

Accounting and Finance

A resource for Year 11 General



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Marking Guide for Chapter Review Questions

These are suggested responses to selected questions only, and should form the basis for further classroom discussion and exploration of Chapter activities.

UNIT ONE: PERSONAL FINANCE

CHAPTER 1: SURVIVING AS A STUDENT

Review Questions 1.1

1. *List five of your 'wants'.*

For example: television, fashion clothing, soft drink, stereo, car.

2. *Outline your personal financial values.*

List items related to: Each individual has a unique perspective on what they value the most. Personal values develop differently because of a person's upbringing and lifestyle, and the influences of their family, their peers and their colleagues.

3. *How do you save money?*

For example: weekly amount from pay/pocket money, large gifts of money, etc.

4. *What are your current SHORT TERM financial goals?*

List goals related to: Results that someone would like to achieve in a relatively short time frame such as 18 months or less. For example: purchasing a school ball outfit or donating regularly to a charity.

5. *How do your short term financial goals affect the way you spend and save?*

For example: Saving goals can be short term or long term. Goals can also change over time, especially if they are short term financial goals.

6. *How do your short term financial goals affect others around you, such as family and friends?*

Discuss how personal goals affect others.

7. *List examples of saving goals for each stage of the financial life cycle.*

Child/ student

- Teenager (14-16 years): Computer, stereo.
- 17-20 years: Car, overseas trip
- 21-23 years: Further study, own budget

Debt/ unemployment/ employment

- Mid-late 20's: House deposit, budgeting with a partner.
- The 30's: Updating assets such as a car, supporting children or relatives, philanthropy.

Family or single

- The 40's: Reducing debt from mortgage, retirement savings, school fees.
- The 50's: Charity contributions, investment funds, superannuation options.

Retirement

- The 60's and beyond: Travel, retirement living, support younger relatives.

Review Questions 1.2

1. *What further study are you likely to complete in the near future. What work do you plan to have while completing this further education?*

Discuss student occupations.

2. *Name some situations where a student might require study assistance.*

- Fourteen years old or over and studying at primary school
- Doing secondary school studies
- Studying full-time or part-time at a TAFE, university or tertiary institution
- Studying distance education, via correspondence, Masters or Doctorate

3. *What is a security bond?*

Payment of an additional number of weeks rent as security for the premises being rented. Paid to ensure the owner will be able to cover any costs which the tenant may be liable for at the end of the lease such as property damage or rent not paid. It is money paid by the tenant and kept in a joint bank account or trust account.

4. *Why might a tenancy agreement include conditions restricting the sharing of the lease with others?*

To ensure that the person responsible for the rental agreement is known.

5. *What responsibilities do tenants have?*

- Paying all rent, on time, even if in a share house where some tenants move out without paying
- Giving the owner a new set of keys if locks are changed
- Not making alterations that cannot be removed
- Paying for damage
- Giving notice if vacating earlier in the lease
- Notifying the owner of any repairs required
- Taking care of the property, to a reasonable extent

6. *List two rights of a tenancy.*

- Owner will grant vacant possession to the tenant.
- Owner shall not cause any interference with the peace, comfort or privacy of the tenant in the use of the premises.
- The owner may enter the premises with the consent of the tenant given at the time

7. *Label the following parts of the sample rental agreement in this chapter: ADDRESS OF PREMISES, DATE OF LEASE EXPIRY, RENT PAYMENT, FREQUENCY OF PAYMENT, PRIVACY CLAUSE, DAMAGES CLAUSE, WATER CONSUMPTION CHARGE, TERMINATION CLAUSES.*

No answer provided.

8. *Compare the advantages and disadvantages of the following two options:*
- *Living by yourself*
 - *Sharing accommodation*

Discuss the potential costs savings and contrast with the issues that can arise from sharing.

CHAPTER 2: MONEY MATTERS

Review Questions 2.1

1. Name an example of each type of financial institution, from your local area.

- Credit union
- Bank
- Building society
- Investment fund
- Mortgage provider

2. Use the ASIC website to define each of the following terms:

- **Identity theft:** using someone else's personal details in order to steal money or gain other benefits by pretending to be that person.
- **Fraud:** deception intended to result in financial or personal gain.
- **Money laundering:** when crime proceeds are transferred into legitimate assets.
- **Scams:** a trick designed to cheat someone of their money.

3. Clearly define a debit card, withdrawal slip, EFTPOS transaction receipt, internet receipt and cheque.

- **Debit card:** card used to withdraw money from Automatic Teller Machines (ATM's).
- **Withdrawal slip:** receipt showing that money has been taken from an account.
- **EFTPOS transaction receipt:** record of an electronic funds transfer.
- **Internet receipt:** record of a transfer of funds over the internet.
- **Cheque:** a written note for the financial institution to pay money to the cheque bearer.

4. Why are cheques rarely used?

Other forms of funds transfer are more reliable, quicker, and less able to be used fraudulently.

5. Explain why it is important to reconcile a personal bank account. What should you do if an error is noticed?

The account holder should check that each transaction has been recorded correctly on the bank statement. This checks for any fraud, and can help the account holder to ensure their budget is followed. The financial institution should be notified immediately if an error is found.

Review Questions 2.2

1. Refer to the Personal Taxation Scenario for Allira in this chapter.

A. What is the 'tax free threshold'?

For Australian residents, the first \$18,200 of yearly income is not taxed. This is called the tax-free threshold. By claiming the threshold, the amount of tax withheld during the year is reduced.

B. What is Allira's total income for the year?

288 x 8	=	2304
36 x 44	=	1584
TOTAL	=	\$3888

C. How much tax has been taken out of her pay by the end of the year?

\$208.

D. What personal financial records will Allira keep in order to complete her tax return?

- Evidence of assessable income (salary and wages), such as payment summaries
- Evidence of interest earned from bank accounts and investments
- Allowable deductions and expenses related to income (union fees, membership of professional associations).
- Work uniform and motor vehicle expenses.
- Buying or selling assets such as shares or a rental property
- Details of tax deductible gifts and donations
- Medical expenses.

2. Refer to the PAYG Payment Summary example in this chapter. Trai's Payment Summary shows a low total salary. This is because she only works in the Surf Shop on Saturdays and in school holidays. Because her working hours are irregular, some pay packets have subtracted tax when she earns more than the tax free threshold in one week. Use the Simple Income Tax Calculator on the Australian Taxation Office website to work out how much of a refund Trai might expect to receive.

Trai is below the tax free threshold, so will receive all tax back (\$350.40)

3. Summarise how to calculate the personal tax payable, including:

A. Assessable income (eg. salaries and wages and interest)

Include all salary and wages in this section, including casual and part time jobs. In addition, add in any government payments, and interest earned. A more complex tax return will add items such as unused leave payments, money received when a person has retired, and income from investments.

B. Allowable deductions (eg. union fees, professional associations, donations, and uniform and motor vehicle expenses)

Deduct expenses related to work as an employee. Keep a record of motor vehicle, travel, uniform and self education expenses during the year. As long as there is evidence of work and education costs these can be claimed as expenses. Other deductions might include union fees, professional associations and donations. More complex returns will also have low value pool depreciation, interest, dividend, donation and annuity deductions. The cost of paying someone to manage tax affairs can also be claimed.

C. Health insurance tax offset

Offsets are not deductions, but amounts that reduce actual tax liability. It is not likely that a student would have any tax offsets in the first few years of filling out a tax return. Offsets include credits, rebates, pensioners and the use of private health insurance.

CHAPTER 3: TRAVEL PLANS

Review Questions 3.1

1. *Why do airlines offer frequent flyer points and deals?*

To encourage loyalty and repeat business from customers.

2. *What is the MOST important item of travel advice? Why?*

Select one of the following and discuss:

- Always check the latest travel advice for your destination.
- Make sure your passport has at least six months validity.
- Have travel insurance to cover any medical emergencies.
- Before leaving check to see if you require visas for the countries you are visiting.
- Keep copies of your passport details, insurance policy, and cash card/travellers cheque numbers safely in your luggage.
- Leave a copy of your travel itinerary with someone and keep in contact with friends or relatives while overseas.
- Check out recommended vaccinations and find out about overseas and Australian laws on medicines.
- Check whether holding dual nationality has any implications for your travel.

