal	*400*	*400*
Net Cash Flows from Financing activities		*(400)*
Net Increase (Decrease) in cash position		***735***
Add Bank Balance at start (1 May 2025)		***750***
Bank Balance at end (31 May 2025)		***1 485***

Exercise 7.2 Cash journals

a Cash Receipts Journal

Date	Details	Rec. No.	Bank	House cleaning fees	Office cleaning fees	Sundries	GST
Aug. 1	*House cleaning*	*42*	*220*	*200*			*20*
5	*House cleaning*	*43*	*220*	*200*			*20*
12	*Office cleaning*	*44*	*231*		*210*		*21*
15	*House cleaning*	*45*	*297*	*270*			*27*
19	*Office cleaning*	*46*	*495*		*450*		*45*
26	*House cleaning*	*47*	*275*	*250*			*25*
29	*House cleaning*	*48*	*407*	*370*			*37*
	TOTALS	**$**	*2 145*	*1 290*	*660*		*195*

Cash Payments Journal

Date	Details	Doc.	Bank	Cleaning supplies	Advertising	Sundries	GST
Aug. 2	*Rent*	*221*	*4 400*			*4 000*	*400*
6	*Wages*	*222*	*1 500*			*1 500*	
7	*Cleaning supplies*	*EFT 083*	*385*	*350*			*35*
13	*Drawings*	*ATM 765*	*400*			*400*	
16	*Advertising*	*223*	*396*		*360*		*36*
28	*Cleaning supplies*	*EFT 145*	*308*	*280*			*28*
30	*Advertising*	*224*	*660*		*600*		*60*
	TOTALS	**$**	*8 049*	*630*	*960*	*5 900*	*559*

b VAC AND SWEEP

Cash Flow Statement for August 2025

	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
House cleaning fees	*1290*	
Office cleaning fees	*660*	
GST received	*195*	*2145*
Less Cash Outflows		
Cleaning supplies	*(630)*	
Advertising	*(960)*	
GST paid	*(559)*	
Rent	*(4000)*	
Wages	*(1500)*	*(7649)*
Net Cash Flows from Operations		***(5504)***
CASH FLOW FROM INVESTING ACTIVITIES		
Cash Inflows		***0***
Less Cash Outflows		***0***
Net Cash Flows from Investing activities		***0***
CASH FLOW FROM FINANCING ACTIVITIES		
Cash Inflows		
Less Cash Outflows		
Drawings		*(400)*
Net Cash Flows from Financing activities		***(400)***
Net Increase (Decrease) in cash position		***(5904)***
Add Bank Balance at start (1 August 2025)		***6 000***
Bank Balance at end (31 August 2025)		***96***

c

Qualitative characteristic	*Relevance*
Explanation	*The itemised 'sundries' is necessary to provide the firm with all the necessary information in the financial reports for effective decision-making.*

d

Calculation

GST payable =		*Opening GST balance*	*0*
	+	*GST received*	*195*
	–	*GST paid*	*559*
		=	*(364)*

Business paid more GST than they received	**GST Receivable**	

e **VAC AND SWEEP**

Balance Sheet (Extract) as at 31 August 2025

Current Asset		
GST receivable	*364*	

Exercise 7.3 Cash journals

a Cash Receipts Journal

Date	Details	Rec. No.	Bank	Repair fees	Tune-up fees	Sundries	GST
Jul. 1	*Repair fees*	*12*	*440*	*400*			*40*
4	*Repair fees*	*13*	*550*	*500*			*50*
9	*Tune-up fees*	*14*	*352*		*320*		*32*
14	*Capital contribution*	*15*	*800*			*800*	
19	*Repair fees*	*16*	*671*	*610*			*61*
22	*Tune-up fees*	*17*	*209*		*190*		*19*
25	*Tune-up fees*	*18*	*253*		*230*		*23*
30	*Repair fees*	*19*	*660*	*600*			*60*
	TOTALS	**$**	*3 935*	*2 110*	*740*	*800*	*285*

Cash Payments Journal

Date	Details	Doc.	Bank	Wages	Drawings	Sundries	GST
Jul. 5	*Apprentice's wages*	*302*	*550*	*550*			
7	*Drawings*	*303*	*600*		*600*		
12	*Office furniture*	*304*	*1 650*			*1 500*	*150*
15	*Loan principal*	*BS*	*1 000*			*700*	
	Interest on loan	*BS*				*300*	
18	*Apprentice's wages*	*305*	*540*	*540*			
21	*Drawings*	*306*	*300*		*300*		
28	*Drawings*	*307*	*780*		*780*		
	TOTALS	**$**	*5 420*	*1 090*	*1 680*	*2 500*	*150*

b

Explanation	*Classification headings are determined according to the frequency of the payments. For example, Wages and Drawings occurred more than once during the period and therefore a separate heading is created for these 'regular' payments. Infrequent or rare payments would be recorded in the Sundries column.*

c MINOR MECHANICS

Cash Flow Statement for July 2025

	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
Repair fees	*2 110*	
Tune-up fees	*740*	
GST Received	*285*	*3 135*
Less Cash Outflows		
Wages	*1 090*	
GST Paid	*150*	
Interest on loan	*300*	*1 540*
Net Cash Flows from Operations		***1 595***
CASH FLOW FROM INVESTING ACTIVITIES		
Cash Inflows		
Less Cash Outflows		
Office furniture	*1 500*	*1500*
Net Cash Flows from Investing activities		***(1 500)***
CASH FLOW FROM FINANCING ACTIVITIES		
Cash Inflows		
Capital contribution	*800*	*800*
Less Cash Outflows		
Drawings	*1 680*	
Loan principal repayment	*700*	*2 380*
Net Cash Flows from Financing activities		***(1 580)***
Net Increase (Decrease) in cash position		***(1 485)***
Add Bank Balance at start (1 July 2025)		***300***
Bank Balance at end (31 July 2025)		***(1 185)***

d

Action 1	*Reduced the amount of his drawings*
Action 2	*Contributed more capital or use external finance, such as a loan, to purchase the office furniture*

e

Calculation

GST payable =	*Opening GST balance*		*0*
+	*GST received*		*285*
–	*GST paid*		*150*
		=	*135*

GST payable | **$** *135*

f

Explanation	*The GST balance would be reported as a current liability in the Balance Sheet as it represents a future economic sacrifice that the firm is obliged to make to the ATO within the next 12 months. The GST balance is payable to the ATO as the GST received on fees is greater than the GST paid to suppliers for the reporting period.*

Exercise 7.4 Cash journals and source documents

a

Explanation	*This transaction represents the* ***credit*** *purchase of photography materials as evidenced by the source document – Invoice 91. A credit transaction does not involve any cash so it should not be recorded in the cash journals.*

b Cash Receipts Journal

Date	Details		Bank	Wedding photo fees	Portrait fees	Sundries	GST
Apr. 4	*Portrait fees*	*201*	*462*		*420*		*42*
6	*Wedding photo fees*	*202*	*660*	*600*			*60*
9	*Interest on investment*	*B/S*	*110*			*110*	
12	*Wedding photo fees*	*203*	*880*	*800*			*80*
18	*Portrait fees*	*204*	*385*		*350*		*35*
23	*Wedding photo fees*	*205*	*990*	*900*			*90*
25	*Portrait fees*	*206*	*550*		*500*		*50*
28	*Portrait fees*	*207*	*220*		*200*		*20*
	TOTALS	**$**	*4 257*	*2 300*	*1 470*	*110*	*377*

Cash Payments Journal

Date	Details	Ch. No.	Bank	Photography materials	Wages	Sundries	GST
Apr. 1	*GST settlement*	*BPay 025*	*720*			*720*	
2	*Photography mat.*	*EFT 844*	*935*	*850*			*85*
8	*Drawings*	*ATM 078*	*400*			*400*	
16	*Wages*	*646*	*500*		*500*		
22	*Photography mat.*	*EFT 867*	*825*	*750*			*75*
26	*Camera equip.*	*EFT 216*	*2 145*			*1 950*	*195*
29	*Wages*	*647*	*500*		*500*		

	TOTALS		**$**	*6 025*	*1 600*	*1 000*	*3 070*	*355*

c

Explanation	*Effect on the Balance Sheet of GST settlement 1 April – This payment of $720 to the ATO will settle the current liability (GST payable) created from the previous reporting period. This means GST liability (CL) in the Balance Sheet will decrease by $720, therefore decreasing liabilities.* *It will also cause assets to decrease as the bank account (CA) will also decrease by $720.*

d **SWEETHEARTS PHOTOGRAPHY**

Cash Flow Statement for April 2025

	$	**$**
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
Wedding photo fees	*2 300*	
Portrait fees	*1 470*	
Interest on investment	*110*	
GST received	*377*	*4 257*
Less Cash Outflows		
Photography materials	*1 600*	
Wages	*1 000*	
GST paid	*355*	
GST Settlement	*720*	*3 675*
Net Cash Flows from Operations		***582***
CASH FLOW FROM INVESTING ACTIVITIES		
Cash Inflows		
Less Cash Outflows		
Camera equipment	*1 950*	*1 950*
Net Cash Flows from Investing activities		***(1 950)***
CASH FLOW FROM FINANCING ACTIVITIES		
Cash Inflows		
Less Cash Outflows		
Drawings	*400*	*400*
Net Cash Flows from Financing activities		***(400)***
Net Increase (Decrease) in cash position		***(1 768)***
Add Bank Balance at start (1 April 2025)		***1 500***
Bank Balance at end (30 April 2025)		***(268)***

e

Calculation			
GST payable =		*Opening GST balance*	*0**
	+	*GST received*	*377*
	–	*GST paid*	*355*
		=	*22*
**Note: the opening balance was settled at the start of April.*			
		GST payable	**$** *22*

f

Calculation Cash Flow Cover =		
Net Cash Flow from Operating activities / *Average Current liabilities*	=	*582* / *1 500*
	CFC	*0.39* **times**

g.

Comment	*The result is concerning as it is below 1 times, which indicates that the cash flow from Operating activities is insufficient to cover the average current liabilities of the business, as there are only 39 cents being generated from the businesses cash flow from operating to every $1 of current liability obligations they have.*

Exercise 7.5 Cash journals and source documents

a

Explanation	*Polling Times would have reported its GST balance as GST receivable in the Balance Sheet if the GST it received on fees was less than the GST paid to suppliers for that particular reporting period (the month of June). In effect they had paid more GST out than they had received into the business. This the ATO owed them the difference.*

b

Explanation	*Assets would increase by $2 500 due to the purchase of the computer. Liabilities would increase by $2 750 due to the creation of creditor CPX Computers, but also decrease by $250 due to the reduction in GST liability caused by the GST credit. Therefore, overall liabilities increase by $2 500 and there would be no effect on owner's equity.*

c

Accounting assumption	*Accounting entity*
Explanation	*The owner and the business are separate Accounting entities. Therefore, the business's assets (bank) should not be used for personal purposes. This payment should be recorded as drawings by the business as Jack has taken business cash for personal use and thus reduced his claim on the assets of the business.*

d Cash Receipts Journal

Date	Details	Rec. No.	Bank	Research fees	Consulting fees	Sundries	GST
Jul. 1	*GST refund*	*44*	*720*			*720*	
5	*Research fees*	*45*	*2 750*	*2 500*			*250*
10	*Consulting fees*	*46*	*4 400*		*4 000*		*400*
12	*Capital contribution*	*47*	*4 000*			*4 000*	
15	*Consulting fees*	*48*	*3 960*		*3 600*		*360*
23	*Research fees*	*49*	*1 540*	*1400*			*140*
29	*Consulting fees*	*50*	*1 650*		*1500*		*150*
	TOTALS	**$**	*19 020*	*3 900*	*9 100*	*4 720*	*1 300*

Cash Payments Journal

Date	Details	Doc.	Bank	Travel expenses	Drawings	Wages	Sundries	GST
Jul. 2	*Travel exp.*	*EFT 307*	*550*	*500*				*50*
3	*Drawings*	*ATM 004*	*850*		*850*			
5	*Wages*	*107*	*1 500*			*1 500*		
8	*Electricity*	*BPay 213*	*715*				*650*	*65*
10	*Drawings*	*ATM 023*	*900*		*900*			
12	*Travel exp.*	*EFT 356*	*660*	*600*				*60*
19	*Wages*	*108*	*1 500*			*1 500*		
21	*Travel exp.*	*EFT 367*	*1 100*	*1 000*				*100*
24	*Rent*	*BS DD*	*1 320*				*1 200*	*120*
26	*Advertising*	*114*	*330*				*300*	*30*
28	*Drawings*	*115*	*550*		*550*			
	TOTALS	**$**	*9 975*	*2 100*	*2 300*	*3 000*	*2 150*	*425*

e POLLING TIMES

Cash Flow Statement for July 2025

	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
Research fees	*3 900*	
Consulting fees	*9 100*	
GST	*1 300*	
GST refund	*720*	*15 020*
Less Cash Outflows		
Travel expenses	*2 100*	
Wages	*3 000*	
GST	*425*	
Electricity	*650*	
Rent	*1 200*	
Advertising	*300*	*7 675*
Net Cash Flows from Operations		***7 345***
CASH FLOW FROM INVESTING ACTIVITIES		
Cash Inflows		
Less Cash Outflows		
Net Cash Flows from Investing activities		
CASH FLOW FROM FINANCING ACTIVITIES		
Cash Inflows		
Capital contribution	*4 000*	
Less Cash Outflows		
Drawings	*2 300*	*1 700*
Net Cash Flows from Financing activities		***1 700***
Net Increase (Decrease) in cash position		***9 045***
Add Bank Balance at start (1 July 2025)		***(1 000)***
Bank Balance at end (31 July 2025)		***8 045***

f

Calculation Cash Flow Cover =			
Net Cash Flow from Operating activities / *Average Current liabilities*	=	*7 345* / *3 500*	
		CFC	*2.1* **times**

g

Comment	*The result is positive as it is 2 times, which indicates that the cash flow from Operating activities can cover the average current liabilities of the business at least twice.ie for every $1 of current liabilities, the business is generating $2.10 in cash flows from its operating activities.*

Exercise 7.6 Cash journals and source documents

a Cash Receipts Journal

Date	Details	Rec. No.	Bank	Restoration fees	Sundries	GST
Jun. 3	*Restoration fees*	*51*	*781*	*710*		*71*
13	*Restoration fees*	*52*	*495*	*450*		*45*
17	*Capital contribution*	*53*	*1 500*		*1 500*	
24	*Restoration fees*	*54*	*880*	*800*		*80*
25	*Interest revenue*	*B/S*	*15*		*15*	
30	*Restoration fees*	*55*	*330*	*300*		*30*
	TOTALS	**$**	*4 001*	*2 260*	*1 515*	*226*

Cash Payments Journal

Date	Details	Doc.	Bank	Drawings	Restoration supplies	Sundries	GST
Jun. 1	*Drawings*	*ATM 062*	*400*	*400*			
6	*Restoration sup.*	*EFT 912*	*550*		*500*		*50*
16	*Drawings*	*ATM 078*	*750*	*750*			
19	*Equipment*	*EFT 043*	*990*			*900*	*90*
27	*Loan*	*BS*	*200*			*200*	
28	*Restoration sup.*	*EFT 003*	*165*		*150*		*15*
	TOTALS	**$**	*3 055*	*1 150*	*650*	*1 100*	*155*

b

Explanation	*Transactions are classified and summarised so preparation of the Cash Flow Statement is easier OR Transactions are classified according to their frequency, which provides valuable information that is useful for decision-making.*

c WOODEN IT BE GOOD

Cash Flow Statement for June 2025

	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
Restoration fees	*2 260*	
GST Received	*226*	
Interest revenue	*15*	*2 501*
Less Cash Outflows		
Restoration supplies	*650*	
GST Paid	*155*	*805*
Net Cash Flows from Operations		***1 696***
CASH FLOW FROM INVESTING ACTIVITIES		
Cash Inflows		
Less Cash Outflows		
Equipment	*900*	*900*
Net Cash Flows from Investing activities		***(900)***
CASH FLOW FROM FINANCING ACTIVITIES		
Cash Inflows		
Capital contribution	*1 500*	*1 500*
Less Cash Outflows		
Loan	*200*	
Drawings	*1 150*	*1 350*
Net Cash Flows from Financing activities		***150***
Net Increase (Decrease) in cash position		***946***
Add Bank Balance at start (1 June 2025)		***3 500***
Bank Balance at end (30 June 2025)		***4 446***

d

Explanation	*A cash deficit occurs when cash received is less than cash paid, in that reporting period, and will lead to an overall decrease in the bank balance for that period. A bank overdraft refers to a negative bank balance. A business can sustain a cash deficit but still maintain a positive bank balance.*

e

Explanation	*GST payable should be reported as a current liability as the business has a present obligation to make an economic sacrifice (by paying the GST payable to the ATO) sometime in the next 12 months.*

Exercise 7.7 Cash journals and source documents

a

Qualitative characteristic 1	*Verifiability*
Qualitative characteristic 2	*Faithful representation*
Explanation	*Fiona must keep source documents as they provide verifiable evidence of transactions and this ensures that all information contained in the financial reports are free from bias, thus represent real economic benefit to the business, thus being faithfully representative.*

b

Party	*The customer – Redwood Property Investors P/L as the customer ALWAYS receives the original*

c

Reason	*Two separate columns for consulting and design fees improves the classification of receipts and will provide more useful information to the owner regarding which of the two areas is generating more cash. This will assist the owner with future decision-making.*

d

Element	Overstated/Understated/No Effect	Amount $
Asset	*Overstated – Bank overstated*	*1 100*
Liability	*No effect*	
Owner's equity	*Overstated – Drawings understated*	*1 100*

e

Weakness	*Advertising only occurs once during the month and should therefore be recorded in the Sundries column and not a separate classification column.*

f Cash Receipts Journal

Date	Details	Rec. No.	Bank	Consulting fees	Design fees	Sundries	GST
May 2	Grogan Revell P/L	904	583	530			53
7	Tony Trevally	905	462		420		42
12	YRE Constructions	906	374	340			34
16	Highett Pre-school	907	550	500			50
19	Hume City Council	908	319		290		29
24	Wendell & Assoc.	909	715	650			65
27	Redwood Prop. Inv. P/L	910	990		900		90
29	Rent revenue	911	143			130	13
	TOTALS	**$**	4 136	2 020	1 610	130	376

Cash Payments Journal

Date	Details	Doc.	Bank	Drawings	Wages	Advertising	Sundries	GST
May 1	Drawings	ATM 103	50	50				
5	TryUs Ads P/L	BPAY 902	451			410		41
9	Fortnightly wages	20105	620		620			
11	Interest on loan	BS	55				55	
13	Drawings	ATM 149	120	120				
17	Fortnighlty wages	20106	620		620			
20	Telephone	BPAY 082	176				160	16
27	Lease of vehicle	EFT 082	275				250	25
28	Drawings	20107	1100	1 100				
30	Drawing supplies	EFT 714	110				100	10
	TOTALS	**$**	3 577	1 270	1 240	410	565	92

g DARING DESIGNS

Cash Flow Statement for May 2025

	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
Consulting fees	*2 020*	
Design fees	*1 610*	
GST Received	*376*	
Rent revenue	*130*	*4 136*
Less Cash Outflows		
Wages	*1 240*	
Advertising	*410*	
GST Paid	*92*	
Interest on loan	*55*	
Telephone	*160*	
Lease of vehicle	*250*	
Drawing supplies	*100*	*2 307*
Net Cash Flows from Operations		***1 829***
CASH FLOW FROM INVESTING ACTIVITIES		
Cash Inflows		
Less Cash Outflows		
Net Cash Flows from Investing activities		
CASH FLOW FROM FINANCING ACTIVITIES		
Cash Inflows		
Less Cash Outflows		
Drawings	*1 270*	*1 270*
Net Cash Flows from Financing activities		***(1 270)***
Net Increase (Decrease) in cash position		***559***
Add Bank Balance at start (1 May 2025)		***841***
Bank Balance at end (31 May 2025)		***1 400***

h

Calculation

GST payable =	*Opening GST balance*		*380*
+	*GST received*		*376*
–	*GST paid*		*92*
		=	*664*

GST payable $ *664*

Exercise 8.1 Bank reconciliation

a Cash Receipts Journal

Date	Details	Rec. No.	Bank	Washing	Clipping & Cuts	Sundries	GST
Aug. 3	B. Bulldog	55	**110**	100			10
6	K. Kelpy	56	**220**		200		20
9	P. Poodle	57	**242**	220			22
18	C. Collie	58	**330**		300		30
	B. Basset	59	**275**	250			25
27	Capital contribution	60	**1 000**			1 000	
31	L. Labrador	61	**385**	350			35
5	*Interest*	*BS*	*20*			*20*	
	TOTALS	**$**	*2 582*	*920*	*500*	*1020*	*142*

Cash Payments Journal

Date	Details	Doc.	Bank	Cleaning supplies	Drawings	Sundries	GST
Aug. 3	Cleaning Supplies	EFT 073	**220**	200			20
4	Wages	313	**800**			800	
12	Drawings	314	**500**		500		
17	Registration	Bpay 104	**440**			400	40
19	Advertising	315	**396**			360	36
28	Cleaning Supplies	EFT 142	**165**	150			15
29	Drawings	316	**500**		500		
30	Insurance	317	**462**			420	42
30	*Transaction fee*	*BS*	*15*			*15*	
	TOTALS	**$**	*3 498*	*350*	*1 000*	*1 995*	*153*

b

Calculation		
Receipts	*2 582*	
less Payments	*3 498*	
	(916)	
plus Opening balance	*1 235*	
	Bank balance	**$** *319*

c

Explanation	*The purpose of a bank reconciliation is to explain any difference between the bank balance according to the records of the firm, and that shown on the Bank Statement. This ensures that all cash is accounted for and verified against an independent source.*

d PIPPA'S DOG WASH

Bank Reconciliation Statement as at 31 August 2025

				$	
				$	
	Balance as per Bank Statement			*896*	*CR*
Add	*Deposits not yet credited*			*385*	
				1 281	
Less	*Unpresented cheques*	*# 318*	*500*		
		319	*462*	*962*	
	Balance as per business records			*319*	

Exercise 8.2 Bank reconciliation: dishonoured cheque

a

Direct credit	*A payment made directly by an outside entity into the firm's bank account. Therefore, will not initially be recorded into the firm's cash journals.*
Example	*Interest of $25 paid by the bank directly into the business's bank account on 20 March.*

b Cash Receipts Journal

Date	Details	Rec. No.	Bank	Mowing fees	Sundries	GST
Mar. 1	G. Cole	55	**990**	900		90
6	A. Biddiscombe	EFT 093	**275**	250		25
	M.Walker	EFT 094	**187**	170		17
13	A. Micari	EFT 095	**550**	500		50
18	D. Cope	56	**308**	280		28
25	Capital contribution	BS	**2 000**		2 000	
31	C. Brooke	57	**165**	150		15
20	*Interest*	*BS*	*25*		*25*	
28	*Dishonoured chq.*	*BS*	*(550)*	*(500)*		*(50)*
	TOTALS	**$**	*3 950*	*1 750*	*2 025*	*175*

Cash Payments Journal

Date	Details	Doc.	Bank	Wages	Drawings	Sundries	GST
Mar. 1	Advertising	340	**165**			150	15
2	Wages	BS	**300**	300			
4	Drawings	BS	**375**		375		
12	Wages	341	**120**	120			
16	Tools	EFT 269	**275**			250	25
18	Drawings	BS	**360**		360		
21	Wages	BS	**180**	180			
27	Rent	347	**220**			200	20
31	*Bank charges*	*BS*	*10*			*10*	

	TOTALS	**$**	*2 005*	*600*	*735*	*610*	*60*

c

Calculation

Receipts	*3 950*	
less Payments	*2 005*	
	1 945	
plus Opening balance	*1 250*	
	Bank balance	**$** *3195*

d SMOOTH LAWN SERVICES

Bank Reconciliation Statement as at 31 March 2025

				$	
	Balance as per Bank Statement			*3 370*	*CR*
Add	*Deposits not yet credited*			*165*	
				3 535	
Less	*Unpresented cheques*	*# 343*	*120*		
		347	*220*	*340*	
	Balance as per business records			*3195*	

Exercise 8.3 Bank reconciliation: dishonoured cheque

a Cash Receipts Journal (Extract)

Date	Details	Rec. No.	Bank	Repair fees	Sundries	GST
Sept. 2025	Totals to date		**3 300**	2 200	800	300
	Interest on term deposit	*BS*	*120*		*120*	
	Dishonoured cheque	*BS*	*(220)*	*(200)*		*(20)*
	TOTALS	**$**	*3 200*	*2 000*	*920*	*280*

Cash Payments Journal (Extract)

Date	Details	Doc.	Bank	Supplies	Wages	Sundries	GST
Sept. 2025	Totals to date		**3 950**	970	2 300	530	150
	Transaction fee	*BS*	*20*			*20*	
	Interest on O/D	*BS*	*25*			*25*	
	TOTALS	**$**	*3995*	*970*	*2 300*	*575*	*150*

b

Calculation		
Receipts	*3 200*	
less Payments	*3 995*	
	(795)	
plus Opening balance	*200*	
	Bank balance	**$** *(595)*

c NICK OF TIME

Bank Reconciliation Statement as at 30 September 2025

				$	
	Balance as per Bank Statement			*50*	*CR*
Add	*Deposits not yet credited*			*110*	
				160	
Less	*Unpresented cheques*	*# 146*	*25*		
		149	*130*		
		153	*600*	*755*	
	Balance as per business records			*(595)*	

d

Procedure 1	*He could choose to make all payments by cheque.*
Procedure 2	*All cash transactions should be verified by a pre-numbered document. A petty cash system should be used for small payments, takings should be banked regularly and accurate, up-to-date records should be kept.*

Exercise 8.4 Bank reconciliation: overdraft, dishonoured cheque

a

Calculation

Receipts	*27 400 – 484 (dish. chq.) + 245 (interest) =*	*27 161*
less Payments	*29 500 – $9* (error) + $50 (bank fees)*	*29 541*
		(2 380)
plus Opening balance		*2 000*

Bank balance $ *(380)*

**Cheque 8778 is $9 more ($87 – $78) than it should be in the cash payments journal. We assume that the bank has the correct amount and that it is the business that has made the recording error.*

b PULSATING PECS GYM

Bank Reconciliation Statement as at 30 November 2025

				$	
	Balance as per Bank Statement			*4 435*	*DR*
Less	*Deposits not yet credited*			*6 970*	
				2 535	
Less	*Unpresented cheques*	*# 8751*	*2 300*		
		8763	*615*	*2 915*	
	Balance as per business records			*(380)*	

OR

PULSATING PECS GYM

Bank Reconciliation Statement as at 30 November 2025

				$	
	Balance as per Bank Statement			*4 435*	*DR*
Add	*Unpresented cheques*	*# 8751*	*2 300*		
		8763	*615*	*2 915*	
				7 350	
Less	*Deposits not yet credited*			*6 970*	
	Balance as per business records			*(380)*	

c

Explanatio n	*A dishonoured cheque is a cheque that was deposited for payment but when the bank went to claim the money there was insufficient funds to honour that cheque. Therefore the bank reversed the initial deposit entry. Likewise, the business would have recorded this transaction as a receipt. Therefore, it must be recorded as a 'negative receipt' in the cash receipts journal to offset the original entry.*

Exercise 8.5 Bank reconciliation: consecutive periods

a

Explanation	*A petty cash system would allow for payments to be made that could not be made by cheque. It would also ensure that these small payments were all recorded, authorised and verified by a source document so cash control would be maintained.*

b Cash Receipts Journal

Date	Details	Rec. No.	Bank	House cleaning	Office cleaning	Sundries	GST
June 5	A. Castle	36	**220**	200			20
8	E.J. Accountants	37	**330**		300		30
14	L. Christmas	38	**242**	220			22
20	J. Roberts	39	**220**	200			20
	R. Wyte & Assoc.	40	**440**		400		40
27	Capital contribution	41	**5 000**			5 000	
30	L. Martin	42	**308**	280			28
	Interest	*BS*	*20*			*20*	
	TOTALS	**$**	*6 780*	*900*	*700*	*5 020*	*160*

Cash Payments Journal

Date	Details	Doc.	Bank	Cleaning supplies	Drawings	Sundries	GST
June 1	Cleaning supplies	213	**132**	120			12
4	Wages	214	**1 500**			1 500	
12	Drawings	215	**350**		350		
15	Equipment	216	**1 320**			1 200	120
19	Advertising	217	**220**			200	20
22	Cleaning supplies	218	**198**	180			18
26	Drawings	219	**350**		350		
29	Insurance	220	**385**			350	35
18	*Loan Repayment*	*BS*	*1 000*			*1 000*	
	TOTALS	**$**	*5 455*	*300*	*700*	*4 250*	*205*

c

Calculation		
Receipts	*6 780*	
less Payments	*5 455*	
	1 325	
plus Opening balance	*3 390*	
	Bank balance	**$** *4 715*

d **B & M CLEANING**

Bank Reconciliation Statement as at 30 June 2025

				$	
	Balance as per Bank Statement			*5 142*	*CR*
Add	*Deposits not yet credited*			*308*	
				5 450	
Less	*Unpresented cheques*	*# 205*	*130*		
		217	*220*		
		220	*385*	*735*	
	Balance as per business records			*4 715*	

Exercise 8.6 Bank reconciliation: consecutive periods

a Cash Receipts Journal

Date	Details	Rec. No.	Bank	Hire fees	Sundries	GST
Nov. 1	Cash fees	888–922	**3 300**	3 000		300
8	Cash fees	923–990	**4 840**	4 400		440
12	Cash fees	991–1032	**4 070**	3 700		370
22	Cash fees	1033–1078	**2 310**	2 100		210
30	*Cash fees*	*(BS) 1079*	*1 100*	*1 000*		*100*
	TOTALS	**$**	***15 620***	*14 200*		*1420*

Cash Payments Journal

Date	Details	Doc.	Bank	Transport	Drawings	Wages	Sundries	GST
Nov. 4	Wages	10744	**720**			720		
5	Registration	10745	**3 960**	3 600				360
12	Office furniture	10746	**1 650**				1 500	150
18	Petrol	10747	**180**	180				
22	Drawings	10748	**1 350**		1 350			
28	Prepaid insurance	10749	**2 640**	2 400				240
30	*Service fee*	*BS*	*40*				*40*	
	TOTALS	**$**	***10 540***	*6 180*	*1 350*	*720*	*1 540*	*750*

b

Calculation

Receipts	*15 620*
less Payments	*10 540*
	5 080
plus Opening balance	*(3 000)*
Bank balance	**$** *2 080*

c BLOOMING FLORIST

Bank Reconciliation Statement as at 30 November 2025

				$
	Balance as per Bank Statement			*2 270 CR*
Add	*Deposits not yet credited*			*2 720*
				4 990
Less	*Unpresented cheques*	*# 10737*	*90*	
		10747	*180*	
		10749	*2 640*	*2 910*
	Balance as per business records			*2 080*

d

Explanation	*The owner would want to investigate the $2 720 as this amount was assumed to be banked. This was highlighted in the October Bank Reconciliation and a month has now passed. This amount is now unaccounted for and will have to be investigated immediately to see if it actually made it to the bank and there has been an oversight/error or that the business has been subject to theft/fraud by one of its employees.*

Exercise 8.7 Bank reconciliation: consecutive periods, dishonoured cheques

a

Statement	*The purpose of preparing a bank reconciliation is to explain any difference between the bank balance according to the records of the firm, and that shown on the Bank Statement.*

b Cash Receipts Journal

Date	Details	Rec. No.	Bank	Fees	Sundries	GST
May 5	B. Howell	12	**495**	450		45
5	Capital – Jacobs	13	**500**		500	
9	J. Murachana	14	**110**	100		10
14	A. Felix	15	**550**	500		50
19	M. Jonas	16	**825**	750		75
23	B. Howell	17	**330**	300		30
30	F. Richards	18	**880**	800		80
27	*Dish. cheque*	*17*	*(330)*	*(300)*		*(30)*
30	*Interest*	*BS*	*75*		*75*	
	TOTALS	**$**	*3 435*	*2 600*	*575*	*260*

Cash Payments Journal

Date	Details	Doc.	Bank	Wages	Drawings	Sundries	GST
May 1	Wages	133	**250**	250			
4	Electricity	134	**330**			300	30
12	Tools	135	**440**			400	40
15	Wages	136	**240**	240			
18	Rent	137	**660**			600	60
21	Drawings	138	**170**		170		
27	Advertising	139	**385**			350	35
20	*Loan repayment*	*BS*	*700*			*700*	
	TOTALS	**$**	*3 175*	*490*	*170*	*2 350*	*165*

c

Qualitative characteristic	*Relevance*
Explanation	*Reports will not contain all information useful for decision-making unless the bank reconciliation process detects direct credits/debits and updates this information into the cash journals.*

d

Calculation

Receipts	*3 435*
less Payments	*3 175*
	260
plus Opening balance	*(550)*
Bank balance	**$** *(290)*

e MAJOR MECHANICALS

Bank Reconciliation Statement as at 31 December 2025

				$	
	Balance as per Bank Statement			*25*	*CR*
Add	*Deposits not yet credited*			*880*	
				905	
Less	*Unpresented cheques*	*# 131*	*150*		
		137	*660*		
		139	*385*	*1 195*	
	Balance as per business records			*(290)*	

