

### Exercise 2.6

a.

<b>Qualitative characteristic</b> <i>Reliability</i>
<b>Explanation</b> <i>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 \$8200 is an estimate and cannot be verified and is therefore unreliable.</i>

b.

<b>Calculation</b>
$OE = A - L$ $= 87\,900 - 38\,300$
<b>Owner's equity</b> \$ 49 600

c.

**Paris for Hair**  
**Balance Sheet as at 31 May 2010**

	\$	\$		\$	\$
<b>Current Assets</b>			<b>Current Liabilities</b>		
<i>Stock of hair care products</i>	42 000		<i>Creditors</i>	3 400	
<i>Debtors</i>	8 600	50 600	<i>Loan – nab</i>	6 000	
			<i>Bank overdraft</i>	4 900	14 300
<b>Non-current Assets</b>					
<i>Shop fittings</i>	22 000		<b>Non-current Liabilities</b>		
<i>Office equipment</i>	37 300	17 300	<i>Loan – nab</i>		24 000
<span style="background-color: yellow;">Should read "17 300".</span>					
<span style="background-color: yellow;">Should read "37 300".</span>			<b>Owner's Equity</b>		
			<i>Capital – Paris</i>		49 600
<b>Total Assets</b>		87 900	<b>Total Equities</b>		87 900

d.

<b>Explanation</b> <i>Office equipment is a non-current asset because it is a resource controlled by the entity as a result of past events from which future economic benefits are expected to flow to the entity for a period greater than twelve months.</i>
--

### Exercise 5.4 Crosstown Tyres

a.

Type of tyre	Cost Price \$	Selling price if the following mark-up applied		
		40%	50%	100%
<b>A16 MaxiGrip</b>	120	$SP = CP (1 + \% \text{ mark-up})$ $SP = 120 (1 + .4)$ $SP = 120 (1.4)$ $SP = 120 \times 1.4$ $SP = \$168$	$SP = 120 (1 + .5)$ $SP = 120 (1.5)$ $SP = 120 \times 1.5$ $SP = \$180$	$SP = 120 (1 + 1)$ $SP = 120 (2)$ $SP = 120 \times 2$ $SP = \$240$
<b>Roadrunner 1600</b>	90	$SP = 90 (1 + .4)$ $SP = 90 (1.4)$ $SP = 90 \times 1.4$ $SP = \$126$	$SP = 90 (1 + .5)$ $SP = 90 (1.5)$ $SP = 90 \times 1.5$ <del><math>SP = \\$120</math></del>	$SP = 90 (1 + 1)$ $SP = 90 (2)$ $SP = 90 \times 2$ $SP = \$180$
<b>Mudrunner 2400</b>	140	$SP = 140 (1 + .4)$ $SP = 140 (1.4)$ $SP = 140 \times 1.4$ $SP = \$196$	$SP = 140 (1 + .5)$ $SP = 140 (1.5)$ $SP = 140 \times 1.5$ $SP = \$210$	<del> <math>SP = 140 (1 + 1)</math>  <math>SP = 140 (2)</math>  <math>SP = 140 \times 2</math>  <math>SP = \\$280</math> </del>

b.

Should read "135".

<b>Reason 1</b>	<i>It may be dependent on the cost price of the stock, as if the cost price is high then applying a large mark-up may make that item too expensive.</i>
<b>Reason 2</b>	<i>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.</i>

**Exercise 5.8 Harry Harcourt (Skateboard producer)**

a.

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

b.

**Calculate**  
*Variable cost = 145 + 5 + 20 = \$170 per skateboard*  
*Variable profit = Contribution margin = Selling price – Variable cost*  
*= 220 – 170*

<b>Variable profit</b>	<b>\$ 50</b>
------------------------	--------------

c.

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

d.

**Calculate**

*1800 ÷ 12*

<b>Desired monthly profit</b>	<b>\$ 150</b>
-------------------------------	---------------

**Calculate**

*80 + 120 + 2400 ÷ 12*  
*80 + 120 + 200*

<b>Fixed cost</b>	<b>\$ 200</b>
-------------------	---------------

Should read "\$400".

**Calculate**

Should read "400".

$$BEP_{units} = \frac{FC + DP}{SP_{pu} - VC_{pu}} = \frac{200 + 150}{220 - 170}$$

<b>Profit point</b>	<b>7 skateboards</b>
---------------------	----------------------

Should read "11 skateboards".

e.

**Calculate**

Should read "11".

$$\text{Sales Revenue} = PP_{\text{units}} \times \$SP = 7 \times \$220$$

Sales revenue \$ 1540

Should read "2420".

f.