3. *What do the following terms mean: ticketed taxes, levies, fees, land content, port charges?*

- **Ticketed taxes:** Passenger taxes that the airline has taken responsibility for, that will be paid to local governments or airports.
- **Levies:** charges.
- **Fees:** costs such as tolls, mileage, baggage allowances etc.
- **Land content:** costs that are not related to the air travel component such as activities, excursions, accommodation and car.
- **Port charges:** costs associated with travel on cruise ships and liners, related to the use of port facilities.

4. *How can a traveller ensure they always have a “backup” source of cash?*

Have more than one source of funds, for example:

- pre-paid travel money cards
- credit cards
- saving cards
- foreign cash
- travellers cheques

5. *Outline why travel insurance is useful.*

Useful because of concerns the traveller may have with personal injury or with losing specific items. Travellers can also insure against the possible cancellation of travel.

6. *What personal benefits might a 'gap year' give?*

Discuss own preferences – related to self development, meeting new people, experiencing new situations, learning.

7. *What personal reasons might you have for wanting to travel and complete volunteer work?*

Discuss own preferences and reciprocity.

CHAPTER 3: CREDIT BASICS

Review Questions 4.1

1. *Define: profitability, security and disclosure.*

- **Profitability:** Finance providers usually need to earn a profit to return to their shareholders and members. They will therefore charge fees and interest, which the consumer must be wary of
- **Security:** The security of personal information is very important, both for privacy reasons and to ensure that the consumer's identity is not stolen or misused
- **Disclosure:** The consumer must always tell the finance provider all relevant information, and the provider must likewise always inform the consumer about all relevant information and credit terms.

2. *List three items that could be purchased using a credit card.*

For example: Clothes, sporting equipment, shoes, groceries, meals.

3. *Why should you be cautious about using credit cards?*

- Interest is charged at a very high rate.
- Various fees are charged.
- It is easy to overspend due to the convenience of being able to put purchases on 'plastic'. This can have serious consequences such as getting into debt and struggling financially.

4. *List two items that could be purchased with an overdraft facility.*

For example: Stereo, bicycle.

5. *Why are credit cards more popular than pay day loans?*

The interest rate is lower and the card can be paid off more gradually.

6. *What are the requirements that must be met when applying for credit?*

- Fixed home address
- Current employment
- Age - over 18
- Financial details of current income and expenditure
- Other liabilities - not too high
- Other assets - an advantage as collateral

7. *How might someone get into too much debt?*

By not budgeting and not planning ahead for unexpected expenses.

8. *List ways in which credit can be used wisely (eg. Using lay-by)*

Repaying monthly balances to avoid interest, being aware of interest free periods, avoiding extra fees, charges for different transactions.

9. *Why is your personal Credit Report important?*

It is used when a person applies for a loan, opens any account with a financial institution, obtains a store card from a department store or opens an account for a phone. It is used to determine if the customer is likely to be able to repay the money owed.

10. Outline how interest rates are calculated.

Interest is usually charged on the balance owing for the purchase. To calculate the interest rate for a daily interest charge, divide the annual rate by 365, then multiply it by the number of days.

Review Questions 4.2

1. What is the main purpose of the Privacy Act?

Access to credit files is restricted by the Privacy Act, and the information can only be accessed by the individual themselves, or by a credit provider who has been given permission by the individual to access it.

2. What can a credit provider do if a customer cannot pay the amount owing?

They must first give the customer notice of the payments being overdue, and give them time to pay. The customer can often negotiate an extension on repayment, or may be offered refinancing. If these avenues do not work, the item under finance may be repossessed, and the credit provider must sell this for the best price possible, or the guarantor can be required to pay. If the right amount is not obtained the provider can begin legal proceedings.

3. List the issues that can be addressed by the Privacy Commissioner.

- Inaccurate personal information
- Advice on interpreting financial information
- Concern that information has been given without permission
- Credit reporting issues

4. What is the purpose of a product disclosure statement?

To disclose all information about the terms of credit offerings and the terms and conditions of the financial product. For example: the amount of credit, the annual percentage rate, method of calculating the interest rate, frequency and total amount of repayments, fees, charges, how the customer will be notified of changes, how accounts will be issued, if a commission is paid and insurance details.

5. Summarise two current media advertisements that refer to Product Disclosure Statements. Explain the financial products that were being advertised.

Discuss two advertisements.

6. What are the main requirements of the National Credit Code?

This legislation covers credit transactions for personal requirements (or residential investment purposes), where a charge is made for providing credit in the course of business.

The person providing a financial service has to explain all the important information that might reasonably be expected to influence a decision to buy the product. They must be licensed with an Australian financial services licence.



7. *Explain the role of government organisations that function to assist consumers with personal finance.*
- **Department of Commerce:** exists to ensure high standards of safety and protection for workers and consumers, and promotes and fosters innovative industries, science and enterprise.
 - **Office of the Australian Information Commissioner:** functions are related to privacy, freedom of information and government information policy.
 - **Australian Securities and Investments Commission:** major function is to promote informed and confident participation in the financial system. ASIC also provides information on the financial advice industry and training for financial advisors.
8. *Outline how each of the following financial institutions meet the personal needs of individuals:*
- A. Banks (including Internet and phone banking):** provide banking, insurance, lending, saving, investment.
- B. Credit unions:** serve members and are not-for-profit. Lending, credit cards, financial planning, investment.
9. *Describe how a financial advisor can assist an individual with their financial needs.*
- Career planning
 - Financial concerns
 - Retirement planning
 - Investments
 - Debt resolution

CHAPTER 5: CONSUMER RIGHTS

Review Questions 5.1

1. *List three examples of fraudulent scams that have been in the media recently. What questions should consumers have asked about these scams before believing them?*

Discuss examples in relation to:

- Check license with ASIC database
- If you have to send money before learning details, it's a scam!
- Don't send information to an unknown website or post office box
- Get a product disclosure statement and read it
- Is it illegal?
- Check all claims that are made

2. *Why is it important to keep your credit card in sight when completing a transaction at a shop?*

So that the details cannot be fraudulently copied.

3. *Why is it important to not respond to unexpected phone calls or emails asking for personal information?*

To prevent identity theft.

4. *Which consumer concerns impact the most on young people? Explain.*

Discuss examples as relevant in relation to:

- Personal identification
- Account cards
- Passwords
- Fine print
- Scams

5. *What is the role of the ACCC in relation to consumer concerns?*

To assist with:

- Guarantees, warranties and refunds
- Mobile phone contracts and phone bills
- Misleading advertising and exaggerated claims
- Problems with debt collectors
- Misleading pricing
- Petrol price cycles
- Internet shopping and internet service providers
- How to avoid getting caught out by clever scammers
- Pyramid selling schemes
- Hidden credit card surcharges and bank fees
- Reward points and loyalty schemes

- Receiving unsolicited goods or services and how to be taken off a mailing list.
- Food labelling and proper labelling instructions for textile products
- Safety information about products, and banned goods
- Your rights in relation to professional and health services
- International consumer issues
- Rural and regional programs

6. *What types of warranties have you been given for purchases this year?*

Discuss own examples.

7. *Explain what it means for a product to be of acceptable quality.*

- Safe
- No faults
- Look acceptable
- Normal use

8. *Outline the purpose of the Critical Information Summary of a mobile phone contract.*

A free document that the business is required to give to the consumer about the phone or service. It assists in understanding the true cost of the phone and what is being provided. It is required to outline what is included and what is extra, minimum and maximum charges, the cost of ending a phone contract early.

9. *Define five key elements of a mobile phone contract.*

For example:

- **Hard cap:** The maximum amount that will have to be paid per month. (This is not the minimum monthly spend)
- **Connection fee:** A set charge for the connection of a phone call, that stays the same no matter the length of the call. Also called flagfall
- **SIM only plan:** Consumer has own phone and pays for service usage
- **Data allowance:** The amount of Internet data that can be uploaded or downloaded before 'excess data' is charged
- **Bundling:** offering a cheaper price for Internet access, mobile phone and land line rates if they are all held with the same provider.

