

The shop fittings were purchased three years ago for \$22 000, but the owner has estimated their current value at \$8200.

Required

- a. Referring to one Qualitative characteristic, **explain** why the shop fittings must be valued at \$22 000.
- b. **Calculate** Owner's equity as at 31 May 2010.
- * c. **Prepare** a classified Balance Sheet for Paris for Hair as at 31 May 2010.
- d. Referring to your answer to part 'c', **explain** your treatment of Office equipment.

Exercise 2.7 Classified Balance Sheet

Noel Season is the owner of Noel's Plumbing and has provided the following list of assets and liabilities as at 1 February 2010:

Creditors	8 500	Cash at bank	3 000
Stock of fittings	12 000	Premises	90 000
Wages owing	400	Loan – nab (due Dec. 2010)	20 000
Tools	12 000	Company vans	30 000
Mortgage (due 2020)	80 000	Debtors	1 500
(repayable \$8 000 per year)		Owner's equity	?

Required

- * a. **Prepare** a Balance Sheet for Noel's Plumbing as at 1 February 2010.
- b. Referring to your answer to part 'a', **explain** your treatment of:
 - Stock of fittings
 - Loan – nab.
- c. **State** one reason why a Balance Sheet is titled 'as at'.
- d. **State** two external users who may be interested in the Balance Sheet of Rob's CD Store.

Should be "Noel's Plumbing"



Exercise 2.8 Classified Balance Sheet

Robert James owns and operates Rob's CD Library, and has provided the following list of the firm's assets and equities as at 31 December 2010:

Wages owing	1 200	Owing to suppliers	4 500
Mortgage	80 000	Cash at bank	1 000
(repayable \$500 per month)		Stock of CDs	24 000
Equipment	12 000	Premises	95 000
Debtors	1 500	Owner's equity	?

Required

- a. **Calculate** Rob's Owner's equity as at 31 December 2010.
- * b. **Prepare** a Balance Sheet for Rob's CD Library as at 31 December 2010.
- c. Referring to your answer to part 'a', **explain** your treatment of:
 - Debtors
 - Wages owing.
- d. **State** one reason why liabilities and owner's equity are classified as equities.

Figure 5.3 Applying a percentage mark-up

$$\text{Selling price} = \text{Cost price} \times \left(1 + \frac{\text{m/up}}{100} \right)$$

EXAMPLE

Funk Fashions purchased 200 hats for \$32 each, and wishes to sell them at a 50% mark-up.

The "1 +" should be contained within the brackets.

The selling price would be determined as follows:

$$\begin{aligned} \text{Selling price} &= \$32 \times \left(1 + \frac{50}{100} \right) \\ &= \$48 \end{aligned}$$

Study tip

To calculate the cost price when given the selling price, use the same formula but work backwards.

In businesses such as those that sell electronic or white goods, knowing the mark-up on particular products allows sales staff to discount selling prices to generate sales, while still maintaining a minimum profit margin.

Review questions 5.4

- 1 **Define** the term 'mark-up'.
- 2 **Explain** the circumstances in which it would be appropriate to use a percentage mark-up to set selling prices.
- 3 **Show** the formula for calculating selling prices using a percentage mark-up.

5.5 BREAK-EVEN ANALYSIS

Break-even analysis – an analysis tool that allows a business to determine a selling price or volume of sales that will let them achieve a specific profit goal

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

At various times during this chapter we have considered the implications on price setting of the 'law of demand'. This law of economics states that as selling prices rise, demand – or sales volume – will decrease, but as selling prices decrease, demand will increase. At the same time, as the volume of sales increases, so too will some costs (such as the total cost of purchasing the goods that are sold). This means there is a relationship between selling prices, cost prices, and the volume of sales (the quantity sold), and this relationship is reflected in a break-even analysis. A **break-even analysis** can be used to determine the quantity of products a business may need to sell, or the selling price it must charge, to break even. (The **break-even point** is where the business neither makes a profit or a loss – profit is zero.)

Fixed and variable costs

Because a break-even analysis assesses the relationship between costs and volume of sales, it is important to distinguish between costs that vary with the volume of sales, and those that do not.