Exercise 8.8 Bank reconciliation: consecutive periods, error

a

Positive aspect	*Transactions are recorded into journals*
	OR bank reconciliations are prepared monthly
Negative aspect	*Fatima records, collects and banks all cash received*
	OR cash is banked at the end of the week

b

Explanation	*The balance as per the opening Bank Statement is a DR balance, which indicates that the business commenced the month in overdraft. Withdrawals or the writing of cheques would increase this overdraft balance. Unpresented cheques will cause withdrawals to occur once they are presented and result in the bank overdraft increasing. Therefore, unpresented cheques can be added to a DR or overdraft balance.*

c

Reason	*The $300 was deposited after the statement was prepared, e.g. late in the day, at night through the night-safe or perhaps on the weekend.*

d

Calculation

Receipts	*4 180 + 30 (interest) =*	*4 210*
less Payments	*3 940 – $50* (error)*	*3 890*
		320
plus Opening balance		*130*

Bank balance $ *450*

**Cheque 158 is $50 more ($170 – $120) than it should be in the Cash Payments Journal*

e HADJ, BOULAD AND BROWN

Bank Reconciliation Statement as at 31 March 2025

				$	
	Balance as per Bank Statement			*490*	*CR*
Add	*Deposits not yet credited*			*300*	
				790	
Less	*Unpresented cheques*	*# 153*	*130*		
		161	*70*		
		162	*140*	*340*	
	Balance as per business records			*450*	

Exercise 8.9 Bank reconciliation: consecutive periods, dishonoured cheque, overdraft

a

Explanation	*Cheque #159 would be listed as unpresented because despite it being given to a supplier for payment, they have yet to present it to their bank for payment. Until this occurs the bank will have no knowledge of the cheque's existence.*

b

Method 1	*All payments should be made by cheque.*
Method 2	*All cash transactions should be verified by a pre-numbered document. OR A petty cash system should be used for small payments, takings should be banked regularly, and accurate, up-to-date cash records should be kept.*

c

Calculation

Receipts	*2 925 – $275 (dishonoured cheque)*	=	*2 650*	
less Payments	*3 500 + 350 (loan) + 15 (bank charges)*		*3 865*	
			(1 215)	
plus Opening balance			*1 920*	
			Bank balance	**$** *705*

d

Explanation	*Con should speak directly to the customer and inform them that their cheque was returned. If this is a first-time event Con could ask for another cheque; however, if he has concerns regarding the customer, he should request payment in cash.*

e CON-STRUCTIONS

Bank Reconciliation Statement as at 30 April 2025

				$	
	Balance as per Bank Statement			*500*	*DR*
Less	*Deposits not yet credited*			*2 010*	
				1 510	
Less	*Unpresented cheques*	*# 152*	*190*		
		164	*490*		
		183	*125*	*805*	
	Balance as per business records			*705*	

OR

CON-STRUCTIONS

Bank Reconciliation Statement as at 30 April 2025

				$	
	Balance as per Bank Statement			*500*	*DR*
Add	*Unpresented cheques*	*# 152*	*190*		
		164	*490*		
		183	*125*	*805*	
				1 305	
Less	*Deposits not yet credited*			*2 010*	
	Balance as per business records			*705*	

Exercise 8.10 Bank reconciliation

a Cash Receipts Journal (Extract)

Date	Details	Rec. No.	Bank	Repair fees	Sundries	GST
Jun. 2025	Totals to date		**4 120**	3 400	350	370
	Dishonoured cheque	*BS*	*(385)*	*(350)*		*(35)*
	Error adjustment	*BS*	*110*	*100*		*10*
	TOTALS	**$**	*3 845*	*3 150*	*350*	*345*

Cash Payments Journal (Extract)

Date	Details	Doc.	Bank	Parts	Wages	Sundries	GST
Jun. 2025	Totals to date		**3 815**	1 030	2 150	515	120
	Loan repayment	*BS*	*550*			*550*	
	Interest on overdraft	*BS*	*45*			*45*	
	TOTALS	**$**	*4 410*	*1 030*	*2 150*	*1 110*	*120*

b

Calculation

Receipts	*3 845*
less Payments	*4 410*
	(565)
plus Opening balance	*(330)*
Bank balance	**$** *(895)*

c FIXIT REPAIRS

Bank Reconciliation Statement as at 30 June 2025

				$	
	Balance as per Bank Statement			*405*	*DR*
Less	*Deposits not yet credited*			*825*	
				420	
Less	*Unpresented cheques*	*# 111*	*750*		
		137	*325*		
		143	*240*	*1 315*	
	Balance as per business records			*(895)*	

OR

FIXIT REPAIRS

Bank Reconciliation Statement as at 30 June 2025

				$	
	Balance as per Bank Statement			*405*	*DR*
Add	*Unpresented cheques*	*# 111*	*750*		
		137	*325*		
		143	*240*	*1 315*	
				1 720	
Less	*Deposits not yet credited*			*825*	
	Balance as per business records			*(895)*	

d

Definition	*A cheque that was deposited for payment but there were insufficient funds to honour the cheque.*
Reason	*Funds are being withdrawn from the account. The bank initially records the deposit as a credit, as the banks liability to the businesss has increased. However, when the bank cannot clear the funds, they reverse*

	the entry with a corresponding debit entry as their liability to the business has decreased.

Exercise 8.11 Bank reconciliation

a

Explanation	*The balance as per the Bank Statement has a DR balance, which indicates that it is a bank overdraft. Deposits would reduce an overdraft. This statement should indicate* ***less*** *deposits not yet credited (not Add). If the business had a positive bank balance, as indicated by CR, then it would add deposits not yet credited.*

b Cash Receipts Journal

Date	Details	Rec. No.	Bank	Cash fees	Sundries	GST
2	Cash fees	81	**330**	300		30
5	Capital contribution	82	**500**		500	
10	Cash fees	83	**165**	150		15
11	Commission	84	**50**		50	
16	Cash fees	85	**330**	300		30
	Cash fees	86	**220**	200		20
21	Cash fees	87	**440**	400		40
24	Cash fees	88	**110**	100		10
28	Cash fees	89	**187**	170		17
30	Cash fees	90	**154**	140		14
4	*Interest on term deposit*	*BS*	*135*		*135*	
26	*Dishonoured cheque*	*88*	*(110)*	*(100)*		*(10)*
	TOTALS	**$**	*2 511*	*1 660*	*685*	*166*

Cash Payments Journal

Date	Details	Doc.	Bank	Supplies	Rent	Wages	Sundries	GST
June 2	Cash purchases	127	**99**	90				9
4	Rent	128	**143**		130			13
8	Drawings	129	**500**				500	
11	Cash purchases	130	**550**	500				50
17	Wages	131	**340**			340		
20	Cash purchases	132	**528**	480				48
21	Insurance	133	**385**				350	35
26	Cash purchases	134	**77**	70				7
29	Rent	135	**121**		110			11
30	Drawings	136	**110**				110	
13	*Service fee*	*BS*	*6*				*6*	
18	*Error adjustment*	*131*	*90*			*90*		
	VT Finance	*BS*	*75*				*75*	
	TOTALS	**$**	*3 024*	*1 140*	*240*	*430*	*1 041*	*173*

c

Calculation

Receipts	*2 511*
less Payments	*3 024*
	(513)
plus Opening balance	*120*
Bank balance	**$** *(393)*

d SENSOR CARPENTRY

Bank Reconciliation Statement as at 31 October 2025

				$	
	Balance as per Bank Statement			*112*	*DR*
Less	*Deposits not yet credited*			*154*	
				42	
Less	*Unpresented cheques*	*# 124*	*105*		
		127	*99*		
		135	*121*		
		136	*110*	*435*	
	Balance as per business records			*(393)*	

OR

SENSOR CARPENTRY

Bank Reconciliation Statement as at 31 October 2025

				$	
	Balance as per Bank Statement			*112*	*DR*
Add	*Unpresented cheques*	*# 124*	*105*		
		127	*99*		
		135	*121*		
		136	*110*	*435*	
				547	
Less	*Deposits not yet credited*			*154*	
	Balance as per business records			*(393)*	

Exercise 8.12 Bank reconciliation

a

Positive aspect	*Receipts are issued for all jobs.*
	OR Cash is banked daily.
Negative aspect	*His assistant collects and banks all cash received.*
	OR John takes cash from the register for small payments.
	OR Banking occurs at the same time every day.

b

Cash Deficit	*This situation occurs when cash payments are greater than cash receipts and will lead to a decrease in the firm's bank balance.*
Bank Overdraft	*This is a negative bank balance, where the business has borrowed money and owes this to the bank.*

c Cash Receipts Journal (extract)

Date	Details	Rec. No.	Bank	Limo fees	Sundries	GST
June 2025	Totals to date		**3 325**	2 700	355	270
	Dishonoured cheque	*BS*	*(495)*	*(450)*		*(45)*
	TOTALS	**$**	*2 830*	*2 250*	*355*	*225*

Cash Payments Journal (extract)

Date	Details	Doc.	Bank	Petrol	Wages	Sundries	GST
June 2025	Totals to date		**3 560**	1 200	1 880	360	120
	Error adjustment	*BS*	*(20)*		*(20)*		
	Interest on overdraft	*BS*	*65*			*65*	
	TOTALS	**$**	*3 605*	*1 200*	*1 860*	*425*	*120*

d

Calculation		
Receipts	*2 830*	
less Payments	*3 605*	
	(775)	
plus Opening balance	*(355)*	
	Bank balance	**$** *(1 130)*

e NEARLY THERE DELIVERIES

Bank Reconciliation Statement as at 30 June 2025

				$	
	Balance as per Bank Statement			*425*	*DR*
Less	*Deposits not yet credited*			*610*	
				185	
Less	*Unpresented cheques*	*# 232*	*460*		
		263	*290*		
		270	*565*	*1 315*	
	Balance as per business records			*(1 130)*	

OR

NEARLY THERE DELIVERIES

Bank Reconciliation Statement as at 30 June 2025

				$	
	Balance as per Bank Statement			*425*	*DR*
Add	*Unpresented cheques*	*# 232*	*460*		
		263	*290*		
		270	*565*	*1 315*	
				1 740	
Less	*Deposits not yet credited*			*610*	
	Balance as per business records			*(1 130)*	

Exercise 9.1 Source documents

a

Source document	*Purchase invoice*
Transaction	*Stitch in Time purchased 10 packets spools of thread (5 spools per packet) on credit from Common Thread for a total cost of $418 including $38 GST.*

b

Explanation	*Stitch in Time must pay the whole amount owing within 15 days (net owing 15 days).*

c

Purchases Journal

Date	Accounts Payable	Inv. No.	Inventory of materials	GST	Total Accounts Payable
Aug 3	*Common Thread*	*112*	*380*	*38*	*418*
	TOTALS	**$**			

d

Explanation	*GST is a tax imposed on the sale of goods and services. The $380 paid is for the 10 packets of spools of thread – this is the value of the Inventory of materials. The $38 is separate as it is the GST charged by the Australian Government, which is being collected by the supplier (Common Thread) on the ATO's behalf. It is not part of the cost of the Inventory of materials and will in fact reduce Stitch in Time's GST liability to the ATO.*

e

Element	Increase/Decrease/No Effect	Amount $
Asset	***Increase*** – *Inventory of materials increase*	*380*
Liability	***Increase*** – *Accounts Payables increase $418; GST liability decrease (GST credit) $38*	*380*
Owner's equity	*No effect*	

Exercise 9.2 Purchases Journal

a

Explanation	*The purpose of a Purchases Journal is to summarise all purchases of Inventory of materials on credit during a particular reporting period. This aids in the process of turning raw data into financial information so it can assist in decision-making.*

b

Purchases Journal

Date	Accounts Payable	Inv. No.	Inventory of materials	GST	Total Accounts Payable
July 2	*Volt Industries*	*V53*	*4 200*	*420*	*4 620*
7	*Wattage Supplies*	*346*	*2 500*	*250*	*2 750*
16	*Ampage Ltd*	*A52*	*1 800*	*180*	*1 980*
23	*Wattage Supplies*	*387*	*1 400*	*140*	*1 540*
28	*Volt Industries*	*V65*	*3 600*	*360*	*3 960*
	TOTALS	**$**	*13 500*	*1 350*	*14 850*

c

Explanation	*The source documents in the Purchases Journal won't run in sequence because they are not issued by Sparky Electricians but by their suppliers who issue their invoices to all their customers. Therefore, Sparky Electricians is receiving purchase invoices from a variety of suppliers who have other customers as well.*

d

Explanation	*The GST incurred on credit purchases will be forwarded to the ATO. Therefore, this GST incurred by Sparky Electricians will reduce their GST liability to the ATO.*

Exercise 9.3 Purchases Journal and Cash Payments Journal

a

Purchases Journal

Date	Accounts Payable	Inv. No.	Inventory of materials	GST	Total Accounts Payable
Sept. 3	*Leather Emporium*	*L56*	*360*	*36*	*396*
8	*Sole Man*	*201*	*750*	*75*	*825*
16	*Lillies Laces*	*LL314*	*240*	*24*	*264*
24	*Sole Man*	*246*	*400*	*40*	*440*
	TOTALS	**$**	*1 750*	*175*	*1 925*

Cash Payments Journal

Date	Details	Doc.	Bank	Accounts Payables	Drawings	Wages	Sundries	GST
Sept. 1	*Lillies Laces*	*Chq 165*	*120*	*120*				
7	*Wages*	*WDWL 9560*	*950*			*950*		
11	*Office equipment*	*Chq166*	*2 200*				*2 000*	*200*
14	*Drawings*	*ATM 653*	*500*		*500*			
19	*Sole Man*	*Chq 167*	*770*	*770*				
21	*Wages*	*WDWL 9875*	*950*			*950*		
27	*Drawings*	*ATM 741*	*500*		*500*			
30	*Leather Emporium*	*Chq 168*	*1 000*	*1 000*				
	TOTALS	**$**	*6 990*	*1 890*	*1000*	*1900*	*2 000*	*200*

b

Explanation	*This transaction was a payment to an Accounts Payable. Therefore, bank will decrease by $1000, decreasing assets, and Accounts Payable will decrease by $1000 , decreasing liabilities. There will be no effect on Owner's Equity.*

c

Calculation		
	Accounts Payable balance at start	*2 870*
+	*Credit purchases incl. GST*	*1 925*
		4 795
−	*Payments to Accounts Payable*	*1 890*
	Accounts Payable balance at end	*$2 905*
	Accounts Payables balance	**$** *2 905*

d

Explanation	*There is no GST on a payment to an Accounts Payable because the GST is recognised and recorded at the time the purchase is made and becomes a part of what is owed to the Accounts Payable. The GST has already been recorded in the Purchases Journal. If it was recorded in the Cash Payments Journal again the GST would be double counted.*

Exercise 9.4 Journals and Accounts Payable

a

Purchases Journal

Date	Accounts Payable	Inv. No.	Inventory of materials	GST	Total Accounts Payable
7	*Victor Mowers*	*385*	*1 800*	*180*	*1 980*
12	*ReeObi*	*R47*	*2 100*	*210*	*2 310*
18	*Victor Mowers*	*413*	*6 350*	*635*	*6 985*
23	*Parts and Pieces*	*P2501*	*5 000*	*500*	*5 500*
28	*ReeObi*	*R65*	*4 500*	*450*	*4 950*
	TOTALS	**$**	*19 750*	*1 975*	*21 725*

Cash Payments Journal

Date	Details	Doc.	Bank	Accounts Payable	Drawings	Wages	Sundries	GST
Apr. 2	*ReeObi*	*Chq 215*	*6 000*	*6 000*				
5	*Drawings*	*ATM 902*	*800*		*800*			
8	*Wages*	*WDWL 6095*	*1 200*			*1 200*		
10	*Victor Mowers*	*Chq 216*	*8 500*	*8 500*				
13	*Electricity*	*Bpay 612*	*341*				*310*	*31*
19	*ReeObi*	*Chq 217*	*2 000*	*2 000*				
21	*Drawings*	*ATM 6679*	*600*		*600*			
22	*Wages*	*WDWL 6438*	*1 200*			*1 200*		
24	*Victor Mowers*	*Chq 218*	*3 500*	*3 500*				
27	*Water bill*	*Bpay 946*	*253*				*230*	*23*
29	*Parts and Pieces*	*Chq 219*	*12 000*	*12 000*				
	TOTALS	**$**	*36 394*	*32 000*	*1 400*	*2 400*	*540*	*54*

b

Calculation		
	Accounts Payable balance at start	*34 400*
+	*Credit purchases incl. GST*	*21 725*
		56 125
–	*Payments to Accounts Payable*	*32 000*
	Accounts Payable balance at end	*$24 125*
	Accounts Payable balance	**$** *24 125*

c

Qualitative characteristic	*Verifiability*
Explanation	*Mow and Mulch must keep all the firm's source documents as these provide evidence of all the firms transactions. This makes sure that all figures can be verified and ensures that the figures in the Financial Statements are accurate and free from bias. Verifiability is maintained by retention of source documents.*

Exercise 9.5 Source documents

a

Source document	*Sales invoice*
Transaction	*Credit fee – Good as New repaired a 3 three-seater Chesterfield on credit for Ouch Dental for a total cost of $4 950, including $450 GST.*

b

Explanation	*The latest date that cash should be received by Good as New is 4th November 2025 as this is 30 days from the date of the invoice (4th October 2025) .*

c

Explanation	*This transaction is considered revenue because it has arisen from the ordinary activities of the business and the transaction has increased assets (Accounts Receivable) and will lead to an increase in owner's equity and it is not Capital contribution.*

d

Sales Journal

Date	Accounts Receivable	Inv. No.	Fees	GST	Total Accounts Receivable
Oct. 5	*Ouch Dental*	*149*	*4 500*	*450*	*4 950*
	TOTALS	**$**			

e

Element	Increase/Decrease/No Effect	Amount $
Asset	***Increase*** *– Accounts Receivable increase $4 950*	*4 950*
Liability	***Increase*** *– GST liability increase $450*	*450*
Owner's equity	***Increase*** *– Revenue increase $4 500*	*4 500*

Exercise 9.6 Sales Journal

a

Source document number	*Inv. 107*

b

Sales Journal

Date	Accounts Receivable	Inv. No.	Fees	GST	Total Accounts Receivable
Feb. 4	*Plus Accounting*	*102*	*270*	*27*	*297*
9	*Shone Lawyers*	*103*	*520*	*52*	*572*
15	*French Apartments*	*104*	*850*	*85*	*935*
22	*Shone Lawyers*	*105*	*430*	*43*	*473*
27	*Plus Accounting*	*106*	*300*	*30*	*330*
	TOTALS	**$**	*2 370*	*237*	*2 607*

c

Reason 1	*This does not take into account any existing balances of Accounts Receivable that may have existed at the start of the period.*
Reason 2	*This does not take into account any receipts from Accounts Receivable that may have occurred during this reporting period (Month of February).*

d

Explanation	*Any GST charged on Credit fees is GST charged and collected later by the business on the Australian Government's behalf. Therefore, this is owed to the ATO and will increase GST payable of the business collecting. In this instance Cut and Groom..*

Exercise 9.7 Sales Journal and Cash Receipts Journal

a

Explanatio n	*The transaction on 1 May is not revenue as it is a receipt from an Account Receivable for a past sale. Even though cash is flowing into the business it is a transfer of assets from Accounts Receivable to Bank and has no resulting impact on owner's equity. The revenue has already been recorded in the Sales Journal. To record it again would be to double count the revenue.*

b

Explanation	*There is no GST to account for from a receipt from an Account Receivable because the GST is recognised and recorded at the time the fee is made and becomes a part of what is owed by the Accounts Receivable to the business. The GST has been recorded in the Sales Journal. If it was recorded in the Cash Receipts Journal again the GST would be double counted.*

c

Sales Journal

Date	Accounts Receivable	Inv.No.	Fees	GST	Total Accounts Receivable
May 3	*Fab Events*	*271*	*1 420*	*142*	*1 562*
9	*Party Dayz*	*272*	*1 450*	*145*	*1 595*
13	*Lando's Café*	*273*	*900*	*90*	*990*
16	*Wow ART*	*274*	*720*	*72*	*792*
27	*Party Dayz*	*275*	*3 200*	*320*	*3 520*
	TOTALS	**$**	*7 690*	*769*	*8 459*

Cash Receipts Journal

Date	Details	Rec. No.	Bank	Accounts Receivable	Fees	Sundries	GST
May 1	*Fab Events*	*56*	*1 850*	*1 850*			
4	*Cash fees*	*57*	*308*		*280*		*28*
6	*Loan – Fincorp*	*BS*	*8 000*			*8 000*	
10	*Fab Events*	*58*	*1 800*	*1 800*			
18	*Party Dayz*	*59*	*4 450*	*4 450*			
22	*Lando's Café*	*60*	*990*	*990*			
25	*Cash fees*	*61*	*132*		*120*		*12*
31	*Wow ART*	*62*	*500*	*500*			
	TOTALS	**$**	*18 030*	*9 590*	*400*	*8 000*	*40*

d

Calculation

	Accounts Receivable balance at start	*8 000*
+	*Credit fees incl. GST*	*8 459*
		16 459
–	*Receipts from Accounts Receivable*	*9 590*
	Accounts Receivable balance at end	*$ 6 859*

Accounts Receivable balance | **$** 6 869

e

Explanation	*Yes all Accounts Receivable have met their credit terms as Fab Events paid more than what was outstanding from the last period. Party Dayz and Lando's Café paid within the specified credit terms. Fab Events, Party Dayz and Wow ART are still within their credit terms.*

Exercise 9.8 Credit transactions

a

Purchases Journal

Date	Accounts Payable	Inv. No.	Inventory of materials	GST	Total Accounts Payable
Jul. 7	*Buff and Shine*	*16X*	*3 100*	*310*	*3 410*
9	*Strung Instruments*	*403*	*1 780*	*178*	*1 958*
20	*Buff and Shine*	*B71*	*2 200*	*220*	*2 420*
24	*Strung Instruments*	*431*	*850*	*85*	*935*
	TOTALS	**$**	*7 930*	*793*	*8 723*

Sales Journal

Date	Accounts Receivable	Inv. No.	Fees	GST	Total Accounts Receivable
Jul. 2	*Sunshine Secondary College*	*109*	*3 400*	*340*	*3 740*
5	*Blackburn Secondary College*	*110*	*1 530*	*153*	*1 683*
12	*Beaconsfield Primary*	*111*	*400*	*40*	*440*
23	*Sunshine Secondary College*	*112*	*1 000*	*100*	*1 100*
30	*Beaconsfield Primary*	*113*	*510*	*51*	*561*
	TOTALS	**$**	*6 840*	*684*	*7 524*

Cash Receipts Journal

Date	Details	Rec. No.	Bank	Accounts Receivable	Fees	Sundries	GST
Jul. 3	*Beaconsfield Primary*	*57*	*500*	*500*			
14	*Cash fees*	*58*	*242*		*220*		*22*
17	*Sunshine Secondary College*	*59*	*2 800*	*2 800*			
25	*Cash fees*	*60*	*253*		*230*		*23*
28	*Blackburn Secondary College*	*61*	*3 113*	*3 113*			
31	*Interest*	*BS*	*8*			*8*	
	TOTALS	**$**	*6 916*	*6 413*	*450*	*8*	*45*

Cash Payments Journal

Date	Details	Doc.	Bank	Accounts Payables	Drawings	Wages	Sundries	GST
Jul. 1	*Rent*	*Chq 205*	*1 320*				*1 200*	*120*
4	*Buff and Shine*	*Chq 206*	*800*	*800*				
8	*Wages*	*WDW L 3864*	*1 100*			*1 100*		
11	*Drawings*	*ATM 6309*	*1 500*		*1 500*			
16	*Strung Instruments*	*Chq 207*	*1 900*	*1 900*				
22	*Wages*	*WDW L 3892*	*600*			*600*		
27	*Advertising*	*BPay 495*	*539*				*490*	*49*
29	*Buff and Shine*	*Chq 208*	*1 000*	*1 000*				
	TOTALS	**$**	*8 759*	*3 700*	*1 500*	*1 700*	*1 690*	*169*

b

Calculation

	Accounts Payable balance at start	*3 150*
+	*Credit purchases incl. GST*	*8 723*
		11 873
–	*Payments to Account Payable*	*3 700*
	Accounts Payable balance at end	*$8 173*

Accounts Payable balance | **$** *8 173*

Calculation		
	Accounts Receivable balance at start	*5 280*
+	*Credit fees incl. GST*	*7 524*
		12 804
–	*Receipts from Accounts Receivable*	*6 413*
	Accounts Receivable balance at end	*$6 391*
	Accounts Receivable balance	**$** 6 391

c

Explanation	*Musical Beat can verify these balances by cross checking the original source documents with the relevant journals to ensure all information is correct and free from bias. Another double check would be to add up all the relevant Account Receivables / Payables and see if the same answer was reached.*

Exercise 9.9 Statement of Account

a

Explanation	*The function of a Statement of Account is to inform the customer of their recent transactions. It can also serve as a reminder of a balance that is owing. If a business receives a Statement of Account, they can check the transactions against their records and source documents to ensure accuracy of transactions and payment towards their accounts..*

b

Explanation	*Paint World would be reported as an Accounts Payable under current liabilities in the Balance Sheet of No Drips Painting. This is because the business has purchased goods on credit and now has a present obligation that it must transfer economic resources to meet within 12 months after the end of a reporting period.*

c

Explanation	*No Drips Painting would be reported as an Account Receivable under current assets in the Balance Sheet of Paint World. This is because Paint World has sold goods on credit to the No Drips Painting and now has a present economic resource which has the potential to produce future economic benefits within 12 months at the end of a reporting period.*

Exercise 10.1

a

Statement	**Effect of paid wages**
Cash Flow Statement	*Operating outflows increase, Net Cash Flows from Operating Activities decrease, Bank at end decrease*
Income Statement	*Wage expense increase, Net Profit decrease*
Balance Sheet	*Assets decrease – Bank decrease* *Liabilities – No effect* *OE decrease – Wage expense increase, Net Profit decrease*

b

Statement	**Effect of cash fees**
Cash Flow Statement	*Operating inflows increase, Net Cash Flows from Operating Activities increase, Bank at end increase*
Income Statement	*Fee revenue increase, Net Profit increase*
Balance Sheet	*Assets increase – Bank increase* *Liabilities – Increase due to GST being collected* *OE increase – Fee revenue increase, Net Profit increase*

c

Statement	**Effect of cash drawings**
Cash Flow Statement	*Financing outflows increase, Net Cash Flows from Financing Activities decrease, Bank at end decrease*
Income Statement	*No effect*
Balance Sheet	*Assets decrease – Bank decrease* *Liabilities – No effect* *OE decrease – Drawings increase*

d

Statement	**Effect of cash purchase of equipment**
Cash Flow Statement	*Investing outflows increase, Net Cash Flows from Investing Activities decrease, Bank at end decrease*
Income Statement	*No effect*
Balance Sheet	*Assets overall decrease – Bank decrease, Equipment increase* *Liabilities – Decrease due to GST being paid* *OE – No effect*

e

Statement	**Effect of receipt of a loan**
Cash Flow Statement	*Financing inflows increase, Net Cash Flows from Financing Activities increase, Bank at end increase*
Income Statement	*No effect*
Balance Sheet	*Assets increase – Bank increase* *Liabilities increase – Loan increase* *OE – No effect*

f

Statement	**Effect of paid rent**
Cash Flow Statement	*Operating outflows increase, Net Cash Flows from Operating Activities decrease, Bank at end decrease*
Income Statement	*Rent expense increase, Net Profit decrease*
Balance Sheet	*Assets decrease – Bank decrease* *Liabilities – Decrease due to GST being paid* *OE decrease – Rent expense increase, Net Profit decrease*

g

Statement	**Effect of capital contribution**
Cash Flow Statement	*Financing inflows increase, Net Cash Flows from Financing Activities increase, Bank at end increase*
Income Statement	*No effect*
Balance Sheet	*Assets increase – Bank increase* *Liabilities – No effect* *OE increase – Capital contribution increase*

h

Statement	**Effect of credit purchase of materials**
Cash Flow Statement	*No effect*
Income Statement	*No effect*
Balance Sheet	*Assets increase – Materials (i.e. Office furniture) increase* *Liabilities increase – Accounts Payable increase AND GST decreases* *OE – No effect*

Exercise 10.2 Income Statement

a

CHRISTI'S CAR CLEAN EMPORIUM

Cash Flow Statement for January 2025

	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
Cash fees	*7 430*	
Receipts from Accounts Receivable	*1 000*	
GST received	*743*	*9 173*
Less Cash Outflows		
Wages	*2 250*	
Cleaning supplies	*3 000*	
GST paid	*1 430*	
Advertising	*300*	
Rent	*2 000*	*8 980*
Net cash Flows from Operating activities		***193***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Outflow		
Office equipment	*9 000*	*9 000*
Net cash Flows from Investing activities		***(9 000)***
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Inflows		
Capital contribution	*10 000*	*10 000*
Less Cash Outflows		
Drawings	*700*	
Loan principal	*5 000*	*5 700*
Net Cash Flows from Financing activities		***4 300***
Net increase (decrease) in cash position		***(4 507)***
Add Bank Balance at start (1 January 2025)		***6 500***
Bank Balance at end (31 January 2025)		***1 993***

b

Calculation	*Cleaning supplies as at 1 Jan*	*$ 450*	
	Add purchases	*$3 000*	
		$3 450	
	Less Cleaning supplies at 31 Jan	*$ 600*	
		Cost of cleaning supplies used	**$** *2 850*

c

CHRISTI'S CAR CLEAN EMPORIUM

Income Statement for January 2025

Revenue	**$**	**$**
Cash fees	*7 430*	
Credit fees	*1 800*	*9 230*
less Other expenses		
Wages	*2 250*	
Cost of Cleaning supplies used	*2 850*	
Advertising	*300*	
Rent	*2 000*	*7 400*
Net Profit		***1 830***

d

Explanation	***Capital contribution*** *is not treated as revenue as it is not an inflow of economic resources in the ordinary course of the business. That is, it is not the function of the business. Revenue arises in the course of ordinary activities that increases assets and results in an increase in OE but is not capital contribution.*

Explanation	***Cleaning supplies used*** *is treated as an expense as it is an economic loss or a consumption of an economic resource in order to generate revenue for the business that caused a decrease in assets and resulted in a decrease in OE but is not drawings.*

e

Reason 1	*Drawings is a cash payment and not an expense. Therefore, it will decrease Cash at bank but will have no effect on Net Profit.*
Reason 2	*Loan repayment is a cash payment and not an expense. Therefore, it will decrease Cash at bank but will have no effect on Net Profit.*
Reason 3	*Cost of cleaning supplies used (expense) was less than cleaning supplies purchased (payments), so there is a greater negative impact on the cash flow of the business rather than the Net Profit. Also Receipts from Accounts Receivable was less than Credit sales.*

f **CHRISTI'S CAR CLEAN EMPORIUM**

Balance Sheet Extract as at 31 January 2025

Owner's equity	**$**	**$**
Capital – Christi	*23 000*	
Add Capital contribution	*10 000*	
Add Net Profit	*1 830*	
	34 830	
Less Drawings	*700*	*34 130*

g

Calculation

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Net Sales}} \cdot 100 = \frac{1\ 830}{9\ 230} \cdot 100$$

Net Profit Margin	*19.82* **%**

Exercise 10.3 Income Statement

a

BATMAN AND BOWLER
Cash Flow Statement for October 2025

	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
Cash fees	*4 000*	
Receipts from Accounts Receivable	*2 000*	
GST received	*400*	
Interest on investments	*150*	
GST Refund	*2 300*	*8 850*
Less Cash Outflows		
Wages	*4 200*	
GST paid	*345*	
Electricity	*400*	
Insurance	*250*	
Rent	*2 000*	
Accounting fees	*800*	
Interest on loan	*100*	*8 095*
Net cash Flows from Operating activities		***755***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Outflow		
Net cash Flows from Investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Inflows		
Loan – ANZ	*2 000*	*2 000*
Less Cash Outflows		
Drawings	*1 000*	*1 000*
Net Cash Flows from Financing activities		***1 000***
Net increase (decrease) in cash position		***1 755***
Add Bank Balance at start (1 October 2025)		***500***
Bank Balance at end (31 October 2025)		***2 255***

b BATMAN AND BOWLER

Income Statement for October 2025

Revenue	**$**	**$**
Cash fees	*4 000*	
Credit fees	*3 000*	
Interest on investments	*150*	*7 150*
less Other expenses		
Wages	*4 200*	
Electricity	*400*	
Insurance	*250*	
Rent	*2 000*	
Accounting fees	*800*	
Interest on loan	*100*	*7 750*
Net Profit/(Loss)		***(600)***

c

Explanation	***Interest on investments*** *is treated as revenue as it is an inflow of economic benefit in the ordinary course of the business. Even though it is not the main function of the business, the business operates investments from which it would expect a return. Thus, it meets the definition of a revenue as it increases assets and results in an increase in OE but is not capital contribution.*

