**Student Name:**

**PES**

**2019 ACCOUNTING UNIT 4**

## Outcome 1 – Set 2

## EXTENSION OF RECORDING AND REPORTING

**QUESTION BOOK**

**Structure of book**

|  |  |  |
| --- | --- | --- |
| *Number of*  *Questions* | *Number of questions*  *to be answered* | *Number of*  *marks* |
| 6 | 6 | 50 |

* Students are permitted to bring into the SAC room: pens, pencils, highlighters, erasers, sharpeners, rulers and one scientific calculator.
* Students are NOT permitted to bring into the SAC room: blank sheets of paper and/or white out liquid/tape.

**Materials supplied**

* Question Book of 6 pages.
* Answer Book of 10 pages.

**Instructions**

* Write your name and your teacher’s name in the space provided on the front page of both this Question Book and the Answer Book.
* Answer all questions in the Answer Book.

**At the end of the task**

* Place this Question Book on top of the Answer Book and wait for both to be collected.

**Students are not permitted to bring mobile phones and/or any other unauthorised electronic devices into the SAC room.**

**Question 1** (3 marks)

With reference to a qualitative characteristic, explain why a business should recognise bad debts at balance day.

**Question 2** (20 marks)

Bryan’s Party Supplies decided to replace the computer equipment that was purchased 2 years ago for $3 700 on 31 October 2019. The business traded in the old computer for $500 for a new one financed by a loan from ZNA Finance. At 30 September 2019 the old computer had a carrying value of $1 500.

Details of the trade-in and purchase of the new computer are shown on the following invoice.

**Cartel Electrics**

**ABN** 95 254 369 741

**Tax Invoice** 134

**Date** 31/10/2019

**Charge to:** Bryan’s Party Supplies

**Item:** Model PC 28Z

**Cost of new Computer Equipment (including GST) $6 600**

**Less trade-in allowance 500**

**Amount Owing $6 100**

###### Other Information

Depreciation of the old computer equipment to 31 October – $150 (Memo 2)

1. **Prepare** the General Journal entries required on 31 October 2019 to record
   * + - the depreciation of the old computer equipment
       - the disposal of the old computer equipment
       - the purchase of the new computer equipment. (Narrations are **not** required.)

1+ 4 + 3 = 8 marks

1. **Complete** the table in the Answer Booklet to show how the transactions above would be reported in the Statement o Cash Flow Statement for the quarter ended 31 October 2019

3 marks

**Question 2** - continued

The old computer equipment had been depreciated using the straight line method at 20% per annum on cost. The accountant suggests that it would be better to depreciate the new computer equipment using the reducing balance method at 30% per annum.

The accountant produces the following information to illustrate the effect each method will have on reporting the asset in the Balance sheet as at 31 December 2019.

###### Balance Sheet at 31 December 2019 (extracts only)

|  |  |
| --- | --- |
| Straight Line method | Reducing Balance method |
| New Computer Equipment 6 000 | 6 000 |
| Less Accumulated Depreciation 200 | 300 |
| 5 800 | 5 700 |

Bryan asked to see the effect each method would have for the following financial year.

1. **Calculate** the depreciation expense for computer equipment for the year ended 31 December 2020 using the
   * + - Straight Line
       - Reducing Balance methods of depreciation.

1+ 1 = 2 marks

1. **Explain** whether the choice of depreciation method will have any overall effect on profit over the life of the computer equipment.

2 marks

1. **Explain** the main factor the accountant should consider when selecting the depreciation method for the computer equipment.

2 marks

Bryan suggests the business uses the Straight Line method this year and change to the Reducing Balance method in 2020.

1. **Identify** a qualitative characteristic that may not be met if the business changes depreciation methods, as Bryan suggests. **Explain** the importance of observing this qualitative characteristic.

1 + 2 = 3 marks

**Question 3** (4 marks)

The manager of a business receives a bonus on all sales revenue generated. In order to increase this commission he knowingly continues to sell inventory to customers who have not paid previous accounts.

**Discuss** the financial and ethical implications of the manager’s decision.

**Question 4** (5 marks)

In September 2019, Laser Life invested $80 000 in an on-line, high interest investment account. Interest on the account is credited at 30 June each year or when the account is closed. Details were as follows:

* At 31 December 2019 $1 400 interest had been earned.
* The account was closed on 31 March 2020 and the final balance was transferred electronically to the business bank account.
* The March 2020 Bank Statement showed the credit of $82 400 received on closing the account.
  1. **Record** the General Journal entry for the balance day adjustment required to record the Interest Revenue for the year ended 31 December 2019.

2 marks

1. **Record** the credit entry of $82 400 from the March Bank Statement into the General Journal at 31 March 2020.

3 marks

**Question 5** (11 marks)

At 1 January 2019, the extract from the Trial Balance of Jagger Stones showed the following:

**Jagger Stones**

**Trial Balance as at 1 January 2019**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| Accounts Receivable | 65 000 |  |
| Allowance for Doubtful Debts |  | 2 800 |

**Additional information:**

* During the financial year ended 31 December 2019 the business recorded credit sales of $110 000 plus GST and sales returns of $9 900 including GST. Receipts from Accounts Receivable for December 2019 amounted to $95 000.
* At the 30 December 2019, the accountant estimated that 3% of net credit sales were considered doubtful.

1. **Calculate** Doubtful Debts for Jagger Stones for the year ended 31 December 2019

2 marks

1. **Show** how the Allowance for Doubtful Debts accounts would appear in the General Ledger of Jagger Stones as 31 December 2019 after all closing and balancing entries had been recorded.

3 marks

1. **Show** how the Accounts Receivable would be reported in the Balance Sheet of Jagger Stones as at 31 December 2019.

2 marks

1. The owner of the business is concerned that the allowance for doubtful debts conflicts with verifiability and he should not be providing an allowance for them. **Discuss.**

4 marks

**Question 6** (7 marks)

Susan Smythe is the owner of Stitch in Time, a small business that sells sewing machines. The business prepares reports monthly.

**Stitch in Time**

**Trial Balance as at 31 December 2019**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| Bank | 4 270 |  |
| Bad Debts | 1 440 |  |
| Allowance for Doubtful Debts |  | 1 000 |
| Loan (due 31 December 2021) |  | 10 000 |
| Fittings and Fixtures | 34 000 |  |
| Discount Revenue |  | 4 300 |
| Delivery Out | 650 |  |
| Inventory | 15 000 |  |
| Accounts Receivable | 28 700 |  |
| Sales |  | 198 000 |
| GST Clearing |  | 2 000 |
| Cost of Sales | 132 000 |  |
| Sales Returns | 2 000 |  |
| Rent Expense | 14 000 |  |
| Wages | 7 890 |  |
| Cartage In | 540 |  |
| Interest Expense | 2 500 |  |
| Accounts Payable |  | 15 730 |
| Import Duties | 490 |  |
| Prepaid Advertising | 4 500 |  |
| Capital |  | 22 425 |
| Drawings | 5 475 |  |
| **TOTAL** | **253 455** | **253 455** |

**Additional Information:**

On 1 September 2019, Susan paid $9 000 for a six month advertising campaign. The advertisements run monthly for six months commencing in September.

On 27 December 2019 the business received a notice of bankruptcy that their customer – Linen Emporium had been declared bankrupt and would not be able to pay any of the $990 owed (Memo 7).

1. **Record** the General Journal entries for the Balance Day Adjustments required for December 2019 in the General Journal of Stitch in Time.

2 marks

1. Prepare an Income Statement for the month ended 31 December 2019.

5 marks

**END OF QUESTION BOOK**