



## *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
11	11	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 6 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 the perpetual inventory system and explain a benefit associated with adopting this system.

3 marks

### Question 2

VuVu has provided the accountant with the following estimates for the 3 months (quarter) ending 30<sup>th</sup> June 2015:

- Bank Ledger account balance at 1<sup>st</sup> April 2015 is \$16,000 (credit).
- Sales for the quarter are expected to be \$230,000 of which 30% will be on credit.
- Cost of sales will be 50% of sales.
- Stock purchases for the quarter are expected to be \$150,000. 80% of stock purchases are on credit.
- Creditors are owed \$40,000 at 1<sup>st</sup> April 2015 and the expected balance at 30<sup>th</sup> June 2015 is \$30,000.
- Debtors balance at 1<sup>st</sup> April 2015 is \$24,000. This balance is expected to increase by \$10,000 over the quarter.
- Expenses are budgeted to be 20% of total sales for the quarter. These expenses include:
  - Depreciation on fixtures and fittings \$4,000.
  - Bad Debt expense of \$2,000.
  - Customs Duty on stock purchases of \$1,000.
  - Interest on loan \$4,000.
  - Interest on bank overdraft of \$2,000.
- Wages Expense of \$29,300 (accrued Wages at 1<sup>st</sup> April 2015 are \$500 and at 30<sup>th</sup> June 2015 are expected to be \$500) is expected.
- Office Expenses \$4,000.
- Apart from wages, there are no other prepayments or accruals.
- In addition to the interest payments, a further \$5,000 is repaid each month from an existing loan.
- Drawings for the quarter are expected to be \$22,000 (cash) and \$2,000 (stock).
- GST is to be considered where appropriate.

- a. Prepare an extract of a budgeted Cash Flow Statement to show Net Cash from Operations for the quarter ended 30<sup>th</sup> June 2015.

4 marks

- b. Discuss two restraints of preparing a budgeted Cash Flow Statement.

5 marks

VuVu has also provided an Income Variance Report for the quarter ending 30<sup>th</sup> June 2015.

	Budget	Actual	Variance	F/U
Sales	101,600	88,000	13,600	U
Cost of Goods Sold	35,600	32,400	3200	F
Gross Profit	66,000	55,600	10,400	U

- c. With reference to the above Income Statement Variance Report above, explain why management might be unsatisfied with a favourable variance.

2 marks

**Total: 11 marks**

**Question 3**

Paul Eason owns a shop called Eason's Electrical and Entertainment, which sells electrical appliances and entertainment accessories. A stock line of earphones (EE-500), with cost price of \$55, is about to be superseded by a new model (EE-550). It is realised that the old stock line (EE-500) can no longer be sold for the initial selling price of \$99 (GST inclusive) on 5 May 2015.

- a. Identify and explain how one accounting principle is breached if Paul does not recognise net realisable value.

3 marks

- b. Paul now has 29 pairs of EE-500 earphones in stock. One of his employees suggests selling them at \$44 per pair (GST exclusive). Promotional stickers with a cost of \$2 each and commission expense for staff of \$5 per pair of earphones are required (Memo 55).

Prepare the General Journal entry required to adjust the Stock Control account. A narration is required.

4 marks

- c. Explain the impact on the Balance Sheet if Eason's Electrical and Entertainment does not adopt the rule of lower of cost and net realisable value in stock valuation.

3 marks

**Total: 10 marks**

**Question 4**

Jimmy Johnson the owner of Jimmy's Small Goods is perplexed that although the business made a net loss over the reporting period ending June 30<sup>th</sup> 2015, the bank balance of the business increased by more than \$10000 without him making any capital contribution or taking out any loans.

Explain how this could occur, giving one example.

