**ACCOUNTING  
  
Units 3 & 4 – Written examination**

PES

**SOLUTION**

**EXAM 2**

**Question 1** (17 marks)

a. 2 marks

|  |  |  |
| --- | --- | --- |
| **Calculation** | Princess Bedding Frame $250  Mattress 80 **[1]**  Mattress Protector/Plain Sheet 15 **[1]** |  |
|  | **Cost Price of 1 ‘Princess’ Bedding Set** | $ 345 |

b. 2 + 2 = 4 marks

|  |
| --- |
| **Explanation – Cost of Mattress** |
| The cost of the mattress forms the basis of the cost price to be reported for the bedding set **[1]**. Without a mattress the set is incomplete and so the cost of the mattress must be included **[1]**. |
| **Explanation – GST charged by Grandmaster Sleep** |
| GST is not included in the cost of the bedding set as it is not part of the inventory item **[1]**. It is a tax imposed by the government on the goods and as such it is part of the calculation of the GST to be paid to or refunded by the ATO **[1]**. |

c. 4 marks

**Bundle of Joy**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| Feb 21 | Bank | 2 200 |  | **[1]** |
|  | Sales |  | 2 000 | **[1]** |
|  | GST Clearing |  | 200 |
|  | Cost of Sales | 990 |  | **[1]** |
|  | Inventory |  | 990 |
|  | Cash Sale of 2 Fiona Bedding Sets using Identified Cost – Receipt 319 |  |  | **[1]** |

d. 1 mark

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Stock Item: Fiona bedding set Supplier: Grandmaster Sleep**  **Location: Scoresby Cost Assignment Method: Identified Cost** | | | | | | | | | | |
| **Date**  **2019** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| 01/02 | Balance |  |  |  |  |  |  | 9 | 490 | 4 410 |
| 09/02 | Rec.842 |  |  |  | 3 | 490 | 1,470 | 6 | 490 | 2 940 |
| 18/02 | Inv.GF04 | 15 | 495 | 7,425 |  |  |  | 6  15 | 490  495 | 10 365 |
| 21/02 | Rec.319 |  |  |  | 2 | 495 | 990 | 6  13 | 490  495 | 9 375 |

*Award mark for entry as shown*

e. 3 marks

|  |
| --- |
| **Explanation** |
| If the business had used FIFO instead of Identified Cost the profit of the business would have been higher **[1]**. The inventory sold would have been from the earlier batch which had a cost price of $490 rather than $495 **[1]**. This means cost of sales would have been $10 lower making profit $10 higher **[1]**. |

f. 3 marks

|  |
| --- |
| **Explanation** |
| Documents provide reliable evidence that a transaction has occurred **[1]**. There is an audit trail linking the information in the reports to a ledger account, a journal entry, back to the original document **[1]**. This conforms with the qualitative characteristic of verifiability which requires all transactions to be able to be verified by a document and so reports can be relied upon **[1]**. |

**Question 2 (20 marks)**

a. 5 marks

**Simpson Traders**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| Mar 31 | Bank | 42 500 |  | **[1]** |
|  | Loan - Natwest |  | 42 500 |
|  |  |  |  |  |
| Mar 31 | Vehicle | 45 000 |  | **[1]** |
|  | Prepaid Registration and Insurance | 1 080 |  | **[1]** |
|  | GST Clearing | 4 608 |  | **[1]** |
|  | Bank |  | 50 688 | **[1]** |

b. 3 marks

**Simpson Traders**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| Jan 01 | Interest Expense | 100 |  | **[1]** |
|  | Loan – Natwest | 1 000 |  | **[1]** |
|  | Bank |  | 1 100 | **[1]** |

c. 4 marks

**Simpson Traders**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| June 30 | Depreciation Vehicle | 2 475 |  | **[1]** |
|  | Accumulated Depreciation Vehicle |  | 2 475 | **[1]** |
|  | Registration & Insurance Expense | 270 |  | **[1]** |
|  | Prepaid Registration & Insurance |  | 270 | **[1]** |

d. 3 marks

|  |
| --- |
| **Explanation** |
| Adele is not correct in her comments and has misunderstood the characteristic of comparability **[1]**. Comparability doesn’t require a business to use the same depreciation method for all assets – it requires the business to use consistent methods in recording so reports from different periods can be prepared so they become more useful **[1]**. Comparability is achieved if the business uses the same depreciation method each period for an asset – different assets can have different depreciation methods applied so long as they are applied consistently over time **[1]**. |

e. 5 marks

|  |
| --- |
| **Discussion** |
| I agree with the statement made.  The depreciation method selected for each asset should be based on the pattern of asset use. Those assets that contribute more to revenue generation in the early years should use the reducing balance method while those assets that contribute evenly to revenue generation should apply the straight line method.  In terms of the Vehicle, this type of asset generally operates more efficiently in its early years and so the reducing balance method is more appropriate as it allocates more depreciation in these years. As the asset wears, it becomes less efficient and so earns less revenue and so less depreciation is charged.  However, if the business decides to use the straight line method there is no overall impact on profit as both methods seek to depreciate the asset by the same amount over the life of the asset, finally valuing the asset at the same residual value. |

