**PES**

**2019 ACCOUNTING UNIT 3**

## Practice Examination

**SOLUTION**

**Question 1 (11 marks)**

1. **6 marks**

**Accounts Receivable - Louis**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| **Apr 1** | **Balance** | **1 000** | 19 | Bank/Discount Expense | 750 |
|  | Bank | 360 | 28 | Sales Returns/GST Clearing | 99 |
| 9 | Sales/GST Clearing | 825 | 30 | Balance | 1 831 |
| 27 | Sales/GST Clearing | 495 |  |  |  |
|  |  | 2 680 |  |  | 2 680 |
| May 1 | Balance | 1 831 |  |  |  |

*Award one mark for:*

* *Each entry in account*
* *Completing the account – totals on both sides of the account and the balance brought down*

**b. 4 marks**

|  |
| --- |
| **Analysis:** |
| It is taking longer for accounts receivable to pay their accounts. Danni offers a discount, so she may need to track and manage her accounts receivable better by sending regular invoices **(1 mark)**. At the same time, she pays her accounts payable faster than she is receiving money from accounts receivable **(1 mark)**. Danni should pay her accounts payable on time. **(1 mark)** She could also negotiate longer terms, or look for a new supplier with longer credit terms. **(1 mark)** |

**c. 1 mark**

|  |
| --- |
| **Identification:** The business is holding onto its cash for a longer period of time and is available to pay for other items. |

**Question 2 (19 marks)**

1. **6 marks**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Inventory Item:** Hair Shampoo **Supplier:** Advance Hair  **Location:** Melbourne Store Room 1 **Cost Assignment Method:** First In First Out | | | | | | | | | | |
| **Date**  **2019** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| May 1 | *Balance* |  |  |  |  |  |  | *50* | *50* | *2 500* |
| 9 | *Inv 189* | *20* | *55* | *1100* |  |  |  | *50*  *20* | *50*  *55* | *2 500*  *1 100* |
| 12 | *C/N 14* |  |  |  | 5 | 50 | 250 | 45  20 | 50  55 | 2 250  1 100 |
| 13 | Memo  99 |  |  |  | 10 | 50 | 500 | 35  20 | 50  55 | 1 750  1 100 |
| 15 | Rec 99 |  |  |  | 35  5 | 50  55 | 1 750  275 | 15 | 55 | 825 |
| 19 | Memo 105 |  |  |  | 5 | 55 | 275 | 10 | 55 | 550 |
| 28 | Inv 900  Chq 227 | 30  30 | 40  5 | 1200  150 |  |  |  | 10  30 | 55  45 | 550  1 350 |

*Award one mark for:*

* *Each entry in inventory card May 12, 13, 15, 19*
* *One mark for each entry on the 28 May*

1. **7 marks**

**Will’s Hair Supplies**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2019** | **Details** | **Debit** | **Credit** |
| May 12 | Accounts Payable – Advance Hair | 275 |  |
|  | Inventory |  | 250 |
|  | GST Clearing |  | 25 |
| 13 | Drawings | 500 |  |
|  | Inventory |  | 500 |
| 19 | Advertising | 275 |  |
|  | Inventory |  | 275 |

*Award one mark for:*

* *Each line in General Journal*

1. **2 marks**

|  |
| --- |
| **Explanation:** |
| The revenue of the business will increase by $4 800 (40 x 120), (**1 mark**). Cost of sales will rise by $2 025 (35 x 50 and 5 x 55), having an overall effect of $2 775 increase in Net profit. (**1 mark)** |

1. **2 marks**

|  |
| --- |
| **Explanation:** |
| The labelling costs are included as part of the cost price of the inventory (**1 mark**). They are a product cost as they can be directly allocated to the individual hair shampoos on a logical basis.  (**1 mark**) |

1. **2 marks**

|  |
| --- |
| **Description:** |
| He could have some inventory that is permanently on display, and the remainder should be secured in the storeroom or cupboards. (**1 mark**) This would reduce the chance of theft as the inventory can only be accessed by staff who are selling the inventory. **(1 mark)** |