Variable costs

Variable costs – costs that vary directly with the level of activity

Variable costs are costs that vary in total directly with the volume of sales. They are expressed as a *per unit* cost because every time a unit is produced and sold, the *total* cost incurred increases. For example, if it costs \$40 to make one cabinet, it will cost \$80 to make two, \$200 to make five, and so on. The cost of ingredients in a pizza, or the cost of the parts used in making a product would be considered to be variable costs because if no goods are sold, no costs are incurred.

- 28 Purchased cleaning supplies \$280 plus \$28 GST (Chq. 226)
- 29 Received \$407 including \$37 GST for home cleaning (Rec. 48)
- 30 Paid \$600 for advertising plus \$60 GST (Chq. 227)

At the start of August 2010, the business had \$6 000 cash in its bank account.

Required

- * a. **Record** the transactions for August 2010 in the cash journals of Vac and Sweep, and **total** the journals.
- b. **Prepare** a Statement of Receipts and Payments for Vac and Sweep for August 2010.
- c. Referring to one Qualitative characteristic, **explain** why Sundries are itemised in the Statement of Receipts and Payments.
- d. **Calculate** the GST balance for Vac and Sweep as at 31 August 2010.
- e. Referring to your answer to part 'd', **show** how the GST balance would be reported in the Balance Sheet for Vac and Sweep as at 31 August 2010.

Exercise 7.3 Cash journals

Minor Mechanics is an automotive repair shop owned and run by Patrick Minor. Patrick has provided the following list of transactions for July 2010:

July	1	Received \$440 including \$40 GST for repair work	Rec. 12
	4	Received \$550 including \$50 GST for repair work	Rec. 13
	5	Paid apprentice's wages of \$550	Ch. 302
	7	Withdrew \$600 cash for personal use	Ch. 303
	9	Received \$352 including \$32 GST for tune up	Rec. 14
	12	Purchased office furniture \$1500 plus \$150 GST	Ch. 304
	14	Patrick contributed \$800 to finance the new office furniture	Rec. 15
	15	Paid monthly instalment of \$700 on loan principal	Bank statement
		Paid \$300 interest on loan	Bank statement
	18	Paid apprentice wages of \$540	Ch. 305
	19	Received \$67 plus \$61 GST for repair work	Rec. 16
	21	Withdrew \$300 cash and \$70 parts for personal use	Ch. 306
	22	Received \$209 including \$19 GST for tune up	Rec. 17
	25	Received \$253 including \$23 GST for tune up	Rec. 18
	28	Patrick paid \$780 off his credit card using a business cheque	Ch. 307
	30	Received \$660 including \$60 GST for repair work	Rec. 19

The "plus" should actually say "including".

The previous Statement of Receipts and Payments showed a closing bank balance of \$300.

Required

- * a. **Record** the transactions for July 2010 in the cash journals of Minor Mechanics.
- b. **Explain** how Patrick would have determined the headings of the classification columns in the Cash Payments Journal.
- c. **Prepare** a Statement of Receipts and Payments for Minor Mechanics for July 2010.
- d. **State** two actions that Patrick could have taken to avoid incurring an overdraft in July 2010.
- e. **Calculate** the GST balance for Minor Mechanics as at 31 July 2010.
- f. Referring to your answer to part 'e', **explain** how the GST balance would be reported in the Balance Sheet as at 31 July 2010.

Exercise 8.4 Bank Reconciliation: overdraft, dishonoured cheque

On 1 November 2010, the records of Pulsating Pecs Gym showed a positive bank balance of \$2010. The firm's cash journals for November 2010 (prior to receiving the Bank Statement) were totalled as follows:

- Cash Receipts Journal \$27 400
- Cash Payments Journal 29 500

The Bank Statement for November 2010 showed that at 30 November 2010, the gym had a balance of \$4435 DR, and revealed the following:

- Cheque #8751 for \$2300, and cheque #8763 for \$615, had not been presented.
- A cheque from A. Weid for \$484 (including \$44 GST) had been debited on the Bank Statement, because it had been dishonoured.
- Interest of \$245 had been credited in the Bank Statement.
- \$6970 banked on 29 November 2010 did not appear on the Bank Statement.
- Cheque #8778 for \$78, had been wrongly entered in the Cash Payments Journal as \$87.
- Bank fees and charges amounting to \$50 were debited in the Bank Statement.

Required

- * a. **Calculate** the bank balance according to the cash records of Pulsating Pecs Gym as at 30 November 2010.
- * b. **Prepare** a Bank Reconciliation Statement for Pulsating Pecs Gym as at 30 November 2010.
- c. **Explain** how the dishonoured cheque should be recorded in the cash journals of Pulsating Pecs Gym.