*Mark globally*

**Question 3 (15 marks)**

a. 2 marks

**Hansen’s Hobbies**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| Dec 31 | Allowance for Doubtful Debts | 800 |  | **[1]** |
|  | GST Clearing | 80 |  |
|  | Accounts Receivable |  | 880 | **[1]** |

b. 6 marks

**Accounts Receivable**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| Dec 31 | Balance | 32 000 | Dec 31 | Sales Returns/GST Clearing | 14 740 |
|  | Sales/GST Clearing | 470 800 |  | Discount Expense | 5 520 |
|  |  |  |  | Allowance for Doubtful Debts/GST Clearing | 880 |
|  |  |  |  | Bank | 445 660 |
|  |  |  |  | Balance | 36 000 |
|  |  | **502 800** |  |  | **502 800** |
| Jan 1 | Balance | 36 000 |  |  |  |

*Award 1 mark for Sales/GST Clearing*

*Award 1 mark for Sales Returns/GST Clearing*

*Award 1 mark for Opening Balance/Discount Expense*

*Award 1 mark for Allowance for Doubtful Debts/GST Clearing*

*Award 1 mark for Bank*

*Award 1 mark for Closing balance, totals and balance carried forward*

c. 2 marks

|  |  |  |
| --- | --- | --- |
| **Calculation** | Closing Balance 36 000x 3%= $1 080 |  |
|  | **Allowance for Doubtful Debts** | **$1 080** |

**Hansen’s Hobbies**

**Balance Sheet (extract)as at 31 January 2019**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **Current Assets** |  |  |
| Accounts Receivable | 36 000 **[1]** |  |
| Less Allowance for Doubtful Debts | (1 080) | 34 920 **[1]** |
|  |  |  |

d. 5 marks

|  |
| --- |
| **Discussion** |
| Over the period shown the business has lost some degree of control over their accounts receivable. In 2017 accounts were settled on average every 32 days. While this was outside the credit terms of 30 days it was reasonably close. However, in 2018 the turnover slowed to 38 days and in 2019 it slowed further to be 47 days.  The owner is not following up on these accounts and/or is anot completing stringent enough credit checks before offering credit to customers.  The business needs to get this under control or else bad debts will rise and cash flow will worsen.  One strategy the business could implement is having stricter credit checks – ensuring the credit history of the customer doesn’t indicate they are slow payers. |

*Mark responses globally*

**Question 4 (14 marks)**

a. 6 marks

**GST Clearing**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| Mar 31 | Bank | 800 | Mar 1 | Balance | 800 |
|  | Bank | 55 | 31 | Bank | 1 670 |
|  | Accounts Receivable | 32 |  | Accounts Receivable | 420 |
|  | Bank | 600 |  | Balance | 1 037 |
|  | Accounts Payable | 540 |  |  |  |
|  | Bank | 1 260 |  |  |  |
|  | Bank | 600 |  |  |  |
|  | Bank | 40 |  |  |  |
|  |  | **3 927** |  |  | **3 927** |
| Apr 1 | Balance | 1 037 |  |  |  |

*Award 1 mark for GST Settlement ($800)*

*Award 1 mark for both entries on credit side of account*

*Award 1 mark for Accounts Payable/Accounts Receivable on debit side of account*

*Award 1 mark for Bank $55 and Bank $600*

*Award 1 mark for Bank $1260, Bank $600 and Bank $40*

*Award 1 mark for balancing account – must carry balance forward*

b. 6 marks

**Cappo’s Coffee Machines**

**Cash Flow Statement for the month ended 31 March 2019**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **$** | **$** |  |
| **Cash Flow from Operating Activities** |  |  |  |
| Cash Sales | 16 700 |  | **[1]** |
| GST Received | 1 670 |  |
| Receipts from Accounts Receivable | 3 890 |  | **[1]** |
| Interest Revenue | 50 | 23 310 |
| Payments to Accounts Payable | (5 050) |  |
| Advertising | (550) |  | **[1]** |
| Wages | (4 900) |  |
| Accrued Wages | (470) |  |
| Interest | (150) |  | **[1]** |
| Purchases of Inventory | (6 000) |  |
| Prepaid Rent Expense | (6 000) |  | **[1]** |
| Freight In | (400) |  |
| GST Paid | (2 555) |  | **[1]** |
| GST Settlement | (800) | (26 875) |
| **Net Cash Flows from Operations** |  | **(3 565)** |  |

c. 2 marks

|  |
| --- |
| **Explanation** |
| Net cash flows from Financing Activities refers to the difference between inflows from financing activities, such as Loans or capital contributions **[1]** and outflows of cash from financing activities such as loan repayments and drawings **[1]**. |