**Question 3 (11 marks)**

1. **1 mark**

|  |  |
| --- | --- |
| 300-50 | |
| **Net Realisable Value of Vintage Royale** | $ 250 |

1. **2+3=5 marks**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Inventory Item: Vintage Royale Supplier:** Royale AirForce  **Location:** Windsor **Cost Assignment Method:** Identified Cost | | | | | | | | | | |
| **Date**  **2019** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| Jun 30 | Balance |  |  |  |  |  |  | 15  25 | 300  350 | 13 250 |
|  | Memo 87 |  |  |  | 15  25 | 50  100 | 750  2 500 | 40 | 250 | 10 000 |

*Award one mark for:*

* *First entry in out column (15 @ $50)*
* *Second entry in out column (25 @ $100) including balance (2 marks)*

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2019** | **Details** | **Debit** | **Credit** |
| Jun 30 | Inventory Write down | 3 250 |  |
|  | Inventory |  | 3 250 |
|  | 40 Vintage Royale Model aeroplanes valued at lower of cost and net realizable value (Memo 87) due to poor sales |  |  |

*Award one mark for:*

* *Each line in General Journal*
* *Correct narration*

1. **2 marks**

|  |
| --- |
| **Explanation:** |
| The First In First Out Method assumes the oldest inventory will be sold first. Therefore, when recording transactions in the inventory card, the oldest inventory is recorded for all outgoing transactions. (**1 mark**)  On the other hand, the Identified Cost Method attaches the specific cost price to the inventory leaving the business. Therefore, any inventory can be used provided the cost price can easily be identified. (**1 mark**) |

*Students must use a word to highlight a difference (whereas, in contrast, etc)*

1. **3 marks**

|  |
| --- |
| **Explanation:** |
| Where Net Realisable Value has fallen below Cost, it means that the cost price currently recorded in the inventory card no longer provides a faithful representation **(1 mark)** of the value of the inventory. In such a case, applying the Lower of ‘Cost’ and ‘Net Realisable Value’ rule means the inventory must be revalued (to its NRV) by recording an Inventory write-down, which represents the expense incurred when the Net Realisable Value of an item falls below its Cost or original purchase price. (**1 mark)** This recognises the loss on the inventory and avoids overstating the value of inventory, which impacts decision making. (**1 mark)** |

**Question 4 (16 marks)**

1. **7 marks**

**Princess Dresses**

**Balance Sheet as at 1 June 2019**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **ASSETS** | $ | $ | **LIABILITIES** | $ | $ |
| **Current Assets** |  |  | **Current Liabilities** |  |  |
| Inventory | 8 000 |  | Accounts Payable  -Fashion by Will |  |  |
| GST Clearing | 2 000 |  | 8 800 |  |
| Bank | 6 800 | 16 800 | Loan | 12 000 | 20 800 |
| **Non-Current Assets** |  |  | **Non-Current Liabilities** |  |  |
| Fixtures and Fittings | 12 000 |  | Loan |  | 20 000 |
| Vehicle | 45 000 | 57 000 | **Owner’s Equity** |  |  |
|  |  |  | Capital |  | 33 000 |
|  |  | 73 800 |  |  | 73 800 |

*Award one mark for each of the following:*

* *Inventory*
* *GST Clearing*
* *Bank*
* *Both non-current assets*
* *Accounts Payable*
* *Loan – split into current and non-current*
* *Capital*

1. **2 marks**

|  |
| --- |
| **Explanation:** The fixtures and fittings are a non-current asset as it is a present economic resource controlled **(1 mark)** by the entity which is expected to be used to earn revenue for many years. **(1 mark)** |

1. **2 marks**

|  |
| --- |
| **Explanation:** The Balance Sheet provides a snap-shot of the business’s financial position at a particular point in time. **(1 mark)**  It is relevant for 1 day – 30 June, and is considered to be a static report. **(1 mark)** |