10. *What are the key consumer issues when shopping online?*

Select from:

- Currency conversions and import duties
- Clear description
- Sellers being contactable
- Can the final price be confirmed
- Privacy Policy of the site
- Secure online payment system
- How long processing and delivery will take
- Any terms, conditions, exchange, refund or warranty policies
- Payment terms
- Is delivery included

Review Questions 5.2

1. *Explain the meaning of the term 'Ombudsman'*

The Banking and Financial Services Ombudsman investigates disagreements between individuals and financial institutions, and makes decisions to fix the problem. The financial services provider must follow these decisions. The Ombudsman has power to consider the disagreements of individuals or small business

2. *Summarise the steps to follow when making a complaint to a financial institution.*

- Approach the provider and explain
- If an unsatisfactory reply – put the concern in writing
- Contact the Banking and Financial Services Ombudsman

3. *Explain the meaning of 'defaulting on a debt'.*

When the person who owes money cannot manage to repay.

4. *Why are the elderly and families more often caught in the poverty trap?*

Lower incomes, more people to support.

5. *List consumer groups that operate in your local area.*

Discuss groups from these categories:

- State Aboriginal and Islander Community Health Services
- Environmental Health and Consumer Health services
- Consumer Education associations
- Consumer Law associations
- Credit Reform associations
- Ethics groups
- Pensioner and Senior Citizen associations
- Consumer Privacy and Consumer Rights groups
- Building Action Review groups
- Suburban and regional Legal and Advocacy Centres
- Suburban and regional Financial Counselling Services
- State Consumer Associations
- Community Information and Referral Services
- Consumer Affairs Councils
- Consumers' Telecommunications networks
- Credit Helplines
- Home Economics institutes
- Child Accident Prevention organisation
- Rental and Tenancy Advice services
- Councils for Women and Men's Interests
- Public Transport associations

6. *Outline how each of the following financial institutions meet the personal needs of individuals:*

- A. Retail stores: provision of goods and services to meet needs and wants.
- B. Telecommunications companies: communication, telephone, Internet, media.

CHAPTER 6: LONG TERM FINANCE AND SAVING

Review Questions 6.1

1. *What are the three main principles behind credit and borrowing?*

- **Profitability:** Finance providers usually need to earn a profit to return to their shareholders and members. They will therefore charge fees and interest, of which the consumer must be wary.
- **Security:** Security is provided to the financial institution and is the collateral given to ensure the debt is going to be paid. For example, the security for a mortgage is the actual house.
- **Disclosure:** The consumer must always tell the finance provider all relevant information, and the provider must likewise, always inform the consumer about all relevant information and credit terms.

2. *Compare the advantages and disadvantages of three different types of long term credit.*

TYPE	ADVANTAGES	DISADVANTAGES
Mortgage	Generally the interest rate is lower than the rate paid for short or medium term loans. Interest is repaid in installments and the repayment amounts are renegotiable to an extent.	In the first years of repayments, consumers may find they are only repaying interest and not any portion of the loan principal. Finance provider holds the title deeds to the property, and can foreclose if the borrower defaults. Fees and charges for some mortgage packages can be quite high.
Equity	It is often difficult for a young person to fund the initial deposit required under most mortgages. Having a guarantor assists borrowers who would otherwise take a long time to save a deposit.	Unfortunately, when someone is acting as guarantor there is a risk the borrower will default and they will have to pay. In a family situation, this could potentially have a negative effect on relationships. There is the same risk that the home might need to be repossessed in order to pay the debt.
Long term loan	Borrowing money enables individuals to afford to purchase a large item now, enjoy the benefits, and gradually pay the amount owing.	Borrowing money always carries an element of risk. It might be better to decide how important the purchase really is, and weigh up the possibility of purchasing a cheaper item instead. This would also avoid potentially high interest charges.

3. *Summarise the factors to consider when applying for long term credit.*

- Do you really need the item that the mortgage or loan is going to be used for?
- Can you afford regular repayments?
- How much will it really cost, when you include interest and fees?
- What is your credit history like?
- Are you confident in the financial provider's history?
- Are you eligible?
- Have you shopped around?

4. Outline the financial records required to record personal income tax.

- Assessable income on payment summaries
- Invoices for deductions and expenses
- Receipts for donations and contributions
- Health insurance statements
- Motor vehicle expense records
- Records of interest earned

5. What is a capital gain?

An increase in the value of an asset, allowing for inflation. Tax is paid on net capital gains, which are included in individuals' income tax returns and taxed at their marginal tax rate.

6. Explain how each of the following affects personal income tax:

- A. Capital gains tax:** The net capital gain is total capital gains for the income year less any capital losses for the year and any unapplied net capital losses from earlier years, less CGT discount entitlements. An individual can potentially make a net capital loss which would be carried forward to later income years and deducted from their income tax.
- B. Fringe benefits such as cars, mobile phones:** When the total value of fringe benefits for an individual exceeds \$2000 in the 1 April to 31 March fringe benefits tax year, the taxable value of those benefits is shown on the employee's payment summary for the income year from 1 July to 30 June. This is called the reportable fringe benefits amount. Benefits are 'grossed up', or multiplied by the top marginal tax rate, meaning the total reflects the gross salary that would have to be earned in order to purchase the benefit.
- C. Tax offset for health insurance:** The private health insurance rebate can be claimed by a tax payer who contributes to a registered health fund for private health insurance cover, and is not affected by the level of income. The rebate is based on how much the taxpayer has paid for their insurance cover, and their age.

Review Questions 6.2

1. Compare the advantages and disadvantages of two types of long term saving account.

TYPE OF ACCOUNT	ADVANTAGES	DISADVANTAGES
Education savings fund	Useful to have a clear purpose for the funds	Generally it is not possible to access the funds until a specific date well in the future (this could also be an advantage!)
Cash management account	Higher rates of interest for higher levels of cash invested	Often have a minimum monthly balance requirement, so interest may be forfeited if the balance falls below this limit
Christmas club account	Provide a clear incentive to save	There may be annual fees and limits on withdrawals
30-90 day investment account	A higher interest rate is earned	A minimum balance is usually required. Money cannot be accessed in an emergency

2. *Explain the difference between simple interest and compound interest.*

- Simple interest is paid on the principal (or the initial deposit on money) that is placed into the account.
- Compound interest is paid on the principal, plus the interest as it is earned.

3. *Show the formulas for calculating interest.*

- **Simple interest:** $\text{Principal} \times \text{Interest rate} \times \text{Number of years}$
- **Compound interest:** $(\text{Principal} + \text{Interest earned}) \times \text{Interest Rate} \times \text{Number of years}$

4. *Why is it a good idea to start saving early?*

Over a long period of time, making regular deposits plus compound interest can make quite a difference to a savings account. It can make an even greater difference if saving is done regularly, with no penalties for adding extra amounts and no withdrawals of money.

5. *Outline the purpose of five different types of insurance.*

- Car insurance aims to protect the owner of a motor vehicle.
- Compulsory third party insurance is included in the registration paid with any motor vehicle, and it insures the driver against any injury to others in a car accident.
- Third party property insurance covers the individual against claims and damage to other property and vehicles.
- Third party fire and theft covers for limited amounts of damage to personal property for fire or theft damages.
- Home content insurance covers the contents of a home against fire and theft.
- Health insurance generally includes both hospital coverage in case the insured person ever needs to be admitted to hospital, as well as general cover for specialists and other health needs.

6. *What is third party insurance?*

An insurance policy that is purchased to provide protection against the actions of someone other than the insured person.

7. *Describe the type of coverage provided by car insurance.*

To protect from damage to the car, liability for damage caused by driving the car, damage or injury caused by someone other than the owner driving the car, and theft of the car.

CHAPTER 7: INVESTMENT AND OPPORTUNITY

Review Questions 7.1

1. *Define each of the following types of investment, using examples:*

- A. Shares:** investment in a business where the shareholder pays money and owns part of the business in return.
- B. Property:** owning land or buildings, and earning a profit from the rent or use of the property.
- C. Cash deposits:** money deposited into various forms of interest earning accounts with different financial providers.
- D. Long term investment:** investment in assets for a long period of time, more than 5 years.

2. *What is the risk/return trade-off?*

The higher the risk of an investment, the higher the potential return.

3. *Explain the term 'capital growth'.*

When an asset increases in value over a period of time.