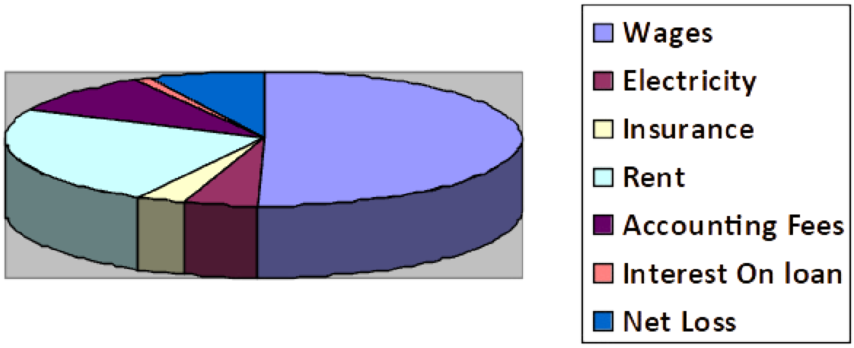
Explanation	***Drawings*** *is not treated as an expense as it is not a consumption of an economic benefit in order to generate revenue for the business. It is the owner withdrawing funds for personal use and is treated as negative OE. As defined, an expense is a transaction that causes a decrease in assets and results in a decrease in OE but is not drawings.*

d

Reason 1	*GST refund is a cash receipt and not a revenue. Therefore, it will increase Cash at bank but will have no effect on Net Profit.*
Reason 2	*Receipt of loan is a cash receipt and not a revenue. Therefore, it will increase Cash at bank but will have no effect on Net Profit.*

e

Pie Graph



f BATMAN AND BOWLER

Balance Sheet Extract as at 31 October 2025

Owner's equity	**$**	**$**
Capital	*39 400*	
less Net Loss	*600*	
	38 800	
less Drawings	*1 000*	*37 800*

Exercise 10.4 Income Statement and Balance Sheet

a

BLUE POOLS

Cash Flow Statement for March 2025

	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
Cash fees	*8 520*	
Receipts from Accounts Receivable	*5 280*	
GST received	*852*	
Small business prize	*500*	*15 152*
Less Cash Outflows		
Payments to Accounts Payable	*660*	
Wages	*9 500*	
GST paid	*575*	
Interest on loan	*250*	
Cleaning materials	*1 600*	
Van expenses	*150*	
GST settlement	*360*	*13 095*
Net Cash Flows from Operating activities		***2 057***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Outflow		
Tools and equipment	*4 000*	*4 000*
Net Cash Flows from Investing activities		***(4 000)***
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Inflows		
Capital contribution	*1 000*	*1 000*
Less Cash Outflows		
Loan repayment	*500*	
Drawings	*3 000*	*3 500*
Net Cash Flows from Financing Activities		***(2 500)***
Net increase (decrease) in cash position		***(4 443)***
Add Bank Balance at start (1 March 2025)		***14 500***
Bank Balance at end (31 March 2025)		***10 057***

b

BLUE POOLS

Income Statement for March 2025

Revenue	**$**	**$**
Cash fees	*8 520*	
Credit fees	*5 500*	
Small business prize	*500*	*14 520*
less Other expenses		
Cost of cleaning materials used	*3 200*	
Wages	*9 500*	
Interest on loan	*250*	
Van expenses	*150*	*13 100*
Net Profit/(Loss)		***1 420***

Calculation	*Cleaning materials as at 1 Jan*	*$1 500*
	Add purchases	*$2 000 (1 600 + 400)*
		$3 500
	Less Cleaning supplies at 31 Jan	*$ 300*
	Cost of cleaning materials used	**$** *3 200*

c

Explanation	*The small business prize is treated as revenue as it is an inflow of economic benefit in the ordinary course of the business. Even though it is not the function of the business to win prizes it was received as a result of carrying out his business. Thus, it meets the definition of revenue as it increases assets and results in an increase in OE but is not capital contribution.*

d

Action 1	*Reduce Drawings*
Action 2	*Reduce the purchase of NCAs, e.g. tools and equipment*

e BLUE POOLS

Balance Sheet as at 31 March 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
Bank	*10 057*		*GST payable**	*787*	
Inventory of cleaning materials	*300*		*Loan – Wizard*	*6 000*	
Accounts Receivable	*5 170*	*15 527*	*Accounts Payable*	*880*	*7 667*
Non-Current Assets					
Tools and equipment	*29 500*		**Non-Current Liabilities**		
Van	*15 000*	*44 500*	*Loan – Wizard*		*17 500*
			Owner's equity		
			Capital – Pollock	*35 440*	
			+ Capital contribution	*1 000*	
			+ Net Profit	*1 420*	
			– Drawings	*3 000*	*34 860*
Total Assets		*60 027*	**Total Equities**		*60 027*

Calculation

GST payable = GST received – GST paid*

= 1402 (852 + 550) – 615 (575 + 40)

(The previous GST payable of $360 was paid in Cash payments as GST Settlement)

GST payable | **$** *787*

Calculation

Accounts Receivable =		*Accounts Receivable at start*	*4 400*	
	+	*Credit Fees plus GST*	*6 050*	*10 450*
	–	*Receipts from Accounts Receivable*		*5 280*
		Accounts Receivable at end		**$** *5 170*

Calculation				
Accounts Payable =	*Accounts Payable at start*	*1 100*		
+	*Credit purchases plus GST*	*440*	*1540*	
–	*Payments to Accounts Payable*		*660*	
			Accounts Payable at end	**$** *880*

f

Recommendation 1	*Greater marketing around the small business prize*
Recommendation 2	*Decreasing prices / Improving service*

Exercise 10.5 Accounting reports

a SEW WELL

Cash Flow Statement for June 2025

	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
Cash fees	*13 900*	
GST received	*1 390*	
Receipts from Accounts Receivable	*2 300*	*17 590*
Less Cash Outflows		
Payments to Accounts Payable	*3 100*	
Wages	*10 200*	
GST paid	*870*	
Van expenses	*800*	
GST settlement	*1 000*	
Materials	*3 400*	
Interest on loan	*150*	*19 520*
Net cash Flows from Operating activities		***(1 930)***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Outflow		
Sewing machines	*4 500*	*4 500*
Net cash Flows from Investing activities		***(4 500)***
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Inflows		
Capital contribution	*4 000*	*4 000*
Less Cash Outflows		
Loan repayment	*400*	
Drawings	*2 800*	*3 200*
Net Cash Flows from Financing activities		***800***
Net increase (decrease) in cash position		***(5 630)***
Add Bank Balance at start (1 June 2025)		***5 500***
Bank Balance at end (30 June 2025)		***(130)***

b

Calculation	*Materials as at 1 June*	*$2 000*	
	Add Purchases	*$5 300 ($3 400 + $1 900)*	
		$7 300	
	Less Cleaning supplies at 30 June	*$3 000*	
		Cost of materials used	**$** *4 300*

c **SEW WELL**

Income Statement for June 2025

Revenue	**$**	**$**
Cash fees	*13 900*	
Credit fees	*4 500*	*18 400*
less Other expenses		
Wages	*10 200*	
Cost of materials used	*4 300*	
Van expenses	*800*	
Interest on loan	*150*	*15 450*
Net Profit/ (Loss)		***2 950***

d

Reason 1	*Drawings/Purchase of sewing machines is a cash payment and not an expense. Therefore, it will decrease Cash at bank but will have no effect on Net Profit.*
Reason 2	*Loan repayment/GST settlement is a cash payment and not an expense. Therefore, it will decrease Cash at bank but will have no effect on Net Profit.*

e SEW WELL

Balance Sheet as at 30 June 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
Accounts Receivable	*9 650*		*Bank overdraft*	*130*	
Inventory of materials	*3 000*	*12 650*	*Accounts Payable*	*1 490*	
			*GST payable**	*780*	
			Loan – Aussie	*4 800*	*7 200*
Non-Current Assets					
Sewing machines	*4 500*		**Non-Current Liabilities**		
Van	*27 000*		*Loan – Wizard*		*24 800*
Tools and Equipment	76 000	107 500			
			Owner's equity		
			Capital – Bancroft	*84 000*	
			+ Capital contribution	*4 000*	
			+ Net Profit	*2 950*	
			– Drawings	*2 800*	*88 150*
Total Assets		*120 150*	**Total Equities**		*120 150*

Calculation

GST payable = GST received – GST paid*

= 1 840 (1 390 + 450) – 1060 (870 + 190)

(The previous GST payable of $1 000 was paid in Cash payments as GST settlement)

GST payable $ *780*

Calculation

Accounts Receivable = Accounts Receivable at start 7 000

+ Credit fees plus GST 4 950

– Receipts from Accounts Receivable 2 300

Accounts Receivable at end $ *9 650*

Calculation		
Accounts Payable =	*Accounts Payable at start 2 500*	
+	*Credit purchases plus GST 2 090*	
–	*Payments to Accounts Payable 3 100*	
	Accounts Payable at end	**$** *1 490*

f

Explanation	*The Balance Sheet is titled 'as at' because it is presenting the firm's assets, liabilities and owner's equity at a fixed point in time. It is a snapshot in time because the balances could all change the next day. The Income Statement is titled 'for the period' as it is taking into account transactions (revenue and expenses) that have occurred over a specified period of time so the firm can determine its performance in that set period of time. (If we tried to do an Income Statement for the day there would not be very much in it.)*

Exercise 10.6 Accounting reports

a

Calculation of Net Profit/(Loss)		
Capital at start	*35 300*	
Add Net Profit	***5 900***	
Less drawings	*1 200*	
Capital at end	*40 000*	
	Net Profit	**$** 5 900

b **CLEAN AS A WHISTLE**

Cash Flow Statement for September 2025

	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
Cleaning fees	*9 500*	
Consultancy fees	*3 500*	
GST received	*1 300*	*14 300*
Less Cash Outflows		
Wages	*3 600*	
GST paid	*1 040*	
Cleaning supplies	*6 500*	
Electricity	*600*	
Interest on loan	*150*	
Rent	*1 500*	
Advertising	*1 000*	*14 390*
Net cash Flows from Operations		***(90)***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Outflow		
Cleaning equipment	*800*	*800*
Net cash Flows from Investing activities		***(800)***
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Inflows		
Loan	*4 000*	*4 000*
Less Cash Outflows		
Drawings	*1 400*	*1 400*
Net Cash Flows from Financing activities		***2 600***
Net increase (decrease) in cash position		***1 710***
Add Bank Balance at start (1 September 2025)		***2 500***
Bank Balance at end (30 September 2025)		***4 210***

c CLEAN AS A WHISTLE

Income Statement for September 2025

Revenue	**$**	**$**
Cleaning fees	*9 500*	
Consultancy fees	*3 500*	*13 000*
less Other expenses		
Supplies	*6 500*	
Wages	*3 600*	
Electricity	*600*	
Interest on loan	*150*	
Rent	*1 500*	
Advertising	*1 000*	*13 350*
Net Profit/(Loss)		***(350)***

d

Explanation	*Receipt of a loan is a cash receipt and not a revenue. Therefore, it will increase Cash at bank but will have no effect on Net Profit.*

e CLEAN AS A WHISTLE

Balance Sheet as at 30 September 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
Bank		*4 210*	*GST payable**	*2 960*	
			Loan – ANZ	*8 400*	*11 360*
Non-Current Assets					
Office furniture	*7 600*		**Non-Current Liabilities**		
Cleaning equipment	*59 800*		*Loan – ANZ*		*37 600*
Van	*12 400*				
Computer	3 200	83 000	**Owner's equity**		
			Capital – Lindsberg	*40 000*	
			– Net Loss	*350*	
			– Drawings	*1 400*	*38 250*
Total Assets		*87 210*	**Total Equities**		*87 210*

Calculation

GST payable opening balance $2 700

GST received – GST paid

= *1 300 – 1 040*

GST payable	**$** *2 960*

f

Ethical consideration 1	*Dry cleaning involves chemicals. Mark would need to ensure that those chemicals are used, stored and disposed of in accordance with guidelines and regulations.*
Ethical consideration 2	*Employees are provided with required safety gear and safe working conditions in order to work in such an environment. (Also, adequate pay, conditions etc.)*

Exercise 10.7 Income Statement and Balance Sheet

a

Calculation of Net Profit/(Loss)

Capital at start	***34 100***
Add Net Profit	*5 400*
Less drawings	*3 500*
Capital at end	*36 000*

Capital at start $ *34 100*

b

Calculation of Working Capital Ratio

CA = *1 000*

CL *6 000 (GST payable $2000 plus $1000 per quarter loan repayment?)*

Working Capital Ratio *17 : 1*

c

Comment *WCR is very low as there is only 17c of CA for every $1 of CL. The business will be unable to meet its debts as they fall due and Alex will need to contribute capital, or the business will need to seek external finance to cover the shortfall in the short term.*

d BIG STAR DECORATING

Cash Flow Statement for January 2025

	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
Cash fees	*8 000*	
GST received	*800*	*8 800*
Less Cash Outflows		
Wages	*500*	
Paint	*4 000*	
GST paid	*490*	
Insurance	*200*	
Interest on loan	*100*	
GST settlement	*2 000*	
Van expenses	*700*	*7 990*
Net cash Flows from Operating activities		***810***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Outflow		
Net cash Flows from Investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Inflows		
Less Cash Outflows		
Drawings	*3 000*	
Loan principal	*1 000*	*4 000*
Net Cash Flows from Financing activities		***(4 000)***
Net increase (decrease) in cash position		***(3 190)***
Add Bank Balance at start (1 January 2025)		***1 000***
Bank Balance at end (31 January 2025)		***(2 190)***

e

BIG STAR DECORATING

Income Statement for January 2025

Revenue	**$**	**$**
Cash fees		*8 000*
less Other expenses		
Wages	*500*	
Paint	*4 000*	
Insurance	*200*	
Interest on loan	*100*	
Van expenses	*700*	*5 500*
Net Profit/ (Loss)		***2 500***

f

Reason 1	*Drawings is a cash payment and not an expense. Therefore, it will decrease Cash at bank but will have no effect on Net Profit.*
Reason 2	*Loan repayment/GST settlement is a cash payment and not an expense. Therefore, it will decrease Cash at bank but will have no effect on Net Profit.*

g BIG STAR DECORATING

Balance Sheet as at 31 January 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
			Bank overdraft	*2 190*	
			*GST payable**	*310*	
			Loan – NAB	*4 000*	*6 500*
Non-Current Assets					
Computer	*5 500*		**Non-Current Liabilities**		
Office furniture	*8 600*		*Loan – NAB*		*11 000*
Painting equipment	*26 500*				
Van	*12 400*	*53 000*	**Owner's equity**		
			Capital – Chilton	*36 000*	
			+ Net Profit	*2 500*	
			– Drawings	*3 000*	*35 500*
Total Assets		*53 000*	**Total Equities**		*53 000*

Calculation

*GST payable** = *GST received – GST paid*

= *800 – 490*

(The previous GST payable of $2 000 was paid in Cash payments as GST settlement)

GST payable **$** *310*

h

Advice	*Alex needs to cease this activity at once and educate his employees on the correct way to dispose of excess paint. Excess paint could be left with customer if colour specific for touch ups or retained by the business for the next job if something standard like ceiling white.*
Justification	*Pouring paint down the drain is illegal and could potentially attract fines for the damage it would cause the environment. There are free depots to dispose of unwanted paint; however, a better outcome is to increase customer satisfaction by leaving unused paint or cutting costs by saving paint for the next job.*

Exercise 10.8 Income Statement and Balance Sheet

a

Calculation of repayment date

The loan is repaid $500 at the start of each month, so the next repayment occurs on 1 July 2025.

Therefore, $24 000 divided by $500 repayments equals 48 monthly repayments.

48/12 tells us that in 4 years the loan will be repaid. Therefore, the last payment will occur on 1 June four years from now.

Last Repayment date	1 June 2029

b

Calculation of ROI

Average OE = (OE at start + OE at end)/2

Average OE = (31 000 + 29 000)/2 = $30 000

$$\frac{\text{Net Profit}}{\text{Average OE}} \times \frac{100}{1} = \frac{1\,500}{30\,000} \times \frac{100}{1}$$

	5 **%**

c

Calculation of Drawings

Capital at start	*31 000*
Add Net Profit	*1 500*
Less drawings	***3 500***
Capital at end	*29 000*

Drawings	**$** *3 500*

d

Increase	*At the moment his monthly drawings equate to an income of $42 000 per year, $3 500 x 12) which is less than he was receiving previously when employed, i.e. $45 000.*
Decrease	*If Michael had maintained his level of drawings it would have placed pressure on the cash position of the business, which is not generating sufficient cash to support this level of drawings – as indicated by the bank overdraft.*

e **Faster Than the Rest**

Income Statement for July 2025

Revenue	**$**	**$**
Cash fees	*12 000*	
Credit fees	*1 500*	*13 500*
Less Other expenses		
Wages – driver	*6 700*	
Cost of fuel used	*1 600*	
Van expenses	*4 000*	
Insurance	*1 200*	
Interest on loan	*300*	*13 800*
Net Profit/ (Loss)		***(300)***

Calculation	*Fuel as at 1 July*	*$800*
	Add Purchases	*$1 300*
		$2 100
	Less Inventory of fuel at 31 July	*$500*
	Cost of fuel used	**$** *1 600*

f

Explanation	*Office equipment is not treated as an expense as it is not a consumption of an economic benefit in order to generate revenue for the business and it does not decrease assets and results in a decrease in OE. It is a present economic resource controlled by the business, as a result of a past event, that will provide the potential to produce a future economic benefit for a number of years.*

g

Reason 1	*Capital contribution is a cash receipt and not a revenue, therefore it will increase Cash at bank but will have no effect on Net Profit.*
Reason 2	*GST refund is a cash receipt and not a revenue, therefore it will increase Cash at bank but will have no effect on Net Profit.*
OR **Reason 3**	*Receipts from Accounts Receivable was greater than Credit sales which increased net operating cash flows and bank more than revenue in the Income Statement.*

h Faster Than the Rest

We apologise - there is currently some additional information missing from Exercise 10.8 in the print book, which will be addressed at reprint. The following is required for question H:

Sales Journal

Date 2025	Accounts receivable	Invoice No.	Fees	GST	Total Accounts receivable
	Total		*1 500*	*150*	*1 650*

Purchases Journal

Date	Accounts Payable	Inv. No.	Inventory of Materials	GST	Total Accounts Payable
	Total	**$**	*1 300*	*130*	*1 430*

Additional Information:

Inventory of fuel as at 31 July was $500.

h Faster Than the Rest

Balance Sheet as at 31 July 2025

Current Assets	**$**	**$**	**Current Liabilities**	**$**	**$**
Bank	*6 310*		*GST payable**	*630*	
Accounts Receivable	*2 250*		*Accounts Payable*	*1 530*	
Inventory of fuel	*500*	*9 060*	*Loan – NAB*	*6 000*	*8 160*
			Non-Current Liabilities		
			Loan – NAB		*17 500*
Non-Current Assets					
Office equipment	*12 200*		**Owner's equity**		
Courier vans	*35 200*	*47 400*	*Capital – Owen*	*29 000*	
			+ Capital contribution	*4 000*	
			– Net loss	*300*	
			– Drawings	*1 900*	*30 800*
Total Assets		*56 460*	**Total Equities**		*56 460*

Calculation

*GST payable * GST received – GST paid*

= (1 200 + 150) – (590 + 130)

(The previous GST receivable of $1 000 was received in Cash receipts as GST Refund)

GST payable $ *630*

Calculation

Accounts Receivable = Accounts Receivable at start 6 000

+ Credit fees plus GST 1 650

– Receipts from Accounts receivable 5 400

Accounts Receivable at end **$** *2 250*

Calculation

Accounts Payable = Accounts Payable at start 1 000

+ Credit purchases plus GST 1 430

– Payments to Accounts Payable 900

Accounts Payable at end **$** *1 530*

Exercise 11.1 Identifying inventory

a

Explanation	*The business does not sell computers; its normal operation would involve the sale of vehicles.* *The computer would be an item of potential future economic benefit that would be controlled by the business for a number of years and is not held for the purpose of resale.*

b

Business	Inventory
Hide Fashions	*Leather jackets*
LX Construction Machinery	*Equipment*
Lekkis Motor Traders	*Vehicles*
PC World	*Computers*
Timber Town Furniture	*Bookcases*

Exercise 11.2 Inventory transactions

a

Element	Increase/Decrease/No Effect	Amount $
Asset	***Decrease*** *(Bank decrease $110; Inventory increase $100)*	*10*
Liability	***Decrease*** *(GST payable)*	*10*
Owner's equity	***No effect***	0

b

Element	Increase/Decrease/No Effect	Amount $
Asset	***Increase*** *(A/c Receivable) increase $550; Inventory decrease $200)*	*350*
Liability	***Increase*** *(GST payable)*	*50*
Owner's equity	***Increase*** *(Sales $500 – Cost of Sales $200 = Profit $300)*	*300*

c

Element	Increase/Decrease/No Effect	Amount $
Asset	***Increase*** *(Inventory increase $300)*	*300*
Liability	***Increase*** *(Increase Accounts Payable $330, Decrease GST payable $30)*	*300*
Owner's Equity	***No effect***	0

d

Element	Increase/Decrease/No Effect	Amount $
Asset	***Increase*** *(Bank increase $715; Inventory decrease $400)*	*315*
Liability	***Increase*** *(GST payable)*	*65*
Owner's equity	***Increase*** *(Sales $650 – Cost of Sales $400 = Profit $250)*	*250*

Exercise 11.3 Inventory cards

a

Suggestion	*Cheques would be used for other payments too (not just this line of inventory) such as wages / other expenses / other inventory lines*

b

Inventory item: *Watch – Gismo 120*						**Cost method:** *Identified Cost*				
Inventory code: *Gismo 120*						**Supplier:** *Ryan International*				
		IN			**OUT**			**BALANCE**		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Oct. 1	*Balance*							*5*	*210*	*1050*
	Ch. 427	*4*	*210*	*840*				*9*	*210*	*1890*
5	*Rec. 843*				*3*	*210*	*630*	*6*	*210*	*1260*
9	*Rec. 844*				*1*	*210*	*210*	*5*	*210*	*1050*
13	*Rec. 846*				*2*	*210*	*420*	*3*	*210*	*630*
18	*Inv. W304*	*10*	*210*	*2100*				*13*	*210*	*2730*
20	*Inv. 107*				*5*	*210*	*1050*	*8*	*210*	*1680*
26	*Ch. 435*	*4*	*210*	*840*				*12*	*210*	*2520*

c

Explanation	*The GST does not affect the valuation of the inventory: it does not affect the economic benefit represented by the inventory. (Rather, any GST on purchases decreases any GST liability.)*

d

Explanation	*When a watch is sold, the cost of the watch is recognised as an expense (Cost of Sales): this represents an outflow of economic benefits (inventory) which decreases assets (Inventory on hand) and decreases owner's equity.*

e

Advice	*They should not accept.*
Justification	*Even though cheaper inventory might lead to a higher mark up and thus potentially more revenue, the old saying is that 'you get what you pay for'. Cheaper inventory can reflect lower quality. Greater sales returns and decreased customer satisfaction could lead to a loss of reputation*

and a future decline in sales.

Exercise 11.4 Inventory cards and Identified Cost

a

Inventory Item:	*Perfume – Funk*	**Cost Method:**	*FIFO*
Inventory Code:	*1112*	**Supplier:**	*Cologne Ltd*

Date	**Details**	**IN**			**OUT**			**BALANCE**		
		Qty	**Unit cost**	**Value**	**Qty**	**Unit cost**	**Value**	**Qty**	**Unit cost**	**Value**
Apr. 1	*Balance*							*5*	*60*	*300*
3	*Ch. 880*	*12*	*60*	*720*				*17*	*60*	*1020*
8	*Rec. 35*				*10*	*60*	*600*	*7*	*60*	*420*
11	*Inv. P90*	*15*	*70*	*1050*				*7*	*60*	*420*
								15	*70*	*1050*
15	*Memo 44*				*1*	*60*	*60*	*6*	*60*	*360*
								15	*70*	*1050*
21	*Rec. 36*				*6*	*60*	*360*			
					4	*70*	*280*	*11*	*70*	*770*
23	*Credit Note 87*				*5*	*70*	*350*	*6*	*70*	*420*
25	*Ch. 894*	*20*	*80*	*1600*				*6*	*70*	*420*
								20	*80*	*1600*
30	*Rec. 37*				*6*	*70*	*420*			
					9	*80*	*720*	*11*	*80*	*880*

b

Explanation	*Identified Cost is when the actual cost price of the inventory is provided. This is highlighted with the purchase return on the 23rd, where we are told the cost price of the inventory being returned.*

c

Calculation *600 + (360 + 280) + (420 + 720)* *600 + 640 + 1140* *= $2 380*	
Cost of Sales	**$** *2 380*

d

Calculation *Gross Profit = Sales – Cost of Sales* *Sales = (35 x $200) – 2 380* *= $7 000 – 2 380*	
Gross Profit	**$** *4 620*

Exercise 11.5 Inventory loss and gain

a

Qualitative characteristic	*Verifiability*
Explanation	*A physical count verifies the inventory records (inventory cards) of the business, in the process detecting any inventory losses or gains, to ensure that the information provided is accurate and free from bias.*

b

Reason 1	*Theft OR Damage*
Reason 2	*Oversupply to customer OR Undersupply by supplier*

c

Inventory item: *Chainsaws* **Cost method:** *FIFO*
Inventory code: *Brushcutter* **Supplier:**

		IN			OUT			BALANCE		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Aug. 30	*Balance*							*12*	*400*	*4800*
	Memo 13				*2*	*400*	*800*	*10*	*400*	*4000*

Exercise 11.6 Inventory loss and gain

a

Explanatio n	*Oversupply by a supplier: the quantity supplied due to a purchase was greater than recorded in the inventory card.* *Undersupplying to a customer: the quantity delivered due to a sale was less than recorded in the inventory card.*

b

Inventory item: *Hammer*					**Cost method:** *FIFO*					
Inventory code: *Silver*					**Supplier:**					
		IN			**OUT**			**BALANCE**		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Nov. 30	*Balance*							*43*	*15*	*645*
	Memo 91	*4*	*15*	*60*				*47*	*15*	*705*

c

Benefit	*Identifying fast-moving or slow-moving inventory* *Identifying the need to reorder inventory* *Identifying the cost price of inventory sold (Cost of Sales)*

Exercise 11.7 Inventory cards, FIFO, Identified Cost and physical count

a

Inventory item:	*Rockweiler stereos*					**Cost method**	*Identified Cost*			
Inventory code:						**Supplier:**				
		IN			**OUT**			**BALANCE**		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Dec. 1	*Balance*							*5*	*1 000*	*5 000*
3	*Rec. L49*				*2*	*1 000*	*2 000*	*3*	*1 000*	*3 000*
6	*Ch. 123*	*6*	*1 100*	*6 600*				*3*	*1 000*	*3 000*
								6	*1 100*	*6 600*
14	*Rec. L50*				*2*	*1 100*	*2 200*	*3*	*1 000*	*3 000*
								4	*1 100*	*4 400*
17	*Cr Nte 23*	*1*	*1 100*	*1 100*				*3*	*1 000*	*3 000*
								5	*1 100*	*5 500*
19	*Cr Nte x56*				*1*	*1 100*	*1 100*	*3*	*1 000*	*3 000*
								4	*1 100*	*4 400*
21	*Ch. 127*	*10*	*1 000*	*10 000*				*13*	*1 000*	*13 000*
								4	*1 100*	*4 400*
25	*Rec. L51*				*3*	*1 100*	*3 300*	*13*	*1 000*	*13 000*
								1	*1 100*	*1 100*
29	*Memo 44*				*1*	*1 000*	*1 100*	*12*	*1 000*	*13 000*
								1	*1 100*	*1 100*
31	*Memo 45*				*1*	*1 000*	*1 000*	*11*	*1 000*	*11 000*
								1	*1 100*	*1 100*

b

Inventory Item:	*Rockweiler stereos*	**Cost Method:**	*FIFO*
Inventory Code:		**Supplier:**	

		IN			OUT			BALANCE		
Date	**Details**	**Qty**	**Unit cost**	**Value**	**Qty**	**Unit cost**	**Value**	**Qty**	**Unit cost**	**Value**
Dec. 1	*Balance*							*5*	*1 000*	*5 000*
3	*Rec. L49*				*2*	*1 000*	*2 000*	*3*	*1 000*	*3 000*
6	*Inv. 301*	*6*	*1 100*	*6 600*				*3*	*1 000*	*3 000*
								6	*1 100*	*6 600*
14	*Rec. L50*				*2*	*1 000*	*2 000*	*1*	*1 000*	*1 000*
								6	*1 100*	*6 600*
17	*Cr Nte 23*	*1*	*1 000*	*1 000*				*2*	*1 000*	*2 000*
								6	*1 100*	*6 600*
19	*Cr Nte x56*				*1*	*1 000*	*1 000*	*1*	*1 000*	*1 000*
								6	*1 100*	*6 600*
21	*Ch. 127*	*10*	*1 000*	*10 000*				*1*	*1 000*	*1 000*
								6	*1 100*	*6600*
								10	*1 000*	*10 000*
25	*Rec. L51*				*1*	*1 000*	*1 000*	*4*	*1 100*	*4 400*
					2	*1 100*	*2 200*	*10*	*1 000*	*10 000*
29	*Memo 44*				*1*	*1 100*	*1 100*	*3*	*1 100*	*3 300*
								10	*1 000*	*10 000*

31	*Memo 45*				*1*	*1 100*	*1 100*	*2*	*1 100*	*2 200*
								10	*1 000*	*10 000*

c

Explanation	*FIFO works on the assumption that the inventory purchased first will be sold first, therefore for this assumption to work it must follow date order of purchase. FIFO is engaged where it is not practical to be able to identify each item of inventory and its cost; however, the Identified Cost method can. As such it will allocate the correct cost of the item and therefore does not need to follow an assumption nor maintain any specific order.*

d

Difference 1	*Cost of sales (FIFO $7200 vs IC $7500)*
Difference 2	*Inventory at end (FIFO $12200 vs IC $12100)*
Difference 3	*Inventory loss (FIFO $1100 vs IC $1000) also drawings*

e

Reason 1	*Oversupply to customer*
Reason 2	*Undersupply by supplier*

f

Element	Increase/Decrease/No Effect	Amount $
Asset	***Decrease*** *(Inventory)*	*1 100 F / 1000 IC*
Liability	***No effect***	*0*
Owner's equity	***Decrease*** *(Increase Inventory loss – decrease profit)*	*1 100 F / 1000 IC*

g

Explanation	*Inventory loss is the consumption of an economic benefit*

	that causes a decrease in assets (inventory), it has not effect on liabilities and thus results in a decrease in owner's equity (and it is not Drawings).

