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**ACCOUNTING AND FINANCE**

**ATAR Year 11**

**Unit 1**

**TASK 7 - 2023**

**Assessment type:**

Test

**Content:**

Recording, processing and communicating financial information

**Conditions:**

55 minutes, closed book test

**Task weighting:**

7%

**Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Marks:**

|  |  |
| --- | --- |
| Section A | /5 |
| Section B | /9 |
| Section C | /32 |
| **TOTAL** | **/46** |

**Teacher**:

BURGOYNE / BRIDGER (Please circle)

**Section A: Multiple Choice Questions -** Circle the best answer.  **(10 marks)**

1. The balance in the Accumulated Depreciation account represents the
2. amount charged to expense in the current period.
3. cash fund to be used to replace plant assets.
4. **total amount charged to expense since the acquisition of the plant asset.**
5. amount to be deducted from the cost of the plant asset to arrive at its fair market value.
6. If a loss is made on the disposal of an asset, then it might imply that the asset was
7. over utilised
8. over depreciated.
9. not a good investment.
10. **under depreciated.**
11. Which one of the following statements about depreciation methods is true?
12. The straight line method is suitable for all assets as it is simple to calculate.
13. The reducing balance method should be used for all assets as it gives a greater gain and a reduced loss when the asset is disposed of.
14. **The method chosen should aim to reflect the pattern of use of the asset.**
15. The reducing balance method allocates less depreciation in the earlier years and more depreciation as the asset gets older.
16. Which of the following types of subsequent expenditures is **NOT** normally depreciated?
17. **Repairs and maintenance**
18. Additions
19. Cost of installations
20. Improvements
21. A purpose of depreciation is
22. to ensure a greater tax refund.
23. to more accurately calculate gross profit.
24. **to more accurately calculate net profit.**
25. to more accurately calculate liabilities.

**Section B: Short Answer Questions (9 marks)**

**Question 6 (4 marks)**

Define depreciation and explain the nature of depreciation as an expense.

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Defines depreciation and explains the nature of depreciation as an expense | 4 |
| Defines depreciation and describes the nature of depreciation as an expense | 3 |
| Define depreciation identifies the nature of depreciation as an expense OR  Describes the nature of depreciation as an expense | 2 |
| Define depreciation only OR identifies the nature of depreciation as an expense | 1 |
| **Total** | **/4** |
| **Answer could include, but is not limited to** | |
| Explains – provides why and how (perhaps with an example) and defines  Depreciation can be defined as the allocation of the cost of an asset **(1)**. It represents the consumption or loss of future economic benefits. **(1)** Depreciation is an expense to the business because it results in a gradual decrease in economic benefits provided by an asset. **(1)** Due to wear and tear, usage, obsolescence and perhaps legal limits, the asset ceases to provide the same amount of economic benefit and the depreciation expense accounts for this. **(1)**  Accept any other correct, relevant answer.  Eg. A depreciable asset is expected to be used for more that one accounting period **(1).** A depreciable asset is held for use in the production or supply of goods and services, for rental others or for administrative purposes **(1).**  Describes – provides characteristics and features and defines  Depreciation can be defined as the allocation of the cost of an asset **(1)**. Depreciation is an expense to the business because it results in a gradual decrease in economic benefits provided by an asset. **(1)** Due to wear and tear, usage, obsolescence and perhaps legal limits, the asset ceases to provide the same amount of economic benefit and the depreciation expense accounts for this. **(1)**  Accept any other correct, relevant answer.  Identifies – recognises and defines  Depreciation can be defined as the allocation of the cost of an asset **(1)**. Depreciation is an expense to the business because it results in a gradual decrease in economic benefits provided by an asset. **(1)**  Define depreciation only OR identifies the nature of depreciation as an expense  Depreciation can be defined as the allocation of the cost of an asset **(1)**.  OR  Depreciation is an expense to the business because it results in a gradual decrease in economic benefits provided by an asset. **(1)**  Accept any other correct, relevant answer. | |

**Question 7** **(5 marks)**

Contrast **two** differences between the reducing balance and the straight-line methods of depreciation. Which method is most appropriate to depreciate the new machines and why?

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Clearly contrasts two differences and recommends an appropriate depreciation method explaining why. | 5 |
| Contrasts two differences and recommends an appropriate depreciation method explaining why. | 4 |
| Clearly contrasts one or two differences and recommends an appropriate depreciation method explaining why. | 3 |
| Contrasts one difference and recommends an appropriate depreciation method. | 2 |
| Contrasts one difference OR recommends an appropriate depreciation method. | 1 |
| **Total** | **/5** |
| **Answer could include, but is not limited to** | |
| Clearly contrasts 2 differences– (Show how things are different or opposite)  SLM records the same amount of depreciation in each full year **(1)**, whereas the RBM records more in the earlier years of the assets life. **(1)** SLM is more appropriate when the asset earns income evenly over its useful life **(1),** whereas the RBM is more appropriate for assets that generate a higher level of income in its earlier years **(1).** The reducing balance method is more appropriate for the machines as they will yield more service in its earlier years than in the later years. **(1)** (or other acceptable differences)  Contrasts 2 differences– (Show how things are different or opposite)  SLM records the same amount of depreciation in each full year **(1)**, unlike RBM. SLM is more appropriate when the asset earns income evenly over its useful life **(1),** whereas the RBM is more appropriate for assets that generate a higher level of income in its earlier years **(1).** The reducing balance method is more appropriate for the machines as they will yield more service in its earlier years than in the later years. **(1)** (or other acceptable differences)  Clearly contrasts 1 or 2 differences– (Show how things are different or opposite)  SLM is more appropriate when the asset earns income evenly over its useful life **(1),** whereas the RBM is more appropriate for assets that generate a higher level of income in its earlier years **(1).** The reducing balance method is more appropriate for the machines as they will yield more service in its earlier years than in the later years. **(1)** (or other acceptable differences)  Clearly contrasts 1 differences– (Show how things are different or opposite)  RBM is more appropriate for assets that generate a higher level of income in its earlier years **(1)** (or other acceptable difference)**.** The reducing balance method is more appropriate. **(1)**  Contrasts 1 differences– (Show how things are different or opposite)  RBM is more appropriate for assets that generate a higher level of income in its earlier years **(1)**(or other acceptable difference).  OR  The reducing balance method is more appropriate. **(1)**  Accept any other correct, relevant answer. | |