4. *Outline the differences between the main types of long term cash deposits.*

Discuss for example:

- **Bonds:** considered to be a very secure and low risk investment, therefore safer than property or shares. The interest is fixed, and received on a regular basis with known returns.
- **High interest earning accounts:** higher rate of interest. These are frequently called 'term deposits.' Generally the cash cannot be accessed until the end of the deposit time. Secure and low risk and safer than shares or property. The interest rate is fixed and the returns are known.
- **Managed fund accounts and term deposits:** a method of investing in stocks, bonds and other securities. Risk is diversified, because the investment is spread over more than one type of share or bond, and the costs are lower because the fund will purchase bulk quantities of securities. Past performance is not an indicator of future performance.

5. *Why does a government issue bonds?*

To raise money to fund projects.

6. *What are some other names for 'managed funds'?*

For example: Managed investment, Fund investment.

7. *What are some of the costs of maintaining a rental property?*

- Rates
- Maintenance
- Agents fees

8. *Explain the concept of gearing.*

Positive gearing occurs when a consumer borrows money, invests in an income producing asset such as property which earns rental income, and then earns income in excess of the cost of borrowing. The main cost of borrowing is the interest payment on the mortgage, and it also includes the other costs of maintaining the property.

Negative gearing happens when the interest repayment – the cost of borrowing – is greater than the rental income from the property. When the investor makes a loss, they can use this to offset against their taxable income in their tax return.

Review Questions 7.2

1. *What type of investor would purchase speculative shares?*

High risk.

2. *What type of investor would purchase blue chip shares?*

Steady return, low volatility.

3. *What type of investor would purchase green chip shares?*

Ethical investor, stable returns.

4. *Which class of income-generating asset is the riskiest? Why?*

Shares: higher volatility or unpredictability of changes in prices, fluctuation due to interest rate changes.

5. *What does 'diversifying' mean?*

If an investor decides to place all their funds in the one high-risk portfolio of speculative shares, they may make a great return; however, they run a very high risk of losing all their money. Alternatively, if they place some money in high-risk shares, some in lower risk blue chip shares, some in a fund, some in property and so on, the risk is spread and if one investment does not go well, it is likely that some of the others will. This is a simple way to ensure the investor has a balanced or diverse portfolio.

6. *List the main characteristics of an ethical investment strategy.*

- Are the risks and characteristics similar to the investor's risk/return profile?
- Does the philosophy match the investors' financial goals?
- What are the set up costs?
- What are the annual or ongoing charges?
- What customer service is provided?
- Who is recommending the investment and why?

CHAPTER 8: LOOKING INTO THE FUTURE

Review Questions 8.1

1. What is the purpose of a Product Disclosure Statement?

A Product Disclosure Statement is prepared by the superannuation fund and it outlines the main features of the fund. It must be given to the investor before they invest and provides them with details of products, how benefits are provided, fees, the risks of investing, commissions charged, complaints handling and other material information that is important when deciding to invest.

2. Outline four different ways of accumulating superannuation benefits.

- Accumulation fund
- Defined benefit
- Eligible rollover
- Approved deposit fund

3. What should an individual consider when planning their personal superannuation needs?

- Are there age limits for salary sacrificing superannuation?
- What is the asset test limit?
- Will there be a superannuation contribution surcharge if extra super is added?
- Is annual leave going to be used up or paid out?
- Can a spouses' superannuation be contributed to?
- Can benefits be released early if needed?
- Can the government co-contribution benefit be claimed?

4. How can different superannuation funds be compared?

- Service
- Insurance
- Waiting Periods
- Choice of Investment Options
- Fees and Charges

5. How can you find lost superannuation?

The Australian Tax Office provides a service to find unclaimed superannuation funds, called 'SuperSeeker', where a search can be done of the Lost Members Register.

Review Questions 8.2

1. Describe the concept of personal net worth.

The amount left over after subtracting total personal liabilities from total personal assets.

2. Why is it useful to calculate personal net worth?

- Assists with assessing an individual's financial position at a point in time
- To predict likely future financial status
- To assist with important financial decisions throughout the different financial life stages.

3. Complete the following table summarising changes in Australian wealth:

BABY BOOMERS	GENERATION X	GENERATION Y	GENERATION Z
Access to government funded pensions	Compulsory superannuation	Unlikely to access government pension	Choice of superannuation funds
Job security more permanent	Casual and contract employment becoming more common	Less job security, more movement between jobs	Likely to have a number of careers
Likely to own a house	Often not able to afford a house	Often receive assistance from family to purchase property	Not likely to own property in the short term
Able to complete free university education	Higher education contribution scheme	Higher education loan program	Pay for a variety of tertiary education

UNIT TWO: ACCOUNTING FOR SMALL CASH ENTITIES

CHAPTER 9: GETTING STARTED IN BUSINESS

Review Questions 9.1

1. *List five successful small businesses from your local area.*

Discuss the concept of success in relation to local examples.

2. *Explain what an entrepreneur is.*

A person who starts up a new business or takes over an established business for the purpose of making a profit.

3. *Summarise why individuals might start their own business.*

- Cannot find employment
- Be own boss
- Make money
- Share innovative product or idea
- See market niche
- Improved product
- Family opportunity

4. *If you could start any two businesses of your choice, finance and skills aside, what would they be?*

Discussion question.

5. *What is the most important reason for you to start a small business and why?*

Discuss in relation to reasons from Question 3.

Review Questions 9.2

1. *Define the term 'not-for-profit organisation'.*

An organisation which is not set up to make a profit. Any money that is made is put back into the organisation.

2. *If you were given the opportunity to set up any not-for-profit organisation, what would it be?*

Discuss in relation to the purpose of not-for-profits. For example: in support of an ethical position or to represent an environmental or social issue.

3. *Research TWO environmental and social not-for-profit organisations. What is their mission statement?*

Discuss mission statement examples.

4. *What is corporate social responsibility?*

This refers to attempts made by a business to consider the social or environmental impact of business. It is about balancing the financial motives of business, which is to make a profit, with the social and environmental concerns of the community.

5. *Bearing in mind the power the consumer has to either support or boycott a business, how can a small business operator with limited funds operate in an ethical manner?*

- Not deliberately do anything illegal.
- Do business with other ethical businesses.
- Treat customers and suppliers respectfully, not exploit customers, suppliers or employees.
- High level of customer service and truthfulness.
- Not let business practices adversely affect society or the environment.

6. *Explain the purpose of a Code of Ethics.*

To ensure that both employees and consumers are aware of the values prioritised by the owners of the business.

Review Questions 9.3

1. *How do trade unions impact on small businesses?*

These are organisations set up by employees to help them at work. They aim to encourage employees to work together by assisting them to gain better pay, improved living standards, safe working environments and employment security.

2. *Explain the purpose of a professional association.*

To be a professional body which sets standards of practice which members must uphold. As professional knowledge is highly specialised, the professional association is better placed to set standards and to judge best practice than are the government, employers and clients.

3. *Why do industry groups exist?*

To represent the interests of the industry they are in.

4. *Select one of following industry groups and research its role:*

A. The Australian Industry Group: industry association in Australia which represents the interests of more than 60,000 businesses in sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. Focus on building competitive and sustainable industries through global integration, skills development, productive and flexible workplace relations, infrastructure development and innovation.

- B. The Australian Retailers Association:** industry body representing Australia's retail sector. Mission is to ensure retail success by informing, protecting, advocating, educating and saving money for retail members.
- C. Australian Mines and Metals Association:** represents employer organisations in the metalliferous mining minerals, processing, hydrocarbons and related industries.
- D. National Farmers Federation:** national body representing farmers and agriculture across Australia. Focused on issues affecting farmers and dedicated to the advancement of agriculture. Strives to meet current and emerging challenges, and advance Australia's agricultural production base.

5. Outline the role of a financial planner and an accountant for a small business entity.

Financial planners assist customers to save money, look at financial products help maximise value from investments, provide professional advice.

Accountants help business owners make good financial decisions, advise on tax issues, help manage the business and finances, assist with financial records and budgeting.

CHAPTER 10: SETTING UP A SMALL BUSINESS

Review Questions 10.1

1. *What is a sole trader?*

A business that is owned by one person.

2. *Summarise the advantages and disadvantages of the sole trader type of business.*

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none">• Flexibility• Own decisions• Profit• Inexpensive• Easy to wind up	<ul style="list-style-type: none">• Limited financial resources• Illness or absence• Unlimited liability

3. *What is the most important advantage of being a sole trader and why?*

Discussion question – dependent on justification.

4. *Which disadvantage of the sole trader business would have the greatest impact on traders in your local area and why?*

Discussion question – dependent on justification.

