Letter

STUDENT

NUMBER

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**ACCOUNTING UNITS 3 & 4**

2020

**TRIAL EXAM A**

Reading time: 15 minutes

Writing time: 2 hours

**SOLUTIONS**

**Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the examination room**

• A question book is provided with this answer book

• Answer all questions in the spaces provided in this book.

• Write your **student number** in the space provided above on this page.

• Refer to **Instructions** on the front cover of the question book.

**Question 1** (9 marks)

**a.** 3 marks

**Inventory Card**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Product: Lavender Bloom Sanitiser Bottles** **Cost Assignment Method: FIFO** | | | | | | | | | | |
| **Date** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| **1 Oct** | **Balance** |  |  |  |  |  |  | **30 80** | **4 5** | **120 400** |
| **7 Oct** | **Inv 43** |  |  |  | **30 5** | **4 5** | **120 25** | **75** | **5** | **375** |
| **9 Oct** | **CN 35** | **30 5** | **4 5** | **120 25** |  |  |  | **30 80** | **4 5** | **120 400** |
| ***11 Oct*** | ***Inv 1-19*** | ***30*** | ***5*** | ***150*** |  |  |  | ***30 110*** | ***4 5*** | ***120 550*** |
| ***20 Oct*** | ***Memo 23*** |  |  |  | ***10*** | ***4*** | ***40*** | ***20 110*** | ***4 5*** | ***80 550*** |
| ***25 Oct*** | ***EFT 27*** |  |  |  | ***20 5*** | ***4 5*** | ***80 25*** | ***105*** | ***5*** | ***525*** |
| ***31 Oct*** | ***Memo 24*** |  |  |  | ***5*** | ***105*** | ***525*** | ***100*** | ***5*** | ***500*** |

1 mark per entry

**b.** 2 marks

|  |
| --- |
| **Explanation** |
| Sales return of 35 units of Lavender Bloom Sanitiser Bottles by a customer (1 mark) |
| This could be due to customer changing mind. (1 mark) |

**c.** 3 marks

**Steveo’s Sanitiser**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2020** | **Details** | **Debit** | **Credit** |
| *9 October* | *Sales Returns* | *290* |  |
|  | *GST Clearing* | *29* |  |
|  | *Accounts Receivable – Morts Restaurant* |  | *319* |
|  | *Inventory* | *145* |  |
|  | *Cost of Sales* |  | *145* |

1 mark: Sales Returns / GST Clearing

1 mark: Accounts Receivable – Morts Restaurant

1. mark: Inventory / Cost of Sales

**d.** 2 marks

Advertising

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | | | | |
| **Date** | **Cross Reference** | **Amount** | **Date** | **Cross Reference** | **Amount** |
| 20 Oct | Inventory | 40 |  |  |  |
|  |  |  |  |  |  |

Inventory

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | | | | |
| **Date** | **Cross Reference** | **Amount** | **Date** | **Cross Reference** | **Amount** |
|  |  |  | 20 Oct | Advertising | 40 |
|  |  |  |  |  |  |

1 mark per ledger. Must include title, date, cross reference, amount.

**Question 2** (8 marks)

**a.** 3 marks

**Printzzz Pty Ltd**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
| 31 Dec | Bad Debt Expense | 3,510 |  |
|  | Allowance for Doubtful Debts |  | 3,510 |
| 14 Feb | Allowance for Doubtful Debts | 900 |  |
|  | GST Clearing | 90 |  |
|  | Accounts Receivable – Lovely Banks |  | 990 |
| 31 Mar | Bad Debt Expense | 1 890 |  |
|  | Allowance for Doubtful Debts |  | 1 890 |

1 mark per entry

**b.** 2 marks

**Printzzz Pty Ltd**

Balance Sheet (extract) as at 31 July 2019

|  |  |  |
| --- | --- | --- |
|  | **($)** | **($)** |
| **Current Assets** |  |  |
| Accounts Receivable | 43 000 |  |
| Less: Allowance for Doubtful Debts | 4 500 | 38 500 |

1 mark per line.

-1 for not including total.

**c.** 3 marks

|  |
| --- |
| **Qualitative Characteristic** *Relevance* |
| **Explanation** |
| *Allowance for doubtful debts allows a more accurate figure of Accounts Receivable to be reported. This net figure of Accounts Receivable minus Allowance for Doubtful debts makes the users of the Balance Sheet more capable of making decisions based relating to the business.* |

1 mark: Qualitative Characteristic

2 marks : explanation

**Question 3** (6 marks)

**a.** 6 marks

Mark globally

Answers may include:

* Ethical considerations are;
  + the health of staff, customers and the wider community.
  + Financial wellbeing of staff
* Option 1
  + Negative impact on net profit as no revenue is earned
  + Issues with fruit and vegetable inventory going off.
  + Savings in wages and utilities expense.
  + Casual staff will receive no wage.
  + Customers may be permanently lost to competitors
  + There should be health benefits from this option
* Option 2
  + Limit of customers in store may decrease revenue
  + Strict rules may attract some customers who feel safe shopping there.
  + Expenses will increase (safety equipment and wages)
  + Negative impact on net profit
  + All staff will keep their job and 2 additional people will be employed.
  + There should be health benefits from this option
* Option 3
  + Most profitable option in the short term. Not illegal as there are no current government regulations.
  + Worst health impacts on staff and the wider community.
  + Could see negative long term impact if the pandemic worsens.