**Calculate**

Cost of wheels and metal frame increases by 10% (10% of \$20 is \$2, thus increasing the cost from \$20 to \$22) and therefore VC are now \$172.

Should read "400".

$$BEP_{\text{units}} = \frac{FC + DP}{SP_{pu} - VC_{pu}} \quad 10 = \frac{200 + 200}{SP - 172}$$

$$SP - 172 = 400 \div 10 \quad SP - 172 = 40$$

Should read "600".

Selling price \$ 212

Should read "\$232".

g.

**Explanation** *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 firm's profit will decrease.*

g.

**Calculate**

$$BEP_{units} = \frac{FC + DP}{SP_{pu} - VC_{pu}} = \frac{4500 + 3000}{50}$$

7500 ÷ 50 = 150 benches. Therefore 150 – 90

<b>How many benches more</b>	60 benches
------------------------------	------------

h.

**Jerome’s Garden Furniture  
Profit and Loss Statement for February 2010**

<b>Revenue</b>	
Sales (\$90 × 100)	9000
Less Cost of Sales (\$40 × 100)	4000
Gross Profit (\$50 × 100)	5000
Less Other Expenses	
Fixed Costs	4500
Net Profit	500

i.

**Calculate**

$$PP_{units} = \frac{FC + DP}{CM_{pu}} \quad 60 = \frac{4500 + 3000}{SP - 40}$$

Should read "4500".

$$SP - 40 = \frac{7500}{60} \quad SP - 40 = 125$$

Should read "75".

Selling price \$ 165

Selling price should be "115".

d.

**Blue Pools**

**Balance Sheet as at 31 March 2010**

<b>Current Assets</b>	<b>\$</b>	<b>\$</b>	<b>Current Liabilities</b>	<b>\$</b>	<b>\$</b>
<i>Bank</i>		13 005	<i>GST Payable*</i>	965	
			<i>Loan – Wizard</i>	6 000	6 965
<b>Non-current Assets</b>					
<i>Tools and equipment</i>	31 000		<b>Non-current Liabilities</b>		
<i>Van</i>	15 000	46 000	<i>Loan – Wizard</i>		17 500
			<b>Owner’s Equity</b>		
			<i>Capital – Pollock</i>	32 140	
			+ <i>Capital Contribution</i>	1 000	
			+ <i>Net Profit</i>	4 400	
			– <i>Drawings</i>	3 000	34 540
<b>Total Assets</b>		<u>59 005</u>	<b>Total Equities</b>		<u>59 005</u>

**Calculation**

$$\begin{aligned}
 & \text{GST payable} * \text{GST received} - \text{GST paid} \\
 & = 1\,380 - 415
 \end{aligned}$$

(The previous GST payable of \$360 was paid in Cash payments as GST settlement.)

**GST Payable** \$ 695

GST Payable should be "\$965".

## Exercise 9.6 Clean as a Whistle

a.

Calculation of Net Profit/ (Loss)	
Capital at start	35 300
Add Net Profit	8 600 <span style="border: 1px solid black; padding: 2px;">Should read "5 900".</span>
Less drawings	1 200
Capital at end	42 700 <span style="border: 1px solid black; padding: 2px;">Should read "40 000".</span>
<b>Net Profit</b>	<b>( \$ 8 600 )</b> <span style="border: 1px solid black; padding: 2px;">Net Profit should be "\$5 900".</span>

b.

### Clean as a Whistle

#### Statement of Cash Receipts and Payments for September 2010

	<b>Cash Receipts</b>		
	<i>Cleaning fees</i>	9 500	
	<i>Consultancy fees</i>	3 500	
	<i>GST received</i>	1 300	
	<i>Receipt of loan</i>	4 000	18 300
<b>less</b>	<b>Cash Payments</b>		
	<i>Supplies</i>	6 500	
	<i>Drawings</i>	1 400	
	<i>Wages</i>	3 600	
	<i>GST paid</i>	1 040	
	<i>Electricity</i>	600	
	<i>Interest on loan</i>	150	
	<i>Cleaning equipment</i>	800	
	<i>Rent</i>	1 500	
	<i>Advertising</i>	1 000	16 590
	<i>Cash Surplus/(Deficit)</i>		1 710
<i>add</i>	<i>Bank at Start</i>		2 500
	<i>Bank at End</i>		4 210

e.

