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**ACCOUNTING AND FINANCE**

**ATAR Year 11**

**TASK 7: 24 JULY 2020**

***FINANCIAL SYSTEMS AND FUNDAMENTAL PRINCIPLES;***

***RECORDING, PROCESSING AND COMMUNICATING FINANCIAL INFORMATION:***

**ACCRUALS AND BALANCE DAY ADJUSTMENTS**

**Time Allowed: 55 minutes**

**Marks: 55**

**Weighting: 6%**

|  |  |
| --- | --- |
| Section 1: MCQ | / 5 |
| Section 2: Q 7a | /21 |
| Section 2: Q 7b | /14 |
| Section 2: Q 7c | / 6 |
| Section 3: Q 8 – 10 | / 9 |
| **TOTAL** | **/ 55** |

**First Name:** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Last Name:** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Teacher: BRIDGER / EKSTEEN

**SECTION ONE: MULTIPLE CHOICE QUESTIONS (6 marks)**

Circle the most correct answer in each of the following questions.

The following is the trial balance (extract) for Bob’s Bikes as at 30 June 2020.

|  |  |  |
| --- | --- | --- |
| Prepaid Insurance | 3,000 |  |
| Wages | 50,000 |  |
| Unearned Income |  | 22,000 |
| Interest Income |  | 3,500 |

**Additional information** at balance date is:

* Prepaid insurance amounted to $2,000
* Accrued wages amounted to $5,000
* Sales income earned for the period $23,000
* Unpaid Interest income to 30 June 2020 is $1,700, this will be paid in October 2020.

1. The adjusting entry for prepaid insurance is:
   1. Debit Prepaid Insurance $3,000, credit Insurance expense $3,000
   2. Debit Insurance expense $2,000, credit Prepaid Insurance $2,000
   3. Debit Insurance expense $1,000, credit Prepaid Insurance $1,000
   4. Debit Insurance expense $2,000, credit Prepaid Insurance $2,000
2. The adjusting entry for interest income is:
   1. Debit Accrued Income $1,800, credit Interest Income $1,800
   2. Debit Accrued Income $1,700, credit Interest Income $1,700
   3. Debit Interest Income $1,700, credit Accrued Income $1,700
   4. Debit Interest Income $3,500, credit Accrued Income $3,500
3. The wages expense for the period would be:
   1. $44,000
   2. $45,000
   3. $50,000
   4. $55,000
4. The sales income would equal:
   1. $23,000
   2. $22,000
   3. $55,000
   4. $1,000
5. The system where income that is recorded when the cash is received is, rather than when the income is earned is called:
   1. An asset
   2. Cash accounting
   3. Income
   4. Accrual accounting
6. Accrued expenses at balance day are classified as:
   1. A non-current liability
   2. A current liability
   3. A current asset
   4. An expense

**SECTION TWO: PRACTICAL QUESTIONS (41 marks)**

1. The following is an extract of the Trial Balance of Billy’s Beekeepers which sells honey to retail outlets and restaurants.

**Trial Balance (Extract) at 30 June 2020**

|  |  |  |
| --- | --- | --- |
|  | **DEBIT** | **CREDIT** |
| Wages | 30,000 |  |
| Accounts receivable | 51,000 |  |
| Interest Income |  | 450 |
| Allowance for doubtful debts |  | 1,500 |
| Unearned Sales Income |  | 12,100 |
| Bad debts | 2,000 |  |
| Prepaid insurance | 3,600 |  |

**Additional information at 30 June 2020:**

* $800 wages were owing to employees.
* A fixed deposit of $30,000 earns 3% interest per year on a quarterly basis. The last time interest was received, was on 30 April 2020.
* The annual insurance premium was paid on the 1 March 2020
* Unearned sales income at 30 June 2020 is $2,300.
* Additional bad debts of $1,000 needs to be written off.
* The allowance for doubtful debts was to be set at $2,000.

**Required:**

1. Prepare the ledger accounts for the above balance day adjustment items at 30 June 2020 and balance the ledger accounts where required. Closing entries are **not required**. Show your workings. (21 marks)

***Workings:***

**Wages**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2020  June 30 | Balance b/f | 30,000 |  |  |  |
|  |  |  |  |  |  |

**Accrued Expenses**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
|  |  |  |  |  |  |

**Interest income**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
|  |  |  | 2020  June 30 | Balance b/f | 450 |
|  |  |  |  |  |  |

**Accrued income**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
|  |  |  |  |  |  |

**Insurance expense**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
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**Prepaid Insurance**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2020  June 30 | Balance b/f | 3,600 |  |  |  |
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**Unearned sales income**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
|  |  |  | 2020  June 30 | Balance b/f | 12,100 |
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**Sales income**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
|  |  |  |  |  |  |

**Accounts Receivable**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2020  June 30 | Balance b/f | 51,000 |  |  |  |
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**Bad debts**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2020  June 20 | Balance b/f | 2,000 |  |  |  |
|  |  |  |  |  |  |
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**Allowance for Doubtful Debts**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
|  |  |  | 2020  June 30 | Balance b/f | 1,500 |
|  |  |  |  |  |  |
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**Doubtful debts**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
|  |  |  |  |  |  |

1. Prepare the general journal entries for the above transactions. (14 marks)

**GENERAL JOURNAL**

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **DETAILS** | **DEBIT** | **CREDIT** |
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1. Show the Current Assets and Current Liabilities sections of the Balance Sheet as at 30 June 2020. (6 marks)

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| --- |
| **Current Assets** |
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|  |
| **Current Liabilities** |
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**SECTION THREE: THEORY QUESTIONS (9 marks)**

8. Define cash accounting and accrual accounting and explain with the help of an example the difference between these two methods of accounting.(3 marks)

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9.State the Accounting Framework definition of “Income” and discuss the recognition criteria for that element. (3 marks)

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10. Define a “Asset” as per the Framework and give the recognition criteria for it. (3 marks)

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