5. *Define the following types of business and give examples of each one:*

- A. Service:** set up to offer a service. For example: tutoring, lawn mowing or babysitting.
- B. Retail:** buys goods already manufactured then sells the goods for a higher price to make a profit. For example: clothing and shoe retailers.
- C. Manufacturing:** produces a product and then sells it to a retailer. For example: card maker, baker, surf board maker.

Review Questions 10.2

1. *Following are five possible business names Jared could have used. Give a reason as to why or why not the name needed to be registered.*

- A. Jared Macdonald: not required to be registered as it is his full name.
- B. J. Macdonald: required to be registered as it is not his full name.
- C. Jared Macdonald and Co: would need to be registered under company law.
- D. Jared Macdonald Online: not required to be registered as it uses his full name.
- E. Shred Online: required to be registered.

2. *What are the criteria for an acceptable business name?*

Original, not deceptive, not offensive.

3. *What is a domain name and how is one registered?*

It is the business' website address on the internet and is registered through .au Domain Administration Ltd.

4. *Summarise the process for registering a trademark.*

- **Step One:** File a trademark application
- **Step Two:** Check it does not conflict with another businesses trademark.
- **Step Three:** Application published for three months, in which time people may oppose the registration.
- **Step Four:** If there is no opposition then registration is granted.

5. *Outline the advantages of trademarking a business name.*

- Ensures no overlap with other business names
- Inexpensive
- Useful marketing instrument

6. *Describe the importance of a patent.*

This is an intellectual property right granted for any device, substance, method or process that is new, inventive and useful. The owner of a patent has exclusive rights to manufacture or use the new method or process that they have developed.

Review Questions 10.3

1. Define the terms 'tax file number' and 'Australian Business Number'.

- **TFN:** a number issued by the Australian Taxation Office to identify an individual or organisation for tax purposes. Each taxpaying entity has a unique TFN of 8 or 9 digits.
- **ABN:** a unique number that the business must use so that the Australian Taxation Office can identify them in all their dealings.

2. How is a sole trader business taxed?

Pay income tax on any profit the business earns.

3. What effect does the GST have on small business in Australia?

A business must register for GST if it has a GST turnover of \$75 000 or more (\$150 000 or more for non-profit organisations).

4. Explain the impact of each of the following on a small business owner:

- A. Payroll tax:** paid by businesses with a payroll greater than \$750 000 per annum.
- B. Land tax:** annual tax based on the ownership and usage of land owned by the business for the financial year.
- C. Stamp duty:** tax on the transfer of ownership of a piece of property.
- D. Superannuation:** have to make a minimum 9.25% superannuation contribution for every part-time, full-time and casual employee.

5. Why is workers compensation insurance compulsory?

Covers the employer responsibility to look after employees on the job. If an employee has a work related injury or disease they can make a financial claim.

6. List three types of business insurance and explain their importance.

- Assets and income
- Legal liabilities
- Employees

CHAPTER 11: FINDING FINANCE

Review Questions 11.1

1. *Contrast debt financing and equity financing.*

- **Debt financing:** This is when money is borrowed. The money has to be paid back, even if no profit is made.
- **Equity financing:** This occurs when part ownership of the business is sold to an investor in exchange for funding. If the owner invests equity, this is called capital.

2. *Define 'capital' and give examples.*

The owner's contribution to the business. It includes all the assets that the owner invests. For example: cash, furniture, vehicles, office equipment.

3. *Define eight different sources of finance for small business.*

- Financial institution loans.
- Lease
- Hire purchase
- Line of credit
- Venture capital
- Personal savings
- Grant
- Family and friends

4. *Explain the role of banks and financial institutions.*

Provide financial services and advice.

5. *List seven types of finance provided by a bank. Classify each as short, medium or long term.*

- Trading line of credit – short term
- Business overdraft – short term
- Credit card – short term
- Loans – medium or long term
- Business loans – medium or long term
- Bank guarantees – long term
- Mortgages – long term

6. *Outline the differences between short term and long term finance using examples.*

Short term finance is paid back within a year. For example: Creditors, overdraft.

Long term finance is taken out for a period over time usually more than ten years. For example: Mortgage, factory equipment loan.

7. *Contrast the options of hire purchase and leasing of assets.*

Leasing is a contract between the leasing company and the customer. The leasing company owns the assets while the customer pays for using (leasing) them. Can be costly in the long term. However, there are good tax incentives.

Hire purchase occurs when a business signs an agreement to purchase an asset. The asset can be used by the business straight away. At the end of the contract, the business will keep the asset.

8. *What is a line of credit and how is it used by a small business?*

Trade credit exists when a business purchases items for their business on credit. For example, purchasing raw materials from a supplier and agreeing to pay the account within two weeks. Generally, suppliers will allow a business to purchase on credit with payment terms varying between 30 and 90 days.

9. *Why are personal saving and family loans advantageous methods to fund a small business? What is their main disadvantage?*

Less of a requirement, or no requirement, to pay interest. Disadvantage is that personal funds and personal relationships might be adversely affected if there is a problem.

Review Questions 11.2

1. *Why are risk and return important when borrowing funds?*

When lending funds, a financial institution will analyse the risk and return involved before approving finance. They will attempt to balance the risk of lending the funds with the potential return that can be earned from the lending.

2. *Explain how a financial institution would decide if they were willing to lend a business money.*

- **Character/calibre:** ability to pay back the loan.
- **Capacity:** ability to pay back a regular amount.
- **Collateral/security:** assets to offer or guarantor for the loan.

3. *Define 'guarantor'.*

If the borrower cannot pay the loan, the person or business who has acted as the guarantor will have to make the payments.

4. *How can a business minimise start up costs?*

- Operate business from home.
- Start small and invest all earnings back into the business.
- Pay any sales staff on commission.

5. *Define insurance.*

A contract where one party agrees to pay for another party's financial loss resulting from a specified event.

6. *Compare the intent behind four different types of insurance policy.*

- **Income protection:** in the event of a business owner falling sick or having an accident and not being able to run the business.
- **Public liability:** if something happens to a member of the public due to the fault of your business on business premises.
- **Loss of profit or loss of income:** business has to stop operating due to an unforeseen circumstance, such as a fire or theft.
- **Fire and theft:** in the event of a burglary or fire.

7. *What is a business owner's duty of disclosure with regard to insurance?*

To advise the insurer of all matters that could affect the decision to give insurance until the insurer has informed the applicant as to whether they accept or decline application.

CHAPTER 12: FINANCIAL REPORT ESSENTIALS

Review Questions 12.1

1. *What is a Balance Sheet?*

A list of all the assets, liabilities and equity of a business at a particular point in time. It shows the financial position of the business.

2. *Make a list of assets a 15-year-old running a craft stand may have.*

For example: Cash, craft materials, table, tablecloth, storage containers.

3. *Make a list of assets a clothing retail business might have.*

For example: Clothes (inventory), coat hangers, debtors, display stands, cash register, computer, shop furniture, building (physical shop front).

4. *List 10 assets a hardware store might have. Categorise these into current assets and non-current assets.*

For example:

- Cash in the cash register CA
- Cash at bank CA
- Managed fund NCA
- Inventory CA
- Shop fittings NCA
- Accounts receivable CA
- Delivery vehicle NCA
- Premises NCA
- Computer CA
- Phone CA

5. *Write down two current liabilities and two non-current liabilities you may incur in your life.*

- **Current liabilities:** owing money to a friend for a movie ticket, layby purchase from a department store, credit card
- **Non-current liabilities:** a car loan, mortgage on house.

6. *Make a list of six liabilities a lawn mowing business may have.*

For example:

- Overdraft
- Accounts payable
- Loan for purchase of vehicle
- Loan for purchase of mowers
- Creditor for fertiliser purchased
- Credit card debt

7. *Define equity.*

The amount of money a business owes its owner. Comprises money or other assets that the owner has put into the business and any accumulated profits that the business has made, minus liabilities and anything that the owner has withdrawn from the business.