**Clean as a Whistle**  
**Balance Sheet as at 30 September 2010**

<b>Current Assets</b>	<b>\$</b>	<b>\$</b>	<b>Current Liabilities</b>	<b>\$</b>	<b>\$</b>
<i>Bank</i>		4 210	<i>GST Payable*</i>	260	
			<i>Loan – ANZ</i>	7 200	7 460
<b>Non-current Assets</b>					
<i>Office furniture</i>	10 800				
<i>Cleaning equipment</i>	59 800				38 800
<i>Van</i>	12 400	83 000			
			<b>Owner's Equity</b>		
			<i>Capital – Lindsberg</i>	42 700	
			<i>– Net Loss</i>	350	
			<i>– Drawings</i>	1 400	40 950
<b>Total Assets</b>		87 210	<b>Total Equities</b>		87 210

**Calculation**

*GST payable* \*  $GST\ Received - GST\ Paid$

=  $1\ 300 - 1\ 040$

**GST payable** \$ 260

GST payable should be "2 960".

## Exercise 10.2 Langwarrin Laundry Service

a.

<b>Calculation</b>	<i>Budgeted GST paid = 65 + 62 + 600</i>
<b>Budgeted GST Paid</b>	<b>\$ 727</b>

b.

### Langwarrin Laundry Service Cash Budget for July 2011

	<b>Cash Receipts</b>		
	<i>Laundry fees</i>	13 000	
	<i>Sale of washing machine</i>	120	
	<i>GST received</i>	1 300	14 420
<b>Less</b>	<b>Cash Payments</b>		
	<i>Laundry supplies</i>	650	
	<i>Wages</i>	1 250	
	<i>Advertising</i>	620	
	<i>Prepaid rent</i>	6 000	
	<i>Drawings</i>	1 000	
	<i>GST paid</i>	727	
		Should read "1 800".	
	<i>GST settlement</i>	1 000	
		Should read "12 197".	
	<i>Interest on loan</i>	150	11 397
			Should read "2 223".
	<i>Cash Surplus/(Deficit)</i>		3 023
<i>add</i>	<i>Bank at Start – 1 July 2011</i>		(1 300)
	<i>Bank at End – 31 July 2011</i>		1 723
			Should read "923".



**Exercise 2.6**

a.

<b>Qualitative characteristic</b> <i>Reliability</i>
<b>Explanation</b> <i>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 \$8200 is an estimate and cannot be verified and is therefore unreliable.</i>

b.

<b>Calculation</b>
$OE = A - L$ $= 87\,900 - 38\,300$
<b>Owner's equity</b> \$ 49 600

c.

**Paris for Hair**  
**Balance Sheet as at 31 May 2010**

	\$	\$		\$	\$
<b>Current Assets</b>			<b>Current Liabilities</b>		
<i>Stock of hair care products</i>	42 000		<i>Creditors</i>	3 400	
<i>Debtors</i>	8 600	50 600	<i>Loan – nab</i>	6 000	
			<i>Bank overdraft</i>	4 900	14 300
<b>Non-current Assets</b>					
<i>Shop fittings</i>	22 000		<b>Non-current Liabilities</b>		
<i>Office equipment</i>	17 300	37 300	<i>Loan – nab</i>		24 000
			<b>Owner's Equity</b>		
			<i>Capital – Paris</i>		49 600
<b>Total Assets</b>		87 900	<b>Total Equities</b>		87 900

d.

<b>Explanation</b> <i>Office equipment is a non-current asset because it is a resource controlled by the entity as a result of past events from which future economic benefits are expected to flow to the entity for a period greater than twelve months.</i>

## Exercise 5.4 Crosstown Tyres

a.

Type of tyre	Cost Price \$	Selling price if the following mark-up applied		
		40%	50%	100%
<b>A16 MaxiGrip</b>	120	$SP = CP (1 + \% \text{ mark-up})$ $SP = 120 (1 + .4)$ $SP = 120 (1.4)$ $SP = 120 \times 1.4$ $SP = \$168$	$SP = 120 (1 + .5)$ $SP = 120 (1.5)$ $SP = 120 \times 1.5$ $SP = \$180$	$SP = 120 (1+1)$ $SP = 120 (2)$ $SP = 120 \times 2$ $SP = \$240$
<b>Roadrunner 1600</b>	90	$SP = 90 (1 + .4)$ $SP = 90 (1.4)$ $SP = 90 \times 1.4$ $SP = \$126$	$SP = 90 (1 + .5)$ $SP = 90 (1.5)$ $SP = 90 \times 1.5$ $SP = \$135$	$SP = 90 (1+1)$ $SP = 90 (2)$ $SP = 90 \times 2$ $SP = \$180$
<b>Mudrunner 2400</b>	140	$SP = 140 (1 + .4)$ $SP = 140 (1.4)$ $SP = 140 \times 1.4$ $SP = \$196$	$SP = 140 (1 + .5)$ $SP = 140 (1.5)$ $SP = 140 \times 1.5$ $SP = \$210$	$SP = 140 (1+1)$ $SP = 140 (2)$ $SP = 140 \times 2$ $SP = \$280$

b.