Exercise 11.8 Inventory cards and cash journals using FIFO

a

Inventory item: *Samsong DVD Player*						**Cost method:** *FIFO*				
Inventory code: *250*						**Supplier:**				
		IN			**OUT**			**BALANCE**		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Jun. 1	*Balance*							*4*	*100*	*400*
2	*Inv. 54*	*10*	*110*	*1 100*				*4*	*100*	*400*
								10	*110*	*1 100*
7	*Rec. 89*				*4*	*100*	*400*			
					2	*110*	*220*	*8*	*110*	*880*
12	*Ch. 1257*	*5*	*120*	*600*				*8*	*110*	*880*
								5	*120*	*600*
18	*Rec. 91*				*6*	*110*	*660*	*2*	*110*	*220*
								5	*120*	*600*
25	*Inv. 79*	*8*	*120*	*960*				*2*	*110*	*220*
								13	*120*	*1560*
27	*Cr Nte 18*				*2*	*120*	*240*	*2*	*110*	*220*
								11	*120*	*1320*
29	*Memo 4*				*2*	*110*	*220*			
					3	*120*	*360*	*8*	*120*	*960*
31	*Memo 5*				*1*	*120*	*120*	*7*	*120*	*840*

b

Explanation	*Inventory cards can improve the management of inventory by indicating which lines of inventory are fast selling and which are slow selling. The business could alter its inventory mix to ensure it held more of those items that sell quickly and phase out the items that do not, thus allowing it to improve its Inventory Turnover.* *OR Identifying the need to reorder allows the business to ensure it always has sufficient inventory in the store, so it does not run out and miss sales.* *OR Identifying the cost price of inventory allows a salesperson to determine how much they can discount off the sales price to ensure that they still can achieve a profit on sale.*

c

Cash Receipts Journal

June	Details	Rec. No.	Bank	Sales	Sundries	GST
7	*Sales*	*89*	*1 782*	*1 620*		*162*
16	*Capital contribution*	*90*	*1 000*		*1 000*	
18	*Sales*	*91*	*1 782*	*1 620*		*162*

Cash Payments Journal

June	*Details*	*Doc.*	*Bank*	*Inventory*	*Wages*	*Sundries*	*GST*
4	*Shop fittings*	*1255*	*1 320*			*1 200*	*120*
9	*Wages*	*1256*	*540*		*540*		
12	*Inventory*	*1257*	*660*	*600*			*60*
21	*Wages*	*1258*	*580*		*580*		

Purchases Journal

[Apologies – the supplier's name SingSam is missing in the textbook, and will be corrected at reprint]

Date	Accounts Payable	Inv. No.	Inventory	GST	Total Accounts Payable
June 2	*SingSam*	*54*	*1 100*	*110*	*1 210*
	SingSam	*79*	*960*	*96*	*1 056*
	TOTALS	**$**	*2 060*	*206*	*2 266*

d

Transaction on 2 June 2025

Element	Increase/Decrease/No Effect	Amount $
Asset	***Increase*** *(increase Inventory $1 100)*	*1 100*
Liability	***Increase*** *(increase Accounts Payable $1 210; Decrease GST payable $110)*	*1 100*
Owner's equity	***No effect***	*0*

Transaction on 7 June 2025

Element	Increase/Decrease/No Effect	Amount $
Asset	***Increase*** *(Increase Bank $1 782; decrease Inventory $620)*	*1 162*
Liability	***Increase*** *(GST payable)*	*162*
Owner's equity	***Increase*** *(Sales $1620 – Cost of Sales $620 = Profit $1000)*	*1 000*

Transaction on 30 June 2025

Element	Increase/Decrease/No Effect	Amount $
Asset	***Decrease*** *(Inventory)*	*120*
Liability	***No effect***	*0*
Owner's equity	***Decrease*** *(Inventory loss decreases profit)*	*120*

Exercise 11.9 Recording for inventory using FIFO

a

Qualitative characteristic	*Verifiability* OR	*Faithful representation*
Explanation	*The selling price is not the original purchase price and cannot be verified by a source document.*	*There is no guarantee that the inventory will be sold, so using the selling price will recognise a gain before it is certain, and therefore overstate the value of assets (Inventory) and thus information will not be free from material error or without bias.*

b

Source document	*Memo*

c

Inventory item: *Desks* **Cost method:** *FIFO*
Inventory code: **Supplier:**

		IN			OUT			BALANCE		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Sept. 1	*Balance*							*15*	*50*	*750*
3	*Rec. 56*				*7*	*50*	*350*	*8*	*50*	*400*
10	*Memo 3*				*2*	*50*	*100*	*6*	*50*	*300*
16	*Ch. 320*	*20*	*60*	*1 200*				*6*	*50*	*300*
								20	*60*	*1 200*
23	*Rec. 57*				*6*	*50*	*300*			
					12	*60*	*720*	*8*	*60*	*480*
30	*Memo 4*				*3*	*60*	*180*	*5*	*60*	*300*

d

Explanation	*Inventory cards provide an indication of what inventory should be present in the business and allows for spot checks to be carried out on a regular basis to highlight quickly if any inventory is missing.*

e

Element	Overstated/Understated/No Effect	Amount $
Asset	***Overstated*** *(Inventory)*	*180*
Liability	***No effect***	*0*
Owner's equity	***Overstated*** *(Inventory loss under/s so Net Profit overstated)*	*180*

f

Calculation

350 + (300 + 720)

350 + 1020

= $1 370

Cost of Sales	**$** *1 370*

g

Calculation

Gross Profit = Sales – Cost of Sales

Sales = (7 x $100) + (18 x $100)

= (700 + 1 800) – 1 370

= $2 500 – $1 370

Gross Profit	**$** *1 130*

Exercise 11.10 Recording for inventory – FIFO vs Identified Cost

a (Identified Cost)

Inventory item: Ceiling Paint					**Cost method:** Identified Cost					
Inventory code:					**Supplier:**					
		IN			**OUT**			**BALANCE**		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Aug. 1	*Balance*							*10*	*35*	*350*
								8	*40*	*320*
	Rec. 231				*7*	*35*	*245*			
					8	*40*	*320*	*3*	*35*	*105*
8	*Ch. 186*	*4*	*40*	*160*				*3*	*35*	*105*
								4	*40*	*160*
19	*Memo 20*				*2*	*35*	*70*	*1*	*35*	*105*
								4	*40*	*160*
25	*Inv. 901*	*10*	*45*	*450*				*1*	*35*	*35*
								4	*40*	*160*
								10	*45*	*450*
27	*Cr Nte 25*				*2*	*45*	*90*	*1*	*35*	*35*
								4	*40*	*160*
								8	*45*	*360*
28	*Inv. 309*				*2*	*40*	*80*	*1*	*35*	*35*
					4	*45*	*180*	*2*	*40*	*80*
								4	*45*	*180*
31	*Memo 21*				*1*	*35*	*35*	*2*	*40*	*80*
					2	*45*	*90*	*2*	*45*	*90*

a (FIFO)

Inventory item: Ceiling Paint					**Cost method:** FIFO					
Inventory code:					**Supplier:**					
		IN			**OUT**			**BALANCE**		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Aug. 1	*Balance*							*10*	*35*	*350*
								8	*40*	*320*
	Rec. 231				*10*	*35*	*350*			
					5	*40*	*200*	*3*	*40*	*120*
8	*Ch. 186*	*4*	*40*	*160*				*7*	*40*	*280*
19	*Memo 20*				*2*	*40*	*80*	*5*	*40*	*200*
25	*Inv. 901*	*10*	*45*	*450*				*5*	*40*	*200*
								10	*45*	*450*
27	*Cr Nte 25*				*2*	*45*	*90*	*5*	*40*	*200*
								8	*45*	*360*
28	*Inv. 309*				*5*	*40*	*200*			
					1	*45*	*45*	*7*	*45*	*405*
31	*Memo 21*				*3*	*45*	*135*	*4*	*45*	*180*

b

Benefit 1	*Identifying fast-moving or slow-moving inventory*
Benefit 2	*Identifying the cost price of inventory OR identifying the need to reorder*

c

Cash Receipts Journal

2025 Aug.	Details	Rec. No.	Bank	Sales	Sundries	GST
1	*Sales*	*231*	*1 155*	*1 050*		*105*
12	*Loan – JH Finance*	*232*	*5 000*		*5 000*	
			6 155	***1 050***	***5 000***	***105***

Cash Payments Journal

Aug.	Details	Doc.	Bank	Inventory	Wages	Drawings	Sundries	GST
3	*Electricity*	*184*	*154*				*140*	*14*
5	*Wages*	*185*	*780*		*780*			
8	*Inventory*	*186*	*176*	*160*				*16*
9	*Drawings*	*187*	*400*			*400*		
16	*Advertising*	*188*	*440*				*400*	*40*
22	*Wages*	*189*	*620*		*620*			
	TOTALS	**$**	***2 570***	***160***	***1 400***	***400***	***540***	***70***

Purchases Journal

[Apologies – the supplier's name Splash Ltd is missing in the textbook, and will be corrected at reprint]

Date	Accounts Payable	Inv. No.	Inventory	GST	Total Accounts Payable
Aug 25	*Splash Ltd*	*901*	*450*	*45*	*495*
	Total	**$**			

Sales Journal

[Apologies – the customer name Industry Painters is missing in the textbook, and will be corrected at reprint]

Date	Accounts Receivable	Inv. No.	Sales	GST	Total Accounts Receivable
Aug 28	*Industry Painters*	*309*	*420*	*42*	*462*
	TOTALS	**$**			

d

Accounting assumption	*Accounting entity*
Explanation	*The business and the owner are separate Accounting entities and thus transactions between them must be recorded.* *Gia took business inventory home for her own personal use. Therefore, this transaction must be recorded in the records of Lucchetti Paints.*

e

Explanation	*There would be no overall effect on owner's equity if this transaction was not recorded as it would be picked up by the physical count as an inventory loss. Therefore, instead of being recorded as drawings it would be recorded as inventory loss, which would also have the same negative effect on owner's equity.*

f

Calculation FIFO

= (350 + 200) + (200 + 45)

= 550 + 245 = $795

Cost of Sales | **$** *795*

Calculation FIFO

Gross Profit = Sales – Cost of Sales

= (1050 + 420)1 470 – 795

Gross Profit | **$** *675*

Calculation IC	
= (245 + 320) + (80 + 180)	
= 565 + 260 = $825	
Cost of Sales	**$** *825*

Calculation IC	
Gross Profit = Sales – Cost of Sales	
= (1050 + 420) 1 470 – 825	
Gross Profit	**$** *645*

Exercise 12.1 Calculating Cost of Sales

a

Reason	*This transaction could relate to drawings – where the owner has taken inventory home for personal use.* *OR Advertising – where the business has donated inventory for fundraising and advertising purposes*

b

Transaction	*Inventory loss OR Purchase returns*

c

Calculation *700 + 800*	
Cost of Sales	**$** *1 500*

d

Explanation	*This figure only relates to one type of inventory. The business is likely to sell a wide variety of musical instruments so their 'Cost of Sales' would have to be included in the Income Statement as well. The Cost of Sales figure has to show the total cost of inventory sold in that reporting period.*

Exercise 12.2 Calculating Cost of Sales

a

Source document	*Cash receipt / Sales invoice / credit note*

b

Transactio n	*The movement of inventory into the business indicates a purchase has taken place. The source document, 'Inv T54', indicates it was a credit purchase of inventory.*

c

Explanatio n	*The purchase of inventory is the acquisition of an asset – as inventory represents a present economic resource that will have the potential to provide a future benefit that is controlled by the business. It is not the consumption of an economic benefit and even though a decrease in assets (bank) occurs with the purchase of inventory it does not result in a decrease in OE – which is required for an expense to be recognised.*

d

Calculation	
(180 + 100) + 300	
= 280 + 300	
Cost of Sales	**$** *580**

***Please note:** If the transaction on the 12th was treated as a purchase return then the Cost of Sales would be $300.

e

Explanatio n	*Inventory gain has no effect on Cost of Sales as inventory gain is regarded as a revenue and Cost of Sales as an expense. Inventory gain is an inflow of economic benefit. The transaction increases assets (inventory) and results in an increase in owner's equity, whereas Cost of Sales is a consumption of economic benefit. That transaction decreases assets (inventory) and results in a decrease in OE. They occur either side of the business's Gross Profit. Cost of Sales is used to calculate Gross Profit, whereas inventory gain is used to determine the Adjusted Gross Profit for the period.*

Exercise 12.3 Financial reports

a

WHEREISIT MAPS

Cash Flow Statement for March 2025

	$	$
CASH FLOW FROM OPERATIONS		
Cash Inflows		
Cash sales	*23 000*	
Accounts Receivable	*3 000*	
GST received	*2 300*	*28 300*
Less Cash Outflows		
Wages	*2 700*	
Inventory	*17 000*	
GST paid	*1 920*	
Advertising	*1 000*	
Buying expense	*1 200*	
GST settlement	*500*	*24 320*
Net cash Flows from Operations		***3 980***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Outflow		
Net cash Flows from Investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Inflows		
Capital contribution	*5 000*	*5 000*
Less Cash Outflows		
Drawings	*1 500*	*1 500*
Net Cash Flows from Financing activities		***3 500***
Net increase (decrease) in cash position		***7 480***
Add Bank Balance at start (1 March 2025)		***1 800***
Bank Balance at end (31 March 2025)		***9 280***

WHEREISIT MAPS

Income Statement for March 2025

Revenue	**$**	**$**
Cash sales	*23 000*	
Credit sales	*5 000*	*28 000*
Less Cost of Goods Sold		
Cost of Sales	*15 800*	
Buying expenses	*1 200*	*17 000*
Gross Profit		*11 000*
Less Inventory loss		*300*
Adjusted Gross Profit		*10 700*
Less Other expenses		
Wages	*2 700*	
Advertising	*1 000*	*3 700*
Net Profit/(Loss)		***7 000***

b

Explanation	***GST settlement*** *was not included in the Income Statement as it is not considered an expense but rather the repayment of a liability. That is, the business has met its present obligation by transferring economic resources (cash from the bank). Therefore, it is a payment to reduce a debt and not a consumption of an economic benefit. Even though it decreases assets it does not result in a decrease in OE.*

Explanation	***Buying expenses*** *is treated as a Cost of Goods Sold (COGS) expense as it is a cost that is involved in getting the inventory into a condition and location ready for sale.*

c WHEREISIT MAPS

Balance Sheet Extract as at 31 March 2025

	Owner's equity	**$**	**$**
	Capital – Finkelstein	*34 000*	
Add	*Capital contribution*	*5 000*	
Add	*Net Profit*	*7 000*	
		46 000	
Less	*Drawings*	*1 500*	*44 500*

d

Calculation

Gross Profit Margin = $\dfrac{\text{Gross Profit}}{\text{Net Sales}} \times 100 = \dfrac{11\,000}{28\,000} \times 100$

Gross Profit Margin 39.3 **%**

Calculation

Net Profit Margin = $\dfrac{\text{Net Profit}}{\text{Net Sales}} \times 100 = \dfrac{7\,000}{28\,000} \times 100$

Net Profit Margin 25 **%**

Comment	*Gemima should be very happy with the results of these ratios. Both ratios are well above the industry average indicating, she has a very good mark up on sales and excellent expense control. She is getting at least 25c of every sales dollar through to profit.*

Exercise 12.4 Income Statement

a THE PHOTOGRAPHY PLACE

Income Statement for October 2025

Revenue	**$**	**$**
Cash sales	*20 000*	
Credit sales	*23 000*	*43 000*
Less Sales returns		*1 200*
Net sales		*41 800*
Less Cost of Goods Sold		
Cost of Sales	*23 000*	
Import duties	*500*	*23 500*
Gross Profit		*18 300*
Add Inventory gain		*300*
Adjusted Gross Profit		*18 600*
Less Other expenses		
Wages	*4 800*	
Interest on loan	*200*	
Advertising	*800*	
Freight out	*1 400*	*7 200*
Net Profit/(Loss)		***11 400***

b

Explanatio n	***Import duties*** *is treated as a Cost of Goods Sold (COGS) expense as it is a cost that is involved in getting the inventory into a condition and location ready for sale.*

Explanatio n	***Freight out*** *is treated as an 'Other expense' as it is a cost that is incurred after the sale has occurred. It would involve costs associated with delivery of the goods to the customer.*

c THE PHOTOGRAPHY PLACE

Balance Sheet Extract as at 31 October 2025

Owner's equity	**$**	**$**
Capital – Virente	*45 000*	
Add Net Profit	*11 400*	
	56 400	
Less Drawings (cash and inventory – 3 000 + 600)	*3 600*	*52 800*

Exercise 12.5 Financial reports

a

BAXTER'S BOOKS

Cash Flow Statement for the year ending 31 December 2025

	$	$
CASH FLOW FROM OPERATIONS		
Cash Inflows		
Cash sales	*140 000*	
GST received	*14 000*	*154 000*
Less Cash Outflows		
Wages	*28 000*	
Inventory	*98 000*	
GST paid	*11 800*	
Freight in	*11 000*	
Selling expense	*5 800*	
Accounting fees	*3 200*	*157 800*
Net cash Flows from Operations		***(3 800)***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Outflow		
Net cash Flows from Investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Inflows		
Capital Contribution	*6000*	*6000*
Less Cash Outflows		
Drawings	*25 000*	*25 000*
Net Cash Flows from Financing activities		***(19 000)***
Net increase (decrease) in cash position		***(22 800)***
Add Bank Balance at start (1 December 2025)		***18 500***
Bank Balance at end (31 December 2025)		***(4 300)***

BAXTER'S BOOKS

Income Statement for the year ending 31 December 2025

Revenue	**$**	**$**
Sales		*140 000*
Less Cost of Goods Sold		
Cost of Sales	*96 000*	
Freight in	*11 000*	*107 000*
Gross Profit		*33 000*
Less Inventory loss		*1 500*
Adjusted Gross Profit		*31 500*
Less Other expenses		
Wages	*28 000*	
Selling expenses	*5 800*	
Accounting fees	*3 200*	*37 000*
Net Profit/ (Loss)		***(5 500)***

b

Explanation	*Gross Profit is an important figure or amount for a trading business as it provides information on the business's pricing policy. It indicates the mark-up or profit that is made from the sale of inventory. This Gross Profit is required to cover 'other expenses' and contribute towards Net Profit. If a business has set its mark-up too low then there may be insufficient Gross Profit to cover the 'other expenses' of the business, resulting in a net loss.*

c BAXTER'S BOOKS

Balance Sheet Extract as at 31 December 2025

Owner's equity	**$**	**$**
Capital – Darcy	*75 000*	
Add Capital contribution	*6 000*	*81 000*
Less Net Loss	*5 500*	
Less Drawings (cash and inventory – 25 000 + 1500)	*26 500*	*32 000*
		49 000

d

Element	**Increase/Decrease/No Effect**	**Amount $**
Asset	***Decrease*** *– Inventory decrease*	*1 500*
Liability	*No effect*	*0*
Owner's equity	***Decrease*** *– Inventory loss (expense), decrease Net Profit*	*1 500*

e

Calculation

Gross Profit Margin = $\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 = \frac{33\ 000}{140\ 000} \times 100$

Gross Profit Margin *23.6* **%**

Calculation

Net Profit Margin = $\frac{\text{Net Profit}}{\text{Net Sales}} \times 100 = \frac{(5\ 500)}{140\ 000} \times 100$

Net Profit Margin *–3.9* **%**

Comment *Baxter's Books should be very concerned with the results. Both ratios are well below the industry average indicating firstly a very poor mark up on sales and extremely poor expense control. Baxter's Books is only achieving half the mark up on sales due to high cost of sales and significant freight costs and is unable to achieve a Net Profit due to excessive expenses, mainly relating to wages.*

Recommendation 1:	*Reduce Cost of Sales by renegotiating prices with supplier, buying in bulk to obtain inventory cheaper or find an alternative supplier. Cheaper inventory will lead to a greater mark-up and increased Gross Profit.*
Recommendation 2:	*Reduce Freight costs to reduce Cost of Goods Sold. Either find a local supplier or buy in bulk to reduce freight. This will reduce the amount of Sales revenue consumed by COGS.* *Also Reduce Stock loss by improving asset management and security around inventory.*

Exercise 12.6 Inventory Turnover

a

Calculation

$$\text{ITO} = \frac{\textit{Average Inventory} \times 365}{\textit{Cost of Sales}} \qquad \textit{Av. Inventory} = \frac{\textit{Inventory at start} + \textit{Inventory at end}}{2} \Rightarrow \frac{25\,000 + 35\,000}{2} = 30\,000$$

$$\frac{30\,000 \times 365}{91\,250}$$

ITO	*120* **days**

b

Explanation	*Wally would not be satisfied with this Inventory Turnover as it is 20 days longer than before. This indicates that it is taking on average 20 days longer to turn the business's inventory into sales.*

c

Explanation	*The business requires cash so that it can meet its financial obligations as they fall due. If Inventory Turnover is too slow it means that it is taking longer to turn inventory into cash and may mean that it will not be able to generate cash in time to meet debts. This worsening of liquidity will put pressure on the business and will require it to seek loans/capital contributions to cover any shortfalls.*

d

Explanation	*Wally could decrease his average inventory holdings to improve his ITO. This strategy of reducing the level of purchases or even adopting a just-in-time approach towards the purchase of inventory will not impact on the Net Profit of the business.*

Exercise 12.7 Inventory Turnover

a

Calculation		
	Average Inventory x 365 / *Cost of Sales*	*Average Inventory = $3 600*
	3 600 x 365 / *18 000*	
	ITO	*73* **days**

b

Explanation	*Gia would be satisfied with this Inventory Turnover as it is 7 days quicker than the industry average. This indicates that it is taking on average 7 days quicker than the industry average to turn the business's inventory into sales.*

c

Explanation	*If ITO is too quick it may mean that the business could run out of some inventory items and miss out on sales and future sales as disgruntled customers may not come back.* *OR* *It could also result in increased delivery costs if they are requiring more frequent deliveries of inventory*

Exercise 12.8 Reporting and managing inventory

a

Calculation		
Inventory at start	*12 500*	
+ Cash purchases	*+ x*	
– Cost of Sales	*– 73 000*	
– Inventory loss	*– 500*	
= Inventory at end	*= 5 500*	
	Cash purchases	**$** *66 500*

b

Explanation	*The purchase of inventory is the acquisition of an asset – as inventory represents a present economic resource that has the potential to provide a future benefit that is controlled by the business. It is not the consumption of an economic benefit and even though a decrease in assets (bank) occurs with the purchase of inventory it does not result in a decrease in OE – which is required for an expense to be recognised. Therefore, it does not belong in the Income Statement.*

c SUPERIOR SPORTS

Income Statement for the year ending 31 December 2025

Revenue	**$**	**$**
Sales	*110 000*	
Less Sales returns	*5 000*	*105 000*
Less Cost of Goods Sold		
Cost of Sales	*73 000*	
Cartage inwards	*2 300*	*75 300*
Gross Profit		*29 700*
Less Inventory loss		*500*
Adjusted Gross Profit		*29 200*
Less Other expenses		
Assistant's wages	*9 200*	
Heating and power	*1 200*	
Rent	*10 000*	*20 400*
Net Profit/(Loss)		***8 800***

d

Explanation	*Gross Profit provides a business with an indication of how successful its pricing policy is in relation to mark-up (the difference between selling price and cost price) as Gross Profit has to be sufficient enough to cover the other expenses of the business to ensure Net Profit is made. Net Profit shows the business's overall performance and indicates that sufficient revenue was made to cover all the business's expenses and provide a return for the owner.*

e

Calculation

$$\frac{\textit{Average Inventory x 365}}{\textit{Cost of Sales}} \qquad \textit{Av. Inventory} = \frac{\textit{Inventory at start + Inventory at end}}{2}$$

$$\Rightarrow \frac{12\ 500 + 5\ 500}{2} = 9\ 000$$

$$\frac{9\ 000 \times 365}{73\ 000}$$

ITO	*45* **days**

f

Explanation	*Benita would not be satisfied with this Inventory Turnover as it is 10 days longer than the industry average. This indicates that it is taking on average 10 days longer to turn the business's inventory into sales. However, she would be pleased as it is a 10-day improvement on last year. The trend indicates that the ITO is moving in the right direction.*

g

Reason 1	*There was less than average inventory held by the business compared to last year.*
Reason 2	*There was an increase in the volume of sales that has caused 'Cost of Sales' to increase.*

h

Advantage	*With less inventory there is less chance of theft or damage OR It reduces storage costs OR It reduces the possibility that the inventory could date, go out of fashion or become obsolete.*
Disadvantage	*Too little inventory in store could result in selling out of particular products leading to missed sales and potential future missed sales or increase in delivery costs due to increased frequency of delivery of inventory*

i

Principle 1	*Rotate inventory – always put new inventory to the back of shelves and push old inventory forward to encourage it to be taken first. This is important for perishable items and reduces the chance of items getting shop soiled.*
Principle 2	*Maintain a good inventory mix – focus on inventory items that sell well and phase out inventory items that are not. Slow-selling inventory can be moved by discounting.*

	OR Keep up to date OR Set minimum and maximum level OR Employ a strong marketing strategy.

j

Explain	*Yes, Benita should be concerned with such a significant increase in Sales returns. This indicates problems with the inventory she is selling. This can lead to a negative view from customers and increasing dissatisfaction, harming the reputation of the business and potentially leading to a decline in future sales.*
Advice	*Quickly identify the line(s) of inventory that is being returned. Remove it from the shelves and return to supplier for a refund. Source an alternative supplier that can provide a better quality good.*

Exercise 12.9 Reporting and managing inventory

a

Calculation

ITO $= \dfrac{\text{Average Inventory} \times 365}{\text{Cost of Sales}}$ *Av. Inventory* $= \dfrac{\text{Inventory at start + Inventory at end}}{2}$

$= \dfrac{7\,400 + 7\,800}{2} = 7\,600$

$\dfrac{7\,600 \times 365}{19\,000}$

ITO *146* **days**

b

Reason 1	*Mario's business is turning inventory into sales on average 19 days quicker than it was last year. This is an improvement in ITO.*
Reason 2	*Selling antiques is very different from selling fruit, which is a cheaper and a perishable item and therefore has to be sold quickly before it spoils. Antiques are expensive and selling antiques is a very different market as customers will not purchase antiques as often as fruit.*

c

Calculation

Mark-up = (SP/CP) – 1

= (47 500/ 19 000) – 1

= 2.5 – 1

= 1.5 x 100 = 150%

Mark-up *150* **%**

d

Inventory Turnover	*Decreasing the percentage mark-up could improve ITO: if it makes goods cheaper it could increase the quantity of sales and increase Cost of Sales.*
Gross Profit	*The amount of mark-up would decrease per sale; however, if the volume of sales increased by a greater proportion than the decrease in mark-up then Gross Profit could increase. However, if the effect of the decrease in mark-up outweighed the increase in sales volume then Gross Profit would decrease.*

e

Calculation	
CP = SP/ (1 + % mark-up) (REMEMBER it is calculated on Net Sales)	
Might be worth putting this in solution Agree	
= 37 000/ (1 + 1.5)	
= 37 000/ 2.5	
= 14 800	
Cost of Sales	**$** *14 800*

f **ANTIQUE ARTS**

Income Statement for August 2025

Revenue	**$**	**$**
Sales		*38 500*
Less Sales returns		*1 500*
Net sales		*37 000*
Less Cost of Goods Sold		
Cost of Sales		*14 800*
Gross Profit		*22 200*
Add Inventory gain		*400*
Adjusted Gross Profit		*22 600*
Less Other expenses		
Cartage out	*1 400*	
Wages	*3 300*	
Packaging expenses	*1 900*	
Advertising	*650*	*7 250*
Net Profit/(Loss)		***15 350***

g ANTIQUE ARTS

Balance Sheet Extract as at 31 August 2025

Owner's equity		
Capital – Belleto	*18 700*	
Add Net Profit	*15 350*	
	34 050	
Less Drawings	*2 000*	*32 050*

h

Explanation	*There would be no overall effect on OE if Mario had failed to record his withdrawing of the lamp because instead of being recorded as drawings it would be picked up in the next physical count as an inventory loss. As inventory loss is an expense, this will decrease Net Profit, which in turn will decrease owner's equity. Therefore, having exactly the same effect.*

i

Explanation	*Rotate inventory – always put new inventory to the back of shelves and push old inventory forward to encourage it to be taken first. This is important for perishable items and reduces the chance of items getting shop soiled.*
Explanation	*OR Maintain a good inventory mix – focus on inventory items that sell well and phase out inventory items that do not. Slow-selling inventory can be moved by discounting.* *OR Keep up to date OR Set minimum and maximum level OR Employ a strong marketing strategy.*

j

Calculation	
Gross Profit Margin = Gross Profit / Net Sales x 100 = 22 200 / 37 000 x 100	
Gross Profit Margin	*60* **%**

Calculation	
Net Profit Margin = Net Profit / Net Sales x 100 = 15 350 / 37 000 x 100	
Net Profit Margin	*41.5* **%**

k

Explanatio n and justification	*Antique Arts should be pleased with the ratios achieved. The Gross Margin ratio is on par with the industry average of 60% indicating that it is achieving a sound mark-up and return on sales. The Net Profit Margin is very pleasing as it is 11.5% higher than the industry average indicating strong expense control. Antique Arts is getting 11.5 cents more out of every sales dollar towards its Net Profit than average in the industry.*

Exercise 13.1 Source documents

a

Source document	*Purchase invoice*
Transaction	*Miller Time purchased 5 ladies' hats on credit from Felt Good Felts for a total cost of $275 including $25 GST.*

b

Explanation	*Miller Time could receive a 2% discount if it pays within 7 days. Otherwise, it must pay the whole amount owing in 30 days (net owing 30 days).*

c

Purchases Journal

Date	Account Payable	Inv. No.	Inventory	GST	Total Accounts Payable
Nov. 3	*Felt Good Felts*	*65*	*250*	*25*	*275*
	TOTALS	**$**	*250*	*25*	*275*

d

Explanation	*GST is a tax imposed on the sale of goods and services. The $250 paid is for the 5 white ladies' hats – this is the value of the inventory. The $25 is separate as it is the GST charged by the Australian Government, which is being collected by the supplier on the ATO's behalf. It is not part of the cost of the inventory and will in fact reduce Miller Time's GST liability to the ATO.*

e

Element	Increase/Decrease/No Effect	Amount $
Asset	***Increase*** *– Inventory increase*	*250*
Liability	***Increase*** *– Accounts Payable increase $275; GST liability decrease (GST credit) $25*	*250*
Owner's equity	*No effect*	0

Exercise 13.2 Purchases Journal

a

Explanation	*The purpose of a Purchases Journal is to summarise all purchases of inventory on credit during a particular reporting period. This aids in the process of turning raw data into financial information so it can assist in decision-making.*

b

Purchases Journal

Date	Account Payable	Inv. No.	Inventory	GST	Total Accounts Payable
July 2	*ACDC Industries*	*A161*	*3 600*	*360*	*3 960*
7	*Scott Supplies*	*633*	*4 000*	*400*	*4 400*
16	*Mickle and Sons*	*M15*	*3 000*	*300*	*3 300*
23	*Scott Supplies*	*642*	*2 600*	*260*	*2 860*
28	*ACDC Industries*	*A173*	*2 700*	*270*	*2 970*
	TOTALS	**$**	*15 900*	*1 590*	*17 490*

c

Explanation	*The source documents in the Purchases Journal won't run in sequence because they are not issued by Sparks Electrical Supplies but by their suppliers who issue their invoices to all their customers. Therefore, Sparks Electrical Supplies is receiving purchase invoices from a variety of suppliers who have other customers as well.*

d

Explanation	*The GST incurred on credit purchases will be forwarded to the ATO. Therefore, this GST incurred by Sparks Electrical Supplies will reduce their GST liability to the ATO*

Exercise 13.3 Purchases Journal and Cash Payments Journal

a

Purchases Journal

Date	Account Payable	Inv. No.	Inventory	GST	Total Accounts Payable
Sept. 3	*Johnny Choose*	*34A*	*420*	*42*	*462*
8	*Style House*	*1002*	*750*	*75*	*825*
16	*Fine Footwear*	*FF331*	*360*	*36*	*396*
24	*Style House*	*1017*	*600*	*60*	*660*
	TOTALS	**$**	*2 130*	*213*	*2 343*

Cash Payments Journal

Date	Details	Doc.	Bank	Accounts Payable	Drawings	Wages	Sundries	GST
Sept. 1	*Fine Footwear*	*272*	*900*	*900*				
7	*Wages*	*EFT 29*	*720*			*720*		
11	*Office equipment*	*273*	*5 500*				*5 000*	*500*
14	*Drawings*	*ATM 85*	*450*		*450*			
19	*Style House*	*274*	*700*	*700*				
21	*Wages*	*EFT 30*	*780*			*780*		
27	*Drawings*	*ATM 86*	*490*		*490*			
30	*Johnny Choose*	*275*	*700*	*700*				
	TOTALS	**$**	*10 240*	*2 300*	*940*	*1 500*	*5 000*	*500*

b

Explanation	*This transaction was a payment to an Account Payable. Therefore, bank will decrease by $700, decreasing assets, and Accounts Payable will decrease by $700, decreasing liabilities. There will be no effect on owners equity*

c

Calculation

	Accounts Payable balance at start	*2 530*
+	*Credit purchases incl. GST*	*2 343*
		4 873
−	*Payments to Accounts Payable*	*2 300*
	Accounts Payable balance at end	*$2 573*

Accounts Payable balance | **$** *2 573*

d

Explanation	*There is no GST on a payment to an Account Payable because the GST is recognised and recorded at the time the purchase is made and becomes a part of what is owed to the Account Payable. The GST has been recorded in the Purchases Journal. If it was recorded in the Cash Payments Journal again the GST would be double counted.*

Exercise 13.4 Journals and Accounts Payable

a

Purchases Journal

Date	Account Payable	Inv. No.	Inventory	GST	Total Accounts Payable
7	*Malegar Mowers*	008	2 600	260	2 860
12	*Viking Equipment*	VT15	6 000	600	6 600
18	*Malegar Mowers*	019	7 500	750	8 250
23	*Bushman Tools*	401C	8 000	800	8 800
28	*Viking Equipment*	VT26	5 000	500	5 500
	TOTALS	**$**	29 100	2 910	32 010

Cash Payments Journal

Date	Details	Doc.	Bank	Accounts Payable	Drawings	Wages	Sundries	GST
Apr. 2	Viking Equipment	104	6 000	6 000				
5	Drawings	ATM 11	1 200		1 200			
8	Wages	EFT 23	940			940		
10	Malegar Mowers	105	10 000	10 000				
13	Electricity	106	209				190	19
19	Viking Equipment	107	4 000	4 000				
21	Drawings	ATM 12	500		500			
22	Wages	EFT 24	870			870		
24	Malegar Mowers	108	3 500	3 500				
27	Water bill	109	143				130	13
29	Bushman Tools	110	12 000	12 000				
	TOTALS	**$**	39 362	35 500	1 700	1 810	320	32

b

Inventory item: *Mowers*					**Cost method:** *FIFO*					
Inventory code:					**Supplier:** *Malegar Mowers*					
		IN			**OUT**			**BALANCE**		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Apr. 1	*Balance*							*5*	*250*	*1 250*
7	*Inv. 008*	*10*	*260*	*2 600*				*5*	*250*	*1 250*
								10	*260*	*2 600*

c

Account Payable – Bushman Tools

Date	Details	Document	Amount $	Balance $
Apr. 1	*Balance*			*12 000*
23	*Purchase inventory/GST*	*Inv. 401C*	*8 800*	*20 800*
29	*Payment*	*Ch. 110*	*(12 000)*	*8 800*