8. *Classify the following as assets, liabilities or equity:*

- | | |
|--------------------------------------|----|
| • Cash in the till | A |
| • Cash in the bank account | A |
| • Business premises | A |
| • Mortgage | L |
| • Car loan | L |
| • Computer | A |
| • Furniture | A |
| • Motor vehicle | A |
| • Accounts receivable | A |
| • Accounts payable | L |
| • Owner's interest in the business | EQ |
| • Creditors | L |
| • Debtors | A |
| • Drawings | EQ |
| • Amount the business owes the owner | EQ |

9. *Define 'drawings' and 'profit'.*

- **Drawings:** Cash or other assets that the owner has taken from the business for their own use.
- **Profit:** the excess of income over expenses for a period of time.

10. *What is the accounting equation?*

The relationship between the total assets (A) and total liabilities (L) and equity (Eq) of a business at a specific point in time.

Can be written as $A = L + Eq$

11. *How does the accounting equation relate to the Balance Sheet?*

The Balance Sheet is a representation of the accounting equation ($A - L = Eq$) in a detailed form, including each of the asset, liability and equity accounts of the business.

Review Questions 12.2

1. Define the terms income and expense.

- **Income:** money coming into the business.
- **Expenses:** the costs of running the business.

2. List examples of income which you currently receive or may receive in the future.

For example: salary, wages, interest, dividends, business profits.

3. List some of the expenses you would have to pay if you lived away from home.

For example: rent, petrol, bus fares, groceries, laundry.

4. In the table below calculate whether a profit or loss has been made:

Income	minus	Expenses	equals	PROFIT OR LOSS?
30 000	-	20 000	=	\$10 000 profit
50 000	-	40 000	=	\$10 000 profit
10 000	-	20 000	=	\$10 000 loss
17 000	-	19 000	=	\$2 000 loss
9 000	-	9 000	=	No profit or loss
12 000	-	10 000	=	\$2 000 profit
100 000	-	120 000	=	\$20 000 loss
90 000	-	60 000	=	\$30 000 profit
48 000	-	43 000	=	\$5 000 loss
13 000	-	10 000	=	\$3 000 profit
1 000	-	500	=	\$500 profit

5. What information does the Income Statement reveal?

It details the income and expenses incurred in an accounting period, and is used to calculate the profit or loss a business has made in the accounting period.

6. Define 'cost of sales.'

This is an expense for a trading/retail/merchandising business where the main form of income is usually from the sales of a product or inventory. The cost of sales includes all the expenses incurred to obtain the product and then prepare it for sale. It may include items such as:

- Inventory/Stock at cost price
- Cartage or freight inwards (delivery costs which the business has to pay)
- Packaging costs
- Any customs duty
- Any other buying expenses

7. *What is the main difference between an Income Statement for a service business and for a trading business?*

A trading business will calculate gross profit.

8. *How are the Balance Sheet and Income Statement linked?*

Any profit that a business earns belongs to the owner of the business. If the Income Statement calculates a profit figure this amount is transferred to the Equity section of the Balance Sheet. It results in an increase in equity. If a loss is made this amount is transferred to the equity section of the Balance Sheet resulting in a decrease in equity.

Review Questions 12.3

1. *Which of the following transactions would not be entered into the financial statements of a small business:*

- A. Purchased computer for daughter = No
- B. Family car = No
- C. Business delivery van = Yes
- D. Personal credit card = No
- E. Home mortgage = No
- F. Business loan = Yes

2. *What is the effect of the monetary assumption on business transactions?*

Only items that can be expressed in dollar terms (money) are included in the accounting records.

3. *Can a business produce financial reports every six months? Explain.*

Yes, following the accounting period assumption a business can select the length of their reporting period, as long as this remains consistent over time.

4. *Can a business produce financial reports every two years?*

No, report must be produced at least once a year to meet the accounting period assumption.

5. *Why might a business decide to produce financial reports on the 1 September every year, instead of the 30 June?*

This may be the end of their financial year or tax year.

6. *What does 'going concern' assume?*

That the business will continue to operate indefinitely.

7. *How could assets be recorded in the Balance Sheet if the going concern assumption was not being followed?*

At their liquidation value or market price.

CHAPTER 13: HOW IS THE BUSINESS GOING?

Review Questions 13.1

1. *Why is cash flow important to a small business?*

A business might appear very profitable, but not have enough cash to pay short term debt when it falls due. If a business does not have enough cash they cannot pay their liabilities and expenses. If the business cannot pay the owner will have to close the business.

2. *Outline the difference between the analysis and the interpretation of ratios.*

- **Analysing** involves taking the information in the financial statements and breaking it down into simpler parts so that it is easier to understand.
- **Interpreting** involves explaining the analysis which has been carried out.

3. *Compare and contrast the vertical and horizontal methods of analysing ratios.*

- **Vertical** analysis occurs when the figures in both the Income Statement and the Balance Sheet are compared with a base figure and changed into percentages, to make the information more meaningful for comparison.
- **Horizontal** analysis is also known as comparative analysis. This is used when financial statements are placed side by side and reviewed on a multi year basis. This method is useful because the performance of the business can be analysed over several years.

4. *Define 'profitability'. Why is this important to a small business?*

This refers to the earning capacity of the business during the accounting period. If a business is profitable then it is efficiently generating a reasonable return from the owner's investment in the business. It is important because one of the main goals of a business is to earn a profit, or return, for the owner of the small business.

5. *Calculate the gross profit ratio for Carmel's Car Parts from the following information Show your answer as both a ratio and a percentage.*

	<u>2024</u>	<u>2025</u>
Sales	\$ 200 000	\$ 185 000
Cost of Sales	105 000	110 000
Gross Profit	\$ 95 000	\$ 75 000
Gross Profit Ratio =	$\frac{95\,000}{200\,000}$	= $\frac{75\,000}{185\,000}$
	= 47.5%	= 40.5%
	or 0.47: 1.0	or 0.40: 1.0

6. Calculate the return on sales for Abigail's Dress Shop for both years. Show your answer as both a ratio and a percentage.

	<u>2020</u>	<u>2021</u>
Sales	\$ 100 000	\$ 98 000
Profit	53 000	50 000

A. What is the return on sales for 2020?

53% or 0.53: 1.0

B. What is the return on sales for 2021?

51% or 0.51: 1.0

C. Suggest a reason for this result.

The ratio has decreased slightly, due to the lower sales resulting in a disproportionately lower profit. The margin (between the cost and selling price) might have decreased between the two years - the business might be selling more low profit product. In addition, the cost of sales might have increased between the two years.

7. Explain the purpose of calculating the expense ratio.

This measures the percentage of each dollar of sales that is consumed by expenses. It can be calculated for different expense groupings, to determine their relative effect.

8. What information is provided to the small business owner when they calculate:

A. Return on assets ratio: How well the business is using assets in order to make a profit.

B. Return on owner's investment ratio: The profit (or return) being made from the owner's investment in the business.

Review Questions 13.2

1. Define 'liquidity' and explain its importance to the viability of a small business.

The ability of the business to meet its debts as they fall due in the short term, generally within the next one to twelve month period. The liquidity of a business is vital, because without cash to meet current obligations a business cannot continue to operate.

2. Summarise how to calculate the two liquidity ratios.

Working capital ratio =
$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

Quick asset ratio =
$$\frac{\text{Current assets} - \text{stock} - \text{prepaid expenses}}{\text{Current liabilities} - \text{bank overdraft}}$$

3. Explain what an increase or a decrease in the working capital ratio might indicate to the business owner.

Increase:

- Current assets increasing in proportion to short term liabilities
- Inventory might be being sold more slowly
- Debtors may be taking longer to pay
- There may be idle cash that could be invested

Decrease:

- Current assets are decreasing in proportion to short term liabilities
- Inventory might be being sold more quickly
- Debtors may paying more promptly

4. From the following information, calculate two liquidity ratios:

Total current assets	\$88 000
Inventory	41 000
Prepaid expenses	500
Total current liabilities	\$64 000
Bank overdraft	7 000

$$\begin{aligned}\text{Working capital ratio} &= \frac{88\,000}{64\,000} \\ &= 137.5\% \text{ or } 1.37: 1.0\end{aligned}$$

$$\begin{aligned}\text{Quick asset ratio} &= \frac{88\,000 - 41\,000 - 500}{64\,000 - 7\,000} \\ &= 81.6\% \text{ or } 0.82: 1.0\end{aligned}$$

CHAPTER 14: CASH IS VITAL FOR BUSINESS SURVIVAL

Review Questions 14.1

1. Define 'cash.'

Cash is money in the form of notes and coins, and for a business also includes assets that can be quickly turned into cash - such as cheques.