<b>Reason 1</b>	<i>It may be dependent on the cost price of the stock, as if the cost price is high then applying a large mark-up may make that item too expensive.</i>
<b>Reason 2</b>	<i>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.</i>

**Exercise 5.8 Harry Harcourt (Skateboard producer)**

a.

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

b.

**Calculate**

$$\text{Variable cost} = 145 + 5 + 20 = \$170 \text{ per skateboard}$$

$$\begin{aligned} \text{Variable profit} &= \text{Contribution margin} = \text{Selling price} - \text{Variable cost} \\ &= 220 - 170 \end{aligned}$$

**Variable profit** \$ 50

c.

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

d.

**Calculate**

$$1800 \div 12$$

**Desired monthly profit** \$ 150

**Calculate**

$$80 + 120 + 2400 \div 12$$

$$80 + 120 + 200$$

**Fixed cost** \$ 400

**Calculate**

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

**Profit point** 11 skateboards

e.

<b>Calculate</b>	
<i>Sales Revenue = <math>PP_{units} \times \\$SP = 11 \times \\$220</math></i>	
<b>Sales revenue</b>	<b>\$ 2420</b>

f.

<b>Calculate</b>	
<i>Cost of wheels and metal frame increases by 10% (10% of \$20 is \$2, thus increasing the cost from \$20 to \$22) and therefore VC are now \$172.</i>	
$BEP_{units} = \frac{FC + DP}{SP_{pu} - VC_{pu}}$	$10 = \frac{400 + 200}{SP - 172}$
$SP - 172 = 600 \div 10$	$SP - 172 = 60$
<b>Selling price</b>	<b>\$ 232</b>

g.

<b>Explanation</b> <i>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 firm's profit will decrease.</i>

g.

**Calculate**

$$BEP_{units} = \frac{FC + DP}{SP_{pu} - VC_{pu}} = \frac{4500 + 3000}{50}$$

$$7500 \div 50 = 150 \text{ benches. Therefore } 150 - 90$$

<b>How many benches more</b>	<i>60 benches</i>
------------------------------	-------------------

h.

**Jerome's Garden Furniture  
Profit and Loss Statement for February 2010**

<b>Revenue</b>	
<i>Sales (\$90 × 100)</i>	<i>9000</i>
<i>Less Cost of Sales (\$40 × 100)</i>	<i>4000</i>
<i>Gross Profit (\$50 × 100)</i>	<i>5000</i>
<i>Less Other Expenses</i>	
<i>Fixed Costs</i>	<i>4500</i>
<i>Net Profit</i>	<i>500</i>

i.

**Calculate**

$$PP_{units} = \frac{FC + DP}{CM_{pu}} \quad 60 = \frac{4500 + 0}{SP - 40}$$

$$SP - 40 = \frac{4500}{60} \quad SP - 40 = 75$$

<b>Selling price</b>	<b>\$ 115</b>
----------------------	---------------

d.

**Blue Pools****Balance Sheet as at 31 March 2010**

<b>Current Assets</b>	<b>\$</b>	<b>\$</b>	<b>Current Liabilities</b>	<b>\$</b>	<b>\$</b>
<i>Bank</i>		13 005	<i>GST Payable*</i>	965	
			<i>Loan – Wizard</i>	6 000	6 965
<b>Non-current Assets</b>					
<i>Tools and equipment</i>	31 000		<b>Non-current Liabilities</b>		
<i>Van</i>	15 000	46 000	<i>Loan – Wizard</i>		17 500
			<b>Owner's Equity</b>		
			<i>Capital – Pollock</i>	32 140	
			+ <i>Capital Contribution</i>	1 000	
			+ <i>Net Profit</i>	4 400	
			– <i>Drawings</i>	3 000	34 540
<b>Total Assets</b>		<u>59 005</u>	<b>Total Equities</b>		<u>59 005</u>

**Calculation**

$$\text{GST payable} * \text{GST received} - \text{GST paid}$$

$$= 1\,380 - 415$$

(The previous GST payable of \$360 was paid in Cash payments as GST settlement.)

<b>GST Payable</b>	<b>\$ 965</b>
--------------------	---------------

## Exercise 9.6      Clean as a Whistle

a.

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

b.