3 marks

**Question 5**

Khanna's Kayaks have been renting out part of their office space to another business for a number of years. On 11 October 2015 the Khanna's Kayaks received \$5 280 including \$480 GST from Ace Industries to renew the rent contract due to expire on 31 October 2015 (Chq. 324). The payment was correctly recorded in the Prepaid Rent Revenue account. On 30 June 2016, before any adjusting entries, the balance in the Prepaid Rent Revenue account was \$6240.

- a. Prepare the necessary General Journal entries for Khanna's Kayaks to record the
- Balance day adjustment.
  - Closing entry.

Relating to rent revenue for the year ending 30 June 2016 (Narrations are not required.)

2 + 2 = 4 marks

- b. State the effect on the Balance Sheet if the balance day adjustment relating to insurance was not made.

3 marks

**Total: 7 marks**

**Question 6**

Fiona Fern owns and operates Table's by Fi, a small business selling a variety of tables and other ornaments. Features of the business's accounting system include the following:

- The business sells to customers and buys from suppliers on both a cash and credit basis, and employs the perpetual method of stock recording and the First In, First Out (FIFO) cost assignment method.
- The business prepares financial reports quarterly.

Fiona provided the following Stock Card for Mahogany Tables:

Stock Item: Mahogany Tables						Supplier: Tables by Fi				
Location: Right-Side of Basement						Cost Assignment Methods: FIFO				
Date 2015	Details	In			Out			Balance		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Jan	Balance							2	1500	3000
								9	1400	12600

During 2013, the following transactions occurred:

- 8 Jan – Cash Sale (Receipt 21) of 10 Mahogany Tables at \$3300 each.
- 14 Jan – Purchased (Cheque 71) 15 new Mahogany Tables at \$1320 each.
- 1 Feb – Credit Sale (Invoice F82) 10 Mahogany Tables to J Smith at \$3300 each.
- 6 Feb – Fiona took a table home for Easter (Memo 21).
- 14 Feb – Sold 3 Mahogany Tables (Invoice F94) at a price of \$3400 each.
- 19 Feb – Purchased (Invoice T45) 20 Mahogany Tables at \$1430 each from Woodworx.
- 6 Mar – As there Fiona had noticed her Mahogany Tables were not selling, she decided to put 3 of them at the front on her shop, not intended for resale. (Memo 22).
- 18 Mar – Sales Return of 3 damaged Mahogany Tables (Credit Note X52) sold to J. Smith at \$3300 each.
- 19 Mar – The 3 damaged units were returned to the supplier – Woodworx'. These tables were purchased on 19 February (Credit Note A45).
- 29 Mar – Credit Sale (Invoice G11) of 9 Mahogany Tables at \$2750 each.
- 31 Mar – A physical stocktake showed 11 Mahogany Tables on hand (Memo 23).

Note: GST is to be applied where appropriate.

- Record all relevant transactions in the Stock Card for Mahogany Tables for the quarter ended 31 March 2015.

11 marks

- Record the transactions from the following dates into the General Journal:

- 6 February.
- 18 March.
- 31 March.

9 marks

- Explain what is meant by the FIFO cost assignment method and explain why a business would choose to adopt the FIFO method, including one benefit of using the FIFO cost assignment method.

4 marks

**Total: 24 marks**

**Question 7**

Terence Tree owns a small business called Terra Nova, specialising in the sale of gardening and landscaping supplies. He prepares reports monthly and on 30 June 2015 he has recorded all transactions into the relevant journals. A summary of these is provided:

**Cash Payments Journal (Summary)**

Date 2015	Details	Chq. No.	Bank	Disc. Rev.	Creditors Control	Stock Control	Wages	GST	Sundries
30 June	Totals to date		31500	2500	21000	60000	7000	6000	1750

Sundries include a GST Settlement of \$1000.

