Letter

STUDENT

NUMBER

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |

|  |
| --- |
|  |

**ACCOUNTING UNITS 3 & 4**

2020

**TRIAL EXAM B**

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** (12 marks)

**a.** 7 marks

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Accounts Receivable** | | | | | |
| **Date** | **Cross Reference** | **Amount** | **Date** | **Cross Reference** | **Amount** |
| 1/12/20 | Balance | 17 000 |  | Allowance for Doubtful Debts | 500 |
|  | Sales | 22 000 |  | GST Clearing | 50 |
|  | GST Clearing | 2 200 |  | Sales Returns | 1 300 |
|  |  |  |  | GST Clearing | 130 |
|  |  |  |  | Bank | 21 540 |
|  |  |  |  | Discount Expense | 380 |
|  |  |  | 31/7/19 | Balance | 17 300 |
|  |  | 41 200 |  |  | 41 200 |
|  |  |  |  |  |  |

|  |  |
| --- | --- |
| **Credit Sales for July 2019** | **$22 000** |

1 mark: Opening Balance

1 mark: Closing Balance

1 mark: Allowance for Doubtful Debts / GST Clearing

1 mark: Sales Returns / GST Clearing

1 mark: Bank / Discount Expense

1 mark: GST Clearing debit entry

1 marks: Credit Sales

**b.** 3 marks

|  |
| --- |
| **Accounting Assumption**: Period (1 mark) |
| **Explanation**: There would be no effect on Net Profit for the period ended 31 December 2020. (1 mark). The Bad Debt Expense is incurred in the previous period when the credit sale occurred. In the period ended 31 December 2020, the previously raised allowance for doubtful debts is used. (1 mark) |

**c.** 2 marks

|  |
| --- |
| *Credit checks for all credit customers. Before customers are offered the chance to buy on credit, there credit will be checked to see if they have the ability to repay their short term debts. Customers with bad credit ratings, will not be granted credit facilities. This will decrease the number of Accounts Receivable who will need to be written off due to their inability to pay.* |

1 mark for appropriate strategy

1 mark for explaining strategy

**Question 2** (11 marks)

**a.** 3 marks

**Snowy’s Skiwear**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
|  |  |  |  |
| 30 June | Advertising | 1 500 |  |
|  | Drawings |  | 1 500 |
|  | Correcting entry (Memo 41) |  |  |

1 mark for each line including narration.

Date must be included

**b.** 2 marks

|  |
| --- |
| No overall effect on owners equity. |
| Advertising expense will increase by $1 500 decreasing net profit and owners equity (1 mark). |
| Drawings will decrease by $1 500 thus increasing owners equity (1 mark). |

**c.**  4 marks

Mark globally however both profitability and liquidity must be covered to receive full marks..

Answers may include:

* The graphs reveal there was a decrease in the debt ratio from 40% in 2019 to 25% in 2020.
* When the debt ratio decreases due to lowering of liabilities, there will be a positive impact on profitability and liquidity as there will be lower interest expense and payments.
* If the decrease in debt ratio is caused by capital contributions, there may be a negative impact of profitability as the Return on Owner’s Investment will decrease.
* Cash capital contributions can have a positive effect on the liquidity of the business as a large inflow of cash will occur. This has long term benefits as it will not attract interest.

**d.**  4 marks

Any 2 of for 1 mark each:

* Customer satisfaction surveys
* Number of repeat customers
* Number of sales returns (not dollar value)
* Staff satisfaction surveys
* Staff turnover etc

**Question 3** (11 marks)

**a.** 6 marks

**Lisa’s Carpets**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2020** | **Details** | **Debit** | **Credit** |
| 11 Oct | Bank | 2 000 |  |
|  | Unearned Revenue |  | 2 000 |
|  |  |  |  |
| 22 Oct | Accounts Receivable – Rising Sun Pty Ltd | 6 250 |  |
|  | Unearned Revenue | 2 000 |  |
|  | Sales |  | 7 500 |
|  | GST Clearing |  | 750 |
|  | Cost of Sales | 2 250 |  |
|  | Inventory |  | 2 250 |
| 31 Oct | Bank | 6 250 |  |
|  | Discount Expense | 250 |  |
|  | Accounts Receivable – Rising Sun Pty Ltd |  | 6 250 |

1 mark: 31 Jan entry

2 marks: Accounts Receivable – KMGP / Unearned Revenue / Sales / GST Clearing entry

1 mark: Cost of Sales / Inventory entry

2 marks: 8 Feb entry

**b.** 2 marks

|  |
| --- |
| **Explanation** |
| *In the ordinary course of business there is a decrease in the Accounts Receivable asset (1 mark) that leads to a decrease in owners equity (1 mark). This decrease is not relating to a distribution from the owner.* |

**c.** 3 marks

|  |
| --- |
| **Explanation** |
| The Bank asset would be understated by $2 000 (1 mark). The Unearned revenue liability would be understated by $2 000 (1 mark). There would be no effect on owners equity (1 mark). |