**Section C: Practical Questions (32 Marks)**

**Question 8** (32 marks)

1. Prepare the following General Ledger accounts from 30 November 2020 to 30 June 2023. Balance and/or close all accounts as necessary. (22 marks)

Old fixtures and fittings sold:

2021 $112 000[1] x 12.5%[1] = $14 000 x 7/12[1] $8 167[3]

2022 ($112 000 - $8 167= $103 833[1]) x 12.5% [1] $12 979[2]

2023 ($112 000–($8 167 + $12 979)) = $90 854[1] x 12.5%[1] = $11 357 x 9/12[1] $8 518[3]

Accumulated depreciation on sale $29 664

New fixtures and fittings:

2023 $118 000[1] x 12.5%[1] = 14 750 x 1/12[1] $1 229[3]

But not full marks for workings if ledgers are not completed properly.

1. Prepare the following General Ledger accounts from 30 November 2020 to 30 June 2023. Balance and/or close all accounts as necessary. (22 marks)

**Fixtures and Fittings (4)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 30/11/20 | Cash at Bank | 112 000[1] | 1 Apr/23 | Sale of Asset | 112 000 [1] |
| 1/6/23 | Accounts Payable | 118 000[1] | 30/6/23 | Balance c/d | 118 000[1] |
|  |  | **230 000** |  |  | **230 000** |
| 1/7/23 | Balance b/d | 118 000 |  |  |  |

**Accumulated Depreciation - Fixtures and Fittings (14)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 1/4/23 | Sale of Asset | 29 664 [1] | 30/6/21 | Depreciation – fixtures & fittings | 8 167[3] |
| 30/6/23 | Balance c/d | 1 229 [1] | 30/6/22 | Depreciation – fixtures & fittings | 12 979[2] |
|  |  |  |  |  | **21 146** [1] |
|  |  |  | 1/7/23 | Depreciation – fixtures & fittings | 8 518[3] |
|  |  |  | 30/6/23 | Depreciation – fixtures & fittings | 1 229 [3] |
|  |  | **30 893** |  |  | **30 893** |
|  |  |  | 1/7/23 | Balance b/d | 1 229 |
|  |  |  |  |  |  |

**Sale of Asset – Fixtures and Fittings (4)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 1/4/23 | Fixtures and Fittings | 112 000 [1] | 1/4/23 | Accumulated Depreciation – fixtures & fittings | 29 664 [1] |
|  | Gain on Sale of fixtures & fittings | 1664[1] |  | Cash at Bank | 84 000 [1] |
|  |  | **113 664** |  |  | **113 664** |

1. Prepare the relevant closing General Journal entries for the year ended 30 June 2023. (5 marks)

30 June 2023 Depreciation = old F&F 8 518 [1] + new F&F 1 229 [1] = 9 747

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Details | Debit | Credit |
| 2023 |  |  |  |
| June 30 | Profit and Loss [1] | 9 747 |  |
|  | Depreciation on fixtures & fittings [2] |  | 9 747 |
|  | *Transfer* |  |  |
|  | Gain on sale of fixtures & fittings [1] | 1 664 |  |
|  | Profit and Loss [1] |  | 1 664 |
|  | *Transfer* |  |  |

*-1 mark for incorrect dates/narrations*

1. Calculate the carrying amount of fixtures and fittings as at 30 June 2023. Show workings.

(2 marks)

|  |
| --- |
| Workings |
| $118 000[1/2] – $1 229[1/2] = $116 771 (1) |

**Carrying amount as at 30 June 2023: $116 771**

1. John believes the amount calculated for depreciation will help fund future asset purchases. State whether you agree or disagree with John’s opinion on the nature of depreciation expense, giving reasons for your response. (3 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Disagrees with statement and gives 3 acceptable reasons | 3 |
| Disagrees with statement and gives 2 acceptable reasons | 2 |
| Disagrees with statement and gives an acceptable reason | 1 |
| Disagrees with statement | 1/2 |
| **Total** | **/3** |
| **Answer could include, but is not limited to** | |
| Depreciation is the allocation of the historic cost of the asset over its estimated useful life [1]  The depreciation expensed is an attempt to match the income earned during each accounting period to the amount of the asset consumed earning that income. [1]  The allocated depreciation expense is a book entry that does not involve cash so will therefore not be related to funds held to purchase future assets. [1]  Accept any other correct, relevant answer/reasons | |