Assets		Equities	
Bank	2 500	Loan – ANZ	42 000
Computer	3 200	Capital – Lindsberg	40 000
Office furniture	7 600	GST payable	2 700
Cleaning equipment	59 000		
Delivery van	12 400		
	<u>\$ 84 700</u>		<u>\$ 84 700</u>

Lindsberg's capital as at 1 August 2010 was \$35 300. In August 2010 he withdrew \$1200 in cash for his own use.

Required

- a. Calculate the Net profit or loss of Clean as a Whistle for August 2010.

The cash journals of Clean as a Whistle for September 2010 showed the following:

Cash Receipts Journal (extract)

Date	Details	Rec. No.	Bank	Cleaning fees	Consultancy fees	GST	Sundries
Sept. 2010	Loan – ANZ						4 000
	TOTALS		18 300	9 500	3 500	1 300	4 000

Cash Payments Journal (extract)

Date	Details	Ch. No.	Bank	Supplies	Drawings	Wages	GST	Sundries
Sept. 2010	Electricity							600
	Interest on loan							150
	Cleaning equipment							800
	Rent							1 500
	Advertising							1 000
	TOTALS		16 590	6 500	1 400	3 600	1 040	4 050

Additional information:

- The Loan – ANZ was extended in September 2010 in readiness for the purchase of a new computer in mid-October 2010 and is repaid in quarterly instalments of \$2 100.

Required

- * b. Prepare a Statement of Receipts and Payments for Clean as a Whistle for June 2010.
- * c. Prepare a Profit and Loss Statement for Clean as a Whistle for June 2010.
- * d. Explain two reasons why Clean as a Whistle was able to earn a profit despite suffering a cash deficit for June 2010.
- * e. Prepare an appropriately classified Balance Sheet for Clean as a Whistle as at 30 June 2010.

The highlighted "June"s should all read "September".

Exercise 9.7 Profit and Loss Statement and Balance Sheet

Alex Chilton runs a painting business in Sydenham called Big Star Decorating. Most of her work is done for cash for individuals who are renovating their homes, but she also does some credit jobs for small businesses. Paint is purchased only as necessary for each job, so Alex never keeps any paint on hand. On 1 January 2010, the assets and liabilities of Big Star Decorating were:

- Gardening fees for July and August are expected to be \$5000 (plus \$500), but fees are expected to grow by 12% in September due to the coming of spring.
- Mower fuel usually works out to be 20% of gardening fees (this does not include GST).
- Wages for the office assistant will be \$1700 per month.
- Advertising in the local paper is paid every three months with the next \$450 payment (plus \$45 GST) due in September.
- Monthly instalments of \$500 are made on a loan, with interest of \$320 due in July.
- The owner is planning to purchase two new mowers in August for \$1760 including \$160 GST.
- Drawings is usually \$850, but the owner is planning to withdraw an extra \$600 in September to make a deposit on a summer holiday.
- A GST settlement of \$630 is due in July.

Should be "20%".

Required

- * a. **Prepare** a Cash Budget for Magnificent Mowing for July, August and September 2011.
 b. **State** two actions the owner may take to address the situation predicted to occur in August.
 c. **Explain** one benefit of preparing budgets monthly rather than for the entire quarter.

Exercise 10.6 Cash variance report

Hair Apparent has provided the following partially complete Cash Variance Report for June 2011:

HAIR APPARENT

Cash Variance Report for June 2011

		\$	\$	\$	\$
		Budget	Actual	Variance	F/U
	Cash receipts				
	Hairdressing fees	8 970	9 500		
	Capital contribution	–	2 000		
	GST received	897	950		
	Total cash receipts	9 867	12 450		
less	Cash payments				
	Haircare products	3 500	4 900		
	Wages	1 700	2 300		
	Advertising	800	950		
	Interest	100	120		
	GST paid	430	825		
	Loan principal	700	500		
	New hairdryers	–	2 400		
	Drawings	1 420	1 200		
	Total cash payments	8 650	13 195		
	Cash Surplus (Deficit)	1 217	(745)		
add	Bank balance at start (1 October 2011)	360	360		
	Bank balance at end (31 October 2011)	1 577	(385)		