2. What is single entry accounting, and why is it used?

One entry is made in the accounting records each time a business transaction occurs. It is used in small business because it is simple to use and most small businesses do not require complex accounting records.

3. Explain the difference between a cash book and cash journals.

- **Cash book:** a multi column record which shows daily details of all cash receipts and cash payments over a period of time. This information is taken from original source documents.
- **Cash journals:** Include the Cash Receipts Journal which is a daily record of all the cash coming into the business, and the Cash Payments Journal which is a daily record of all the cash going out of the business.

4. Below is a blank cash book for a computer shop. Choose a name for the business and label columns with relevant categories.

Select relevant categories. For example: Receipts from Hardware sales, software sales, Repairs and servicing. Payments for Suppliers, Materials, Wages.

5. Outline the difference between a simple cash receipts journal and a multi-column journal.

The multi-column journal provides a lot more information to the business owner. They can itemise different sales and purchases, calculate totals for each item, and analyse their sales and purchases.

6. When do the totals across the bottom and down the right hand side of a multi-column journal add to the same amount? How is this useful?

As a check that amounts have been entered and totalled correctly.

Review Questions 14.2

1. What is the purpose of the Statement of Receipts and Payments?

To summarise the cash receipts and cash payments for the business over a period of time.

2. How does the Statement of Receipts and Payments reflect information obtainable from the business bank statement?

It shows how much cash the business has, how much was spent and how much cash came into the business. It is a useful check as it should have the same total as the bank balances.

3. Give two advantages to the business owner of preparing a Statement of Receipts and Payments.

- To check against bank balances
- To summarise inflows and outflows of cash for a time period

4. What is the GST?

GST stands for Goods and Services Tax, a broad based tax of ten percent that is added to the sale of most goods and services.

5. How is the GST recorded in the journals?

One extra column is added to the cash receipts journal, called 'GST Received'. One extra column is added to the cash payments journal, named 'GST Paid'.

6. Zane has just prepared his Business Activity Statement to see if he owes the tax office any GST or if a refund is due to his business. His cash receipts journal shows that the business collected \$790 GST from customers. The cash payments journal shows that the business paid \$480 GST.

A. Define "GST liability" and "GST refund."

- **Liability:** funds owed to the Australian Tax Office
- **Refund:** funds owed to the business from the Australian Tax Office

B. Calculate if there is a GST liability owed to the tax office or if a refund is due to the business.

GST collected during the period	\$790
GST paid during the period	<u>\$480</u>
GST liability owed to the tax office	<u>\$310</u>

7. Morrie has just prepared her Business Activity Statement to see if she owes the tax office any GST or if a refund is due to the business. Her cash receipts journal shows that the business collected \$1 800 GST from customers. The cash payments journal shows that the business paid \$2 400 GST. Calculate if there is a GST liability owed to the tax office or if a refund is due to the business.

GST collected during the period	\$1 800
GST paid during the period	<u>\$2 400</u>
GST refund due from tax office	<u>\$ 600</u>

8. Explain the purpose of internal control procedures.

To develop good business practices that ensure the assets of the business are safeguarded. Without internal control the business is left vulnerable to fraud and theft, and could become inefficient in its operations.

9. List five methods of internal control over cash. Which is the most important for small business and why?

- **Different employees** should be responsible for receiving and recording cash, balancing daily cash receipts, and verifying that the deposit amounts match records. If the business is too small to allow for this role segregation the business owner must periodically check that cash funds are being adequately protected.
- **Lockable storage** must be available for every person collecting cash. Access to cash box keys must be limited. The cash should be locked in a safe overnight.
- If cash is kept in a safe, the **safe combination** should be changed regularly.

- Cash should be counted in a **secure area** free from interruptions.
- Cash should be **banked** regularly – either at the end of each day, or weekly.
- There should be a chain of **accountability** upon receipt of cash. Transfers between two people should be documented.
- All cash receipts should be **recorded** on a cash receipt form, cash register docket or a computer database at the time of receipt.

Review Questions 14.3

1. *List the main variable costs and fixed costs for each of the following business types:*

For example:

A. Fish and chip shop

- Variable: fish, potatoes, cooking oil
- Fixed: rent of premises, staff wages

B. Small jewellery retailer

- Variable: raw materials, packaging, equipment repairs
- Fixed: rent, insurance,

C. Home stay farm

- Variable: room supplies, cleaning, breakfast groceries, transport of customers
- Fixed: utilities, insurance

2. *Explain the meaning of the following terms:*

- A. Contribution margin:** The difference between the selling price and the variable cost of each product.
- B. Break even point:** the number of sales required where no profit has been made but no loss has been incurred.
- C. Break even point with profit:** the number of sales required to make a particular level of profit.

3. *Summarise the advantages and disadvantages of calculating the break even point for a business.*

Disadvantages:

- Based on assumptions, such as expenses can be divided into fixed and variable, all costs are known and constant. Many expenses are actually both fixed and variable.
- The selling price may need to change
- There will sometimes be unsold goods and wastage
- The assumptions may be incorrect
- Many businesses sell a number of different goods, so it is difficult to work out break even analysis for every item sold

Advantages:

- Assists in planning
- Allows the business owner to make decisions, such as prices and profit margins
- It is a simple method to use
- Allows monitoring of expenses and the owner will be able to identify any expenses that are creeping upwards

Review Questions 14.4

1. *What are start up costs and why are they calculated?*

Start up costs are the costs associated with setting up a business entity. They are calculated so that the business owner will know how much money they need to start the business, and if they need to raise extra funds.

2. *List FIVE assets that might be required by someone who is planning to set up a pool cleaning business.*

For example:

- Vehicle
- Computer
- Phone
- Leaf skimmer
- Robotic pool cleaner
- Hoses
- Pool vacuum

3. *Outline FOUR business registration costs.*

For example:

- Business name registration
- Insurance
- Licenses required
- Bank account fees
- Local council requirements

4. *Explain the planning that needs to be done when creating a new business identity.*

Establish the individual and unique characteristics of the business and then decide which areas will illustrate this identity to the customer. For example:

- Trademark
- Patent
- Business cards
- Letterhead
- Packaging
- Signage or shop front (physical business)
- Uniforms
- Website (virtual business)

5. *What types of insurance does a new small business operator require?*

For example:

- Property
- Vehicle
- Third party
- Fire and theft
- Income

6. *Jim is a small business owner who uses the family car for his business. He works out that his business usage is 20%. Jim pays the following costs per annum for the vehicle...*

Jim can deduct 20% of his annual expenses = \$1 440.

7. *Define 'marketing.' What are some inexpensive methods of marketing a new start up business?*

Marketing is how a business advertises, promotes and sells its product or service to the community. For example:

- Markets or fetes
- Referrals
- Free samples
- Media stories
- Uniforms
- Signs
- Social media
- Brochures and business cards

CHAPTER 15: FORECASTING THE FUTURE

Review Questions 15.1

1. *Summarise the budgeting process.*

- Analyse Final Results
- Define Goals and Estimates
- Prepare Budget
- Monitor Estimates
- Review and Alter Budget

2. *Define an 'estimate.'*

This is an educated guess or rough calculation of the expected results for the next time period. It is usually inaccurate and is the best prediction that the business owner can make, based on their knowledge of past results and the reasons for past results.

3. *List the steps that a small business owner would take to prepare a Cash Budget.*

- Estimate the cash income from sales
- Estimate any other cash inflows
- Estimate the cash to be paid for purchases of inventory
- Estimate any other cash payments

4. *Why would a business owner prepare a Cash Budget?*

- To see when cash payment commitments must be made and ensure the business has sufficient funds to meet these obligations.
- To investigate ways of investing idle cash to earn a return
- To overcome periods when a cash shortage will occur.
- To analyse how long it is taking for debtors to pay their accounts.

5. *How is the bank balance at the start and the end of the month obtained?*

From the bank statement.

Review Questions 15.2

1. *What is a budget variance report?*

A report which compares the budget estimates with the actual results achieved and highlights the differences between them.

2. *Explain how to calculate a percentage variance.*

$$\text{Percentage variance} = \frac{\text{Difference in the estimate} \times 100}{\text{Original estimate}}$$

3. What is an unfavourable variance? Give one example.

An **unfavourable variance (U)** is where the actual result is worse than the estimated amount. For example: if the business owner estimated expenses to be \$300 000 and the actual figure was \$440 000, then this is a \$140 000 unfavourable variance.

