



## *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 |
|---------------------|------------------------------------|-----------------|
| 6                   | 6                                  | 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

Harold Jones runs a small business called Stationery Heaven which sells stationery products. The business has been previously using single entry accounting but has decided to commence using a double entry accounting system based on the accrual accounting method. In addition, the business will introduce control accounts and subsidiary records for Creditors, Debtors and Stock. In order to record stock, the perpetual method of stock recording and the FIFO cost assignment method will be used. The business will prepare reports every 6 months on 30 June and 31 December.

Stationery Heaven had the following balances as at 1 July 2014:

|                    | \$     |    |
|--------------------|--------|----|
| Bank               | 2 000  | Dr |
| GST Clearing       | 3 400  | Cr |
| Debtors            | 15 000 |    |
| Creditors          | 7 900  |    |
| Stock              | 57 620 |    |
| Equipment          | 5 700  |    |
| Capital – Jones    | ?      |    |
| Loan – ABC Finance | 3 500  |    |

The loan from ABC Finance must be repaid by 15 September 2014.

- a. Prepare the relevant general journal entry to record the move to a double-entry accounting system. (A narration is not required).

3 marks

- b. Identify two benefits of using both a control account and subsidiary ledgers for Debtors.

2 marks

- c. Explain, with reference to an accounting element, how the ABC Finance Loan should be classified in the Balance Sheet in July 2014.

2 marks

- d. Explain what is meant by the term double entry accounting.

2 marks

**Total: 9 marks**

**Question 2**

At 31 March 2014, the following journals were provided by the owner of Basic Books:

**Sales Journal**

| Date<br>2014 | Debtor | Inv.<br>No. | Cost of<br>Sales | Sales  | GST   | Debtors<br>Control |
|--------------|--------|-------------|------------------|--------|-------|--------------------|
| Mar 31       | Totals |             | 5 600            | 11 000 | 1 100 | 12 100             |

**Purchases Journal**

| Date<br>2014 | Creditor | Inv.<br>No. | Stock<br>Control | GST | Creditors<br>Control |
|--------------|----------|-------------|------------------|-----|----------------------|
| Mar 31       | Totals   |             | 8 900            | 890 | 9 790                |

**Cash Receipts Journal**

| Date<br>2014 | Details | Rec.<br>No. | Bank   | Disc.<br>Exp. | Debtors<br>Control | Cost of<br>Sales | Sales  | GST   |
|--------------|---------|-------------|--------|---------------|--------------------|------------------|--------|-------|
| Mar 31       | Totals  |             | 33 780 | 60            | 5 240              | 12 000           | 26 000 | 2 600 |

**Cash Payments Journal**

| Date<br>2014 | Details | Chq.<br>No. | Bank   | Disc.<br>Rev. | Creditors<br>Control | Stock<br>Control | Wages | Sundries | GST   |
|--------------|---------|-------------|--------|---------------|----------------------|------------------|-------|----------|-------|
| Mar 31       | Totals  |             | 27 480 | 40            | 4 350                | 7 500            | 6 800 | 7 520    | 1 350 |

When the owner was searching through his files, he discovered the following documents which had not yet been recorded.

|                                   |       |
|-----------------------------------|-------|
| <b>Basic Books</b>                |       |
| Tax Invoice No. 78                |       |
| 30 March 2014                     |       |
| Charge to: Georges Primary School |       |
| For: Student Diaries              |       |
| Quantity: 25 Diaries at \$8 each  |       |
| Amount:                           | \$200 |
| GST:                              | \$20  |
| Total:                            | \$220 |

|   |  |
|---|--|
| <b>Basic Books</b>  |  |
| Memo No. 56   |  |
| 15 March 2014   |  |
| Withdrew 2 Calendars, with cost price \$5 each, for personal use. |  |

The cost price of the student diaries was \$5 each.