Account Payable – Viking Equipment

Date	Details	Document	Amount $	Balance $
Apr. 1	*Balance*			*8 000*
2	*Payment*	*Ch. 104*	*(6 000)*	*2 000*
12	*Purchase inventory/GST*	*Inv. VT15*	*6 600*	*8 600*
19	*Payment*	*Ch. 107*	*(4 000)*	*4 600*
28	*Purchase inventory/GST*	*Inv. VT26*	*5 500*	*10 100*

Account Payable – Malegar Mowers

Date	Details	Document	Amount $	Balance $
Apr. 1	*Balance*			*13 900*
7	*Purchase inventory/GST*	*Inv. 008*	*2 860*	*16 760*
10	*Payment*	*Ch. 105*	*(10 000)*	*6 760*
18	*Purchase inventory/GST*	*Inv. 019*	*8 250*	*15 010*
24	*Payment*	*Ch. 108*	*(3 500)*	*11 510*

d MACEDON MOWERS

Accounts Payable Schedule as at 30 April 2025

Account Payable	**Amount $**
Bushman Tools	*8 800*
Viking Equipment	*10 100*
Malegar Mowers	*11 510*
Balance as per Accounts Payable formula	***$30 410***

e

Explanation	*An Accounts Payable schedule can verify the Accounts Payable at end figure and ensure its accurate. This is done by a cross-checking mechanism that can check that the total from the Accounts Payable schedule equals the total from the Accounts Payable formula. This double-checking process ensures that the information is free from error.*

Exercise 13.5 Credit note

a

Source document	*Credit note*
Transaction	*Purchase return – Sarrish Cycles has returned 2 Cyclone 1000 bicycles to Karolina Sports due to them having scratched paint work. Sarrish Cycles will have their account with Karolina Sports reduced by $704.*

b

Inventory item: *Cyclone 1000 Bicycle* **Cost method:** *FIFO*
Inventory code: *C1000* **Supplier:** *Karolina Sports*

Date	Details	IN Qty	IN Cost	IN Total	OUT Qty	OUT Cost	OUT Total	BALANCE Qty	BALANCE Cost	BALANCE Total
Mar. 1	*Balance*							*5*	*300*	*1 500*
								7	*320*	*2 240*
22	*Cr. Note 23*				*2*	*320*	*640*	*5*	*300*	*1 500*
								5	*320*	*1 600*

c

Explanation	*In regards to the Purchase return it is not necessary to know whether Sarrish Cycles uses IC or FIFO because the credit note from the supplier indicates the cost price of the returned items. This is the cost price that must be recorded into the inventory card regardless of the inventory recording method used.*

d

Account Payable – Karolina Sport

Date	Details	Document	Amount $	Balance
Mar. 1	*Balance*			*5 500*
22	*Purchase return/GST*	*Cr. Note 23*	*(704)*	*4 796*

e

Element	Increase/Decrease/No Effect	Amount $
Asset	***Decrease*** – *Inventory decrease $640*	*640*
Liability	***Decrease*** – *Accounts Payable decrease $704; GST liability increase $64*	*640*
Owner's equity	*No effect*	*0*

Exercise 13.6 Purchase returns

a

Special Journal for Invoice 76:	*Purchase Journal*
Special Journal for EFT rec 45:	*Cash Payments Journal*

b

Explanation	*Daglish Designs would record this transaction in their Sales Journal as they are selling inventory to their customer Amore Décor.*

c

Inventory item: *Chamber Series*					**Cost method:** *FIFO*					
Inventory code:					**Supplier:** *Daglish Designs*					
		IN			**OUT**			**BALANCE**		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Nov. 1	*Balance*							*20*	*50*	*1 000*
2	*Inv. 76*	*10*	*60*	*600*				*20*	*50*	*1 000*
								10	*60*	*600*
23	*Cr. Note 42*				*2*	*60*	*120*	*20*	*50*	*1 000*
								8	*60*	*480*

d

Account Payable – Daglish Designs

Date	Details	Document	Amount $	Balance $
Nov. 1	*Balance*			*4 200*
2	*Purchase inventory/GST*	*Inv. 76*	*660*	*4 860*
15	*Payment*	*EFT rec 45*	*(3 000)*	*1 860*
23	*Purchase return/GST*	*Cr Note 42*	*(132)*	*1 728*

e

Explanation	*The Purchase return will decrease assets by the cost price of the inventory returned $120. Accounts Payable will decrease by the cost price plus GST, $132; however, because we have returned previously purchased goods the potential GST credit is removed so GST liability increases by $12. Therefore, overall liabilities decrease by $120 balancing the equation.*

f

Discussion	*The closing balance of the individual Accounts Payable may be shown in the Balance Sheet if Daglish Designs is our only supplier; however, if not it would be added to the balance of all other Accounts Payable to provide an overall figure in the Balance Sheet. Inventory would be many and varied and it would be very unlikely that Amore Decore only stock one product. Therefore, it would not be shown individually but as part of the total inventory.*

Exercise 13.7 Discount revenue

a

Explanation	*Discount received is recognised as a revenue as the transaction decreases liabilities (Accounts Payable) and results in an increase in owners' equity (increases other revenue, increasing profit). It causes a savings in outflow of cash as less needs to be paid to settle the debt.*

b

Calculation

$4 400 x 5% = $220

Discount revenue earned | **$** *220*

Calculation

	Credit purchase + GST	*4 400*
–	*Discount received*	*220*
	Amount to be paid	*4 180*

Accounts Payable paid | **$** *4 180*

c

Explanation	*Assets would decrease as Cash in bank decreases by $4 180 to repay the remainder of the debt. Liabilities would decrease by the full amount of settlement $4 400. Owner's equity increases $220 due to the recognition of Discount revenue of $220, which increase Net Profit. Overall equities decrease by $4 180 balancing the Accounting equation.*

d

Account Payable – Charlie Luu

Date	Details	Document	Amount $	Balance $
Jan. 1	*Balance*			*600*
4	*Payment*	*EFT 17*	*(600)*	
17	*Purchase inventory/GST*	*Inv. 115*	*4 400*	*4 400*
21	*Discount received*		*(220)*	*4 180*
	Payment	*EFT 24*	*(4 180)*	
28	*Purchase inventory/GST*	*Inv. 128*	*5 500*	*5 500*

e

Final date:	*Would be seven days from the 28 January; therefore 4 February.*

f

Discussion	*Macarthur Park has the opportunity to reduce the amount owed to Charlie Luu for this transaction by $275. If there is sufficient cash available to Macarthur Park to do so this would be worthwhile; however, if not, it is a large amount, and this may place the business under financial strain as there would be other bills to pay. The credit terms are generous at 60 days and it may be worth Macarthur Park's consideration to not take advantage of the discount in order to make the most of the time to generate the cash to pay this debt.*

Exercise 13.8 Recording in journals and Accounts Payable

a

Calculation 3 Feb

$8 800 x 5% = $440

Discount revenue earned	**$** *440*

Calculation 15 Feb

$4 400 x 5% = $220

Discount revenue earned	**$** *220*

b

Calculation

	Accounts Payable balance at start	*15 950*	
+	*Credit purchases incl. GST*	*29 150 (5 610 + 4 400 + 6 600 + 7 920 + 4 620)*	
		45 100	
–	*Payments to Accounts Payable (+ Discounts received)*	*26 950*	*(8 800 + 7 150 + 4 400 + 6 600)*
–	*Purchase returns*	*4 950*	
	Accounts Payable balance at end	*$13 200*	

Accounts Payable balance	**$** *13 200*

c

Account Payable – Beads and Stones

Date	Details	Document	Amount $	Balance $
Feb. 1	*Balance*			*8 800*
3	*Payment*	*EFT 26*	*(8 360)*	
	Discount revenue		*(440)*	*-*
9	*Purchase inventory/GST*	*Inv. 65*	*4 400*	*4 400*
15	*Payment*	*EFT 36*	*(4 180)*	
	Discount revenue		*(220)*	*-*
22	*Purchase inventory/GST*	*Inv. 78*	*7 920*	*7 920*

Account Payable – Carter Diamonds

Date	Details	Document	Amount $	Balance $
Feb. 1	*Balance*			*7 150*
7	*Payment*	*EFT 29*	*(7150)*	*-*
17	*Purchase inventory/GST*	*Inv. C311*	*6 600*	*6 600*
23	*Payment*	*EFT 38*	*(6 072)*	
	Discount revenue		*(528)*	*-*
17	*Purchase inventory/GST*	*Inv. C346*	*4 620*	*4 620*

Account Payable – Precious Inc

Date	Details	Document	Amount $	Balance $
Feb. 1	*Balance*			*-*
4	*Purchase inventory/GST*	*Inv. 1702*	*5 610*	*5 610*
12	*Purchase return/GST*	*Cr. note 12*	*(4 950)*	*660*

d Diana's Jewellery

Accounts Payable Schedule as at 28 February 2025

Account Payable	**Amount $**
Beads and Stones	*7 920*
Carter Diamonds	*4 620*
Precious Inc	*660*
Balance as per Accounts Payable formula	***$13 200***

e

Qualitative characteristic 1	*Relevance*
Qualitative characteristic 2	*Faithful representation*
Explanation	*It would be unethical to omit amounts owed to Accounts Payable as this would mean that figures reported in the financial reports of the business would not be a Faithful representation of the real-world economic events it purports to represent. Thus, the information is incomplete, not free from material error and biased and therefore may lead the user to make incorrect decisions.*

Exercise 13.9 Accounts Payable

a

Explanation	*Drawings occurs only once a month and does not warrant its own column. It could be recorded under Sundries if it is an infrequent transaction.*

b

Calculation

456 + 5244 *528 + 6072*

456/5700 x 100 = 8% *528/6600 x 100 = 8%*

Discount offered	*8* **%**

c

Calculation

	Accounts Payable balance at start	*25 500*	
+	*Credit purchases incl. GST*	*12 540*	
		38 040	
–	*Payments to Accounts Payable (+ Discounts received)*	*24 100*	*(23 116 + 984)*
–	*Purchase returns*	*1 100*	
	Accounts Payable balance at end	*$12 840*	

Accounts Payable balance	**$** *12 840*

d
6 June

Element	Increase/Decrease/No Effect	Amount $
Asset	***Decrease*** – *Cash at Bank decrease $4 800*	*4 800*
Liability	***Decrease*** – *Accounts Payable decrease $4 800*	*4 800*
Owner's equity	*No Effect*	*0*

16 June

Element	Increase/Decrease/No Effect	Amount $
Asset	***Decrease*** – *Inventory decrease $1 000*	*1 000*
Liability	***Decrease*** – *Accounts Payable decrease $1 100; GST liability increase $100*	*1 000*
Owner's equity	*No effect*	*0*

e

Account Payable – Sparkwell

Date	Details	Document	Amount $	Balance $
Jun. 1	*Balance*			*5 700*
1	*Payment*	*EFT 201*	*(5244)*	
	Discount revenue		*(456)*	*-*
12	*Purchase inventory/GST*	*A206*	*6 600*	*6 600*
14	*Payment*	*EFT 203*	*(6 072)*	
	Discount revenue		*(528)*	*-*

Account Payable – Electron

Date	Details	Document	Amount $	Balance $
Jun. 1	*Balance*			*15 000*
4	*Purchase inventory/GST*	*Inv. 158*	*2 640*	*17 640*
16	*Purchase return/GST*	*Cr. Note A34*	*(1 100)*	*16 540*
29	*Payment*	*Chq. 239*	*(7 000)*	*9 540*

Account Payable – General PC

Date	Details	Document	Amount $	Balance $
Jun. 1	*Balance*			*4 800*
6	*Payment*	*Chq. 237*	*(4 800)*	*-*
23	*Purchase inventory/GST*	*Inv. 48c*	*3 300*	*3 300*

f Shock Electrics

Accounts Payable Schedule as at 30 June 2025

Account Payable	Amount $
Sparkwell	*-*
Electron	*9 540*
General PC	*3 300*
Balance as per Accounts Payable formula	***$12 840***

g

Benefit 1	*Ease of Reporting – By preparing the Accounts Payable Schedule we can determine the one figure in the Balance Sheet*
Benefit 2	*Management of Accounts Payable – assists with better management as it can be allocated as a responsibility to a particular staff member who can ensure all invoices are received and checked and that credit terms and discounts are taken advantage of.*

Exercise 13.10 Statement of Account

a

Qualitative characteristic:	*Verifiability*
Explanation	*The function of a Statement of Account is to inform the customer of their recent transactions. If a business receives a Statement of Account, they can check/verify the transactions against their records and source documents. It can check the accuracy of transactions and also serve as a reminder of the balance that is owing.*

Add verify please

b

More/less:	*More*
Justification	*The discount given on the 10 March relates to a transaction that took place sometime last month. This is at least 10 days later so exceeds a 7 day discount period.*

c

Explanation	*Liabilities decrease (accounts payable decrease by 1 100) as the account is settled* *Owners equity increase (Discount revenue increase 100, increase Net Profit)* *Overall equities decrease by $1 000*

d

Explanation	*To maintain good customer relations and encourage customer loyalty and future purchases.*

e

Account Payable – Art World

Date	Details	Document	Amount $	Balance $
Mar. 1	*Balance*			*1 100*
3	*Purchase inventory/GST*	*Inv. 1772*	*1 760*	*2 860*
10	*Payment*	*EFT 201*	*(1 000)*	
	Discount revenue		*(100)*	*1 760*
19	*Purchase return*	*Cr. Note 35*	*(440)*	*1 320*
24	*Purchase inventory/GST*	*Inv. 1786*	*3 520*	*4 840*

f

Explanation	*The Artist's Palette would be reported as an Account Receivable under current assets in the Balance Sheet of Art World. This is because the business has sold goods on credit to The Artist's Palette and now has a present economic resource that it controls and has the potential to produce future economic benefits as a result of a past transaction. It is expected that it would be converted into cash within 12 months.*

Exercise 14.1 Source documents

a

Source document	*Sales invoice*
Description	*Credit sale – Opulence Furniture sold 3 three-seater Chesterfields on credit to Davey Street Clinic for a total cost of $11 880, including $1 080 GST.*

b

Explanation	*It is important that credit terms are stated on the invoice so that the customer knows when they must pay the amount owing and how long they have if they want to take advantage of any discount on offer. A business will only grant credit for a specific period of time as they require the cash from the sale to pay their obligations.*

c

Assumption	*Accrual Basis*
Explanation	*This transaction is considered revenue because the transactions has increased assets (Accounts Receivable) and will lead to an increase in owner's equity (revenue) and it is not capital contribution. Revenue is recognized in the period in which the expected inflow of economic benefit can be measured in a verifiable manner ie it has been earned and thus can be recognized.*

d

Sales Journal

Date	Account Receivable	Inv. No.	Sales	GST	Total Accounts Receivable
Aug. 5	*Davey Street Clinic*	*901*	*10 800*	*1 080*	*11 880*

e

Element	Increase/Decrease/No Effect	Amount $
Asset	***Increase*** *– Accounts Receivable increase $11 880; Inventory decrease $5 400*	*6 480*
Liability	***Increase*** *– GST liability increase $1080*	*1 080*
Owner's equity	***Increase*** *– Revenue increase $10 800; Expenses increase – Cost of Sales $5 400*	*5 400*

Exercise 14.2 Sales Journal

a

Source document number	*Inv. 39*

b

Sales Journal

Date	Account Receivable	Inv. No.	Sales	GST	Total Accounts Receivable
Feb. 4	*CS Accounting*	*34*	*1 230*	*123*	*1 353*
9	*Helix Science Lab*	*35*	*330*	*33*	*363*
15	*Finch Property*	*36*	*270*	*27*	*297*
22	*Wills Conveyancing*	*37*	*1 320*	*132*	*1452*
27	*CS Accounting*	*38*	*300*	*30*	*330*
	TOTALS	**$**	*3 450*	*345*	*3 795*

c

Reason 1	*This does not take into account any existing balances of Accounts Receivable that may have existed at the start of the period.*
Reason 2	*This does not take into account any receipts from Accounts Receivable that may have occurred since the start of the period.*

d

Explanation	*Any GST charged on credit sales is GST charged and collected later by the business on the Australian Government's behalf. Therefore, this is owed to the ATO and will increase GST payable.*

e

Calculation

Gross Profit =

	Revenue	*3 450*	
–	*Cost of Sales*	*2 300*	*=> CP = SP/(1 +% mark-up) => CP = 3 450/1.5*
		$1 150	

Gross Profit **$** *1 150*

Exercise 14.3 Sales Journal and Cash Receipts Journal

a

Explanation	*The transaction on 1 October is not revenue as it is a receipt from an Account Receivable. Even though cash is flowing into the business it is a transfer of assets from Accounts Receivable to bank and has no resulting impact on owner's equity. The revenue has already been recorded in the Sales Journal.* *To record it again would be to double count the revenue.*

b

Explanation	*There is no GST to account for from a receipt from an Account Receivable because the GST is recognised and recorded at the time the sale is made and becomes a part of what is owed by the Account Receivable to the business. The GST has been recorded in the Sales Journal. If it was recorded in the Cash Receipts Journal again the GST would be double counted.*

c

Sales Journal

Date	Account Receivable	Inv. No.	Sales	GST	Total Accounts Receivable
3	*Zucchets Restaurant*	*120*	*420*	*42*	*462*
9	*Barlington Hotel*	*121*	*1 200*	*120*	*1 320*
13	*Nino's Café*	*122*	*600*	*60*	*660*
16	*Club 84*	*123*	*720*	*72*	*792*
27	*Barlington Hotel*	*124*	*2 100*	*210*	*2 310*
	TOTALS	**$**	*5 040*	*504*	*5 544*

Cash Receipts Journal

Date	Details	Rec. No.	Bank	Accounts Receivable	Sales	Sundries	GST
Oct. 1	*Zucchets Restaurant*	*EFT 11*	*1 500*	*1 500*			
4	*Cash sales*	*30*	*198*		*180*		*18*
6	*Loan – Fincorp*	*BS*	*10 000*			*10 000*	
10	*Zucchets Restaurant*	*EFT 12*	*700*	*700*			
18	*Barlington Hotel*	*31*	*4 500*	*4 500*			
22	*Nino's Café*	*EFT 13*	*660*	*660*			
25	*Cash sales*	*32*	*132*		*120*		*12*
31	*Club 84*	*33*	*300*	*300*			
	Totals	**$**	*17 990*	*7 660*	*300*	*10 000*	*30*

d

Calculation		
	Accounts Receivable balance at start	*6 900*
+	*Credit sales incl. GST*	*5 544*
		12 444
−	*Receipts from Accounts Receivable*	*7 660*
	Accounts Receivable balance at end	*$ 4 784*
	Accounts Receivable balance	**$** *4 784*

e

Explanation	*Not all Accounts Receivable have met their credit terms as Zucchets Restaurant still has $200 outstanding from the last period that exceeds the 30-day credit terms set by Hot Glass. Barlington Hotel and Ninos Café paid within the specified credit terms. Barlington Hotel and Club 84 are still within their credit terms.*

Exercise 14.4 Journals and Accounts Receivable

a

Inventory item: *Elvis letterboxes*										
Inventory code:				**Cost method:** *Identified Cost*			**Supplier:**			
Date	**Details**	**IN**			**OUT**			**BALANCE**		
		Qty	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
May 1	*Balance*							*30*	*90*	*2 700*
								25	*95*	*2 375*
	Inv. A314				*22*	*90*	*1 980*	*8*	*90*	*720*
					18	*95*	*1 710*	*7*	*95*	*665*

b

Element	Increase/Decrease/No Effect	Amount $
Asset	***Increase*** *– Accounts Receivable increase $6 160; Inventory decrease $3 690*	*2 470*
Liability	***Increase*** *– GST liability increase $560*	*560*
Owner's equity	***Increase*** *– Revenue increase $5 600; Expenses increase – Cost of Sales $3 690*	*1 910*

c

Sales Journal

Date	Account Receivable	Inv. No.	Sales	GST	Total Accounts Receivable
May 1	*Best Value*	*A314*	*5 600*	*560*	*6 160*
10	*Trident 20*	*A315*	*3 500*	*350*	*3 850*
15	*Harry's Hardware*	*A316*	*6 300*	*630*	*6 930*
23	*GlenCo Homes*	*A317*	*9 800*	*980*	*10 780*
31	*Harry's Hardware*	*A318*	*3 200*	*320*	*3 520*
	TOTALS	**$**	*28 400*	*2 840*	*31 240*

Cash Receipts Journal

Date	Details	Rec. No.	Bank	Accounts Receivable	Sales	Sundries	GST
May 4	*Cash sales*	*390*	*1 232*		*1 120*		*112*
6	*Harry's Hardware*	*EFT 91*	*3 400*	*3 400*			
11	*Capital*	*392*	*12 000*			*12 000*	
18	*Cash sales*	*393*	*770*		*700*		*70*
21	*Best Value*	*394*	*3 000*	*3 000*			
27	*Trident 20*	*EFT 95*	*2 000*	*2 000*			
	TOTALS	**$**	*22 402*	*8 400*	*1 820*	*12 000*	*182*

d

Account Receivable – Harry's Hardware

Date	Details	Document	Amount $	Balance $
May 1	*Balance*			*3 400*
6	*Receipt*	*EFT 91*	*(3 400)*	*–*
15	*Sales/GST*	*Inv. A316*	*6 930*	*6 930*
31	*Sales/GST*	*Inv. A318*	*3 520*	*10 450*

Account Receivable – Trident 20

Date	Details	Document	Amount $	Balance $
May 1	*Balance*			*2 800*
10	*Sales/GST*	*Inv. A315*	*3 850*	*6 650*
27	*Receipt*	*EFT 95*	*(2 000)*	*4 650*

Account Receivable – Best Value

Date	Details	Document	Amount $	Balance $
May 1	*Sales/GST*	*Inv. A314*	*6 160*	*6 160*
21	*Receipt*	*Rec. 394*	*(3 000)*	*3 160*

Account Receivable – GlenCo Homes

Date	Details	Document	Amount $	Balance $
May 23	*Sales/GST*	*Inv. A317*	*10 780*	*10 780*

e LOONEY LETTERBOXES
Accounts Receivable Schedule as at 31 May 2025

Account Receivable	Amount $
Harry's Hardware	*10 450*
Trident 20	*4 650*
Best Value	*3 160*
GlenCo Homes	*10 780*
Balance as per Accounts Receivable formula	***$29 040***

f

Explanation	*Journals summarise and classify financial data so it can be converted into financial information to support Relevance and aid decision-making. However, sometimes summarised information does not provide the necessary detail, which is why the business also maintains Accounts Receivable records. This allows the business to better manage their Accounts Receivable.*

g

Calculation

	Gross Profit =		
	Revenue	*5 600 In both cases*	
−	*Cost of Sales*	*3 690 (IC)*	*3650 (FIFO)*
	Gross Profit	*$1 910*	$ 1 950

Net Profit | **$** *40 higher*

Exercise 14.5 Sales returns

a

Special Journal for Invoice x201:	*Purchases Journal*
Special Journal for Inv 93:	*Sales Journal*

b

Inventory item: *Angelina Shoes* **Cost method:** *FIFO*
Inventory code: **Supplier:** *Indu La Shoes*

		IN			OUT			BALANCE		
Date	**Details**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Jan. 1	*Balance*							*10*	*40*	*400*
	Inv. X201	*60*	*50*	*3 000*				*10*	*40*	*400*
								60	*50*	*3 000*
7	*Inv. 93*				*10*	*40*	*400*	*45*	*50*	*2 250*
					15	*50*	*750*			
29	*Cr. Note 42*	*6*	*50*	*300*				*51*	*50*	*2 550*

c

Account Receivable – Dance Academy

Date	Details	Document	Amount $	Balance $
Jan. 1	*Balance*			*500*
2	*Sales/GST*	*Inv. 93*	*3 300*	*3 800*
15	*Sales return/GST*	*Cr. Note 33*	*(792)*	*3 008*

d

Explanation	*Assets will decrease overall by $492. The Sales return will increase assets by the cost price of the inventory returned $300. Accounts Receivable will decrease by the sales price plus GST, $792; however, liabilities decrease because we have returned previously sold goods. GST liability decreases by $72. Owner's equity decreases as the decrease in revenue $720 outweighs the reduction in Cost of Sales of $300. Thus, an overall decrease in OE of $420. Therefore, overall equities decrease by $492 balancing the equation.*

e

Discussion	*Technically Silva Footwear did not need to accept the Sales Return. To maintain good customer relations and encourage customer loyalty and future sales they have accepted; however, they would want to ensure that the inventory is still in perfect saleable condition.*

f

Explanation	*FIFO always sells oldest inventory first. Therefore In times of rising prices, as per this example, the older inventory is the cheaper inventory and will be sold first. This results in the business being left with the latest most expensive inventory. Whereas with Identified Cost the most recent items could be potentially be sold first leaving the older cheaper inventory on hand. Thus when prices are rising and a business uses FIFO the value of inventory on hand will be at its highest possible valuation.*

Exercise 14.6 Discount expense

a

Explanation	*Viv's Boutique is not entitled to a discount on 9 July as it is beyond the 7 days indicated by the credit terms considering the amount owing is carried over from last month.*

b

Explanation	*It is considered an expense because the transaction decreases assets (cash at bank) and results in a decrease in owner's equity (by increasing discount expense) and is not drawings. It is a loss of cash that has occurred in the ordinary activities of the business and has no effect on liabilities.*

c

Calculation

2 800 + 280 GST = 3 080

Less Sales returns of 550

= $2 530 x 10% = $253 discount

Discount expense incurred	**$** *253*

Calculation

	Credit sale + GST	*3080*
–	*Sales returns*	*550*
–	*Discount expense*	*253*
	Amount to be received	*2 277*

Cash received	**$** *2 277*

d

Explanation	*Assets would decrease overall by $253 as the decrease in Accounts Receivable (2 530) outweighs the cash in bank increase by $2 277. Owner's equity decreases $253 due to the recognition of Discount expense of $253, which decreases Net Profit and there is no effect on liabilities.*

e

Account Receivable – Viv's Boutique

Date	Details	Document	Amount $	Balance $
Jul. 1	*Balance*			*1 200*
9	*Receipt*	*EFT 103*	*(1 200)*	*-*
14	*Sales/GST*	*Inv. 63*	*3 080*	*3 080*
15	*Sales return/GST*	*Cr. Note*	*(550)*	*2 530*
20	*Receipt*	*EFT 110*	*(2 277)*	
	Discount expense		*(253)*	*-*
26	*Sales/GST*	*Inv. 68*	*2 090*	*2 090*

Exercise 14.7 Bad debts

a

Explanation	*Recognising and reporting a bad debts expense in the Income Statement ensures Relevance by providing all the information that is capable of making a difference to decision-making about profit is included in the financial report.*

b

Account Receivable – Des T. Chute

Date	Details	Document	Amount $	Balance $
Sep. 1	*Balance*			*1 100*
14	*Bad Debt/GST*	*Memo 35*	*(1 100)*	*-*

c

Explanation	*Memo 35 would decrease the GST liability of Dodge Dishwashers as it will not be collected from the Accounts Receivable and is therefore no longer owed to the ATO.*

d

Element	Increase/Decrease/No Effect	Amount $
Asset	***Decrease*** *– Accounts Receivable decrease $1 100*	*1 100*
Liability	***Decrease*** *– GST liability decrease $100*	*100*
Owner's equity	***Decrease*** *– Expenses increase – Bad debts $1 000*	*1 000*

e

Explanation	*Faithful representation supports the idea that bad debts should be disclosed as soon as they are probable, and it is certainly ethical to make sure that the Income Statement and Balance Sheet include all information which may affect decision-making. By not disclosing the bad debt the information presented is not complete, it is not free from material error and is biased. It may mislead decision makers therefore making it unethical for the real world economic situation.*

Exercise 14.8 Recording in journals and Accounts Receivable

a

Sales Journal

Date	Account Receivable	Inv. No.	Sales	GST	Total Accounts Receivable
Dec. 7	*St Carl's PS*	*904*	*1 300*	*130*	*1 430*
15	*Emerald CC*	*905*	*800*	*80*	*880*
19	*East Bunbury SC*	*906*	*1 000*	*100*	*1 100*
22	*St Carl's PS*	*907*	*900*	*90*	*990*
	TOTALS	**$**	*4 000*	*400*	*4 400*

Cash Receipts Journal

Date	Details	Rec. No.	Bank	Accounts Receivable	Sales	Sundries	GST
Dec. 1	*Cash sales*	*34*	*132*		*120*		*12*
3	*Emerald CC*	*35*	*1 188*	*1 188*			
6	*GST refund*	*EFT 102*	*70*			*70*	
9	*St Carl's PS*	*EFT 103*	*1 100*	*1 100*			
10	*Cash sales*	*36*	*220*		*200*		*20*
13	*St Carl's PS*	*EFT 104*	*1 287*	*1 287*			
18	*Cash sales*	*37*	*440*		*400*		*40*
21	*Capital contribution*	*BS*	*5 000*			*5 000*	
26	*East Bunbury SC*	*EFT 105*	*990*	*990*			
30	*Emerald CC*	*38*	*110*	*110*			
	TOTALS	**$**	*10 537*	*4 675*	*720*	*5 070*	*72*

b

Calculation			
	Accounts Receivable balance at start	*2 420*	
+	*Credit sales incl. GST*	*4 400*	
		6 820	
–	*Receipts from Accounts Receivable + discounts*	*5 060*	(4 675 + 385)
–	*Sales returns*	*330*	
–	*Bad debts*	*440*	
=	*Accounts Receivable balance at end*	*$ 990*	
		Accounts Receivable balance	**$** *990*

c

Account Receivable – Emerald CC

Date	Details	Document	Amount $	Balance $
Dec 1	*Balance*			*1 320*
3	*Receipt*	*Rec 35*	*(1 188)*	*132*
	Discount expense		*(132)*	*-*
15	*Sales/GST*	*Inv. 905*	*880*	*880*
25	*Sales returns/GST*	*Cr. Note*	*(330)*	*550*
30	*Receipt*	*Rec 38*	*(110)*	*440*
	Bad Debt/GST	*Memo 13*	*(440)*	*-*

Account Receivable – St Carl's PS

Date	Details	Document	Amount $	Balance $
Dec 1	*Balance*			*1 100*
7	*Sales/GST*	*Inv. 904*	*1 430*	*2 530*
9	*Receipt*	*EFT 103*	*(1 100)*	*1 430*
13	*Receipt*	*EFT 104*	*(1 287)*	*143*
	Discount expense		*(143)*	*-*
22	*Sales/GST*	*Inv. 907*	*990*	*990*

Account Receivable – East Bunbury SC

Date	Details	Document	Amount $	Balance $
Dec 1	*Balance*			*-*
19	*Sales/GST*	*Inv. 906*	*1 100*	*1 100*
26	*Receipt*	*EFT 105*	*(990)*	*110*
	Discount expense		*(110)*	*-*

d Sports Bonanza
Accounts Receivable Schedule as at 31 December 2025

Account Receivable	Amount $
St Carl's PS	*990*
Balance as per Accounts Receivable formula	***$990***

e

Benefit 1	*Encourages Accounts Receivable to pay earlier so cash comes into the business quicker.*
Benefit 2	*Possibility of bad debts is reduced.*

f

Explanation	*Assets would increase overall by $390 as the increase in Accounts Receivable ($990) outweighs the inventory decrease of $600. Liabilities increase due to the increase in GST liability of $90. Owner's equity increases $300 due to Sales revenue increasing $900 outweighing Cost of Sales (expense) increase of $600, thus giving a Net Profit of $300. Overall assets and equities increase $390.*

g

Explanation	*Assets will decrease overall by $130. The Sales return will increase assets by the cost price of the inventory returned $200. Accounts Receivable will decrease by the sales price plus GST, $330; however, liabilities decrease because we have returned previously sold goods GST liability decreases by $30. Owner's equity decreases as the decrease in revenue $300 outweighs the reduction in Cost of Sales of $200. Thus, an overall decrease in OE of $100. Therefore, overall equities decrease by $130 balancing the equation.*

Exercise 14.9 Accounts Receivable

a

Reason 1	*Discounts may have been given*
Reason 2	*There may have been Bad debts / Sales returns*

b

Calculation

1100 – 1034

= 66

66 /1100 x 100

Discount	*6* **%**

c

Calculation

	Accounts Receivable balance at start	*3 300*	
+	*Credit sales incl. GST*	*12 100*	
		15 400	
–	*Receipts from Accounts Receivable + discounts*	*7 700*	(7 634 + 66)
–	*Sales returns*	*440*	
–	*Bad debts/GST*	*660*	
=	*Accounts Receivable balance at end*	*$ 6 600*	