**Cash Receipts Journal (Summary)**

Date 2015	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	GST	Sundries
30 June	Totals to date		49500	500	48000	20000	48000	4800	2000

**Sales Journal (Summary)**

Date 2015	Debtor	Invoice Number	Cost of Sales	Sales	GST	Debtors Control
30 June	Totals to date		21000	50000	5000	55000

**Purchases Journal (Summary)**

Date 2015	Creditor	Invoice Number	Stock Control	GST	Creditors Control
30 June	Totals to date		5000	500	5500

- Using the information from the journals provided above, complete the GST Clearing account in the General Ledger.  
You are required to balance the account.  

5 marks
- Explain with reference to an accounting principle why accounts such as GST Clearing are balanced and not closed.  

3 marks
- Many businesses use control accounts and subsidiary records in their accounting systems. Identify a control account and its corresponding subsidiary record, and then explain benefits and costs of using both control accounts and subsidiary records.  

5 marks

**Total: 13 marks**

**Question 8**

Chai's Teashop provides you with the following information in regard to a particular stock line, Authentic Chai Tealeaves, purchased from India for the year ending 31 December 2015.

Chai's Teashop altogether purchased 80 kg of Authentic Chai Tealeaves evenly in 4 shipments during the year. The policy of 100% mark-up on cost price is applied on this stock line.

Supplier's Invoice Price (per kg)	\$120
Freight and Custom Duty per shipment (only Tealeaves)	\$100
Storage cost per annum	\$400
Packaging cost per kg	\$5
Magazine advertisements per month (only for this stock line)	\$80

Note: All amounts have been converted into Australian dollar.

- a. With reference to one qualitative characteristic, justify your treatment of storage cost.  
3 marks
- b. The owner of Chai's Teashop insists that all costs apart from the invoice price should be treated as period costs. State if the owner is correct in this treatment and explain the effect of this policy on the valuation of stock and Net Profit if 10 kg of Authentic Chai Tealeaves remains unsold at 31 December 2015.  
3 marks

**Total: 6 marks**

**Question 9**

Teresa's friend, an accountant, has provided her with the following information:

	2012	2013
Working Capital Ratio	1.2 : 1	1.2 : 1
Quick Asset Ratio	0.6 : 1	0.45 : 1
Debtors Turnover	32 days	38 days
Creditors Turnover	28 days	32 days
Stock Turnover	30 days	35 days
Return on Assets	16.7%	9%

**Credit terms:**

Debtors 2/5, n30.

Creditors 3/14, n30.

Teresa is concerned about her business's liquidity, and hypothetically asks if she is able to pay all her suppliers if all of her bills are due within 28 days.

Using the information above, discuss Teresa's ability to pay off its debt if it is due in 28 days.

4 marks

**Question 10**

Behara's Bikes is small retail store specialising in bike sales. The business prepares reports monthly. On the 31<sup>st</sup> September 2013, the business bought a computer system for \$15000. Non-Current Assets are depreciated using the straight line method at a rate of 10% per annum on cost. However, in 2015, a newer model was released, and Behara's Bikes, wanting to stay updated with market trends, upgraded their system. The old computer system was traded in for \$9000, \$3000 higher than its carrying value of \$6000. The new system was bought from Dom's Discount store, at a price of \$21000 plus GST. The trade-in and purchase occurred on the 31st September 2015.

- a. Show all required journal entries as a result of this transaction (Narrations are not required).

10 marks

- b. Discuss the strengths and weaknesses of using the straight line depreciation method, including in your answer one other type of depreciation that could be used for specific non-current assets and the reasoning behind selecting a particular method.

5 marks

**Total: 15 marks**

**Question 11**

Craig Pendlebury of Craig's Caravans is concerned about his business performance from the last reporting period. A similar business, who is a competitor of Craig, named World of RVs has made a considerably greater net profit for the last reporting period ending June 30<sup>th</sup> 2015. Craig himself has increased his Return on Owner's Investment by 10% from the last reporting period and in addition to this his Net Profit Margin has increased by an added 5% from the last reporting period.

Evaluate whether or not Craig should be concerned with his business performance for the last reporting period ending June 30<sup>th</sup> 2015.

4 marks

End of Booklet

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