- a. Record the above transactions in the appropriate journals (Narrations are not required).  
3 marks
- b. Explain the effect on the Balance Sheet if the transaction documented by Memo No. 56 was not recorded.  
2 marks
- c. Complete the Stock Control ledger account as at 31 March 2014.  
(You are required to balance the account.)  
5 marks
- d. Identify one advantage and one disadvantage of offering debtors a discount for early payment.  
2 marks
- Total: 12 marks**

**Question 3**

As at 31 January 2014 the following pre-adjustment Trial Balance was provided (the business reports monthly):

**Baxter Boats**  
**Pre-adjustment Trial Balance as at 31 January 2014**

| Account                           | Debit \$       | Credit \$      |
|-----------------------------------|----------------|----------------|
| Accumulated Depreciation –Vehicle |                | 6 000          |
| Advertising                       | 890            |                |
| Bank                              | 5 900          |                |
| Building                          | 200 000        |                |
| Capital                           |                | 112 290        |
| Cost of Sales                     | 23 000         |                |
| Creditors Control                 |                | 36 450         |
| Debtors Control                   | 17 800         |                |
| Discount Expense                  | 200            |                |
| Discount Revenue                  |                | 170            |
| Drawings                          | 510            |                |
| Freight In                        | 700            |                |
| Freight Out                       | 1 150          |                |
| GST Clearing                      |                | 2 450          |
| Interest Expense                  | 250            |                |
| Loan – WXY Finance                |                | 88 000         |
| Prepaid Rent Expense              | 3 000          |                |
| Sales                             |                | 46 000         |
| Stock Control                     | 4 580          |                |
| Vehicle                           | 30 000         |                |
| Wages Expense                     | 3 380          |                |
|                                   | <b>291 360</b> | <b>291 360</b> |

The following items require adjustments to be made for the month ending 31 January 2014:

- A payment for a six-month contract for \$3 600 for rent beginning 1 December 2013 has been made.
  - At 31 January 2014, \$340 wages are still owed.
  - A Debtor (P. Heck) has been declared bankrupt and advised they are unable to pay their \$500 account.
  - The Vehicle is depreciated using the straight-line method at 10% pa.
  - \$90 in Drawings was accidentally recorded as Wages Expense.
- a. Prepare the General Journal entries necessary to record the information above on 31 January 2014. (Narrations are not required.)

10 marks

- b. Explain, with reference to an accounting principle, the purpose of preparing balance day adjustments.

1 + 2 = 3 marks

- c. Show how the Wages general ledger account would appear at 31 January 2014 after relevant entries had been posted. (You are required to close the account.)

4 marks

- d. Prepare an extract of the Balance Sheet at 31 January 2014 to show Non-Current Assets.

2 marks

The owner has been depreciating the vehicle using the straight-line method but believes the reducing balance method would be more appropriate.

- e. Discuss, with reference to appropriate accounting principles and qualitative characteristics, whether the owner should change depreciation methods.

4 marks

**Total: 23 marks**

#### Question 4

Hammond's Electrics sells three different types of steam mops. Details of type 'Floor Wiz' are shown below.

- Balance (1 December 2013) - 6 units at cost price of \$90 each.
- 7 December: Credit purchase of 15 units from Wiz Ltd at a cost of \$100 plus \$10 GST each (Inv. S77).
- 17 December: Credit sale of 9 units for \$180 plus \$18 GST each to Bagget Motels (Inv. A4).
- 20 December: Bagget Motels returned 3 units due to damage (Credit Note No. 7).
- 22 December: The damaged stock was returned to Wiz Ltd for a full credit (Credit Note No. M21).
- On 31 December a physical stocktake showed 11 units on hand (Memo No. 6).

- a. Record all relevant information into the Stock Card.

5 marks

- b. Record the transactions on 20 December and 22 December into the General Journal. (Narrations are not required.)

5 + 3 = 8 marks

- c. Explain how the use of Stock Cards can assist in the management of stock.

3 marks

**Total: 16 marks**

**Question 5**

Mark Mitchell operates a small business, 'Mitch's Music', selling a range of musical instruments and accessories.

The business prepares financial reports quarterly on 31 March, 30 June, 30 September and 31 December each year.