1. **5 marks**

|  |
| --- |
| **Discussion:** The qualitative characteristics of faithful representation and relevance dictates that the Vehicle should be valued at what it is worth to the business at the time it is contributed which is its fair value of $45 000 as this is the price that would be received if the asset was sold at the time it was acquired by the business. (**1 mark**)  The dollar amount of the fair value is an estimate and therefore not verifiable in the same way as other assets that have been purchased by the business, (**1 mark**) however references to current market valuations of other comparable assets will help to ensure that the fair value chosen is without bias. (**1 mark**)  The original purchase price of $60 000 is no longer relevant for decision making as the asset is no longer new and will have a limited economic contribution to the business. (**1 mark**) In recognizing the fair value the owner is acknowledging this fact and will not overstate the value of assets or overstate depreciation expense. (**1 mark**) |

**Question 5 (15 marks)**

1. **3 marks**

|  |  |
| --- | --- |
| Electricity $2 300  Rent $20 000  Wages $25 000  Interest Expense $600  Cost of Sales $68 750 | |
| Expenses $ | 116 650 |

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2019** | **Details** | **Debit** | **Credit** |
| Apr 30 | Profit and Loss Summary | 116 650 |  |
|  | Electricity |  | 2 300 |
|  | Rent Expense |  | 20 000 |
|  | Wages |  | 25 000 |
|  | Interest Expense |  | 600 |
|  | Cost of Sales |  | 68 750 |

*Award one mark for each of the following:*

* *Cost of sales*
* *All other expenses*
* *Profit and Loss Summary*

1. **3 + 3 +4 = 10 marks**

**Profit and Loss Summary**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| Apr 30 | Expenses | 116 650 | Apr 30 | Revenues | 110 650 |
|  |  |  |  | Capital | 6 000 |
|  |  | 116 650 |  |  | 116 050 |

*Award one mark for:*

* *Each entry in the ledger (3 marks)*

**Capital**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| Apr 30 | Drawings | 6 400 | **Apr 1** | **Balance** | **37 200** |
|  | P&L Summary | 6 000 | Apr 30 | Bank | 8 000 |
|  | Balance | 32 800 |  |  |  |
|  |  | 45 200 |  |  | 45 200 |
|  |  |  | May 1 | Balance | 32 800 |

*Award one mark for:*

* *Each entry in the ledger (3 marks)*

**Inventory**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| **Apr 1** | **Balance** | **47 800** | Apr 30 | Cost of Sales | 68 750 |
| Apr 30 | Accounts Payable | 38 500 |  | Drawings | 800 |
|  | Bank | 25 000 |  |  |  |
|  | Inventory Gain | 250 |  | Balance | 42 000 |
|  |  | 111 550 |  |  | 111 550 |
| May 1 | Balance | 42 000 |  |  |  |

*Award one mark for:*

* *Each entry in the ledger (4 marks)*
* *Deduct one mark if Capital/Inventory are not balanced, or balanced incorrectly*

1. **2 marks**

|  |
| --- |
| **Explanation:** |
| Under the period assumption revenue and expense accounts are closed in order to transfer the revenues earned and the expenses incurred to the Profit and Loss summary account **(1 mark)** in order to calculate profit for the current period. **(1 mark)** |

**Question 6 (4 marks)**

|  |
| --- |
| **Discussion:** |
| Candice’s requirement for the employees to register all the tips they receive from the customers may affect her relationship with both her employees and her customers.  Customers may not like the fact that the tips they are giving the employees who are delivering flowers in their own time are being given to the business.  Furthermore, the employees may feel disheartened as they are working extra hours at no pay to deliver the flowers for the business.  However, if the decision to collect all tips is to ensure an equal distribution of the tips amongst the employees or if Candice chooses to reward her employees in other ways (using the tips for a staff event) then this decision may be more acceptable. But if she is using the tips to increase the cash flow of the business then this would be considered an unfair practice and she may find that her employees may no longer offer to deliver the flowers in their own time. |