Accounts Receivable balance	**$** *6 600*

d

Explanation	*Assets will decrease overall by $240. The Sales return will increase assets by the cost price of the inventory returned $200. This is outweighed by decrease in Accounts Receivable by the sales price plus GST, $440; however, liabilities decrease because we have returned previously sold goods GST liability decreases by $40. Owner's equity decreases as the decrease in revenue $400 outweighs the reduction in Cost of Sales of $200. Thus, an overall decrease in OE of $200. Therefore, overall equities decrease by $240 balancing the equation.*

e

Account Receivable – Far Out Lights

Date	Details	Document	Amount $	Balance $
Apr 1	*Balance*			*1 100*
1	*Receipt*	*EFT 21*	*(1 034)*	*66*
	Discount expense		*(66)*	*-*
4	*Sales/GST*	*Inv. 63*	*1 760*	*1 760*
17	*Receipt*	*EFT 23*	*(1 100)*	*660*
30	*Bad debt/GST*	*Memo 85*	*(660)*	*-*

Account Receivable – Liquid Lamps

Date	Details	Document	Amount $	Balance $
Apr 1	*Balance*			*2 200*
8	*Sales/GST*	*Inv. 64*	*2 200*	*4 400*
10	*Receipt*	*EFT 22*	*(2 200)*	*2 200*
15	*Sales/GST*	*Inv. 66*	*3 300*	*5 500*
25	*Receipt*	*EFT 24*	*(3 300)*	*2 200*
28	*Sales/GST*	*Inv. 68*	*1 980*	*4 180*

Account Receivable – Arty Facts

Date	Details	Document	Amount $	Balance $
Apr 1	*Balance*			*-*
12	*Sales/GST*	*Inv. 65*	*1 320*	*1 320*
17	*Sales returns/GST*	*Cr. Note 26*	*(440)*	*880*
21	*Sales/GST*	*Inv. 67*	*1 540*	*2 420*

f Mojo Ltd
Accounts Receivable Schedule as at 30 April 2025

Account Receivable	**Amount $**
Liquid Lamps	*4 180*
Arty Facts	*2 420*
Balance as per Accounts Receivable formula	***$6 600***

g

Explanation	*Subsidiary records can improve the management of Accounts Receivable by allocating the role as a responsibility to a particular staff member who can ensure all invoices are checked and sent and that credit terms and discounts are being adhered to.* *Furthermore, it can allow follow up on accounts going beyond credit terms with reminder calls to reduce the incidence of bad debts.*

Exercise 14.10 Credit transactions

a

Purchases Journal

Date	Account Payable	Inv. No.	Inventory	GST	Total Accounts Payable
Jul. 7	*Equipped Gear*	*16X*	*2 400*	*240*	*2 640*
8	*Fitness Regime*	*403*	*3 600*	*360*	*3 960*
15	*Equipped Gear*	*17Y*	*2 500*	*250*	*2 750*
23	*Fitness Regime*	*431*	*1 200*	*120*	*1 320*
	TOTALS	**$**	*9 700*	*970*	*10 670*

Sales Journal

Date	Account Receivable	Inv. No.	Sales	GST	Total Accounts Receivable
Jul.4	*South Park Tennis Club*	*109*	*350*	*35*	*385*
9	*Atwell High School*	*110*	*1 500*	*150*	*1 650*
11	*Filton Rovers Football Club*	*111*	*320*	*32*	*352*
17	*Atwell High School*	*112*	*800*	*80*	*880*
24	*South Park Tennis Club*	*113*	*450*	*45*	*495*
	TOTALS	**$**	*3 420*	*342*	*3 762*

Cash Receipts Journal

Date	Details	Rec. No.	Bank	Accounts Receivable	Sales	Sundries	GST
Jul.2	*Atwell High School*	*59*	*3 690*	*3 690*			
7	*Jimbaroo*	*60*	*500*	*500*			
12	*Cash sales*	*EFT 110*	*473*		*430*		*43*
13	*South Park TC*	*61*	*645*	*645*			
22	*Cash Sales*	*62*	*165*		*150*		*15*
28	*Jimbaroo*	*63*	*100*	*100*			
31	*Interest*	*BS*	*15*			*15*	
	TOTALS	**$**	*5 588*	*4 935*	*580*	*15*	*58*

Cash Payments Journal

Date	Details	Doc.	Bank	Accounts Payable	Drawings	Wages	Sundries	GST
Jul. 1	*Rent*	*303*	*770*				*700*	*70*
5	*Equipped Gear*	*304*	*1 000*	*1 000*				
8	*Wages*	*EFT 18*	*620*			*620*		
11	*Drawings*	*ATM 002*	*300*		*300*			
12	*Fitness Regime*	*305*	*2 185*	*2 185*				
22	*Wages*	*EFT 19*	*600*			*600*		
24	*Advertising*	*306*	*319*				*290*	*29*
26	*Equipped Gear*	*307*	*3 000*	*3 000*				
	TOTALS	**$**	*8 794*	*6 185*	*300*	*1 220*	*990*	*99*

b

Statement	*lower*
Justification	*Cash payments are greater than Cash receipts, therefore a cash deficit of $3 206 will occur, decreasing bank.*

c

Calculation

	Accounts Payable balance at start	*4 000*	
+	*Credit purchases incl. GST*	*10 670*	
		14 670	
−	*Payments to Accounts Payable + Disc rev*	*6 300*	(6185 + 115)
−	*Purchase returns incl. GST*	*385*	
	Accounts Payable balance at end	*$7 985*	

Accounts Payable balance | **$** *7 985*

Calculation

	Accounts Receivable balance at start	*5 290*	
+	*Credit sales incl. GST*	*3 762*	
		9 052	
−	*Receipts from Accounts Receivable*	*5 345*	(4 935 + 410)
−	*Sales returns incl. GST*	*110*	
−	*Bad debts/GST*	*330*	
	Accounts Receivable balance at end	*$3 267*	

Accounts Receivable balance | **$** *3 267*

d

Account Receivable – Atwell High School

Date	Details	Document	Amount $	Balance $
July 1	*Balance*			*4 100*
2	*Receipt*	*Rec. 59*	*(3 690)*	*410*
	Discount expense		*(410)*	*-*
9	*Sales/GST*	*Inv. 110*	*1 650*	*1 650*
17	*Sales/GST*	*Inv. 112*	*880*	*2 530*

Account Receivable – Jimbaroo

Date	Details	Document	Amount $	Balance $
July 1	*Balance*			*930*
7	*Receipt*	*Rec. 60*	*(500)*	*430*
28	*Receipt*	*Rec. 63*	*(100)*	*330*
	Bad debt/GST	*Memo 38*	*(330)*	*-*

Account Receivable – South Park Tennis Club

Date	Details	Document	Amount $	Balance $
July 1	*Balance*			*260*
4	*Sales/GST*	*Inv. 109*	*385*	*645*
13	*Receipt*	*Rec. 61*	*(645)*	*–*
24	*Sales/GST*	*Inv. 113*	*495*	*495*

Account Receivable – Filton Rovers Football Club

Date	Details	Document	Amount $	Balance $
July 11	*Sales/GST*	*Inv. 111*	*352*	*352*
20	*Sales return/GST*	*Cr. Note14*	*(110)*	*242*

Account Payable – Fitness Regime

Date	Details	Document	Amount $	Balance $
July 1	*Balance*			*2 300*
8	*Inventory/GST*	*Inv. 403*	*3 960*	*6 260*
12	*Payment*	*Ch. 305*	*(2 185)*	*4 075*
	Discount received		*(115)*	*3 960*
23	*Inventory/GST*	*Inv. 431*	*1 320*	*5 280*

Account Payable – Equipped Gear

Date	Details	Document	Amount $	Balance $
July 1	*Balance*			*1 700*
5	*Payment*	*Ch. 304*	*(1 000)*	*700*
7	*Inventory/GST*	*Inv. 16X*	*2 640*	*3 340*
10	*Purchase return/GST*	*Cr. Note 36X*	*(385)*	*2 955*
15	*Inventory/GST*	*Inv. 17Y*	*2 750*	*5 705*
26	*Payment*	*Ch. 307*	*(3 000)*	*2 705*

e WALKER SPORTS

Accounts Receivable Schedule as at 31 July 2025

Account Receivable	Amount $
Atwell High School	*2 530*
South Park Tennis Club	*495*
Filton Rovers Football Club	*242*
Balance as per Accounts Receivable formula	***$3 267***

WALKER SPORTS

Accounts Payable Schedule as at 31 July 2025

Account Payable	Amount $
Fitness Regime	*5 280*
Equipped Gear	*2 705*
Balance as per Accounts Payable formula	***$7 985***

f

Explanation	*The recording in the Accounts Receivable records can be checked to see that it is complete and free from bias and provides a Faithful representation of the firm's Accounts Receivable by preparing an Accounts Receivable Schedule, which lists each Account Receivable and the balance each owes.*

Exercise 14.11 Source documents

a

Document A	*Sales Journal*
Document B	*Cash Payments Journal*

b

Asset	*Accounts Receivable*

c

Explanation	*This transaction should be reported as revenue because the transaction has increased assets (Accounts Receivable) and will lead to an increase in owner's equity and it is not capital contribution. The revenue was earned during the current reporting period of May and thus should be matched against expenses incurred so that an accurate Net Profit can be determined.*

d

Explanation	*Document B shows a payment to an Account Payable. There is no GST amount specified because the GST is recognised and recorded at the time the purchase was made and becomes part of what is owed to the Account Payable.*

e

Explanation	*This transaction was a payment to an Account Payable. Therefore, bank will decrease by $1 400, decreasing assets, and Accounts Payable will decrease by $1 400, decreasing liabilities. There will be no effect on owners equity.*

Exercise 14.12 Journals and subsidiary records

a

Explanation	*Special journals play an important role in the Accounting process by summarising and classifying raw data in the form of source documents and turning these into financial information that can be put into financial reports to aid decision-making.*

b

Subsidiary record 1	*Accounts Receivable record*
Subsidiary record 2	*Inventory card*

c

Reason 1	*It is a payment to reduce a liability.*
Reason 2	*It has no effect on the owner's equity of the business.*

d

Calculation

	Accounts Payable balance at start	*670*	
+	*Credit purchases incl. GST*	*1 639*	
		2 309	
–	*Payments to Accounts Payable + Disc rev*	*1 160*	(1120 + 40)
–	*Purchase Retns incl GST*	*110*	
	Accounts Payable balance at end	*$1 039*	

Accounts Payable balance | **$** *1 039*

Calculation

	Accounts Receivable balance at start	*1 720*	
+	*Credit sales incl. GST*	*2 387*	
		4 107	
–	*Receipts from Accounts Receivable*	*2 772*	(2736 + 36)
–	*Sales returns incl GST*	*88*	
	Accounts Receivable balance at end	*$1 247*	

Accounts Receivable balance | **$** *1 247*

e

Account Payable – Oscars Books

Date	Details	Document	Amount $	Balance $
Aug. 1	*Balance*			*260*
4	*Payment*	*EFT 32*	*(260)*	*–*
12	*Inventory/GST*	*Inv. 1092*	*605*	*605*
17	*Payment*	*EFT 35*	*(360)*	*245*
	Discount revenue		*(40)*	*205*
20	*Inventory/GST*	*Inv. 1105*	*352*	*557*
23	*Purchase return/GST*	*Cr Note 54*	*(110)*	*447*

f

Account Receivable – St Swithin's University

Date	Details	Document	Amount $	Balance $
Aug. 1	*Balance*			*720*
2	*Sales/GST*	*Inv. 45*	*440*	*1 160*
5	*Receipt*	*EFT 75*	*(684)*	*476*
	Discount expense		*(36)*	*440*
24	*Sales/GST*	*Inv. 48*	*429*	*869*
26	*Sales returns/GST*	*Cr Note 102*	*(88)*	*781*
28	*Receipt*	*EFT 78*	*(380)*	*401*

g

Qualitative characteristic	*Relevance*
Explanatio n	*The Balance Sheet does not need to list each individual Account Payable as this information would not be seen as material or significant; that is, it would not aid or improve decision-making. The same information would be conveyed with one figure for Accounts Payable.*

Exercise 15.1 Reporting credit transactions

a LARKHAM INTERIORS

Cash Flow Statement for April 2025

	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash sales	*9 000*	
Receipts from Accounts Receivable	*5 600*	
GST received	*900*	*15 500*
Payments to Accounts Payable	*(4 900)*	
Wages	*(2 000)*	
GST paid	*(1 760)*	
Advertising	*(2 000)*	
Electricity	*(500)*	
Stationery	*(100)*	*(11 260)*
Net cash Flows from Operating activities		***4 240***
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Van	*(15 000)*	*(15 000)*
Net cash Flows from Investing Activities		***(15 000)***
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt of Loan – NAB	*15 000*	*15 000*
Drawings	*(1 500)*	*(1 500)*
Net Cash Flows from Financing activities		***13 500***
Net increase (decrease) in cash position		***2 740***
Add Bank Balance at start (1 April 2025)		***(1 000)***
Bank Balance at end (30 April 2025)		***1 740***

b LARKHAM INTERIORS

Income Statement for the month ending 30 April 2025

Revenue	**$**	**$**
Cash sales	*9 000*	
Credit sales	*4 500*	*13 500*
Less Cost of Goods Sold		
Cost of Sales		*6 500*
Gross Profit		*7 000*
Less Other expenses		
Wages	*2 000*	
Advertising	*2 000*	
Electricity	*500*	
Stationery	*100*	*4 600*
Net Profit/(Loss)		***2 400***

c

Accounting assumption	*Accrual Basis*
Explanation	*Credit sales should be reported as revenue because it is a transaction that has increased assets (Accounts Receivable) and will lead to an increase in owner's equity and it is not capital contribution. The revenue recognised as the inflow of economic benefits can be measured in a verifiable manner (invoice). The revenue was earned during the current reporting period of April and thus should be matched against expenses incurred so that an accurate Net Profit can be determined.*

d

Calculation

	Accounts Payable balance at start	*2 400*
+	*Credit purchases incl. GST*	*5 500*
		7 900
–	*Payments to Accounts Payable*	*4 900*
	Accounts Payable balance at end	*$3 000*

Accounts Payable balance **$** *3 000*

Calculation

	Accounts Receivable balance at start	*1 600*
+	*Credit sales incl. GST*	*4 950*
		6 550
–	*Receipts from Accounts Receivable*	*5 600*
	Accounts Receivable balance at end	*$ 950*

Accounts Receivable balance **$** *950*

e

Calculation

GST payable =		*Opening GST balance*	*520*
	+	*GST received*	*1 350 (900 + 450) = 1870*
	–	*GST paid*	*2 260 (1 760 + 500)*
		=	*(390)*

GST receivable **$** *390*

f LARKHAM INTERIORS

Balance Sheet as at 30 April 2025

	$	$		$	$
Current Assets			**Current Liabilities**		
Bank	*1 740*		*Accounts Payable*	*3 000*	
GST receivable	*390*		*Loan – NAB*	*5 000*	*8 000*
Inventory	*30 500*				
Accounts Receivable	*950*	*33 580*	**Non-Current Liabilities**		
			Loan – NAB		*10 000*
Non-Current Assets					
Van	*15 000*		**Owner's equity**		
Equipment	*7 000*		*Capital – Larkham*	*116 680*	
Premises	*80 000*	*102 000*	*+ Net Profit*	*2 400*	
			– Drawings	*1 500*	*117 580*
Total Assets		*135 580*	**Total Equities**		*135 580*

g

Explanation	*GST changed from being treated as a current liability (GST payable) to being treated as a current asset (GST receivable) because the amount of GST paid outweighed the GST received and GST payable balance. This was mainly due to the purchase of the van.*

Exercise 15.2 Reporting credit transactions

a SMITH'S HARDWARE

Cash Flow Statement for the year ending 31 December 2025

	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash sales	*50 000*	
Receipts from Accounts Receivable	*32 600*	
GST received	*5 000*	*87 600*
Payments to Accounts Payable	*(19 000)*	
Wages	*(24 000)*	
GST paid	*(1 100)*	
Advertising	*(2 000)*	
Interest on loan	*(1 000)*	
Rent	*(9 000)*	*(56 100)*
Net cash Flows from Operating activities		***31 500***
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash Flows from Investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital	*5 000*	*5 000*
Drawings	*(35 000)*	
Receipt of Loan – ANZ	*(3 000)*	*(38 000)*
Net Cash Flows from Financing activities		***(33 000)***
Net increase (decrease) in cash position		***(1 500)***
Add Bank Balance at start (1 January 2025)		***5 000***
Bank Balance at end (31 December 2025)		***3 500***

b SMITH'S HARDWARE

Income Statement for the year ending 31 December 2025

	$	$
Revenue		
Cash sales	*50 000*	
Credit sales	*46 000*	*96 000*
Less Sales returns		*1 000*
Net Sales		*95 000*
Less Cost of Goods Sold		
Cost of Sales		*34 000*
Gross Profit		*61 000*
Less Inventory loss		*500*
Adjusted Gross Profit		*60 500*
Add Other revenue		
Discount revenue		*190*
		60 690
Less Other expenses		
Wages	*24 000*	
Advertising	*2 000*	
Interest on loan	*1 000*	
Rent	*9 000*	
Discount expense	*460*	*36 460*
Net Profit/(Loss)		***24 230***

c

Qualitative characteristic	*Relevance*
Explanation	*Receipt from Accounts Receivable is not treated as a revenue because revenue was recognised at the point of the credit sale. The receipt of cash is just the other half of the credit sale transaction. When the cash flows into the business it is a transfer of assets from Accounts Receivable to bank and has no resulting impact on owner's equity. The revenue has already been recorded in the Sales Journal. To record it again would double count the revenue.*

d

Reason 1	*Credit sales were greater than receipts from Accounts Receivable – this caused Net Profit to increase more than Cash at bank*.
Reason 2	*Loan repayment is a cash payment and not an expense. Therefore, it will decrease Cash at bank but will have no effect on Net Profit.*

e

Discussion	*Despite the initial financial considerations of the potential for improved Gross and Net Profit via cheaper inventory, the potential for bad press and the fact that we could be left with inventory we cannot sell would quickly outweigh this potential. We would not want to lose potential sales and customers from bad will of stocking toxic paint.* *On an ethical basis Smith's Hardware would want to ensure its products meet safety standards and that it would not want to sell a product that contains lead that has been proven to cause serious health concerns.* *They should remain with their current supplier and discuss better pricing with them or otherwise keep investigating to find another supplier who is compliant.*

f

Calculation

	Accounts Payable balance at start	*16 500*
+	*Credit purchases incl. GST*	*39 600*
		56 100
–	*Payments to Accounts Payable*	*19 000*
–	*Discount revenue*	*190*
–	*Purchase returns*	*330*
=	*Accounts Payable balance at end*	*$36 580*

Accounts Payable balance | $ *36 580*

Calculation

	Accounts Receivable balance at start	*12 500*
+	*Credit sales incl. GST*	*50 600*
		63 100
–	*Receipts from Accounts Receivable*	*32 600*
–	*Discount expense*	*460*
–	*Sales returns*	*1 100*
=	*Accounts Receivable balance at end*	*$28 940*

Accounts Receivable balance | $ *28 940*

g

Calculation

GST payable =	*Opening GST balance*	*2 350*	
+	*GST received*	*9 500*	*(5 000 + 4 600 – 100)*
		= $11850	
–	*GST paid*	*4 670*	*(3 600 + 1 100 – 30)*
	=	*7 180*	

GST payable | $ *7 180*

h SMITHS HARDWARE

Balance Sheet as at 31 December 2025

	$	$		$	$
Current Assets			**Current Liabilities**		
Bank	*3 500*		*Accounts Payable*	*36 580*	
Inventory	*22 200*		*GST payable*	*7 180*	
Accounts Receivable	*28 940*	*54 640*	*Loan – ANZ*	*3 000*	*46 760*
			Non-Current Liabilities		
Non-Current Assets			*Loan – ANZ*		*9 000*
Delivery van	*15 000*				
Office equipment	*8 000*	*23 000*	**Owner's equity**		
			Capital – Smith	*27 650*	
			+ Capital contribution	*5 000*	
			+ Net Profit	*24 230*	
			– Drawings	*35 000*	*21 880*
Total Assets		*77 640*	**Total Equities**		*77 640*

i

Explanation	*Smith's Hardware is ensuring information reported in the Balance Sheet is a faithful representation of real-world events by verifying the inventory figure by doing a physical count to ensure that the inventory amount presented in the Balance Sheet is complete and free from material error and bias.*

Exercise 15.3 Reporting credit transactions

a COZY IMIJ

Income Statement for August 2025

Revenue	**$**	**$**
Cash sales	*5 000*	
Credit sales	*4 200*	*9 200*
Less Sales returns		*300*
Net Sales		*8 900*
Less Cost of Goods Sold		
Cost of Sales		*7 500*
Gross Profit		*1 400*
Add Inventory gain		*200*
Adjusted Gross Profit		*1 600*
Add Other revenue		
Discount revenue		*80*
		1 680
Less Other expenses		
Wages	*1 950*	
Interest on loan	*150*	
Discount expense	*140*	
Bad Debt	*200*	*2 440*
Net Profit/(Loss)		***(760)***

b

Explanation	*Payment to Accounts Payable is not an expense because it is a payment to meet an obligation/debt and the transaction has no resulting effect on owner's equity. This transaction will simply cause a decrease in assets (Bank) and liabilities (Accounts Payable).*

c

Discussion	*The decision to report a bad debt would involve exhausting all proper channels of collection. The owner would need to ensure they were ethical in their processes and would not use intimidation or threats to coax payment.* *Another ethical aspect is to show a faithful representation of Accounts Receivable in the Balance Sheet to ensure users are seeing correct information.*

d

Reason 1	*Capital contribution is a cash receipt and not a revenue. Therefore, it will increase Cash at bank but will have no effect on Net Profit.*
Reason 2	*Receipts from Accounts Receivable was greater than Credit sales for the period, causing Cash at bank to increase more than Net Profit. Also Cost of Sales was greater than payments to Accounts Payable, which caused Net Profit to decrease more than Cash at bank.*

e

Calculation

	Accounts Payable balance at start	*700*
+	*Credit purchases incl. GST*	*9 570*
		10 270
−	*Payments to Accounts Payable*	*2 500*
−	*Discount revenue*	*80*
−	*Purchase returns incl GST*	*110*
	Accounts Payable balance at end	*$ 7 580*

Accounts Payable balance	**$** *7 580*

Calculation

	Accounts Receivable balance at start	*18 400*
+	*Credit sales incl. GST*	*4 620*
		23 020
–	*Receipts from Accounts Receivable*	*4 400*
–	*Discount expense*	*140*
–	*Sales returns incl GST*	*330*
–	*Bad debts incl GST*	*220*
	Accounts Receivable balance at end	*$17 930*

Accounts Receivable balance | **$** *17 930*

Calculation

GST payable =	*Opening GST balance*	*0**	
+	*GST received*	*870*	*(500 + 420) – 30 – 20*
–	*GST paid*	*1 020*	*(160 +870) – 10*
	=	*(150)*	

**Opening GST balance of $390 was settled during August*

GST Receivable | **$** *150*

f

COZY IMIJ

Balance Sheet as at 31 August 2025

	$	$		$	$
Current Assets			**Current Liabilities**		
Bank	*2 750*		*Accounts Payable*	*7 580*	
Inventory	*13 900*		*Loan – NAB*	*6 000*	*13580*
Accounts Receivable	*17 930*				
GST receivable	*150*	*34 730*			
			Non-Current Liabilities		
Non-Current Assets			*Loan – NAB*		*3 000*
Shop fittings	*5 000*				
Computer equipment	*1 600*	*6 600*	**Owner's equity**		
			Capital – Baird	*23 910*	
			+ Capital contribution	*3 000*	
			– Net Loss	*760*	
			– Drawings	*1 400*	*24750*
Total Assets		*41 330*	**Total Equities**		*41330*

g

Explanatio n	*The GST was treated as a current asset (GST receivable) because the amount of GST paid outweighed the GST received for the month of August and is therefore considered a present economic resource, controlled by the entity, that has the potential to produce a future economic benefit that will flow to the business from the ATO within 12 months (when it gets its refund cheque).*

Exercise 15.4 Managing Accounts Payable

a

Calculation			*Accounts Payable at start + Accounts Payable at end*
Av. Accounts Payable x 365 / *Net credit purchases (plus GST)*	*Av. Accounts Payable =*		*2*
	=	*13 600 + 12 400* / *2*	= *13 000*
13 000 x 365 / *79 090 – 2 860*	*4 745 000* / *76 230*		
		APTO	*63* **days**

b

Satisfactory or unsatisfactory	*Unsatisfactory*
Justification	*The Accounts Receivable Turnover is unsatisfactory as the average time it takes to pay Accounts Payable is 3 days longer than the specified credit terms of 60 days.*

c

Strategy 1	*Improve Inventory Turnover by effective marketing to increase sales or reduce inventory holdings and Accounts Receivable Turnover by offering discounts and prompt reminders.*
Strategy 2	*Improve Net Cash Flow from Operating activities by increasing percentage of cash sales or again focussing on ensuring accounts receivable are paying within credit terms. Also reducing operating payments.…*

d

Consequence 1	*Credit facilities could be removed*
Consequence 2	*Interest charges on the account – if specified in the credit contract OR A reduction in the business's credit rating, making further borrowing difficult*

Exercise 15.5 Managing Accounts Payable

a

Calculation

$$\frac{\textit{Average Accounts Payable x 365}}{\textit{Net credit purchases plus GST}}$$

$$\frac{12\ 000 \times 365}{100\ 375 - 6\ 600} = \frac{4\ 380\ 000}{93\ 775}$$

APTO	*47* **days**

b

Satisfactory or unsatisfactory	*Unsatisfactory*
Justification	*The Accounts Payable Turnover could be determined as unsatisfactory because the average time it takes to pay Accounts Payable is 2 days longer than the specified credit terms of 45 days. It is very close to the credit terms set and it would be useful to see last period's turnover to determine whether the trend is improving or getting worse.*

c

Positive consequence	*It gives the business time to use the cash to meet its other financial obligations first.*

d

Explanation	*By paying early it allows Mildura Fashions to take advantage of discounts. In terms of liquidity this can be improved as less cash needs to be spent due to the discount received, leaving more cash within the business.* *In relation to profitability, the discount is recognised as revenue (discount revenue), which increases the profit and profitability of Mildura Fashions.*

e

Explanation	*Mildura Fashions must analyse its inventory management strategies to ensure it is turning inventory into sales as quickly as possible to ensure it can generate cash as fast as possible so it can to meet its obligations in regards to Accounts Payable.*

Exercise 15.6 Managing Accounts Receivable

a

Calculation Av. Accounts Receivable x 365 / Net credit sales plus GST	*Av. Accounts Receivable = (Accounts Receivable at start + Accounts Receivable at end) / 2 = (16 700 + 17 300) / 2 = 17 000*
(17 000 x 365) / (170 500 – 11 000) = 6 205 000 / 159 500	
ARTO	*39* **days**

b

Satisfactory or unsatisfactory	*Unsatisfactory*
Justification	*The Accounts Receivable Turnover is unsatisfactory because the average time it takes to turn Accounts Receivable into cash is 9 days longer than the specified credit terms of 30 days.*

c

Strategy 1	*Send reminder notices.*
Strategy 2	*Threaten legal action OR Issue invoices promptly OR Conduct extensive credit checks prior to offering credit OR Use debt collectors OR Refuse credit (Note: discounts are already offered to customers)*

d

Explanatio n	*Even though the time it is taking accounts receivable to pay the business (39 days) falls within the 45 days the business has to pay its accounts payable (suppliers), it needs to be remembered that ARTO is an average. This means some Accounts Receivable could be paying well outside the credit terms set. Therefore, the business will not be receiving its cash as quickly as it would like, and it may struggle to meet the terms set by their suppliers and thus will nto be able to meet all debts as they fall due.*

Exercise 15.7 Managing Accounts Receivable

a

Calculation

$$\frac{\textit{Average Accounts Receivable} \times 365}{\textit{Net credit sales}}$$

$$\frac{2\ 000 \times 365}{12\ 100 - 1\ 100}$$

ARTO	*67* **days**

b

Satisfactory or unsatisfactory	*Unsatisfactory*
Justification	*The Accounts Receivable Turnover is unsatisfactory because the average time it takes to turn Accounts Receivable into cash is 7 days longer than the specified credit terms of 60 days.*

c

Explanation	*The owner's decision to make credit more difficult to obtain should have a positive impact on the Accounts Receivable Turnover. It would ensure that only reliable customers who pay on time are able to take advantage of the credit facilities offered by the business.*

d

Explanation	*The majority of sales made by the business are on a cash basis. Therefore, it will actually be the Inventory Turnover of the business that will impact on the firm's ability to meet its short-term debts as they fall due.*

e

Explanation	*Accounts Receivable records allow for better management by increasing the level of detail. Managers can identify individual Accounts Receivable and determine whether invoices have been sent, debts are collected from Accounts Receivable on time, and overdue debts are identified and followed up.*

Exercise 15.8 Managing Accounts Payable and Accounts Receivable

a

Strategy 1	*Send reminder notices.*
Strategy 2	*Threaten legal action OR Issue invoices promptly OR Conduct extensive credit checks prior to offering credit OR Use debt collectors OR Refuse credit (Note: discounts are already offered to customers so students cannot use this as a strategy)*

b

Discussion	*Inventory Turnover Days have increased from approx. 30 to 42 days indicating that it is taking an average of 12 days longer to sell the inventory of the business. This is offset by the improvement in ARTO from approx. 35 days to 28 days that indicated on average the business is receiving cash 7 days faster than previously.* *However, overall the whole cycle of sale to the collection of cash has increased by 5 days and has moved further outside the credit terms set by our suppliers.* *There has been a major reduction in APTO from approx. 70 days to effectively half of 35 days on average to pay our Accounts Payable.* *This is well inside the cash cycle of ITO and ARTO, which suggests that we may be using up our cash reserves and not leaving sufficient cash to cover the other bills of the business.* *This would have a negative impact on the liquidity of the business.*

c

Action 1	*Reduce its average inventory holdings by buying 'just in time', this would also reduce the amount of Account Payable.*
Action 2	*Use full credit terms of APTO and reduce pressure on liquidity.*
Action 3	*Improve Inventory Turnover by increasing sales via marketing and continue to follow current policies to continue to improve ARTO so the cash cycle falls within credit terms set by suppliers.*

Exercise 15.9 Reporting credit transactions

a

Calculation

	Bank balance at start	*1 500*
+	*Cash receipts*	*54 400*
		55 900
−	*Cash payments*	*57 920*
	Bank balance at end	*$ (2 020)*

Bank balance at end **$** *(2 020)*

b

Calculation

	Accounts Receivable balance at start	*41 000*
+	*Credit sales incl. GST*	*51 700*
		92 700
−	*Receipts from Accounts Receivable*	*32 400*
−	*Sales returns*	*660*
−	*Discount expense*	*x*
	Accounts Receivable balance at end	*$58 540*

Discount expense **$** *1 100*

c

MADDING HATTERS

Income Statement for July 2025

Revenue	**$**	**$**
Cash sales	*20 000*	
Credit sales	*47 000*	*67 000*
Less Sales returns		*600*
Net Sales		*66 400*
Less Cost of Goods Sold		
Cost of Sales	*27 600*	
Protective spray	*6 200*	*33 800*
Gross Profit		*32 600*
Less Inventory loss		*200*
Adjusted Gross Profit		*32 400*
Add Other revenue		
Discount revenue		*250*
		32 650
Less Other expenses		
Wages	*11 000*	
Rent	*3 000*	
Interest on loan	*300*	
Delivery to customers	*2 000*	
Discount expense	*1 100*	*17 400*
Net Profit/(Loss)		***15 250***

d

Reason 1	*Drawings is a cash payment and not an expense. Therefore, it will decrease Cash at bank but will have no effect on Net Profit.*
Reason 2	*Credit sales is greater than receipts from Accounts Receivable for the period, which would increase revenue more than cash receipts, therefore giving a Net Profit and a cash deficit.*

e

Calculation

	Accounts Payable balance at start	*35 000*		
+	*Credit purchases incl. GST*	*x*	*= $32 120*	*$32 120/11 =* ***$2 920 GST***
–	*Payments to Accounts Payable*	*26 500*		
–	*Discount revenue*	*250*		
–	*Purchase returns incl GST*	*220*		
	Accounts Payable balance at end	*$40 150*		

GST on credit purchases | **$** *2 920*

Calculation

GST payable =	*Opening GST balance*	*500*	
+	*GST received*	*6 640*	*(2 000 + 4 700) – 60*
–	*GST paid*	*4 020*	*(1 120 +* ***2 920****) – 20*
	=	*3 120*	