At 31 December 2013 an examination of stock records (see table below) indicated a stock loss and the need to write down the value of one item.

| Model                   | Quantity on Stock Card | Quantity from Stocktake | Unit Cost Price | Normal Unit Selling Price | Net Realisable Value |
|-------------------------|------------------------|-------------------------|-----------------|---------------------------|----------------------|
| Martin Electric Guitar  | 20                     | 20                      | \$300           | \$620                     | \$620                |
| Stendway Electric Piano | 15                     | 14                      | \$500           | \$1,200                   | \$1,200              |
| Les Pete Bass Guitar    | 12                     | 12                      | \$180           | \$400                     | \$150                |
| Morrison Trumpet        | 15                     | 14                      | \$90            | \$150                     | \$150                |

- a. Using the information contained in the above table, calculate
- value of the stock loss.
  - value of the stock write down.
  - total value of stock on hand at 31 December 2013.

1 + 1 + 2 = 4 marks

- b. Explain what is meant by the term Net Realisable Value.

2 marks

- c. Prepare the General Journal entry required to record the stock write-down.  
(Narration is not required.)

2 marks

In January 2013 Mark agreed to rent out part of the store to a piano teacher who provides music lessons for students. The rental agreement comprises two components:

- \$100 per month (plus 10% GST) payable 3 months in advance.
- Commission of 10% on revenue earned on piano lessons. This commission is calculated at the end of each reporting period and paid to Mark in the following month.

The agreement commenced on 1 February 2013 with receipt of the first 3 months rent (Rec. 76). At 31 March, the piano teacher had provided 40 piano lessons @ \$35 each plus GST.

- d. Record the
- Receipt of Rent Revenue on 1 February 2013.
  - Adjusting entries required on 31 March 2013.
  - Receipt of Commission Revenue (including GST) on 9th April 2013 (Rec. 142).
  - In the appropriate journals (Note: Narrations are not required in the General Journal).

1 + 2 + 2 + 2 = 7 marks

- e. Explain why a balance day adjustment was required on 31 March 2013. State an accounting principle to support your answer.

2 + 1 = 3 marks

- f. Explain the effect on the Assets and Equities of the business if the adjustment for Accrued Revenue was not made.

2 marks

**Total: 20 marks**



**Question 6**

Peter Collier requested his accountant prepare budgets for his business – Pete's Parklands'. He provided the accountant with the following information:

**Estimates for year ending 31 December 2013:**

|                          |                             |
|--------------------------|-----------------------------|
| Credit Sales             | \$710 000 plus GST          |
| Bad Debts                | 1% of credit sales plus GST |
| Discount Expense         | 2% of credit sales plus GST |
| Rent Revenue             | \$2 500 per month           |
| Wages Expense            | \$182 000                   |
| Stock Write Down         | \$10 000                    |
| Cost of Sales            | \$370 000                   |
| Office expenses          | \$50 000 plus \$5 000 GST   |
| Depreciation – Equipment | \$12 000                    |

**Relevant account balances:**

|                      | 1 January 2013<br>(Actual) | 31 December 2013<br>(Estimated) |
|----------------------|----------------------------|---------------------------------|
| Accrued Rent Revenue | Nil                        | \$2 500                         |
| Creditors Control    | \$47 000                   | \$52 000                        |
| Debtors Control      | \$70 000                   | \$62 000                        |
| Stock Control        | \$82 000                   | \$95 000                        |
| GST Clearing         | \$3 700 Cr                 | \$4 200 Cr                      |

The bank balance at 31 December 2013 was estimated to be \$28 500 Cr.

- a. Reconstruct the necessary ledger accounts to determine the estimated
- Cash collected from debtors
  - Cash paid to creditors
  - Rent Revenue received.

4 + 5 + 3 = 12 marks

- b. Prepare the Budgeted Income Statement for the year ended 31 December 2013.

5 marks

After preparation of financial reports on 31 December 2013 the accountant provided the following information:

|               | Budgeted | Actual  |
|---------------|----------|---------|
| Stock Loss    | (none)   | \$5 000 |
| Sales Returns | (none)   | \$6 500 |

- c. Explain what is shown by this information and suggest strategies the business could employ to minimise it occurring in future reporting periods.

3 marks

**Total: 20 marks**

End of Booklet

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