### Clean as a Whistle

#### Statement of Cash Receipts and Payments for September 2010

	<b>Cash Receipts</b>		
	<i>Cleaning fees</i>	9 500	
	<i>Consultancy fees</i>	3 500	
	<i>GST received</i>	1 300	
	<i>Receipt of loan</i>	4 000	18 300
<b>less</b>	<b>Cash Payments</b>		
	<i>Supplies</i>	6 500	
	<i>Drawings</i>	1 400	
	<i>Wages</i>	3 600	
	<i>GST paid</i>	1 040	
	<i>Electricity</i>	600	
	<i>Interest on loan</i>	150	
	<i>Cleaning equipment</i>	800	
	<i>Rent</i>	1 500	
	<i>Advertising</i>	1 000	16 590
	<i>Cash Surplus/(Deficit)</i>		1 710
<i>add</i>	<i>Bank at Start</i>		2 500
	<i>Bank at End</i>		<u>4 210</u>

e.

**Clean as a Whistle****Balance Sheet as at 30 September 2010**

<b>Current Assets</b>	<b>\$</b>	<b>\$</b>	<b>Current Liabilities</b>	<b>\$</b>	<b>\$</b>
<i>Bank</i>		4 210	<i>GST Payable*</i>	2 960	
			<i>Loan – ANZ</i>	8 400	11 360
<b>Non-current Assets</b>					
<i>Office furniture</i>	10 800		<b>Non-current Liabilities</b>		
<i>Cleaning equipment</i>	59 800		<i>Loan – ANZ</i>		37 600
<i>Van</i>	12 400	83 000			
			<b>Owner's Equity</b>		
			<i>Capital – Lindsberg</i>	40 000	
			<i>– Net Loss</i>	350	
			<i>– Drawings</i>	1 400	38 250
<b>Total Assets</b>		<b>87 210</b>	<b>Total Equities</b>		<b>87 210</b>

**Calculation**

$$\begin{aligned} \text{GST payable} &= \text{Balance} + \text{GST Received} - \text{GST Paid} \\ &= 2\,700 + 1\,300 - 1\,040 \end{aligned}$$

<b>GST payable</b>	<b>\$ 2 960</b>
--------------------	-----------------

## Exercise 10.2 Langwarrin Laundry Service

a.

<b>Calculation</b>	
<i>Budgeted GST paid = 65 + 62 + 600</i>	
<b>Budgeted GST Paid</b>	<b>\$ 727</b>

b.

### Langwarrin Laundry Service Cash Budget for July 2011

	<b><i>Cash Receipts</i></b>		
	<i>Laundry fees</i>	<i>13 000</i>	
	<i>Sale of washing machine</i>	<i>120</i>	
	<i>GST received</i>	<i>1 300</i>	<i>14 420</i>
<b><i>Less</i></b>	<b><i>Cash Payments</i></b>		
	<i>Laundry supplies</i>	<i>650</i>	
	<i>Wages</i>	<i>1 250</i>	
	<i>Advertising</i>	<i>620</i>	
	<i>Prepaid rent</i>	<i>6 000</i>	
	<i>Drawings</i>	<i>1 000</i>	
	<i>GST paid</i>	<i>727</i>	
	<i>GST settlement</i>	<i>1 800</i>	
	<i>Interest on loan</i>	<i>150</i>	<i>12 197</i>
	<i>Cash Surplus/(Deficit)</i>		<i>2 223</i>
<i>add</i>	<i>Bank at Start – 1 July 2011</i>		<i>(1 300)</i>
	<i>Bank at End – 31 July 2011</i>		<b><i>923</i></b>

**Exercise 10.8 Murray's Music School**

a.

**Explanation** *Murray's Music School is required to make a GST settlement because in the last GST period it received more GST on sales than GST paid on purchases. This created a financial obligation of GST payable that the business must settle with the ATO.*

b.

**Murray's Music School  
Cash Budget for July 2011**

	<b>Cash Receipts</b>		
	<i>Tuition fees</i>	3 600	
	<i>Loan – Bank of Cook</i>	6 000	
	<i>GST received</i>	360	9 960
<b>less</b>	<b>Cash Payments</b>		
	<i>Deposit on guitars</i>	700	
	<i>Drawings</i>	600	
	<i>Wages</i>	2 700	
	<i>Advertising</i>	450	
	<i>Rent</i>	500	
	<i>GST settlement</i>	1 740	
	<i>*GST paid</i>	95	6 785
	<i>Cash Surplus/(Deficit)</i>		3 175
<b>add</b>	<i>Bank at Start – 1 April 2011</i>		(1 350)
	<i>Bank at End – 30 April 2011</i>		<u>1 825</u>

**\*GST Paid Calculation**

$$\text{Budgeted GST paid} = 45 + 50$$

**Budgeted GST Paid** \$ 95