GST payable | **$** *3 120*

f MADDING HATTERS

Balance Sheet as at 31 July 2025

	$	$		$	$
Current Assets			**Current Liabilities**		
Inventory of hats	*10 200*		*Bank overdraft*	*2 020*	
Accounts Receivable	*58 540*	*68 740*	*Accounts Payable*	*40 150*	
			GST payable	*3 120*	
			Loan – QuickFin	*4 000*	*49 290*
			Non-Current Liabilities		
Non-Current Assets			*Loan – QuickFin*		*24 000*
Office equipment	*14 000*				
Shop fittings	*20 000*	*34 000*	**Owner's equity**		
			Capital – Madding	*22 000*	
			+ Net Profit	*15 250*	
			– Drawings	*7 800*	*29 450*
Total Assets		*102 740*	**Total Equities**		*102 740*

g

Explanation	*Most businesses will end up with GST payable because the business would normally sell its inventory for more than it purchases it for. Therefore, the GST received will be greater than the GST paid thus creating a GST liability to the ATO.*

Exercise 15.10 Reporting credit transactions

a

Suggestion	*The circumstances that cause GST receivable to occur is when GST paid is greater than GST received. In the rare circumstances when this occurs OR the firm may have been able to take advantage of a bulk purchase of inventory OR the business maintained its purchases in a relatively slow sales period.*

b PAINTER'S CHOICE

Income Statement for June 2025

Revenue	**$**	**$**
Cash sales	*2 000*	
Credit sales	*8 900*	*10 900*
Less Sales returns		*300*
Net Sales		*10 600*
Less Cost of Goods Sold		
Cost of Sales	*8 300*	
Freight in	*200*	*8 500*
Gross Profit		*2 100*
Less Inventory loss		*190*
Adjusted Gross Profit		*1 910*
Add Other revenue		
Discount revenue		*90*
		2 000
Less Other expenses		
Wages	*1 750*	
Interest on loan	*100*	
Rent	*500*	
Discount expense	*140*	
Bad debt	*150*	*2 640*

Net Profit/ (Loss)		***(640)***

c

Example 1	*Capital contribution is a cash receipt but is not a revenue, which will increase Cash at bank but have no effect on Net Profit.*
Example 2	*GST received is a cash receipt but is not a revenue, which will increase Cash at bank but have no effect on Net Profit.*

d

Calculation

	Accounts Receivable balance at start	*3 500*
+	*Credit sales incl. GST*	*9 790*
		13 290
–	*Receipts from Accounts Receivable*	*10 390*
–	*Discount expense*	*140*
–	*Sales returns*	*330*
–	*Bad debts*	*165*
	Accounts Receivable balance at end	*$ 2 265*

Accounts Receivable balance	**$** *2 265*

e

Method	*Josh could prepare an Accounts Receivable Schedule that would list all the individual Accounts Receivable and their balances to double-check this calculation and ensure it was reliable.*

f

Strategy 1	*Make reminder calls.*
Strategy 2	*Threaten legal action OR Use debt collectors OR Charge interest on overdue accounts if stipulated in the credit contract. (Note: Offering a discount for quick payment is not useful for already late payers!)*

g PAINTER'S CHOICE

Balance Sheet (Extract) as at 30 June 2025

Current Assets	**$**	**$**
Bank	*1 870*	
Inventory	*30 400*	
Accounts Receivable	*2 265*	*34 535*

Exercise 16.1 Asset register and depreciation

a

Definition	*Depreciation is the allocation of the cost of a non-current asset over its useful life.*

b

Calculation

$$\text{Depreciation} = \frac{HC - RV}{\text{Life}}$$

$$= \frac{\$6\,000 - \$300}{4}$$

$$= \$1\,425 \text{ p.a.}$$

Depreciation of photocopier	**$** *1 425*

c

Calculation

$$\text{Depreciation rate} = \frac{\text{Depreciation}}{\text{Historical Cost}}$$

$$= \frac{\$1\,425}{\$6000}$$

$$= 23.75\%$$

Depreciation rate	23.75 **%**

Asset Register

Business name: Restoration Doors

Asset code	Asset name	Asset description	Serial number	Purchase date	Purchase price	Useful life	Estimated disposal	Depreciation type	Depreciation rate	Disposal date	Disposal reason	Disposal amount
	Photocopier	Fiju C506X	003782357	1/07/2024	$6,000	4 years	$300	Straight Line	23.75%	30/6/2028		

d

e

Explanation	*Because this amount will not be incurred/consumed by the entity (business) that currently controls the asset (but by the next owner), therefore it cannot be included when calculating the depreciation as it must not be allocated as an expense of the current entity.*

f

Explanation	*Depreciation of Photocopier is an expense that will decrease Net Profit by $1 425.*

Exercise 16.2 Depreciation

a

Accounting assumption	*Period*
Explanation	*Non-current assets assist to earn revenue over a number of reporting periods, so it is necessary to allocate their cost over their useful life in order to calculate the expense incurred against the revenue earned in each reporting period and ensure profit can be calculated accurately.*

b

Calculation

$$\textit{Depreciation} = \frac{HC - RV}{Life}$$

$$= \frac{\$12\,000 - \$1\,000}{10}$$

$$= \$1\,100 \text{ p.a.}$$

Depreciation of Office furniture | **$** *1 100*

c AROMA WORLD

Balance Sheet (Extract) as at 31 December 2025

Non-Current Assets	**$**	**$**
Office furniture	*12 000*	
Less Accumulated depreciation	*1 100*	*10 900*

d

Explanation	*Depreciation expense:* • *due to the increase in the expense this results in a decrease in Net Profit and thus owner's equity* • *the accumulated depreciation, which is a negative asset increases and thus decreases assets.*

Exercise 16.3 Depreciation rate

a

Calculation

$$\textit{Depreciation} = \frac{HC - RV}{Life}$$

$$= \frac{\$16\,000 - \$1\,000}{5}$$

$$= \$3\,000 \text{ p.a.}$$

Depreciation of equipment	**$** *3 000*

b

Calculation

$$\textit{Depreciation Rate} = \frac{Dep.\ Exp.}{HC}$$

$$= \frac{\$3\,000}{\$16\,000}$$

$$= 18.75\ \%$$

Depreciation rate	*18.75* **%**

c FINNIGAN'S WAVE BOARDS

Balance Sheet (Extract) as at 30 June 2025

Non-Current Assets	**$**	**$**
Polishing equipment	*16 000*	
Less Accumulated depreciation	*3 000*	*13 000*

FINNIGAN'S WAVE BOARDS

Balance Sheet (Extract) as at 30 June 2026

Non-Current Assets	**$**	**$**
Polishing equipment	*16 000*	
Less Accumulated depreciation	*6 000*	*10 000*

FINNIGAN'S WAVE BOARDS

Balance Sheet (Extract) as at 30 June 2027

Non-Current Assets	**$**	**$**
Polishing equipment	*16 000*	
Less Accumulated depreciation	*9 000*	*7 000*

d

Qualitative characteristic	*Relevance*
Explanation	*Given that part of the cost/value of the asset has been consumed, showing the value of the asset that remains as a future economic benefit is more useful for decision-making related to when it should be replaced.*

Exercise 16.4 Depreciation – less than 12 months

a

Calculation			
Depreciation =	*HC x Rate*	*x $^9/_{12}$ months*	*(Oct.–June)*
=	*$2 400 x 15%*	*x $^9/_{12}$*	
=	*$360*	*x $^9/_{12}$*	
		Depreciation of computer	**$** *270*

b

	Overstated/Understated/No effect	Amount $
Assets	*Overstated (Understated Accumulated Depreciation)*	*270*
Liabilities	*No effect*	*0*
Owner's equity	*Overstated (U/s Dep. of Computer expense means O/s Net Profit)*	*270*

c **LUKIN MOTORS**

Balance Sheet (Extract) as at 30 June 2025

Non-Current Assets	$	$
Computer	*2 400*	
Less Accumulated depreciation	*270*	*2 130*

LUKIN MOTORS

Balance Sheet (Extract) as at 30 June 2026

Non-Current Assets	$	$
Computer	*2 400*	
Less Accumulated depreciation	*630*	*1 770*

LUKIN MOTORS

Balance Sheet (Extract) as at 30 June 2027

Non-Current Assets	$	$
Computer	*2 400*	
Less Accumulated depreciation	*990*	*1 410*

Exercise 16.5 Depreciation – less than 12 months

a

Calculation				
Depreciation =	*Existing display cases*		*New display cases*	
=	*$32 000 x 10%*	+	*$3 600 x 10% x $^{7}/_{12}$*	
=	*$3 200*	+	*$210*	
			Depreciation of Display cases	**$** *3 410*

b **WANGARATTA WATCHES**

Balance Sheet (Extract) as at 30 June 2025

Non-Current Assets	**$**	**$**
Display Cases	*35 600*	
Less Accumulated depreciation	*11 410*	*24 190*

c

Explanation	*Accumulated depreciation would be understated so assets would be overstated by $3 410 and Depreciation of Computer expense would be understated so Net Profit and owner's equity would be overstated by $3 410.*

Exercise 16.6 Reporting depreciation

a

Accounting assumption	*Period*
Explanation	*Balance Day Adjustmends are made to ensure profit is calculated accurately by comparing revenues earned and expenses incurred in the current reporting period.*

b

Calculation

Depreciation = HC x Rate

= $265 000 x 5%

Depreciation of Premises	**$** *13 250*

c

WAYNE'S FOUNTAINS

Cash Flow Statement for the year ending 30 September 2025

	$	**$**
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
Cash sales	*51 000*	
GST received	*5 100*	
Receipts from Accounts Receivable	*21 000*	*77 100*
Less Cash Outflows		
Wages	*32 500*	
GST paid	*1 270*	
Electricity	*6 300*	
Advertising	*4 000*	
Payments to Accounts Payable	*14 100*	
Insurance	*2 400*	
GST settlement	*2 700*	*63 270*
Net cash Flows from Operating activities		***13 830***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Outflow		
Net cash Flows from Investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Inflows		
Receipt of Loan – Fix Finance	*20 000*	*20 000*
Less Cash Outflows		
Drawings	*26 000*	*26 000*
Net Cash Flows from Financing qctivities		***(6 000)***
Net increase (decrease) in cash position		***7 830***
Add Bank Balance at start (1 September 2025)		***(2 800)***
Bank Balance at end (30 September 2025)		***5 030***

d

WAYNE'S FOUNTAINS

Income Statement for the year ending 30 September 2025

	$	$
Revenue		
Cash sales	*51 000*	
Credit sales	*18 000*	*69 000*
Less Cost of Goods Sold		
Cost of Sales		*19 000*
Gross Profit		***50 000***
Less Other expenses		
Wages	*32 500*	
Electricity	*6 300*	
Advertising	*4 000*	
Insurance	*2 400*	
Depreciation of Premises	*13 250*	*58 450*
Net Profit/ (Loss)		***(8 450)***

e

Reason 1	*Depreciation of Premises (expense that decreases profit is not a cash payment so does not affect cash)*
Reason 2	*Credit sales was less than receipts from Accounts Receivable (cash receipts increase cash more than revenue increases profit)*
Reason 3	*Loan – Fix Finance (cash receipt that increases cash but not a revenue so no effect on profit)* *OR Cost of Sales was greater than payments to Accounts Payable*

f

Calculation	
Op. Bal. + Cr. Sales + GST – Rec. from Acc. Rec.	
$4 900 + $19 800 – $21 000	
Accounts Receivable	**$** *3 700*

Calculation	
Op. Bal. + Cr. Pur. + GST – Pay. to Acc. Pay.	
$64 000 + $17 600 – $14 100	
Accounts Payable	**$** *67 500*

Calculation	
O.p Bal. + GST Rec. – GST paid	
$0 + (1 800 + $5 100) – ($1 600 + $1 270) =	
$6 900 – $2 870	
GST payable	**$** *4 030*

g

WAYNE'S FOUNTAINS

Balance Sheet as at 30 September 2025

	$	$		$	$
Current Assets			**Current Liabilities**		
Bank	*5 030*		*Accounts Payable*	*67 500*	
Inventory	*124 000*		*GST payable*	*4 030*	
Accounts Receivable	*3 700*	*132 730*	*Loan – Fix Finance*	*6 000*	*77 530*
			Non-Current Liabilities		
Non-Current Assets			*Loan – Fix Finance*		*14 000*
Premises	*265 000*				
less Acc. depreciation	*133 250*	*131 750*	**Owner's equity**		
			Capital – Wayne	*207 400*	
			– Net Loss	*8 450*	
				198 950	
			– Drawings	*26 000*	*172 950*
Total Assets		*264 480*	**Total Equities**		*264 480*

h

Calculation

Asset Turnover = Net Sales / Av. Tot. Assets = 69 000 / (276 900 + 264 480)/2

Asset Turnover = 69 000 / 270 690

Asset Turnover	*0.25* **times**

Calculation

Return on Assets = Net Profit / Av. Tot. Assets x 100 = (8 450) / 270 690 x 100

Return on Assets	*–3.12* **%**

Comment *Wayne's Fountains should be very concerned with the ratios achieved. The Asset Turnover has fallen .61 times indicating that assets are less efficient in generating sales. This would suggest he may be in possession of a lot of idle assets i.e assets that are reported in his balance sheet but are not contributing to earning revenue. Despite this there does not appear to be a significant change in assets from one period to the next and the owner would need to explore what has caused such a significant decline in revenue. The Return on Assets is very concerning as it is negative, indicating an 8% change downward, essentially moving from a Net Profit to a net loss situation. This decline from a positive 5% to a negative 3% indicates very poor expense control. Wayne's Fountains is unable to have any of its assets earn Net Profit. A thorough review of expenses needs to occur in conjunction with why revenue has declined so significantly.*

Exercise 16.7 Reporting depreciation

a

Explanation	*They ensure that the Income Statement includes all information that is useful for decision-making, reporting revenues earned and expenses incurred in the current reporting period so profit can be calculated accurately.*

b

Calculation

Depreciation	=	*HC x Rate*	*x* $^{1}/_{12}$ *month*	*(June)*
	=	*$50 000 x 12%*	*x* $^{1}/_{12}$	
	=	*$6 000*	*x* $^{1}/_{12}$	

Depreciation of Shop fittings	**$** *500*

c THAT BIKE SHOP

Income Statement for June 2025

	$	$
Revenue		
Cash sales	*8 000*	
Credit sales	*40 000*	*48 000*
Less Sales returns		*1 200*
Net Sales		*46 800*
Less Cost of Goods Sold		
Cost of Sales		*18 000*
Gross Profit		***28 800***
less Inventory loss		*200*
Adjusted Gross Profit		***28 600***
Less Other expenses		
Wages	*18 600*	
Interest expense	*100*	
Advertising	*800*	
Rent expense	*600*	
Depreciation of Shop fittings	*500*	*20 600*
Net Profit (Loss)		***8 000***

d

Reason 1	*Loan Repayment/Drawings are cash payments that decrease cash but are not expenses so do not affect profit.*
Reason 2	*Payments to Accounts Payable was greater than Cost of Sales, so cash payments decrease cash more than expenses decreases profit OR Credit Sales was greater than receipts from Accounts Receivable*

e

Calculation		
	Accounts Payable balance at start	*18 650*
+	*Credit purchases incl. GST*	*16 500*
		35 150
–	*Payments to Accounts Payable*	*20 000*
	Accounts Payable balance at end	*$15 150*
	Accounts Payable balance	**$** *15 150*

Calculation		
	Accounts Receivable balance at start	*40 500*
+	*Credit sales incl. GST*	*44 000*
		84 500
–	*Receipts from Accounts Receivable*	*36 000*
–	*Sales returns incl. GST*	*1 320*
	Accounts Receivable balance at end	*$47 180*
	Accounts Receivable balance	**$** *47 180*

f

Calculation			
	GST balance at start	*1 900*	
+	*GST on sales*	*4 800*	*(800 + 4 000)*
		6 700	
–	*GST on purchases*	*1 760*	*(140 + 1 500+ 120)*
		$4 940	
	GST payable	**$** *4 940*	

g THAT BIKE SHOP

Balance Sheet as at 30 June 2025

	$	$		$	$
Current Assets			**Current Liabilities**		
Inventory	*66 500*		*Bank overdraft*	*490*	
Accounts Receivable	*47 180*	*113 680*	*Accounts Payable*	*15 150*	
			GST payable	*4 940*	
			Loan – GH Bank	*3 000*	*23 580*
Non-Current Assets			**Non-Current Liabilities**		
Shop fittings	*50 000*		*Loan – GH Bank*		*22 500*
less Acc. depreciation	*17 600*	*32 400*			
			Owner's equity		
			Capital – Melven	*98 200*	
			+ Net Profit	*8 000*	
				106 200	
			– Drawings	*6 200*	*100 000*
Total Assets		*146 080*	**Total Equities**		*146 080*

h

Calculation

Asset Turnover = $\frac{\text{Net Sales}}{\text{Av. Tot. Assets}} = \frac{46\ 800}{(144\ 750 + 146\ 080)/2}$

Asset Turnover = $\frac{46\ 800}{145\ 415}$

Asset Turnover	*0.32* **times**

Calculation

Return on Assets = $\frac{\text{Net Profit}}{\text{Av. Tot. Assets}} \times 100 = \frac{8\ 000}{145\ 415} \times 100$

Return on Assets	*5.5*%

Comment	*That Bike Shop should be happy with the ratios achieved. The Asset Turnover is 0.04 higher indicating that assets are being used more efficiently in generating sales. This would suggest assets are being used effectively and are generating an extra 4c of sales per dollar of assets than the industry average. However, they should look to continue to improve on this figure as it is quite close to the industry average. The Return on Assets is also positive as the business' assets are generating an extra $1.50 Net Profit than the industry average. This 5.5% indicates good expense control in comparison to the industry average.*

Exercise 16.8 Reporting depreciation

a

Calculation

Depreciation =	*HC x Rate*	*x $^3/_{12}$ months*	*(Jan.–Mar.)*	
=	*\$48 000 x 15%*	*x $^3/_{12}$*		
=	*\$7 200*	*x $^3/_{12}$*		
			Depreciation of Shelving	**\$** *1 800*

b

Calculation

	Accounts Receivable balance at start	*5 000*	
+	*Credit sales incl. GST*	***16 500***	*(GST: \$16 500 x $^1/_{11}$ = \$1 500)*
		21 500	
–	*Receipts from Accounts Receivable*	*14 000*	
	Accounts Receivable balance at end	*\$ 7 500*	
		Credit sales	**\$** *15 000*

c BETWEEN THE LINES

Income Statement for the quarter ending 31 March 2025

	$	$
Revenue		
Cash sales	*42 000*	
Credit sales	*15 000*	*57 000*
Less Cost of Goods Sold		
Cost of Sales	*40 000*	
Freight in	*250*	*40 250*
Gross Profit		***16 750***
less Inventory loss		*290*
Adjusted Gross Profit		***16 460***
Less Other expenses		
Wages	*18 000*	
Interest expense	*280*	
Advertising	*3 000*	
Depreciation of shelving	*1 800*	*23 080*
Net Profit (Loss)		***(6 620)***

d

Reason 1	*Depreciation of Shelving/Inventory Loss are expenses that decrease profit but are not cash payments so do not affect cash.*
Reason 2	*Cost of Sales was greater than payments to Accounts Payable, so expenses decrease profit more than cash payments decrease cash OR Wages expense incurred was greater than Wages paid*

e

BETWEEN THE LINES

Balance Sheet as at 31 March 2025

	$	$		$	$
Current Assets			**Current Liabilities**		
Bank	*4 145*		*Accounts Payable*	*10 500*	
Inventory	*21 410*		*GST payable*	*3 875*	
Accounts Receivable	*7 500*	*33 055*	*Loan – ANZ*	*4 800*	*19 175*
Non-Current Assets			**Non-Current Liabilities**		
Shelving	*48 000*		*Loan – ANZ*		*22 000*
less Acc. depreciation	*16 200*	*31 800*			
			Owner's equity		
			Capital – Devitt	*34 500*	
			– Net Loss	*6 620*	
				27 880	
			– Drawings	*4 200*	*23 680*
Total Assets		*64 855*	**Total Equities**		*64 855*

Exercise 17.1 Budgeted Cash Flow Statement

a

Explanation	*Budgets use estimates of future transactions*
	which are not able to checked / verified against a source document.

b

Calculation

GST on:	*Purchase of paint*	*1 800*	
	Electricity	*150*	
	Shelving	*500*	
		Budgeted GST paid	**$** *2 450*

c **See next page**

d

Action 1	*Advertise to generate more cash sales /*
	Implement strategy to collect cash faster from Accounts Receivable
Action 2	*Reduce drawings / Reduce or defer loan repayment, shelving purchase /*
	Take out a loan to purchase shelving / Organise overdraft

e

Reason	*Cash purchase of shelving / Loan repayment / Drawings / Credit sales*
Explanation	*Some items are cash outflows which will decrease budgeted cash*
	but are not expenses so will not affect budgeted Net Profit.
	Credit Sales is a revenue; however, does not provide a cash flow until the
	relevant accounts receivable pays what they owe.

c **FINISHING TOUCH**

Budgeted Cash Flow Statement for January 2026

	$	**$**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash sales	*24 000*	
GST received	*2 400*	*26 400*
Cash purchases of paint	*(18 000)*	
Wages	*(3 600)*	
Electricity	*(1 500)*	
Interest expense	*(450)*	
GST paid	*(2 450)*	*(26 000)*
Net Cash Flows from Operations		***400***
CASH FLOWS FROM INVESTING ACTIVITIES		
Shelving		*(5 000)*
Net Cash Flows from Investing activities		***(5 000)***
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan repayment		*(800)*
Drawings		*(3 200)*
Net Cash Flows from Financing activities		***(4 000)***
Net Increase (Decrease) in cash position		***(8 600)***
Add Bank Balance at start (1 January 2025)		***1 600***
Bank Balance at end (31 January 2025)		***(7 000)***

Exercise 17.2 Budgeted Cash Flow Statement

a

Qualitative characteristic	Relevance
Explanation	*Provides Relevant information which is capable of making a difference*
	to decisions about future activities
	Can be used to assist planning and decision-making.

b

Calculation				
	From July sales (incl. GST)	*128 700*	*($143 000 x 90%)*	
	From June sales (incl. GST)	*13 200*	*($132 000 x 10%)*	
			Budgeted Receipts from Accounts Receivable	**$** *141 900*

Calculation				
	Credit purchases (incl. GST)	*71 500*		
less	*Discount revenue*	*3 575*	*($71 500 x 5%)*	
			Budgeted Payments to Accounts Payable	**$** *67 925*

Calculation				
GST on:	*Delivery van*	*3 200*		
	Advertising	*62*		
	Rent expense	*600*		
			Budgeted GST paid	**$** *3 832*

c

LANGWARRIN LAUNDRY EQUIPMENT

Budgeted Cash Flow Statement for July 2025

	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Accounts Receivable	*141 900*	*141 900*
Payments to Accounts Payable	*(67 925)*	
Advertising	*(620)*	
Interest expense	*(150)*	
Rent expense	*(6 000)*	
Wages	*(1 250)*	
GST paid	*(3 832)*	
GST Settlement	*(1 800)*	*81 577*
Net Cash Flows from Operations		***60 323***
CASH FLOWS FROM INVESTING ACTIVITIES		
Delivery van		*(32 000)*
Net Cash Flows from Investing activities		***(32 000)***
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan – AJNL Finance		*35 000*
Drawings		*(1 000)*
Net Cash Flows from Financing activities		***34 000***
Net Increase (Decrease) in cash position		***62 323***
Add Bank Balance at start (1 July 2025)		***(1 300)***
Bank Balance at end (31 July 2025)		***61 023***

d

Explanation	*By forewarning the owner of an expected increase in cash, the owner can: plan to retire debt (repay loans); purchase new / replace old assets; increase advertising / hire staff (expand the business operations); increase drawings; let the overdraft return to a positive balance.*

Exercise 17.3 Budgeted Cash Flow Statements – Consecutive periods

a

Explanation	*Inventory is purchased for cash but 80% of sales are made on credit,*
	and cash is not received from Accounts Receivable until the next month.
	This mean cash is paid before it is received,
	reducing cash available to meet short-term debts as they fall due.

b

	Sales $	Cash sales $	Credit sales $
September (Actual)	**1 000**	*200*	*800*
October	**1 300**	*260*	*1 040*
November	**2 400**	*480*	*1 920*
December	**800**	*160*	*640*

c October

Calculation			
GST on:	*Inventory*	*80*	
	Administration expenses	*25*	
	Advertising	*20*	
	Shelving	*1 200*	
		Budgeted GST paid	**$** *1 325*

November

Calculation			
GST on:	*Inventory*	*150*	
	Administration expenses	*25*	
		Budgeted GST paid	**$** *175*

December

Calculation			
GST on:	*Inventory*	*50*	
	Administration expenses	*25*	
	Stationery supplies	*35*	
		Budgeted GST paid	**$** *110*

d **PLATO SAYS**

Budgeted Cash Flow Statement for October – December 2025

	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash sales	*260*	*480*	*160*
GST received	*26*	*48*	*16*
Receipts from Accounts Receivable	*880*	*1 144*	*2 112*
GST refund	*400*		
Total Operating Cash Inflows	***1 566***	***1 672***	***2 288***
Cash purchase of inventory	*(800)*	*(1 500)*	*(500)*
Wages	*(780)*	*(1 440)*	*(480)*
Administration expenses	*(250)*	*(250)*	*(250)*
Advertising	*(200)*		
GST paid	*(1 325)*	*(175)*	*(110)*
Stationery Supplies			*(350)*
Total Operating Cash Outflows	***(3 355)***	***(3 365)***	***(1 690)***
Net Cash Flows from Operations	***(1 789)***	***(1 693)***	***598***
CASH FLOWS FROM INVESTING ACTIVITIES			
Shelving	*(12 000)*		
Net Cash Flows from Investing activities	***(12 000)***		
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution		*1500*	
Drawings	*(450)*	*(450)*	*(450)*
Net Cash Flows from Financing activities	***(450)***	***1050***	***(450)***
Net Increase (Decrease) in cash position	***(14 239)***	***(643)***	***148***
Add Bank Balance at start	***2 190***	***(12 049)***	***(12 692)***
Bank Balance at end	***(12 049)***	***(12 692)***	***(12 544)***

e

Discussion	*The business will not have enough cash to purchase the shelving in October*
	as the budget is currently predicting an overdraft. Even with the increasing sales, which may depend on the purchase
	by the end of the budget period (December 2025) the bank balance is predicted to still be in overdraft,
	despite the capital contribution
	And the small positive Net Cash Flows from Operations in December.
	If the new shelving purchase is to occur in October 2025 then
	to finance the purchase the business should organise a loan
	to reduce the cash pressure on the business and provide the business sufficient time to pay it off.
	Waiting until November 2025 or later to purchase the shelving is not as good as it may
	mean lost sales.
	.
	Going into overdraft to purchase the shelving is not an ideal as it is using short
	term finance (and expensive!) to fund a long term asset.

Exercise 17.4 Budgeted Income Statement

a

SEBASTOPOL ELECTRICS

Budgeted Income Statement for April 2025

	$	$
Revenue		
Sales		*54 000*
Less Cost of Goods Sold		
Cost of Sales		*27 000*
Gross Profit		***27 000***
Less Inventory loss		*540*
Adjusted Gross Profit		***26 460***
Add Other revenues		
Discount revenue		*520*
		26 980
Less Other expenses		
Rent expense	*1 000*	
Wages	*2 000*	
Advertising	*1 200*	
Depreciation of Shop fittings	*250*	*4 450*
Net Profit		***22 530***

b

Explanation	*It can be used to prepare for future trading activities such as:*
	purchasing inventory, examining inventory protection methods,
	hiring / rostering staff, organising advertising.

c

Discussion	*A higher mark-up will increase Gross Profit, provided sales volume does not*
	decrease.
	However, sales volume may decrease if customers do not wish to pay higher
	prices.
	At the moment the mark-up is high enough to provide for Gross Profit and cover
	Other expenses and still leave $22 520 profit – for just one month.
	These are strong arguments to leave the mark-up unchanged.

d

Reason	*GST settlement / Cash purchase of van / Cash drawings*
Explanation	*These cash payments will decrease cash*
	but are not expenses and so will not affect Net Profit.
	Other reasons: Cash not yet collected from Acc. rec. / paid to Acc. Pay.

Exercise 17.5 Budgeted Income Statement

a

Calculation	
$50 000 Sales x 1.2	
Budgeted sales	**$** *60 000*

b

MAGNIFICENT MOWING

Budgeted Income Statement for September 2025

	$	**$**
Revenue		
Sales	*60 000*	
Less Sales returns	*2 100*	*57 900*
Less Cost of Goods Sold		
Cost of Sales		*38 600*
Gross Profit		***19 300***
Less Inventory loss		*1 158*
Adjusted Gross Profit		***18 142***
Less Other expenses		
Bad debts	*420*	
Wages	*3 700*	
Rent expense	*4 500*	
Advertising	*5 200*	
Depreciation of Office equipment	*500*	
Interest expense	*320*	*14 640*
Net Profit		***3 502***

c

Explanatio n	*It sets a benchmark or target for revenues and expenses*
	which can be used as a comparison against actual figures
	to identify problem areas so that corrective action can be taken
	to increase revenues or reduce expenses. The results can also be used to
	determine predicted profitability ratios to see if the business is performing
	against benchmarks.

d

Action 1	*Increase sales: change selling prices / increase, change advertising /*
	change product mix
Action 2	*Reduce expenses: cheaper supplier / inventory management*
	Reduce returns: monitor quality of inventory / better staff training

Exercise 17.6 Budgeted reports

a

Calculation

$5 000 x 5%

Budgeted Administration expenses | **$** *250*

Calculation

GST on:	*Rent*	*300*
	Shelving	*1 000*
	Advertising	*340*
	Administration expenses	*25*

Budgeted GST paid | **$** *1 665*

Calculation

$11 000 x 3.6% x $^{1}/_{12}$

Budgeted Interest expense | **$** *33*

Calculation

	Credit purchases (incl. GST)	*3 850*
–	*Purchase returns (incl. GST)*	*330*
		3 520
–	*Payments to Accounts Payable*	*2 965*
–	*Discount revenue*	*60*
	Balance at end	*495*

Budgeted Payments to Accounts Payable | **$** *2 965*

b **BTrue2**

Budgeted Cash Flow Statement for December 2025

	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash sales	*5 000*	
GST received	*500*	*5 500*
Rent expense	*(3 000)*	
Interest expense	*(33)*	
Payments to Accounts Payable	*(2 965)*	
Advertising	*(3 400)*	
Administration expenses	*(250)*	
GST paid	*(1 665)*	*(11 313)*
Net Cash Flows from Operations		***(5 813)***
CASH FLOWS FROM INVESTING ACTIVITIES		
Shelving		*(10 000)*
Net Cash Flows from Investing activities		***(10 000)***
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contribution	*15 000*	
Loan – EK Finance	*11 000*	*26 000*
Drawings	*(700)*	
Loan repayment – EK Finance	*(400)*	*(700)*
Net Cash Flows from Financing activities		***25 300***
Net Increase (Decrease) in cash position		***487***
Add Bank Balance at start (1 July 2025)		***nil***
Bank Balance at end (31 July 2025)		***9 487***

c

Calculation

$$\frac{\$10\ 000 - 2\ 500}{5} \times {}^{1}/_{12}$$

	Budgeted Depreciation of Shelving	**$** *125*

d

BTrue2

Budgeted Income Statement for December 2025

	$	**$**
Revenue		
Sales		*5 000*
Less Cost of Goods Sold		
Cost of Sales		*2 500*
Gross Profit		***2 500***
Less Inventory loss		*100*
Adjusted Gross Profit		***2 400***
Discount revenue		*60*
		2 460
Less Other expenses		
Depreciation of Laptop	*40*	
Rent expense	*3 000*	
Interest expense	*33*	
Depreciation of Shelving	*125*	
Advertising	*3 400*	
Administration expenses	*250*	*6 848*
Net Profit		***(4 388)***

e

Reason 1	*Receipt of Loan*
Reason 2	*Capital Contribution*
Explanatio n	*Receipt of loan and Capital Contribution are cash inflows*
	which will increase the cash position of the business;
	however, are not revenues so will not affect Net profit.

f

Calculation

	Credit purchases	*3 500*
less	*Purchase returns*	*(300)*
		3 200
less	*Cost of Sales **	*(2 500)*
	Inventory loss	*(100)*
	Drawings	*(120)*

Budgeted Inventory | **$** *480*

Calculation

	GST on sales	*500*
less	*GST paid*	*(1 665)*
less	*GST on purchases*	*(350)*
add	*GST on purchase returns*	*30*

Budgeted GST payable (receivable) | **$** *(1 485)*

g

BTrue2

Budgeted Balance Sheet as at 31 December 2025

	$	$		$	$
Current Assets			**Current Liabilities**		
Bank	*9 487*		*Accounts Payable*	*495*	
Inventory	*480*		*Loan – EK Finance*	*5 200*	*5 695*
GST receivable	*1 485*	*11 052*			
			Non-Current Liabilities		
Non-Current Assets			*Loan – EastBank*		*5 800*
Laptop	*2 500*				
less Acc. depreciation	*40*	*2 460*	**Owner's equity**		
Shelving	*10 000*		*Capital*	*17 500*	
less Acc. depreciation	*125*	*9 875*	*less Net Loss*	*4 388*	
				13 112	
			less Drawings	*820*	*12 292*
Total Assets		*23 787*	**Total Equities**		*23 787*