4. What is a favourable variance? Give one example.

A **favourable variance (F)** occurs when the actual result is better than the estimated amount. For example: if the business owner estimated sales to be \$500 000 and the actual figure was \$680 000, then this is a \$180 000 favourable variance.

5. Define a 'cash shortage'.

This occurs when the business does not have enough money to pay for debts or cash expenses.

6. Outline how a business can overcome a cash shortage.

For example:

- Reduce cash expenses
- Owner reduce drawings
- Contribution of cash capital
- Ask for delayed payments
- Incentives to debtors/accounts receivable
- Increase cash sales
- Borrow funds

7. Why are budgets important in planning for cash surpluses?

So that the business can plan ahead and make arrangements to invest the additional funds.

8. What can a business do with a cash surplus?

For example:

- Pay off debt (liabilities)
- Purchase non-current assets
- Expand the business
- Invest in a high interest earning fund
- Other investments

9. How would a business owner use a budgeted Income Statement?

To predict the future income and expenses of the business and estimate the profit or loss.

CHAPTER 16: DOCUMENTING EVIDENCE

Review Questions 16.1

1. Summarise the cash accounting process.

- Collection of transaction data from source documents
- Recording this source document data in the cash receipts journal, cash payments journal and/or the petty cash book
- Using the information in the cash journals and the petty cash book to estimate budgets and to compile financial reports such as the Statement of Receipts and Payments, Income Statement and Balance Sheet
- Calculating ratios and analysing the results

2. Pookie Lapin has just started working as the receptionist at Burger World. She is inquiring about the purpose of different source documents...

An order form is used to request a purchase from a supplier, or for a customer to make an order with the small business sales invoice is issued. An invoice is issued when the order has been received and it contains more detail, showing the customer how much they have been charged for the goods and as a reminder to pay for them.

3. What is the meaning of 'credit terms'?

This is the information about when the payment is due. Generally credit terms are the number of days that the customer has before the payment must be made.

4. Explain the information contained on a cheque butt.

- Date that cheque was written
- Individual or business that the payment is being made to
- The balance of the cheque account bought forward
- Amount of the current cheque
- Calculation of the current balance in the cheque account.

5. Draw a flow chart showing the source documents that would be produced when a business orders raw materials, receives delivery of the materials, produces cakes for sale, then sells these cakes to a local cafe.

Order Form (to supplier) → Delivery Note and Invoice (from supplier) → EFTPOS transfer/ or Cheque (payment to supplier) → Receipt (from supplier)

Order Form (from cafe) → Invoice and Delivery Note → EFTPOS transfer/ or Cheque (payment from cafe) → Receipt (to cafe)

6. Describe the purpose of each of these receipts: cash receipt, electronic funds transfer receipt, petty cash voucher.

- **Cash receipt:** Record of a cash sale
- **EFTPOS receipt:** Record of an electronic transfer of funds in payment for a cash sale
- **Petty cash voucher:** record of a small amount of cash being used to pay for inexpensive business supplies.

7. *What is the Business Activity Statement and when is it used?*

This is a form that is submitted to the Australian tax office by a business to report its taxation obligations, such as pay as you go instalments/withholding, fringe benefits tax, the goods and services tax (GST), and other taxes. All businesses that have a GST turnover of \$75,000 or more, or \$150,000 or more for a non-profit organisation, or that provide taxi travel, must register for GST and complete the BAS.

8. *Outline the purpose of a delivery note.*

To acknowledge the receipt of delivered goods.

9. *What is a bank deposit slip?*

A record of funds deposited into a bank account.

Review Questions 16.2

1. *Explain the difference between:*

- A. Petty cash:** money kept on hand to purchase small items.
- B. Petty cash advance:** the money used to start the petty cash fund
- C. Petty cash reimbursement:** money used to top up the petty cash fund.

2. *How is petty cash recorded in the Balance Sheet at the end of the financial year?*

As a current asset.

3. *Write a sample petty cash voucher for each of the following transactions.*

- A. Purchase of three \$6 USB sticks

Petty Cash Voucher No. 01	Date: 01/08/15
Issued to: Balthazar	For: 3 x USB sticks
Amount: \$18.00	Charged to: Office expenses
Signed: <i>Business Owner</i>	

- B. \$15 tin of coffee.

Petty Cash Voucher No. 02	Date: 02/08/15
Issued to: Gaspar	For: Coffee
Amount: \$15.00	Charged to: Morning tea supplies
Signed: <i>Business Owner</i>	

C. \$4 packet of sticky name labels.

Petty Cash Voucher No. 03	Date: 03/08/15
Issued to: Melchoir	For: Name labels
Amount: \$4.00	Charged to: Office expenses
Signed: <i>Business Owner</i>	

4. *Create a flow chart summarising how to prepare a petty cash book.*

- Opening balance at start of month
- Itemise all disbursements for the month
- Balance the total amount paid for the month
- Calculate the reimbursement amount

Review Questions 16.3

1. *Summarise the bank reconciliation process.*

- Receive bank statement
- Collect cash book (or all source documents)
- Check all transactions recorded
- Check for errors

2. *What are four reasons for differences between the Bank Statement and the Cash Book record?*

- Error by bank
- Item not recorded in Cash Book
- Item in Cash Book but not yet recorded by the bank
- Error by business

3. *Draw a diagram showing the steps to follow to prepare a bank reconciliation.*

- i. Tick items that appear in both the Cash Book and the Bank Statement.
- ii. Identify differences between the Cash Book and the Bank Statement.
- iii. Complete the Bank Reconciliation Statement:
 - Show the balance of the Cash Book
 - Add unpresented cheques and missing funds transfer payments
 - Subtracting bank charges and funds that have not been recorded
 - Subtract undeposited Cheques from the Cash Book balance

If interest earned appears on the Bank Statement it is added to the Cash Book balance. If interest expense appears on the Bank Statement, it has to be taken away from the Cash Book figure.

4. *What payroll records are all employers required to keep?*

- Employer's name and Australian Business Number (ABN)
- Employee's name and commencement date
- The basis of the employee's employment (full or part time and permanent, temporary or casual).

5. *What is a pay advice slip? Summarise the information that must be included on a pay advice slip.*

This shows the employee how their wage was calculated. It includes:

- Employer's full name and ABN
- Employee's full name and job title
- The date of the payment and the period covered
- The number of hours covered and rate
- Hourly wage rate and the overtime rate if relevant
- Gross pay and net pay
- Entitlements.
- Deductions
- Superannuation paid

6. *Explain the purpose of a wages book.*

This is a record of the hours worked by employees.

Chapter 17: Not-for-profit organisations

Review Questions 17.1

1. *What important role do volunteers perform in a not-for-profit organisation?*

Provision of their time and support, to enable any profits to go back into the organisation.

2. *Explain the term “separate legal entity”.*

The organisation has a separate legal identity to its members, and can sue and be sued in its own name. This provides some protection for office holders from any liabilities or debts should they be incurred by the organisation and the entity then finds itself in a situation whereby it cannot pay the debts.

3. *What does “dissolving” an association mean?*

The association is closed down and any outstanding funds left in the bank account after all debts and liabilities are paid needs to be transferred to another, similar, not-for-profit organisation.

4. *What is the main advantage of being unincorporated?*

Lower costs and compliance.

5. *What types of activities will most clubs receive cash receipts from and make cash payments for?*

Subscriptions are the main form of cash receipt. Payments are made for maintenance and member activities.

6. *What amounts would not be shown in a Statement of Receipts and Payments?*

Non-cash items such as depreciation.

7. *What is one advantage of the Statement of Receipts and Payments?*

It is very simple to prepare because it is based on cash accounting, and often a club treasurer is relatively inexperienced..

8. *How is the Statement of Income and Expenses different to the Income Statement of a for-profit business?*

A profit is referred to as a ‘surplus’ and a loss is referred to as a ‘deficit’.

9. *How is the Balance Sheet of a not-for-profit organisation different to the Balance Sheet of a business?*

The equity section is different. Instead of having capital, the not-for-profit organisation uses the term Accumulated Funds. This is the accumulation of surpluses over the years. Any surplus is added to the accumulated fund and any deficit is subtracted.