**Question 4** (11 marks)

**a.**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit $** | **Credit $** |
| *30 June* | *Machinery* | *108 000* |  |
|  | *GST Clearing* | *10 800* |  |
|  | *Bank* |  | *118 800* |

1 mark per entry (3 marks)

**b.** 2 marks

|  |  |
| --- | --- |
| **Straight-line method**  12 months depreciation:  90 000 / 10 = $9 000  Deprecation for year ended 31 Dec 2020  9 000 / 2 = 4 500 | **Reducing balance method**  12 months depreciation:  108 000 x 20% = $21 600  Deprecation for year ended 31 Dec 2020  21 600 / 2 = 10 800 |
| **$4 500** (1 mark) | **$10 800** (1 mark) |

c.

|  |
| --- |
| **Method** Reducing balance (1 mark) |
| **Justification** |
| *A machinery is likely to be more efficient in its earlier years of use and will therefore generate more revenue in its earlier years (1 mark)* |
| *The decision to use the reducing balance method is justified as this allocates more of the machinery’s cost as a depreciation expense in its earliest years and less in its later years. (1 mark) By doing this, expenses are better matched to revenues and hence a more accurate net profit will be calculated. (1 mark)* |

**Question 5** (10 marks)

**a.** 2 marks

|  |  |
| --- | --- |
| **Calculation of Revenues**  Sales 320 000  Sales returns (1 500)  Inventory gain 600 | **Calculation of Expenses**  Interest Expense 500 +  Cost of Sales 123 000  Customs Duty 300  Wages 12 000  Bad Debts 400  Loss on disposal of Vehicle 8 000 |
| **Total Revenues 319 400** (1 mark) | **Expenses 144 200** (1 mark) |

**b.** 5 marks

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Capital** | | | | | |
| **Date** | **Cross Reference** | **Amount** | **Date** | **Cross Reference** | **Amount** |
| 31 Dec | Drawings | 50 000 | 1 Jan | Balance | 70 000 |
|  |  |  | 8 Jun | Computer | 5 000 |
|  | Balance | 200 200 | 31 Dec | Profit and Loss Summary | 175 200 |
|  |  | **250 200** |  |  | **250 200** |
|  |  |  | 1 Jan | Balance | 200 200 |

1 mark per entry (4 total)

1 mark for balancing

**c.** 3 marks

|  |
| --- |
| **Qualitative Characteristic** Relevance (1 mark) |
| **Explanation** |
| Closing revenue and expense accounts ensures that only revenues earned and expenses incurred for the period are used to calculate net profit. (1 mark) |
| This accurate net profit figure enhanced the usefulness of information for decision making (1 mark) |

**Question 6** (10 marks)

**a.** 3 marks

|  |
| --- |
| **Explanation** |
| *Cash inflows minus cash outflows (1 mark) relating to the purchase and sale of non-current assets (1 mark).* |
| *An example of a cash outflow from Investing Activities would be the cash purchase of a* |
| *Vehicle/computer/premises. (1 mark for 1 example of a non current asset)* |

**b.** 3 marks

|  |
| --- |
| *Operating activities has an unfavourable variance of $5 000* |
| *Investing activities has a favourable variance of $2 000* |
| *Financing activities has a favourable variance of $3 000* |

1 mark per variance. Must include dollar amount.

**c.** 4 marks

Marked globally. Answers may include:

* Prepare a budgeted income statement as well as a budgeted cash flow.
* In the budgeted cash flow provide more detail showing individual cash flow items.
* Prepare budgets more frequently than once a year.
* Budget must be delivered in a timelier manner. December 2018’s variance analysis is provided in June 2019

**Question 7** (15 marks)

**a.** 4 marks

Aidan’s Fishing

General Journal

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2020** | **Details** | **Debit** | **Credit** |
| 30 June | Inventory | 200 |  |
|  | Inventory Gain |  | 200 |
|  |  |  |  |
|  | Wages | 1 200 |  |
|  | Accrued Wages |  | 1 200 |
|  |  |  |  |
|  | Unearned Sales Revenue | 3 000 |  |
|  | Sales Revenue |  | 3 000 |
|  |  |  |  |
|  | Rent | 3 000 |  |
|  | Prepaid Rent |  | 3 000 |