Exercise 17.7 Budgeted reports

a

Calculation

	Sales (incl. GST)	*66 000*	
less	*Sales returns (incl. GST)*	*1 650*	*(66 000 x 2.5%)*
	Amount owing	*64 350*	
	Received from Acc. Rec.	*25 740*	*(64 350 x 40%)*
	Discount expense	*2 574*	*(25 740 x 10%)*

Budgeted Discount expense | **$** 2 574

Calculation

	Owing as at 31 July 2025	*40 000*	*(Owing from last month)*
	Received from Acc. Rec.	*25 740*	*(From part a)*
less	*Discount expense*	*(2 574)*	*(From part a)*

Budgeted Receipts from Accounts Receivable | **$** *63 166*

Calculation

GST on:	*Administration exp.*	*300*
	Advertising	*48*

Budgeted GST paid | **$** *348*

b **BHM TRADING**

Budgeted Cash Flow Statement for August 2025

	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Accounts Receivable	*63 166*	
GST refund	*1 300*	*64 466*
Payments to Accounts Payable	*(34 100)*	
Wages	*(18 000)*	
Administration expenses	*(3 000)*	
Interest expense	*(120)*	
Advertising	*(480)*	
GST paid	*(348)*	*(56 048)*
Net Cash Flows from Operations		***8 418***
CASH FLOWS FROM INVESTING ACTIVITIES		
nil		
Net Cash Flows from Investing activities		***nil***
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan – EastBank		*(500)*
Drawings		*(2 100)*
Net Cash Flows from Financing activities		***(2 600)***
Net Increase (Decrease) in cash position		***5 818***
Add Bank Balance at start (1 August 2025)		***(5 000)***
Bank Balance at end (31 August 2025)		***818***

c **BHM SERVICES**

Budgeted Income Statement for August 2025

	$	$
Revenue		
Sales	*60 000*	
Less Sales returns	*1 500*	*58 500*
Less Cost of Goods Sold		
Cost of Sales		*39 000*
Gross Profit		***19 500***
Less Inventory loss		*600*
Adjusted Gross Profit		***18 900***
Less Expenses		
Discount expense	*2 574*	
Wages	*18 000*	
Administration expenses	*3 000*	
Bad debts	*900*	
Depreciation of Office furniture	*180*	
Interest expense	*120*	
Advertising expense	*480*	*25 254*
Net Profit (Loss)		*(6 354)*

d

Reason 1	*GST refund / Receipts from AR > Credit sales / Payments to AP > COS*
Reason 2	*Bad debts / Depreciation of Office furniture*
Explanation	*GST refund **is** a cash inflow which **will** increase cash (surplus)*
	*but is **not** revenue so **will not** affect Net Profit.*
	Bad debts / Depreciation are expenses which decrease profit
	but are cash outflows so do not affect cash.

e

Strategy 1	*Increase or change the type of advertising / Change selling prices*
Strategy 2	*Find a cheaper supplier / change rosters to reduce wages expense*

f

Calculation

	Balance	*120 000*
add	*Credit purchases*	*35 000*
less	*Purchase returns*	*(500)*
		154 500
less	*Cost of Sales **	*(39 000)*
	Inventory loss	*(600)*
	Drawings	*(400)*

Budgeted Inventory | $ *114 500*

Calculation

	Balance	*1 300*
less	*GST refund*	*(1 300)*
add	*GST on sales*	*6 000*
less	*GST on sales returns*	*(150)*
		5 850
less	*GST paid*	*(348)*
less	*GST on purchases*	*(3 500)*
add	*GST on purchase returns*	*50*

Budgeted GST payable (receivable) | $ *2 052*

g **BHM TRADING**

Budgeted Balance Sheet as at 31 August 2025

	$	$		$	$
Current Assets			**Current Liabilities**		
Bank	*818*		*Accounts Payable*	*37 950*	
Inventory	*114 500*		*GST payable*	*2 052*	
Accounts Receivable	*38 610*		*Loan – EastBank*	*6 000*	*46 002*
less Allowance for	*(900)*	*153 028*			
Doubtful Debts					
Non-Current Assets			**Non-Current Liabilities**		
Office equipment	*35 000*		*Loan – EastBank*		*23 500*
less Accumulated	*(17 180)*	*17 820*			
depreciation			**Owner's equity**		
			Capital	*110 200*	
			less Net Loss	*(6 354)*	
				103 846	
			less Drawings	*2 500*	*101 346*
Total Assets		*170 848*	**Total Equities**		*170 848*

Exercise 17.8 Budgeted Cash Flow Statement Variance Report

a **HAIR APPARENT**

Cash Variance Report for June 2025

	Budget	Actual	Variance	F/U
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash sales	8 970	9 500	*530*	*F*
GST received	897	950	*53*	*F*
Total Operating Cash Inflows	**9 867**	**10 450**	*583*	*F*
Cash purchase of inventory	(3 500)	(4 900)	*1 400*	*U*
Advertising	(800)	(950)	*150*	*U*
Wages	(1 700)	(2 300)	*600*	*U*
Interest on loan	(100)	(120)	*20*	*U*
GST paid	(430)	(825)	*395*	*U*
Total Operating Cash Outflows	**6 530**	**9 095**	*2 565*	*U*
Net Cash Flows from Operations	**3 337**	**1 355**	***1 982***	***U***
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash register	–	(2 400)	*2 400*	*U*
Net Cash Flows from Investing activities	–	**(2 400)**	***2 400***	***U***
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital contribution	–	2 000	*2 000*	*F*
Loan principal	(700)	(500)	*200*	*F*
Drawings	(1 420)	(1 200)	*220*	*F*
Net Cash Flows from Financing activities	**(2 120)**	**300**	***2 420***	***F***
Net increase (decrease) in cash position	**1 217**	**(745)**	***1 962***	***U***
add Bank Balance at start (1 June 2025)	**360**	**360**	**-**	**-**
Bank Balance at end (30 June 2025)	**1 577**	**(385)**	***1 962***	***U***

b

Reason	*This figure is not estimated;*
	it is an actual figure at the start of the budgeted period.

c

Reason	*To stop the business exceeding the overdraft limit.*

d

Wages	*Higher than expected/favourable variance in Sales:*
	employees required to work longer hours to meet demand

Interest on loan	*Lower than expected/favourable variance in repayment of Loan:*
	interest calculated on higher than expected loan balance

e

Explanation	*By comparing budget and actual*
	it highlights variances
	that should be investigated and their cause identified so that
	corrective action can take place.

Exercise 17.9 Budgeted Cash Flow Statement Variance Report

a **HUNTINGDALE PLUMBING SUPPLIES**

Budgeted Cash Flow Statement Variance Report for March 2025

	Budget	Actual	Variance	F/U
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash sales	12 000	13 000	1 000	F
GST received	1 200	1 300	100	F
Total Operating Cash Inflows	**13 200**	**14 300**	**1 100**	F
Cash purchase of inventory	(6 300)	(6 300)	-	-
Advertising	(350)	(270)	80	F
Wages	(2 000)	(2 100)	100	U
GST paid	(860)	(817)	43	F
Total Operating Cash Outflows	**9 510**	**9 487**	**23**	**F**
Net Cash Flows from Operations	**3 690**	**4 813**	**1 123**	**F**
CASH FLOWS FROM INVESTING ACTIVITIES				
Office equipment	(1 950)	(1 600)	350	F
Net Cash Flows from Investing activities	**(1 950)**	**(1 600)**	350	F
CASH FLOWS FROM FINANCING ACTIVITIES				
Loan – Credit Co-op.	4 000	6 000	2 000	F
Drawings	(850)	(1 350)	500	U
Net Cash Flows from Financing activities	**3 150**	**4 650**	**1 500**	**F**
Net increase (decrease) in cash position	**4 890**	**7 863**	**2 970**	**F**
add Bank Balance at start (1 June 2025)	**(5 600)**	**(5 600)**	**-**	**-**
Bank Balance at end (30 June 2025)	**(710)**	**2 263**	**2 973**	**F**

b

Explanation	*Favourable: actual cash received was more than expected,*
	causing the actual closing bank balance to increase more than expected.

c

Item 1	*Loan (Higher)*	*GST liability (higher)*
Justification	*More cash received than expected*	*Higher GST received; lower paid*
Item 2	*Drawings (higher)*	*Office equipment (lower)*
Justification	*Higher drawings than expected*	*Less spent than expected*

d

Explanation	*It highlights variances*
	that should be incorporated when preparing the next Budget
	to improve their accuracy.

Exercise 17.10 Income Statement Variance Report

a **EASY MOTORS**

Income Statement Variance Report for December 2025

	Budget	Actual	Variance	F/U
Sales	42 000	48 000	*6 000*	*F*
Less Sales returns	2 000	2 500	*500*	*U*
Net Sales	**40 000**	**45 500**	***5 500***	***F***
Less Cost of Goods Sold				
Cost of Sales	28 000	32 000	*4 000*	*U*
Gross Profit	**12 000**	**13 500**	***1 500***	***F***
Less Inventory loss	600	1 200	*600*	*U*
Adjusted Gross Profit	**11 400**	**12 300**	***900***	***F***
Add Other revenues				
Discount revenue	350	400	*50*	*F*
	11 750	**12 700**	***950***	***F***
Less Other expenses				
Advertising	1 200	2 700	*1 500*	*U*
Depreciation of Shelving	300	300	-	-
Discount expense	250	370	*120*	*U*
Interest	-	100	*100*	*U*
Rent expense	970	970	-	-
Wages	3 400	3 900	*500*	*U*
Total Other expenses	**6 120**	**8 340**	***2 220***	***U***
Net Profit	**5 630**	**4 360**	***1 270***	***U***

b

Reason	*Higher than budgeted advertising*
Justification	*Greater customer awareness of services offered leading to higher*
	business activity.

c

Explanation	*It varies directly with the level of sales volume*
	and has risen with Sales
	(and the business is earning higher Gross Profit from its sales).

d **Rent expense**

Explanation	*The Rent expense is likely to be fixed under a lease,*
	meaning the actual figure will be known in advance and will not change
	(for the life of the lease).

Depreciation of Shelving

Explanation	*The historical cost / carrying value (depending on method) did not change*
	meaning depreciation was budgeted accurately. Straight line depreciation remains the same each time.
	NB. Not a function of method.

e

Discussion	*Higher advertising expense was successful in earning more Sales than*
	budgeted.
	Although Cost of Sales rose with increases Sales volume, Gross Profit still
	increased.
	However, this was not enough to cover higher Advertising expense.
	Further, Discount expense and Wages were also higher than budgeted
	meaning overall expenses were $2 220 higher than budgeted
	and Net Profit was actually $1 962 lower than predicted.
	The decisions were helpful in earning Sales and Gross Profit
	but not in earning Net Profit.

Exercise 17.11 Income Statement Variance Report

a **HUTCHESSON CONSULTING**

Income Statement Variance Report for April 2025

	Budget	Actual	Variance	F/U
Sales	59 000	55 000	4 000	U
Less Sales returns	1 000	1 250	250	U
Net Sales	**58 000**	**53 750**	**4 250**	**U**
Less Cost of Goods Sold				
Cost of Sales	39 000	32 000	7 000	F
Gross Profit	**19 000**	**21 750**	**2 750**	**F**
Less Inventory loss	600	800	200	U
Adjusted Gross Profit	**18 400**	**20 950**	**2 550**	**F**
Less Other expenses				
Advertising	2 300	2 600	300	U
Depreciation of Fittings	2 500	2 100	400	F
Interest	600	450	150	F
Office expenses	3 680	3 750	70	U
Rent expense	16 000	14 000	2 000	F
Wages	14 000	33 000	1 000	F
Total Other expenses	**39 080**	**35 900**	**3 180**	F
Net Profit	**(20 680)**	**(14 950)**	**5 730**	**F**

b

Varied favourably	*Cost of sales / Gross Profit*
Varied unfavourably	*Sales / Sales returns / Inventory loss*

c

Action	*Repaid more of the loan principal than expected*

d

Reason	*Sold some fittings*
Justification	*Depreciation was calculated on a lower than expected figure.*
	NB. ***Not*** *reducing balance method as this should have been known.*

e

Discussion	*Sales is lower than budgeted*
	Sales returns / Inventory loss are higher than budget
	due to cheaper (lower quality) inventory.
	However, Cost of Sales is much lower than budget
	meaning both Gross Profit and Adjusted Gross Profit are higher than
	budget.
	Thus the change in suppliers has been worthwhile (in the short-term at least).

f

Strategy 1	*Lower selling prices / Change the type of advertising*
Strategy 2	*Charge a higher selling price to earn more profit per customer*

Exercise 18.1 Profitability

a

Explanation	*Profit is the difference between revenue and expenses in a particular reporting period (a dollar figure) whereas profitability is the ability of the business to earn profit, measured by comparing its profit against a base, such as sales, assets or owner's equity (a relative measure).*

b

Base 1	*Assets*
Base 2	*Owner's equity OR Sales*

c

Reason 1	*The Burwood Store may be more profitable because it is a smaller store/a newer store/facing more competition/in a worse location.*
Reason 2	*It has still earned profit.*

Exercise 18.2 Return on Owner's Investment

a

Calculation

$$ROI = \frac{\text{Net Profit}}{\text{Average Owner's Equity}} \times 100$$

$$= \frac{\$8\,100}{(90\,000 + 110\,000)/2}$$

$$= \frac{\$8\,100}{\$100\,000} \times 100$$

Return on Owner's Investment	*8.1* **%**

b

Explanation	*Ceyda should be satisfied with this return as it is 2.1% more than the return she was receiving on her investment in shares (which, compared to the business, may also be associated with a higher degree of risk).*

c

Reason	*They enjoy the satisfaction/challenge/freedom of operating their own business.*

d

Benchmark 1	*Previous period's performance/Budgeted ROI*
Benchmark 2	*ROI of similar businesses (industry average)*

Exercise 18.3 Return on Owner's Investment

a

Calculation

$$ROI = \frac{\text{Net Profit}}{\text{Average Owner's Equity}} \times 100$$

$$= \frac{\$48\ 750}{\$390\ 000} \times 100$$

Return on Owner's Investment – 2024	*12.5* **%**

Calculation

$$ROI = \frac{\text{Net Profit}}{\text{Average Owner's equity}} \times 100$$

$$= \frac{\$46\ 500}{\$310\ 000} \times 100$$

Return on Owner's Investment – 2025	*15* **%**

b

Explanation	*Average Owner's Equity decreased by a greater proportion than the decrease in Net Profit (meaning the owner is earning a return on a smaller investment).*

c

Explanation	*Net Profit has decreased (from $15 000 to $14 400): the only reason for the increase in ROI is the (larger) reduction in owner's equity (which may mean a higher Debt Ratio – higher gearing – and therefore higher risk).*

Exercise 18.4 Return on Owner's Investment and Return on Assets

a

Calculation

$$ROI = \frac{Net\ Profit}{Average\ Total\ Assets} \times 100$$

$$= \frac{\$28\ 000}{\$400\ 000} \times 100$$

Return on Assets – Ferdinand Photography	*7* **%**

Calculation

$$ROI = \frac{Net\ Profit}{Average\ Total\ Assets} \times 100$$

$$= \frac{\$33\ 600}{\$350\ 000} \times 100$$

Return on Assets – Cara's Cameras	*9.6* **%**

b

Explanation	*The firm's Return on Owner's Investment is higher than that of her competitors, meaning she is earning more Net Profit per dollar invested (as owner's equity)/the firm is using the owner's investment more profitably than its competitors.*

c

Explanation	*The firm's Return on Assets is lower than that of her competitors, meaning she is earning less Net Profit per dollar of assets the firm controls/the firm is not using its assets as profitably as its competitors. (It has more assets but has earned less profit.)*

d

Explanation	*Average Total Assets will always be higher than Average Owner's equity due to the firm's liabilities. (The extent of the difference will depend on the firm's Debt Ratio: a higher Debt Ratio will mean a larger difference between ROI and ROA.)*

Exercise 18.5 Return on Owner's Investment and Return on Assets

a

Calculation

$$ROI = \frac{\text{Net Profit}}{\text{Average Owner's Equity}} \times 100$$

$$= \frac{\$32\ 400}{\$180\ 000} \times 100$$

Return on Owner's Investment – G-Man | *18* **%**

Calculation

$$ROI = \frac{\text{Net Profit}}{\text{Average Total Assets}} \times 100$$

$$= \frac{\$32\ 400}{\$240\ 000} \times 100$$

Return on Assets – G-Man | *13.5* **%**

Calculation

$$ROI = \frac{\text{Net Profit}}{\text{Average Owner's Equity}} \times 100$$

$$= \frac{\$32\ 400}{\$80\ 000} \times 100$$

Return on Owner's Investment – Chick Stuff | *40.5* **%**

Calculation

$$ROI = \frac{\text{Net Profit}}{\text{Average Total Assets}} \times 100$$

$$= \frac{\$32\ 400}{\$240\ 000} \times 100$$

Return on Assets – Chick Stuff | *13.5* **%**

b

Investment	*Chick Stuff*
Justification	*Higher Return on Owner's Investment (it is earning a higher return per dollar invested by the owner)*

c

Calculation

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}} \times 100$$

$$= \frac{\$60\ 000}{\$240\ 000} \times 100$$

Debt Ratio – G-Man | *25* **%**

Calculation

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}} \times 100$$

$$= \frac{\$160\ 000}{\$240\ 000} \times 100$$

Debt Ratio – Chick Stuff | *66.67* **%**

d

Discussion	*The higher Debt Ratio means a greater risk to the firm's long-term stability because there is a greater reliance on borrowed funds, and thus a greater risk that the business will be unable to repay both its debts and any interest charges. However, the higher Debt Ratio means a higher Return on Owner's Investment and an increase in profitability (from an investor's perspective) as the business is using borrowed funds to finance its operations, but the owner still receives any profits.*

Exercise 18.6 Return on Assets and Asset Turnover

a

Calculation

$$ATO = \frac{\text{Net Sales (Sales – Sales Returns)}}{\text{Average Total Assets}} \times 100$$

$$= \frac{\$560\,000}{\$280\,000} \times 100$$

Asset Turnover – 2024	*2* **times**

Calculation

$$ATO = \frac{\text{Net Sales (Sales – Sales Returns)}}{\text{Average Total Assets}} \times 100$$

$$= \frac{\$693\,000}{\$330\,000} \times 100$$

Asset Turnover – 2025	*2.1* **times**

b

Explanation	*The firm has been more effective at using its assets to earn revenue as its Sales Revenue has increased proportionately more than the increase in its Average Total Assets. (An increase in assets has generated even an even greater increase in Sales.)*

c

Explanation	*Expense control has worsened as even though Asset Turnover (ability to earn revenue) has increased, Return on Assets (ability to earn profit) has decreased. (The only difference between ROA and ATO is expenses.)*

d

Suggestion 1	*Buy in bulk/change suppliers to achieve a lower cost price for inventory*
Suggestion 2	*Examine rosters to identify ways to use Wages expense more productively OR Change or reduce advertising OR Change location to reduce Rent expense.*

(Answer must relate to expense control, not Sales Revenue.)

Exercise 18.7 Asset Turnover and Net Profit Margin

a

Reason 1	*Asset Turnover is lower than the industry average (indicating it is not using its assets as effectively to earn Sales revenue).*
Reason 2	*Net Profit rate is lower than the industry average (indicating it is retaining less of every dollar of Sales revenue as Net Profit).*

b

Benchmark 1	*The Return on Assets from a previous period*
Benchmark 2	*The budgeted Return on Assets*

c

Strategy 1	*Increase advertising*
Strategy 2	*Reduce selling prices (provided qty sold increases to offset the lower SP)*

d

Explanation	*Some expenses (such as Cost of Sales and possibly wages) are variable and must increase in line with sales volume. If these expenses increase in proportion to (or less than) Sales, it indicates satisfactory expense control.*

Exercise 18.8 Net Profit Margin

a

Indicator	*Asset Turnover has decreased.*

b

Explanation	*Average total assets increased (proportionately) more than the increase in Sales: more assets have been less effective at earning revenue.*

c

Calculation

$$NPM = \frac{\text{Net Profit}}{\text{Net Sales (Sales – Sales Returns)}} \times 100$$

$$= \frac{\$7\ 000}{\$140\ 000} \times 100$$

Net Profit Margin – 2024	*5* **%**

Calculation

$$NPM = \frac{\text{Net Profit}}{\text{Net Sales (Sales – Sales Returns)}} \times 100$$

$$= \frac{\$9\ 900}{\$154\ 000} \times 100$$

Net Profit Margin – 2025	*6.42* **%**

d

Factor 1	*Increase in Net Profit Margin: The firm is retaining more of each dollar of sales as Net Profit.*
Factor 2	*Although Asset Turnover has decreased (less effective at earning revenue), Return on Assets has increased (more effective at earning profit).*

Exercise 18.9 Gross Profit Margin

a

Calculation

$$GPM = \frac{\text{Gross Profit}}{\text{Net Sales (Sales – Sales Returns)}} \times 100$$

$$= \frac{\$72\,000}{\$160\,000} \times 100$$

Gross Profit Margin	*45* **%**

b

Strategy 1	*Decrease the cost price of inventory by bulk buying or changing suppliers.*
Strategy 2	*Reduce costs associated with buying inventory, e.g. freight/cartage inwards or buying expenses.*

c

Explanatio n	*Higher selling prices will increase the average mark-up and Gross Profit Margin. However, customers may be unwilling to pay the higher prices, leading to a decrease in the volume/quantity of sales. That is, more profit per sale may be offset by fewer sales.*

d

Indicator 1	*Customer satisfaction survey*
Indicator 2	*Number of customer complaints OR Number of repeat sales OR Number of sales/purchase returns*

Exercise 18.10 Vertical Analysis of the Income Statement

a

WHEELIE HOT WHEELS				
Income Statement for the year ended 30 June:				
	2024	%	2025	%
Sales Revenue	180000	100.00%	150000	100.00%
Less Cost Of Goods Sold	77940	43.30%	63150	42.10%
Gross Profit	**102060**	56.70%	**86850**	57.90%
Less Inventory Loss	1800	1.00%	1800	1.20%
Adjusted Gross Profit	**100260**	55.70%	**85050**	56.70%
Less Other Expenses		0.00%		0.00%
Wages	48420	26.90%	39300	26.20%
Administration Expenses	31320	17.40%	26100	17.40%
Advertising	5580	3.10%	3450	2.30%
Depreciation – Fittings	4500	2.50%	4500	3.00%
Net Profit	**$10,440**	5.80%	**$11,700**	7.80%

b

Reason 1	*Lower advertising meant that the business was not as well promoted.*
Reason 2	*Increase in Gross Profit Margin suggests increased selling prices leading to lower demand.*

c

Improved/Worsened	*Improved*
Justification	*The Net Profit Margin has increased (from 5.8% to 7.85); indicating more of every dollar of Sales Revenue is retained as Net Profit.*

d

Reason 1	*Increase in the selling price (cost price constant)*
Reason 2	*Decrease in the cost price of inventory (selling price constant)*

e

Reason	*A lower level of sales should indicate lower levels of inventory holdings. Therefore inventory loss should have declined as well.*

f

Explanation	*Under the straight-line method, depreciation expense is the same every year. However, because Sales Revenue has decreased, this expense absorbs a larger percentage of each dollar of Sales Revenue.*

g

Indicator 1	*Performance appraisals*
Indicator 2	*Number of sick days taken OR staff turnover rate OR 360˚ management survey*

Exercise 18.11 Liquidity

a

Explanation	*There are likely to be sources of liquid funds other than cash in the bank, such as (receipts from) Accounts Receivable, (sales of) inventory, and GST (refund). Further, the owner must also consider the level of current liabilities – the obligations that are due to be met (Accounts Payable/loans/GST payable).*

b

Indicator 1	*Working Capital Ratio*
Indicator 2	*Quick Asset Ratio*

Exercise 18.12 Working Capital Ratio

a

Calculation

$$\text{WCR} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{\$67\,500}{\$90\,000}$$

Working Capital Ratio	*0.75* **:** *1*

b

Satisfactory/Unsatisfactory	*Unsatisfactory*
Justification	*The Working Capital Ratio is less than 1:1. Thus, the firm has insufficient current assets to meet its current liabilities (without extra finance from loans or capital).*

c

Action 1	*Make a capital contribution*
Action 2	*Reduce drawings OR organise a bank overdraft OR defer the purchase of assets OR use credit facilities OR defer the repayment of loans*

Exercise 18.13 Working Capital Ratio

a

Statement	*Working Capital Ratio is the ratio of current assets to current liabilities to assess the firm's ability to meet its short-term debts as they fall due.*

b

Explanatio n	*It is increasing, indicating more current assets are available for every dollar of current liabilities. This means the firm is more able to meet its short-term debts as they fall due.*

c

Explanatio n	*They may have current assets that are idle. For example:* *• Large cash at bank could be invested to make a better return.* *• Excessive Accounts Receivable could mean ageing debts that could go bad.* *• Excessive inventory could lead to increased theft, damage or storage costs.*

d

Explanatio n	*It predicts/forecasts expected cash inflows and outflows, indicating whether the business will generate sufficient cash flows to meet its obligations.*

Exercise 18.14 Working Capital Ratio, Quick Asset Ratio and Cash Flow Cover

a

Calculation

$$WCR = \frac{\textit{Current Assets}}{\textit{Current Liabilities}}$$

$$= \frac{\$54\ 000}{\$30\ 000}$$

Working Capital Ratio	*1.8* **:** *1*

b

Calculation

$$QAR = \frac{\textit{Current Assets (excl. Inventory and Prepaid exp.)}}{\textit{Current Liabilities}}$$

$$= \frac{\$21\ 000}{\$30\ 000}$$

Quick Asset Ratio	*0.7* **:** *1*

c

Satisfactory/Unsatisfactory	*Unsatisfactory*
Justification	*The Quick Asset Ratio is less than 1:1. Thus, the firm has insufficient quick assets to meet its quick liabilities (without extra finance from loans or capital).*

d

Explanation	*The business will already be selling its inventory as fast as it can, so there is no guarantee that inventory can be liquidated immediately to meet immediate debts. Therefore, it cannot be counted as a source of immediate liquid funds.*

e

Calculation	
	$CFC = \dfrac{\textit{Net cash flow from operating activities}}{\textit{Average Current Liabilities}}$
	$= \dfrac{\$20\ 000}{(\$50\ 000 + \$30\ 000)/2}$
Cash Flow Cover	*0.5* ***times***

f

Satisfactory/Unsatisfactory	*Unsatisfactory*
Justification	*The Cash Flow Cover is less than 1. Thus, the firm has insufficient cash flow from operating activities to be able to pay its current liabilities. At this point it is only generating sufficient cash to cover half its current liabilities.*

g

Explanation	*If it can sell its inventory and collect the cash from its Accounts Receivable quickly enough it should be able to meet its short-term debts as they fall due. However, the QAR of less than 1:1 indicates that it may have liquidity problems if it cannot sell its inventory.*

h

Action 1	*Reduce its investment in inventory (work to have a just in time approach)*
Action 2	*Expand sources of operating cash inflows, try to promote more cash sales and chase Accounts Receivable more readily*
Action 3	*Avoid prepaying large amounts as it ties up cash.*
Action 4	*Reduce debt or restructure to a long-term basis or interest only for a period of time.*

Exercise 18.15 Working Capital Ratio, Quick Asset Ratio and Cash Flow Cover

a

Explanation	*The cash received as a GST refund from the ATO will increase cash on hand and can be used to meet short-term debts as they fall due.*

b

Calculation

$$QAR = \frac{\textit{Current Assets (excl. Inventory and Prepaid exp.)}}{\textit{Current Liabilities}}$$

$$= \frac{\$44\ 500}{\$65\ 000}$$

Quick Asset Ratio	*0.68* **:** *1*

c

Satisfactory/Unsatisfactory	*Unsatisfactory*
Justification	*The Working Capital Ratio is less than 1:1. Thus, the firm has insufficient quick assets to meet its quick liabilities (without extra finance from loans or capital).*

d

Calculation

$$CFC = \frac{\textit{Net cash flow from operating activities}}{\textit{Average Current Liabilities}}$$

$$= \frac{\$120\ 000}{(\$55\ 000 + \$65\ 000)/2}$$

Cash Flow Cover	*2* ***times***

e

Reason 1	*The business has $10 000 of its overdraft limit still to utilise.*
Reason 2	*Inventory may be sold to generate cash OR The current part of the Mortgage – NAB will not be paid in an immediate lump sum.*
Reason 3	*The business is generating an operating net cash flow twice the size of its current liabilities and so can easily meet these debt requirements as they fall due.*

Exercise 18.16 Working Capital Ratio and Quick Asset Ratio

a

Explanation	*If the business has large holdings of inventory, or prepaid expenses, both of which are excluded from the calculation of the Quick Asset Ratio*

b

Explanation	*They may have current assets that are idle. For example:* *• Large cash at bank could be invested to make a better return.* *• Excessive Accounts Receivable could mean ageing debts that could go bad.* *• Excessive inventory could lead to increased theft, damage or storage costs.*

c

Discussion	*If Inventory Turnover is fast, it will be able to sell its inventory quickly, generating cash to meet its short-term debts as they fall due. However, if Inventory Turnover is slow the firm will have insufficient cash to meet its short-term debts as they fall due.*

Exercise 18.17 Inventory Turnover

a

Inventory Turnover	*is an efficiency indicator that measures the average number of days it takes a business to sell its inventory/convert inventory into sales.*

b

Calculation

$$ITO = \frac{\text{Average Inventory x 365}}{\text{Cost of Goods Sold}}$$

$$= \frac{\$120\ 000 \text{ x } 365}{\$1\ 095\ 000}$$

Inventory Turnover	*40* **days**

c

Explanation	*Inventory Turnover is slower than the budgeted figure of 35 days, meaning it is taking the business 5 days longer than expected to convert inventory into sales. (This would have negative consequences for both liquidity and profitability.)*

d

Profitability	*Slow Inventory Turnover means sales are not being made quickly, so Sales Revenue and thus profit will be reduced.*

Liquidity	*Slow Inventory Turnover means sales are not being made quickly, so cash will be received slower from cash sales and receipts from Accounts Receivable, meaning less cash will be available to meet short-term debts as they fall due.*

Exercise 18.18 Accounts Receivable Turnover

a

Accounts Receivable Turnover	*is an efficiency indicator that measures the average number of days it takes a business to collect cash from its Accounts Receivable.*

b

Calculation

$$ARTO = \frac{\text{Average Accounts Receivable x 365}}{\text{Credit sales}}$$

$$= \frac{\$12\ 400 \text{ x } 365}{\$113\ 150}$$

Accounts Receivable Turnover	*40* **days**

c

Satisfactory or Unsatisfactory	*Unsatisfactory*
Justification	*It takes 10 days longer than the credit terms of 30 days.*

d

Explanation	*The majority of sales are on credit, and the business has to wait 21 days to sell inventory (ITO) and then 40 days to collect cash from Accounts Receivable (ARTO). This may mean the business does not generate cash in time to meet its debts.*

e

Indicator 1	*Working Capital Ratio*
Indicator 2	*Quick Asset Ratio OR bank overdraft limit OR Accounts Payable Turnover*

Exercise 18.19 Accounts Payable Turnover

a

Accounts Payable Turnover	*is an efficiency indicator that measures the average number of days it takes a business to pay its Accounts Payable.*

b

Calculation

$$APTO = \frac{\text{Average Accounts Payable x 365}}{\text{Credit purchases}}$$

$$= \frac{\$30\ 000 \text{ x } 365}{\$228\ 125}$$

Accounts Payable Turnover	*48* **days**

c

Explanation	*Faster Accounts Payable Turnover means Accounts Payable are paid faster. This leaves less time to generate sales and collect cash from Accounts Receivable and may mean there is less cash available to meet other debts as they fall due.*

d

Consequence 1	*Reduction in credit rating*
Consequence 2	*Removal of credit facilities OR interest charges if stipulated in the credit contract*

Exercise 18.20 Assessing performance

a

Explanation	*Assets (purchased using borrowed funds) have increased proportionately more than the increase in profit.*

b

Indicator	*(Increase in) Asset Turnover*

c

Factor 1	*Decrease Net Profit Margin: less of every dollar of sales revenue retained as Net Profit.*
Factor 2	*Return on Assets decreased (worse at earning profit despite increased Asset Turnover; better at earning revenue)*

d

Explanation	*It gives the business time to sell its inventory and collect the cash from Accounts Receivable before cash must be paid to Accounts Payable, so liquidity problems can be avoided.*

e

Reason	*Although Inventory Turnover is 3 days slower, Accounts Receivable Turnover is 8 days faster than 2025, meaning cash is collected 5 days faster. This cash can be used to pay Accounts Payable faster.*

f

Explanation	*Working Capital Ratio/Quick Asset Ratio may show that there are sufficient current/quick assets to cover short-term debts as they fall due.*