**Question 4** (11 marks)

**a.** 8 marks

**Draper’s Boutique**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2019** | **Details** | **Debit** | **Credit** |
| 31 December | Profit and Loss Summary | 144 200 |  |
|  | Interest Expense |  | 500 |
|  | Cost of Sales |  | 123 000 |
|  | Customs Duty |  | 300 |
|  | Wages |  | 12 000 |
|  | Bad Debts |  | 400 |
|  | Loss on Disposal of Vehicle |  | 8 000 |
|  |  |  |  |
|  | Sales | 320 000 |  |
|  | Sales Returns |  | 1 500 |
|  | Inventory Gain | 600 |  |
|  | Profit and Loss Summary |  | 319 100 |
|  |  |  |  |
|  | Profit and Loss Summary | 174 900 |  |
|  | Capital |  | 174 900 |

1 mark per 2 expense items (3 marks)

1 mark for 2 revenue items (1 mark)

1 mark for Sales Returns

1 marks for both Profit and Loss entries to balance expenses and revenues

1 mark for closing Profit and Loss Summary to Capital account.

1 mark for transferring Drawings to the Capital account

**b.** 3 marks

|  |
| --- |
| **Accounting Assumption** |
| *Period* |
| **Explanation** |
| *Revenue and expense accounts are closed so that an accurate net profit figure can be calculated for the period (1 mark) and so revenue and expense accounts are reset to zero for the following period (1 mark)* |

1 mark: Accounting Assumption

2 marks: Explanation

**Question 5** (12 marks)

**a.**  3 marks

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Product: Barracuda Four Wheel Drive**  Cost Assignment Method: FIFO | | | | | | | | | | |
| **Date** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| **1 Oct** | **Balance** |  |  |  |  |  |  | **3** | **220** | **660** |
| **6 Oct** | **Inv 45** |  |  |  | **1** | **220** | **220** | **2** | **220** | **440** |
| *8 Apr* | *CN 12* | *1* | *220* | *220* |  |  |  | *3* | *220* | *660* |
| *9 Apr* | *Inv 270* | *2* | *225* | *450* |  |  |  | *3* | *220* | *660* |
|  |  |  |  |  |  |  |  | *2* | *225* | *450* |
| *15 May* | *Memo 8* |  |  |  | *3* | *5* | *15* |  |  |  |
|  |  |  |  |  | *2* | *10* | *20* | *5* | *215* | *1 075* |

1 mark per line in inventory card (3 marks)

**b.** 2 marks

|  |
| --- |
| **Justification** |
| *The Assembly cost is treated as a product cost. (1 mark)* |
| *It is incurred to get the inventory in a condition and location ready for sale and can be allocated to individual inventory items on a logical basis. (1 mark)* |

**c.** 1 mark

|  |
| --- |
| **Calculation**  250 (selling price) – 35 (direct selling expense) |
| **Net Realisable Value** 215 |

**d.**  3 marks

**Evans Bikes**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2019** | **Details** | **Debit** | **Credit** |
| 31 October | Inventory Write Down | 25 |  |
|  | Inventory |  | 25 |
|  | Write down of 5 Downhill Racer Bikes to their NRV (Memo 8) |  |  |

1 mark per line including narration (3 total)

**e.** 3 marks

|  |
| --- |
| **Qualitative Characteristic:** *Faithful Representation* |
| **Explanation:** *Due a lowering of the sale price, the net realisable value of the Downhill Racer has fallen below its cost price. The original purchase price is no longer an accurate representation of the value of the inventory to the business. As a result of the lower of cost and Net realisable value rule, the inventory is written down to its net realisable value.* |

**Question 6** (8 marks)

**a.** 2 marks

|  |
| --- |
| APTO has slowed (1 mark) from 25 days to 38 days (1 mark) |

**b.** 1 mark

Possible reasons:

* Change in credit terms by supplier
* No longer taking advantage of discounts for early payment.

**c.** 2 marks

|  |
| --- |
| Positive: Cash is being kept in the business for a longer period and could be put to other uses (eg paying expenses or other liabilities as they fall due) |
| Negative: May exceed credit terms. |

**d.** 3 marks

Mark globally. For full marks, students will need to look at both reasons (decrease in Average Inventory or increase in Sales/Cost of Sales) the ITO may have changed.

* If average inventory remains the same (or increases) over the 2 years while mark up remains unchanged, this will lead to an increase in gross profit. As a higher sales quantity with the same mark up will increase gross profit.
* If the faster ITO is caused by lower average inventory levels and constant sales, gross profit will only increase if the mark up increases.

