



## *Units 3 and 4 Accounting*

### *Practice Exam Question Booklet*

Duration: 15 minutes reading time, 2 hours writing time

Structure of book:

Number of questions	Number of questions to be answered	Number of marks
10	10	100

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, rulers and a scientific calculator.
- Students are not permitted to bring into the examination room: blank sheets of paper and/or white out liquid/tape.

Materials supplied:

- This question booklet of 9 pages.
- An answer booklet.

Instructions:

- You must complete all questions of the examination.
- Write all your answers in the spaces provided in this booklet.

## Questions

### Question 1

Explain what is meant by accrual accounting.

2 marks

### Question 2

Sam Waters is the owner of Sam's Swim World – a small business selling swimming apparel and equipment. The business prepares its reports quarterly.

Sam has provided you with the following information:

SAM'S SWIM WORLD		
Income Statement for quarter ending 30 June 2013		
	\$	\$
<b>Revenue</b>		
Cash Sales	20000	
Credit Sales	1000	
Discount Revenue	50	
Interest Revenue	250	21300
<b>Less Cost of Goods Sold</b>		
Cost of Sales	500	
Customs Duty	10	
Freight In	40	550
<b>Less Other Expenses</b>		
Wages	5450	
Stock Loss	100	
Advertising	1000	
Discount Expense	25	
Bad Debt	75	
Rent Expense	3000	
Maintenance Fees	7000	16650
<b>Net Profit / (Loss)</b>		4100

- a. Using the information provided in the Income Statement, identify two weaknesses in its preparation and justify how it should have been properly reported.

6 marks

- b. Identify and explain one of the purposes of preparing an Income Statement.

3 marks

- c. At the end of June, Terry complains to you that "Even though I generated a net profit, I still had a decrease in my cash holdings." Explain giving two examples how this could occur.

4 marks

**Total: 13 marks**

**Question 3 (7 marks)**

The owner of a business you are working for says “If I’m selling my stock at \$22, why is it recorded at \$10? That’s not how much I value it to be.” He continues to say “I don’t put \$10 on source documents when I sell my stock to customers; I put \$22 in total. Hence it should be \$22 in my stock card.”

- a. Explain, using an accounting principle, why the owner’s first statement is incorrect. 2 marks
- b. Explain why \$10 is not shown on the source document that provides evidence of a sale. 2 marks
- c. Explain how GST is used in the valuation of stock. 2 marks
- d. Calculate the percentage mark-up of the stock. 1 mark

**Total: 7 marks**

**Question 4**

Boston and Legal sells law textbooks. On the December 31 2013, Boston and Legal purchases a Jax Van to be used for delivery and supply purposes. Jax Motors issued the invoice below:

Jax Motors		Invoice JM3065
Tax Invoice	December 31 2013	
Charge To: Boston and Legal	Terms: 1/30 n/90	
<b>Description</b>		
Jax Van	63400	
Diesel Conversion	9000	
Paint Job	650	
Shelving (plus installation)	3700	
Registration	700	
Annual Insurance	2300	
Freight In	1000	
Customs Duty	800	
<b>SUB-TOTAL</b>		<b>81550</b>
Plus GST		8155
<b>TOTAL</b>		<b>89705</b>

Note: the van is expected to have a scrap value of \$3550 and is depreciated at a rate of 7.64% p.a.

- a. Calculate the cost of the new van.  
1 mark
  - b. Explain your treatment of the \$2,300 Annual Insurance.  
2 marks
  - c. On the 2 January 2014, a cash payment (Chq. 734) was made to Jax Motors that resulted in the balance owing reducing by \$20,000. Show how the payment would appear in the Cash Payments Journal.  
1 mark
  - e. Calculate the estimated useful life of the asset.  
1 mark
  - f. Show how the Assets section of the Balance Sheet would appear at June 30 2014.  
5 marks
- On 30 September 2017, Boston and Legal decided to buy a new Van from Karl's Vehicles (Inv. Y7A8) for \$90,000 (excluding GST). As part of the transaction, the Jax Van was traded-in for \$50,000.
- g. Show how the Disposal of Van account would appear.  
4 marks
  - h. Explain how the profit or loss on the disposal should be reported in the Income Statement.  
3 marks
  - i. State one reason why scrap value may be over-stated.  
1 mark
- Total: 20 marks**

**Question 5**

- a. Explain how a variance report can be used to assist decision-making.

2 mark

- b. Referring to a Qualitative Characteristic, explain why cents are excluded from financial reports.

2 marks

- c. State two way of improving Gross Profit Margin and give a disadvantage of taking each of these actions.

4 marks

**Total: 8 marks**

**Question 6**

Expense control is important to any business wishing to improve profitability. Justin Time is a watch business that has provided to following table:

Year (at 30 <sup>th</sup> June)	Total Sales	Total Expenses
2012	1000000	675000
2013 (Budgeted)	888888	577777

- a. Explain in relation to budgeted figures whether expected Total Expenses shows an improvement or diminishment in expense control.