*Award one mark for each point discussed.*

**Question 7 (17 marks)**

1. **9 marks**

**Harry’s Hardware**

**Income Statement for the quarter ended 30 September 2019**

|  |  |  |
| --- | --- | --- |
| **REVENUE** | $ | $ |
| Sales – cash | 210 000 |  |
| Sales - credit | 140 000 | 350 000 |
| Less Sales Returns |  | 3 500 |
| **NET SALES** |  | **346 500** |
| **Less COST OF GOODS SOLD** |  |  |
| Cost of sales | 173 250 |  |
| Delivery In | 2 500 | 175 750 |
| **GROSS PROFIT** |  | **170 750** |
| Less Inventory Loss |  | 7 000 |
| **ADJUSTED GROSS PROFIT** |  | **163 750** |
| **Add OTHER REVENUE** |  |  |
| Discount Revenue |  | 2 000 |
|  |  | 165 750 |
| **Less OTHER EXPENSES** |  |  |
| Discount Expense | 3 800 |  |
| Wages | 30 000 |  |
| Interest expense | 600 |  |
| Other expenses | 45 000 |  |
| Delivery Out | 4 000 | 83 400 |
| **NET PROFIT** |  | **82 350** |

***Award one mark for:***

* *Sales/Cash and Credit shown separately*
* *Sales Returns*
* *Cost of Sales/Delivery In/Gross Profit*
* *Inventory Loss/Adjusted Gross Profit*
* *Discount Revenue/Total of Adjusted Gross Profit and Other Revenue*
* *Interest*
* *Other Expenses*
* *Delivery Out*
* *Wages/Discount Expense*

1. **6 marks**

**Harry’s Hardware**

**Extract of Cash Flow Statement for the year ended 30 September 2019**

|  |  |  |
| --- | --- | --- |
| OPERATING ACTIVITIES | $ | $ |
| Cash Sales | 210 000 |  |
| Receipts from Accounts Receivable | 135 000 |  |
| GST Received | 21 000 | 366 000 |
| Inventory purchases | (68 000) |  |
| Payments to Accounts Payable | (80 000) |  |
| Other Expenses | (42 600) |  |
| GST Paid | (9 800) |  |
| GST Settlement | (1 240) |  |
| Wages | (30 000) |  |
| Interest Expense | (600) |  |
| Delivery In | (2 500) |  |
| Delivery Out | (4 000) | (238 740) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES |  | 127 260 |

*Award one mark for:*

* *Cash Sales/GST Received*
* *Accounts Receivable/Accounts Payable*
* *GST Paid/GST Settlement*
* *Inventory purchases*
* *1 mark for any 2 other expenses*
* *1 mark for any 2 other expenses*

1. **2 marks**

|  |
| --- |
| Net Cash Flows from investing activities refers to the cash inflows less the cash outflows generated from the purchase **(1 mark)** and sale of non-current assets. **(1 mark)** |

**Question 8 (7 marks)**

1. **4 marks**

|  |
| --- |
| While the business has improved the level of sales over the two-year period, its profitability has fallen. Despite Cost of Sales reducing, indicating a fall in cost price, or a rise in selling price, the business’s expense control has deteriorated. The GPM of the business is performing better than the industry average. Wages have increased which could be due to the increase in sales and the need for more employees, or employees to work longer hours. Other expenses have also risen during this time, with both decreasing the Net Profit Margin below the industry average.  The improvement in the Inventory Turnover is probably due to the increase in sales, which may be due to the increase in Other expenses (advertising). Alternatively, the improved Inventory turnover could be due to the business experiencing more inventory write-downs as the business has tried to eliminate slow moving lines of inventory.  The net profit margin of the business has worsened despite the cost of sales remaining at a constant level expense control has worsened with wages increasing. |

*Mark globally*

*Students should however make mention of the information in the pie charts, the other information and the Industry Averages to gain all available marks*

1. **2 marks**

|  |
| --- |
| **Non Financial Information:** The number of times goods are returned by customers. |
| **Explanation:** This is an indicator of the level of customer satisfaction with the inventory |
| and could also provide insight as to the quality of the inventory, delivery procedures etc. |
| This data can be used by the business to help make more effective decisions. |

*1 mark for the identification of non-financial information*

*1 mark for an explanation as to how the non-financial information can be used by the business*

1. **1 mark**

|  |
| --- |
| Budgeted performance of Return on Assets, Net Profit Margin, Gross Profit Margin |