**Question 6** (13 marks)

**a.** 7 marks

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit $** | **Credit $** |
| *Dec 26* | *Bank* | *30 400* |  |
|  | *Loan – Eastpac* |  | *30 400* |
| *Jan 1* | *Disposal of Vehicle* | *36 000* |  |
|  | *Vehicle* |  | *36 000* |
|  | *Accumulated depreciation of Vehicle* | *18 500* |  |
|  | *Disposal of Vehicle* |  | *18 500* |
|  | *Vehicle* | *18 000* |  |
|  | *Disposal of Vehicle* |  | *18 000* |
|  | *Disposal of Vehicle* | *500* |  |
|  | *Gain on Disposal of Vehicle* |  | *500* |
|  | *Vehicle* | *25 400* |  |
|  | *Prepaid Registration* | *600* |  |
|  | *GST Clearing* | *4 400* |  |
|  | *Bank* |  | *30 400* |
|  | *Trade-in of vehicle and cash purchase of new vehicle with* |  |  |
|  | *12 months prepaid registration (Cheque 113)* |  |  |

1 mark per entry (6 marks)

1 mark: Narration

b.

**Plum’s Plumbing**

**Income Statement (extract) for the year ended 31 December 2019**

|  |  |  |
| --- | --- | --- |
|  | $ | $ |
| **Other Revenue** |  |  |
| Gain on Disposal of Vehicle | 500 |  |

1 mark: Other Revenue heading

1 mark: Gain on Disposal of Vehicle

**c.** 3 marks

|  |
| --- |
| The proceeds from the trade in ($18 000) were greater than the carrying value of the van ($17 500) at time of disposal. 1 mark |
| The van was over depreciated due to residual value or useful life being understated (1 mark) |
| This may be due to the van being in a good condition at the time of disposal. (1 mark) |



d.

|  |
| --- |
| **Justification** |
| *A vehicle 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 vehicle’s cost as a depreciation expense in its earliest years and less in its later years. By doing this, expenses are better matched to revenues and hence a more accurate net profit will be calculated. (1 mark)* |

d.

|  |
| --- |
| **Working Space**  *Reducing Balance: $36 890 x 15% = $5 533.50*  *Straight Line: $43 400 x 15% = $6 510* |

|  |  |
| --- | --- |
| Depreciation using reducing balance | $5,533.50 |
| Depreciation using straight line | $6,510 |
| Net Profit (higher or lower) | Lower by $976.50 |

**QUESTION 8** (9 marks)

**a.** 4 marks

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Accrued Interest Revenue** | | | | | |
| **Date** | **Cross Reference** | **Amount** | **Date** | **Cross Reference** | **Amount** |
|  |  |  |  |  |  |
| 1-Nov | Balance | 11 500 | 15-Nov | Bank | 12 000 |
| 31-Nov | Interest Revenue | 1 000 |  | Balance | 500 |
|  |  | **12 500** |  |  | **12 500** |
| 1 Dec | Balance | 500 |  |  |  |

1 mark for opening and closing balances

1 mark for Interest Revenue

1 mark for Bank

1 mark for balancing

**b.** 2 marks

|  |
| --- |
| **Working Space**  12 000 interest per year / 120 000 term deposit |
| **Annual rate of interest** 10% |

**c.** 3 marks

|  |
| --- |
| Treated as a current asset (1 mark) |
| Present economic resource controlled by Armstrong Pty based on past events (1 mark) |
| That will produce future economic benefits when it is converted to cash in less than 12 months on 15 Nov 2021. (1 mark) |

**Question 9** (9 marks)

**a.** 6 marks

**Margie’s Machinery**

**Cash Flow Statement for January 2020**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **Cash Flows from Operating Activities** |  |  |
| Cash Sales | 250 000 |  |
| GST Received | 25 000 |  |
| Wages | (67 900) |  |
| Inventory | (150 000) |  |
| GST Paid | (15 100) |  |
| Electricity | (1 000) |  |
| Rent | (3 000) |  |
| Net Cash Flow from Operating Activities |  | 38 000 |
|  |  |  |
|  |  |  |
| **Cash Flows from Investing Activities** |  |  |
|  |  |  |
|  |  |  |
| **Cash Flows from Financing Activities** |  |  |
| Loan – Eastpac | 150 000 |  |
| Drawings | (185 000) |  |
| Net Cash Flow from Investing Activities |  | (35 000) |
|  |  |  |
| **Net increase (decrease) in cash position** |  | **3 000** |
| **Bank balance 1 January 2020** |  | **12 000** |
| **Bank balance 31 January 2020** |  | **15 000** |

1 mark – Cash Sales / GST Received

1 mark – Wages and Rent

1 mark – Inventory and Electricity

1 mark – GST Paid

1 mark – Loan – Eastpac and Drawings

1 mark – last 3 lines and formatting

**b.** 3 marks

Mark globally. However discuss requires positives and negatives to be considered.

Answers may include:

* Large positive cash flow from operations for January.
* Only one cash sale for the month.
* Significant mark up.
* Closing cash is not enough to cover wages payment from January.
* Took out a loan that will require interest and principal repayments in the future.
* Large amount of drawings so owner could make a contribution if needed in future.

**END OF ANSWER BOOK**