**PES**

**2020 ACCOUNTING**

## Unit 3&4 Exam 1

**SOLUTION**

**Question 1 (12** **marks)**

1. 3 marks

|  |
| --- |
| **Analysis** |
| Daniel’s friend is referring to the Comparability qualitative characteristic which requires accounting methods to be similar so reports can be compared across time periods. **[1]** However, this characteristic does not apply to cost assignment methods for two different lines of inventory. A business is allowed to use different methods for different items, especially if there are significant differences between the items. Bikes are easier to monitor and know the cost price of while the accessories are often smaller and are held in greater quantities, making it difficult to know the exact cost price of each item. **[1]** The only issue is if Daniel changes the cost assignment method from one period to the next to alter profit figures to achieve better results. Even though the actual result may be different. This is what the characteristic tries to avoid. **[1]** |

1. 7 marks

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item: Off Road Mater Bicycle Cost Assignment Method: Identified Cost**  **Code: X900**  **Supplier: Bikes Galore** | | | | | | | | | | |
| **Date**  **2020** | **Details** |  | **IN** |  |  | **OUT** |  | **BALANCE** | | |
|  | **Qty** | **Unit Cost $** | **Total Cost**  **$** | **Qty** | **Unit Cost $** | **Total Cost $** | **Qty** | **Unit Cost**  **$** | **Total Cost**  **$** |
| May 1 | Balance |  |  |  |  |  |  | 2  12 | 160  180 | 320  2 160 |
| 5 | Rec D09 |  |  |  | 3 | 180 | 540 | 2  9 | 160  180 | 320  1620 |
| 9 | Inv. PH261 |  |  |  | 1  1 | 160  180 | 160  180 | 1  8 | 160  180 | 160  1440 |
| 11 | CN 28 | 1 | 180 | 180 |  |  |  | 1  9 | 160  180 | 160  1620 |
| 12 | CN X8 |  |  |  | 1 | 180 | 180 | 1  8 | 160  180 | 160  1440 |
| 15 | Inv. PH270 |  |  |  | 1  3 | 160  180 | 160  540 | 5 | 180 | 900 |
| 21 | Inv. BG843 | 12 | 190 | 2 280 |  |  |  | 5  12 | 180  190 | 900  2 280 |
| 31 | Memo 67 | 1 | 180 | 180 |  |  |  | 6  12 | 180  190 | 1 080  2 280 |

*Award 1 mark for each entry in the Inventory card*

1. 2 marks

|  |  |
| --- | --- |
| **Calculation**  May 5 – 2 x 160 + 1 x 180 = 500  May 9 – 2 x 180 = 360  May 11 – (1 x 180) = (180)  May 15 – 4 x 180 = 720 | |
| **Cost of Sales:** | **$1 400** |

*Award 1 mark for every 2 amounts calculated correctly*

**Question 2** (5 marks)

|  |
| --- |
| **Explanation:** |
| The owner’s statement doesn’t reflect accurate knowledge of the data provided. On the one hand the owner is correct, the inventory turnover has improved meaning the business is moving inventory through their store quicker, by 15 days. While this can be the result of more sales it could also be due to the business holding less inventory. The owner would need to determine if inventory levels have actually changed or whether sales have increased.  Regardless of the cause of the change in inventory turnover, the change in accounts receivable turnover is more of a concern. The trend suggests that customers are taking 9 days longer to pay for their credit purchases. This could be due to more sales, the majority on credit, which is reflected in the improved inventory turnover. Alternatively, it could be due to poor collection and screening methods of accounts receivable.  Regardless of the cause, the business needs to improve this indicator and this could be done by introducing settlement discounts – if customers pay within a certain time period they are able to gain a discount on their account. This may encourage customers to pay earlier or on time. |

*This question is marked globally*

*Students should explain the trend in each indicator, and explain at least one cause of each trend and a link between the performance of both indicators.*

*At least one strategy should be provided – it will usually be directed towards accounts receivable but it is not compulsory to do so.*

**Question 3 (21 marks)**

1. 5 + 6 = 11 marks

**Chapman Clearing House**

**General Ledger**

**Inventory**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2020** | **Cross-reference** | **Amount** | **Date**  **2020** | **Cross-reference** | **Amount** |
| Jan 1 | Balance | 36 800 | Mar 31 | Cost of Sales | 42 000 |
| Mar 31 | Cost of Sales | 1 500 |  | Advertising | 500 |
|  | Inventory Gain | 300 |  | Drawings | 900 |
|  | ***Bank*** | ***17 520*** |  | Accounts Payable | 1 500 |
|  | ***Accounts Payable*** | ***26 280*** |  | Balance | 37 500 |
|  |  | 82 400 |  |  | 82 400 |

*Award 1 mark for Cost of Sales figure on debit side and Accounts Payable on the credit side of account*

*Award 1 mark for Cost of Sales figure on credit side of account – these two Cost of Sales figures must be shown as above*