2 marks

- b. State a possible way for Justin to further improve his control of Expenses.

1 mark

Assume that Justin Time expected Total Sales to continue to fall at the same rate, and that the horizontal trend of expenses was to continue.

- c. State the 2014 Budgeted Figures for Total Sales and Total Expenses.

2 marks

- d. Explain why just the table alone is not sufficient information to fully aid Justin Time with management's decision making.

2 marks

**Total: 8 marks**

**Question 7**

Mark's Music Madness received a deposit of \$4,000 on 19 December 2013. The deposit was from JMC Music Academy for an order of 5 Kenji keyboards. The keyboards are scheduled to be delivered on 7 January 2014. On 7 January 2014 the stock was delivered and the following invoice was prepared (Stock is sold at a mark-up of 100%):

Mark's Music madness			
Gowanbrae Village			
<b>Tax Invoice:</b>	J89		
<b>Charge to:</b>	JMC Music Academy	<b>Date:</b>	7/01/2014
	Fleetwood Drive		
	Keilor		
Quantity	Item	Unit Price	Total Price
5	Kenji keyboards	1500	7500
	GST (10%)		750
	<b>Invoice total</b>		8250
	<b>Less Deposit (Rec S31)</b>		4000
	<b>Balance owing</b>		4250
<b>Terms:</b>	2/14, n30		

- a. Identify and explain how Prepaid Sales Revenue would have been classified in the Balance Sheet at 31 December 2013.

1 + 2 = 3 marks

- b. Record the information contained in Invoice J89 in the:

- General Journal; and
  - Sales Journal
- At 7 January 2014  
(Note: Narration is not required)

6 marks

- c. On 12 January 2014, JMC Music Academy paid their account (Rec. S93). Record this receipt in the Cash Receipts Journal.

2 marks

**Total: 11 marks**

**Question 8**

At 1 January 2013 the following Balance Sheet extract was prepared:

**Balance Sheet as at 1 January 2013 (extract)**

	\$		\$
<b>CURRENT ASSETS</b>		<b>CURRENT LIABILITIES</b>	
Cash at Bank	5 700	Prepaid Rent Revenue	3 000
Debtors Control	24 550	Creditors Control	34 200
Stock Control	47 900	GST Clearing	7 800
Accrued Interest Revenue	<u>200</u>	Loan - GFC	<u>12 000</u>
	78 350		57 000

Notes to the Balance Sheet:

- The Investment Account was opened on 1 September 2010. It earns interest at 6% per annum and interest is received annually on 31 August each year.
- The business rents out part of its Premises to a local business, who pay rent of \$1,000 per month. This rent is paid 12 months in advance on 1 April each year.

- a. During March 2013 the rental agreement was re-negotiated and the Rent increased to \$1,200 per month (plus \$120 GST per month). Rent for the next 12 months was paid on 1 April 2013. Record the receipt of the Rent in the Cash Receipts Journal – Rec. 72.

1 mark

- b. Prepare the General Journal entry necessary on 31 December 2013 (A narration is not required).

1 marks

- c. Show how the Prepaid Rent Revenue and Rent Revenue ledger accounts would appear at 31 December 2013 after all entries had been posted and the accounts closed/balanced.

4 marks

- d. On 31 August 2013 the Investment Account matured. Record the receipt of the interest and the Investment Account in the Cash Receipts Journal – Rec 99.

3 marks

**Total: 10 marks**

**Question 9**

Victor's Vibe sells the latest fashion of interior design structures. On 1<sup>st</sup> January 2012, the business purchased 4 new computers for \$22000 each (GST Inclusive) to help get the creative juices flowing for the firm. As a matter of creativity, Victor decides to depreciate each computer at a different rate and some at different types of depreciation methods, as detailed below:

Computer W: residual value of \$500, useful life of 6.5 years

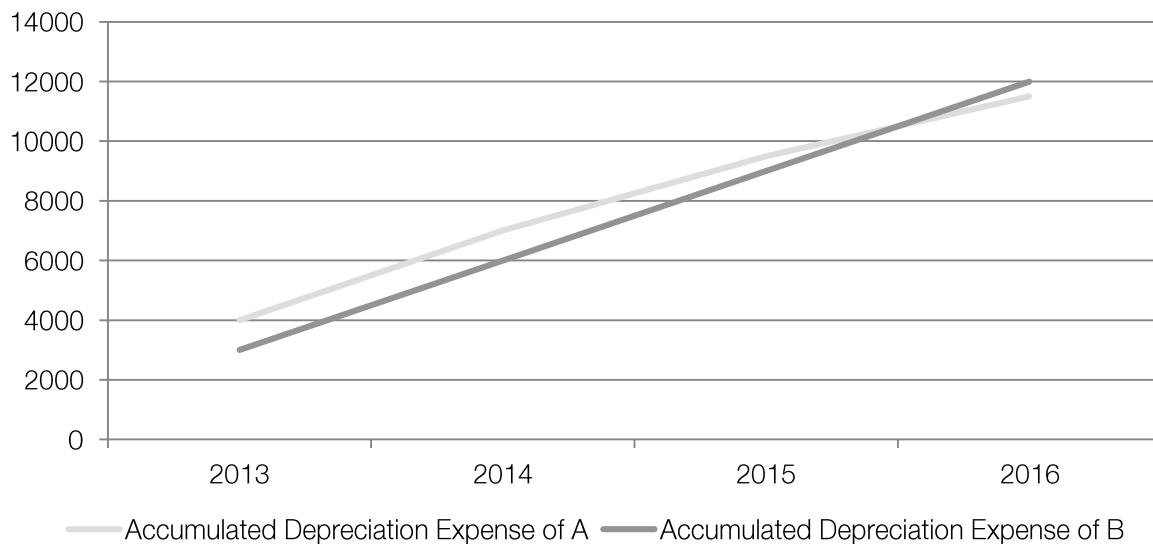
Computer X: at a reducing balance rate of 20%

Computer Y: residual value of \$1250, useful life of 7.5 years

Computer Z: depreciation expense starting at \$5000 for first year and reducing by \$1000 each subsequent year

- a. Calculate the carrying value of each of the 4 computers at the start of each of the next 5 years.

6 marks



- b. Above is a graph of the Accumulated Depreciation Expenses of two computers. Identify which computer is A and which is B.

2 marks

**Total: 8 marks**



**Question 10**

At 31 December 2013 the following Cash Flow Statement for the business was prepared:

**Paula's Pantry**  
**CASH FLOW STATEMENT FOR YEAR ENDED 31 DECEMBER 2013**

	\$	\$
<b>Cash Flow from Operating Activities</b>		
Cash Sales	250 000	
GST Collected	25 000	
Cash Received from Debtors	905 625	<b>1 180 625</b>
Payments to Creditors	(656 775)	
GST Paid	(24 000)	
Wages	(154 000)	
Accrued Wages	(8 500)	
Customs Duty	(48 000)	
Cash Purchases of Stock	(80 000)	
Prepaid Insurance Expense	(12 000)	
Interest Expense	(6 000)	
Other Cash Expenses	(100 000)	<b>1 089 275</b>
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b><u>91 350</u></b>

For the next reporting period the Accountant expects the following to occur:

- Cash sales expected to increase by 12%
- Credit sales to be \$1,200,000.
- Stock will be sold at a mark-up of 60%
- Debtors at 31 December 2013 were \$27,200. It is normal business practice for:
  - Discount expense is expected to be 3% of credit sales
  - Bad Debts are expected to be 1% of credit sales
  - Sales Returns to be approximately \$5,000
  - All Debtors at the start of the period to settle their accounts as well as 95% of all Debtors incurred during the period.
- Customs Duty is expected to increase by 5%
- The business expects to receive discount totalling \$3,000.
- Creditors at 31 December 2013 were \$38,600. Brian hopes to reduce the balance of Creditors by \$8,000 at 31 December 2014.
- Cash purchases of Stock expected to be \$90,000.
- Stock returned by customers is returned to suppliers for a full credit
- Brian hopes to reduce the amount of Stock held by \$10,000 and it is normal for the owner to donate stock to the value of \$5,000 and write down \$6,000 worth of Stock

- Wages paid is expected to increase by 5%. It is expected that \$5,000 of wages will be owing at 31 December 2014)
- Prepaid Insurance Expense is expected to increase by \$3,000. Insurance is paid in advance on 1 July each year. In 2013 Insurance Expense was \$1,000 per month. This increased to \$1,250 per month from 1 July 2014.
- The business is planning on conducting an Advertising campaign to boost Sales. It will commence in March 2014 and run for 6 months at a cost of \$9,000 per month
- Other cash expenses are expected to increase 20%.
- Interest Expense to increase to \$16,000
- Depreciation – Motor Vehicle is expected to total \$8,500 and Depreciation – Equipment to be \$7,400
- Loan repayments will be \$1,000 per month
- Drawings are expected to be – Cash \$100,000 and Stock \$6,000
- Equipment will a cost of \$12,000 is expected to be purchased during the year and Brian believes he will make a loss of \$2,000 on old Equipment traded-in.

a. Prepare a budgeted Income Statement for the year ended 31 December 2014.

9 marks

b. Explain one reason why a business should prepare budgets.

2 marks

c. Explain one reason why a business should prepare budgets more frequently than on an annual basis.

2 marks

**Total: 13 marks**

End of Booklet

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