**Question 5** (19 marks)

a. 6 marks

**Inventory**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| Apr 1 | Balance | 41 300 | Jun 30 | Cost of Sales | 15 400 |
| Jun 30 | **Accounts Payable** | **14 153** |  | Inventory Write Down | 200 |
|  | Cost of Sales | 250 |  | Inventory Loss | 303 |
|  |  |  |  | Drawings | 300 |
|  |  |  |  | Accounts Payable | 250 |
|  |  |  |  | Balance | 39 250 |
|  |  | **55 703** |  |  | **55 703** |

*Award full marks if amount for Accounts Payable is correct*

*OR*

*Award 1 both Cost of Sales entries* ***or*** *Cost of Sales credit side for $15 150*

*Award 1 mark each for all other entries including Closing Balance*

*Balance does not need to be carried forward*

*Titles are not relevant given this is a reconstruction*

b. 5 marks

**You Hear**

**Budgeted Income Statement for the quarter ended 30 June 2019**

|  |  |  |  |
| --- | --- | --- | --- |
| **Revenue** | **$** | **$** |  |
| Cash Sales | 20 800 |  | **[1]** |
| Credit Sales | 10 000 |  |
|  | 30 800 |  |  |
| Less Sales Returns | 500 | 30 300 | **[1]** |
| **Less Cost of Goods Sold** |  |  |  |
| Cost of Sales | 15 150 |  | **[1]** |
| Import Duties | 500 | 15 650 | **[1]** |
| **Gross Profit** |  | 14 650 |  |
| Less Inventory Loss | 303 |  | **[1]** |
| Less Inventory Write-down | 200 | 503 | **[1]** |
| **Adjusted Gross Profit** |  | 14 147 | **Deduct 1 mark for missing/incorrect headings** |

c. 3 marks

**You Hear**

**Income Statement Variance Report (extract) for the quarter ended 30 June 2019**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Item** | **Budgeted**  **$** | **Actual**  **$** | **Variance**  **Variance**  **$** | **F/U** |  |
| Cash Sales | 20 800 | 22 000 | 1 200 | F | **[1]** |
| Sales Returns | 500 | 400 | 100 | F | **[1]** |
| Inventory Write-down | 200 | 350 | 150 | U | **[1]** |

*Award marks consequentially*

d. 3 marks

|  |
| --- |
| **Explanation** |
| Variance reports are important because they inform the business as to the accuracy of their budgeting **[1]**. This can assist in future budgeting as the report may identify areas or issues not considered in previous budgeting periods **[1]**. Variance reports also identify areas of concern that the business may need to deal with immediately to get performance back to the required standard **[1]**. |

e. 2 marks

|  |
| --- |
| **Reason** |
| A supplier may have introduced a new model of an existing line of inventory **[1]** and the business needed to reduce the price of the existing inventory to sell it before the new version was available **[1]**. |

**Question 6 (10 marks)**

a. 6 marks

|  |
| --- |
| **Discussion** |
| Being ethical involves ensuring that a business and the owner ‘does the right thing’. It is not about breaking the law but rather acting in a way that conforms to the standards of society.  In terms of including the value of the house in the Balance Sheet, this is not an ethical approach. If the house is in the owner’s name than it is not a business asset and shouldn’t be reported as such – this would breach the assumption of entity. If Jordan uses a room in the house as an office then technically that could be considered a business asset/expense. However, to include the whole value of the house as an asset of the business is not appropriate and would over estimate the value of the business.  In regards to the removal of the allowance for doubtful debts – this would increase the value of accounts receivable in the Balance Sheet. Deferring the reporting of bad debts until they actually occur is a valid approach however, a more accurate reporting would seem them reported now. This is also the ethical approach.  As the deposits haven’t yet been earned, overstating revenues (and hence profit) will present a misleading profit position to the bank and shouldn’t be done. |

*Mark response globally*

b. 4 marks

|  |
| --- |
| **Explanation** |
| Deposits from customers should be reported as operating inflows in the Cash Flow Statement of the business **[1]**. They represent an inflow from the day-to-day activities for which the business was established **[1]**. However, as the sale has not been made they are not yet able to be reported as revenue and so they have no impact on the Income Statement **[1]**. As the deposits are for inventory to be supplied at a future date they represent a future outflow of economic benefit when the inventory is delivered and so they are reported as a current liability in the Balance Sheet **[1]**. |

**Question 7 (5 marks)**

|  |
| --- |
| **Evaluation** |
| Angelique can be disappointed with her result as she has not generated the level of profit that she had planned for. This can be due to a number of unexpected events that she did not foresee. While this is disappointing, as the business is relatively new she may not have a lot of experience in budgeting and so was not able to accurately plan for the future.  The same logic can be applied when comparing her results with the industry average. Her results are compared against larger businesses that have been operating for much longer and so have experienced managers and larger customer bases.  Angelique should budget more frequently so she can better predict future outcomes and gain experience in the budgeting process..  She also needs to focus on building a customer base and her profit figures – which are respectable for a business only 2 years old. |

*Mark responses globally*

**END OF SOLUTION**