*Award 1 mark for Inventory gain*

*Award 1 mark for Drawings/Advertising*

*Award 1 mark for Opening Balance, Closing Balance and totals of each side of account*

**GST Clearing**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2020** | **Cross-reference** | **Amount** | **Date**  **2020** | **Cross-reference** | **Amount** |
| Feb 1 | Bank | 2 510 | Jan 1 | Balance | 2 510 |
| Mar 31 | Accounts Receivable | 300 | Mar 31 | Bank | 4 200 |
|  | Accounts Payable | 2 628 |  | Accounts Receivable | 4 200 |
|  | Bank (Inventory) | 1 752 |  | Accounts Payable | 150 |
|  | Bank (Cash Payments) | 1 940 |  |  |  |
|  | ***Balance*** | ***1 930*** |  |  |  |
|  |  | 11 060 |  |  | 11 060 |
|  |  |  | Apr 1 | Balance | 1 930 |

*Award 1 mark for both Accounts Receivable entries*

*Award 1 mark for both Accounts Payable entries*

*Award 1 mark for Bank 2 510 and Bank 4 200*

*Award 1 mark for each other Bank entry on the debit side of account (2 marks)*

*Award 1 mark for Opening and Closing balances including balance carried forward*

1. 3 marks

|  |
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| **Explanation** |
| The Loan will be reported as a Current Liability **[1]**. The Loan represents a present obligation of the business which will require the business to transfer resources to another entity (pay money to the lender) **[1]**. This transfer will occur within 12 months and so it is a Current Liability **[1]**. |

1. 5 marks

**Chapman Clearing House**

**Cash Flow Statement (extract) for the three months ended 31 March 2020**

|  |  |  |
| --- | --- | --- |
| **Operating Activities** | **$** | **$** |
| Cash Sales | 42 000 |  |
| GST Collected | 4 200 |  |
| Receipts from Accounts Receivable | 39 400 | 85 600 |
| Payments to Accounts Payable | (29 058) |  |
| Purchase of Inventory | (17 520) |  |
| Cartage In | (4 000) |  |
| Wages | (21 900) |  |
| Advertising | (4 000) |  |
| Interest Expense | (600) |  |
| Office expenses | (11 400) |  |
| GST Settlement | (2 510) |  |
| GST Paid | (3 692) | (94 680) |
| ***Net Cash Flows from Operating Activities*** |  | **(9 080)** |

*Award 1 mark for all three Operating Activity inflows*

*Award 1 mark for Payments to Accounts Payable/Purchases of Inventory*

*Award 1 mark for GST Clearing/GST Paid*

*Award 1 mark for every 3 other outflows (2 marks)*

**d.** 2 marks

|  |
| --- |
| **Explanation** |
| Preparing a budgeted Cash Flow Statement allows the owner to identify trends in cash flows **[1]**. As the time period is shorter (a quarter) it is likely that the owner will be able to identify any issues with the cash flow of the business and be able to implement corrective action **[1]**. |

**Question 4 (24 marks)**

**a**. 16 marks

**Scallywags**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date**  **2020** | **Details** | **Debit** | **Credit** |  |
| Sep 30 | Depreciation – Equipment | 4 800 |  | **1** |
|  | Accumulated Depreciation - Equipment |  | 4 800 |
|  | Depreciation – Vehicle | 4 000 |  | **1** |
|  | Accumulated Depreciation - Vehicle |  | 4 000 |
|  | Disposal of Vehicle | 36 000 |  | **1** |
|  | Vehicle |  | 36 000 | **1** |
|  | Accumulated Depreciation – Vehicle | 28 000 |  | **1** |
|  | Disposal of Vehicle |  | 28 000 | **1** |
|  | Bank | 6 000 |  | **1** |
|  | Disposal of Vehicle |  | 6 000 | **1** |
|  | Loss on disposal of Vehicle | 2 000 |  | **1** |
|  | Disposal of Vehicle |  | 2 000 | **1** |
|  | Wages | 1 100 |  | **1** |
|  | Accrued wages |  | 1 100 |
|  | Insurance Expense | 1 900 |  | **1** |
|  | Prepaid Insurance Expense |  | 1 900 | **1** |
|  | Inventory | 1 200 |  | **1** |
|  | Inventory Gain |  | 1 200 | **1** |
|  | Inventory Write Down | 600 |  | **1** |
|  | Inventory |  | 600 |

*Award marks as shown*

**b.**  5 marks

**Scallywags**

**Income Statement (extract) for the year ended 30 September 2020**

|  |  |  |
| --- | --- | --- |
| **Revenue** |  |  |
| Cash Sales | 140 000 |  |
| Credit Sales | 78 000 |  |
| **Less** Sales Returns | (4 000) | 214 000 |
| **Less Cost of Goods Sold** |  |  |
| Cost of Sales | 107 000 |  |
| Customs Duty | 6 200 | 113 200 |
| **Gross Profit** |  | 100 800 |
| **Add** Inventory Gain | 1 200 |  |
| **Less** Inventory Write Down | (600) | 600 |
| **Adjusted Gross Profit** |  | 101 400 |
| **Add Other Revenue** |  |  |
| Discount Revenue |  | 2 800 |
|  |  | 104 200 |