1 mark per journal entry

**b.** 9 marks

**Aidan’s Fishing**

**Income Statement for the year ended 30 June 2020**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **Revenue** |  |  |
| Sales | 206 000 |  |
| Less Sales Returns | 1 500 |  |
|  |  | 204 500 |
| Less Cost of Goods Sold |  |  |
| Cost of Sales | 103 000 |  |
| Freight In | 500 | 103 500 |
| Gross Profit |  | 101 000 |
| Add Inventory Gain | 200 |  |
| Adjusted Gross Profit |  | 100 800 |
| Plus Other Revenue |  |  |
| Interest Revenue |  | 450 |
|  |  | 101 250 |
| Less Other Expenses |  |  |
| Wages | 21 200 |  |
| Electricity | 8 000 |  |
| Rent | 15 000 |  |
|  |  | 44 200 |
| **Net Profit** |  | **57 050** |

9 marks:

Sales (1 mark)

Sales Returns (1 mark)

Cost of Goods Sold (2 mark)

Inventory Gain (1 mark)

Wages (1 mark)

Electricity (1 mark)

Rent (1 mark)

Formatting (1 mark)

**c.** 2 marks

|  |
| --- |
| **Explanation** |
| *Net Profit would be overstated by $1 200 (1 mark) as Wages expense would be understated by $1 200 (1 mark)* |

**Question 8** (11 marks)

**a.** 6 marks

**GA Supplies**

**Cash Flow Statement (extract) for the 3 months ended 30 June 2020**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **Cash Flows from Operating Activities** |  |  |
|  |  |  |
| Cash Sales | 22 500 |  |
| GST Received | 2 250 |  |
| Receipts from Accounts Receivable | 8 000 |  |
| Interest | (500) |  |
| Wages | (6 000) |  |
| Payments to Accounts Payable | (8 000) |  |
| **Net Cash Flow from Operating Activities** |  | 18 250 |

1 mark per entry

-1 for not including Net Cash Flows from Operating Activities

**b.** 3 marks

|  |
| --- |
| Cash is cash inflows minus cash outflows for the period whereas net profit is revenue earned minus expenses incurred for the same period (1 mark) |
|  |
| GA Supplies has a positive net cash flow from operations but this does not necessarily means they made a net profit. (1 mark) |
|  |
| GST received is a cash inflow that is not considered revenue |
| Credit Sales (revenue) were $7 500 whereas Receipts from Accounts Receivable was $8 000 |
| 1 mark for one item |

**c.** 2 marks

|  |
| --- |
| Any valid description of a security measure around cash. |
| Keep cash in a secure cash register and move excess cash into a safe frequently. This will prevent thieves gaining access to cash. |

**Question 9** (12 marks)

**a.** 4 marks

* Higher cost of manufactured inventory while maintaining selling price will decrease Gross Profit Margin.
* More reliable supply chain may increase sales quantity thus increasing sales, net profit, net profit margin and Return on Assets.
* New to manufacturing may impact on the quality of the inventory. If the quality of goods is lower, then sales returns may increase lowering net sales and therefore net profit, Net Profit Margin and Return on Assets.
* Commencement of manufacturing will mean new non current assets used in the manufacturing process therefore increasing average total assets and possibly decreasing Return on Assets.
* Depreciation expense on manufacturing assets will decrease Net Profit and therefore Net Profit Margin and Return on Assets.

**b.** 4 marks

|  |  |
| --- | --- |
|  | **Net Profit Impact** |
| Additional Depreciation of solar panels (1) | ($5 000) |
| Saved electricity (1) | $3 000 |
| Maintenance and cleaning (1) | (500) |
| **Total** | **$6,000** |

|  |  |
| --- | --- |
| Net Profit (higher or lower) | $2 500 lower (1 mark) |

**c.** 4 marks

Mark globally. Discussion needs to look at positive and negative considerations.

Answers may include:

* Relationships with lost overseas suppliers
* Increased local employment due to manufacturing
* Relationships with customers as a result of local manufacturing.
* Environmental impact renewable energy
* Negative profit impact of solar panels

**Question 10** (8 marks)

**a.** 1 mark

|  |
| --- |
| ROI is an indicator of how effectively the business has used owner’s capital to earn a profit |

**b.** 3 marks

Mark globally. Answers may include:

* Increasing debt ratio means that business risk has increased.
* Increased debt will put pressure on liquidity of business to make required repayments.
* Increased interest expense will decrease net profit.
* Higher debt ratio has led to an increase in ROI as the business has been able to use borrowed funds and not capital contributions to purchase new assets

**c.** 4 marks

Mark globally. Answers may include:

* Profitability has increased as assets are used more productively and thus increasing the ROI over the 3-year period.
* ROA has increased but net profit has remained constant likely due to a decrease in asset levels.
* Since the Debt Ratio has increased, the business may have purchased new non-current assets.
* Net profit has not increased over the period.

**END OF ANSWER BOOK**