*Award 1 mark for Cash and Credit Sales*

*Award 1 mark for Sales Returns*

*Award 1 mark for Cost of Sales/Customs Duty*

*Award 1 mark for Inventory Gain/Inventory Write Down*

*Award 1 mark for Discount Revenue*

**c.**  3 marks

|  |
| --- |
| **Explanation** |
| Financial reports should reflect what has occurred during the period concerned. Under the accrual basis of accounting assumption **[1]** revenue is recognised in the period in which the expected inflow of economic benefits can be measured, that is, revenue is recognised when it is earned and expenses are recognised when the consumption of goods and services can be measured, that is, expenses are recognised when they are incurred **[1]**. Balance day adjustments are therefore needed to adjust revenue and expense accounts to ensure that only the actual revenues earned for a period and the expenses incurred are accurately matched to calculate Net Profit for the period. **[1]**. |

**Question 5 (6 marks)**

|  |
| --- |
| **Description** |
| An increase in the debt ratio as indicated would suggest that the business has increased its liabilities compared to its owner’s equity. This could be due to an increase in accounts payable, a move into overdraft or the purchase of a non-current asset using cash and a loan.  In this situation, the business must increase future cash flows to meet an increased commitment to repay these liabilities. Future cash flows will be required to meet loan repayments and any associated interest charges. This will negatively impact the liquidity of the business, at least in the short to medium term.  The additional interest charges associated with the increase in liabilities will increase expenses and if the debt was used to purchase assets, the increased revenue from those assets will need to counter the additional interest expense and depreciation (if appropriate). If that fails to occur then the profitability of the business will also be negatively impacted. |

*This question is marked globally*

*Students should suggest a cause of the change in the debt ratio*

*Responses should consider the impact on both liquidity and profitability with statements made as to the type of impact – positive or negative*

*Responses may refer to WCR or ROI or any other relevant financial indicator of liquidity and profitability.*

*Responses must link change in Debt Ratio to impact on any indicator mentioned*

**Question 6 (4 marks)**

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| **Evaluation** |
| Using benchmarks allows a business to compare itself against a recognised standard. Using the Industry Average can provide data as to how the business is performing relative to the competitors – assisting the business determine if it needs to make a change to how it operates **[1]**.  However, all comparisons here must recognise that the benchmark is an average and some businesses will be older or newer, larger or smaller and so the comparison might not be totally valid **[1]**.  Using budgeted figures as a benchmark is also valuable as the budgeted figure can be a target the business can aim towards. However, a budget may not predict all events and so the business must recognise that not meeting the target may be the result of an event outside the control of the business **[1].**  While there are weaknesses in using benchmarks, the business should use them as they provide valuable data on performance and can help identify issues **[1]**. |

**Question 7 (11 marks)**

**a**. 5 marks

**Country Kitchen**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date**  **2020** | **Details** | **Debit** | **Credit** |  |
| May 1 | Bank | 66 800 |  | **1** |
|  | Loan – Cabrillo Finance |  | 66 800 |
|  |  |  |  |  |
|  | Vehicle | 66 000 |  | **1** |
|  | Prepaid Registration & Insurance | 2 000 |  | **1** |
|  | GST Clearing | 6 800 |  | **1** |
|  | Bank |  | 74 800 | **1** |

**OR**

**Country Kitchen**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date**  **2020** | **Details** | **Debit** | **Credit** |  |
| May 1 | Vehicle | 66 000 |  | **1** |
|  | Prepaid Registration & Insurance | 2 000 |  | **1** |
|  | GST Clearing | 6 800 |  | **1** |
|  | Bank |  | 8 000 | **1** |
|  | Loan – Cabrillo Financw |  | 66 800 | **1** |

**b.** 2 marks

|  |  |
| --- | --- |
| **Calculation**  66,000 x .25 = 16,500 **[1]**  16,500/12 = 1,375 **[1]** x 2 months = 2,750 | |
| **Depreciation Expense:** | **$2 750** |

1. 4 marks

|  |
| --- |
| **Explanation** |
| If the business was to use the straight-line method of depreciation for the asset then there would be an impact on both the Income Statement and the Balance Sheet.  The straight-line method would see depreciation of $1 100 charged **[1]**. This is $1 650 less than with the reducing balance method and so expenses would be lower and Net Profit higher by $1 650 **[1]**.  This would also see assets reported as $1 650 higher due to a lower accumulated depreciation figure and owner’s equity higher as the expense was lower by $1 650 **[1]**.  As depreciation is a non-cash expense, there would be no impact on the Cash Flow Statement **[1]**. |

**Question 8 (3 marks)**

|  |
| --- |
| **Analysis** |
| If the owner were to raise her prices she would be seen as profiting from a natural disaster which would not be viewed positively by the community if it became known. While her Net Profit would rise, the increase would only be for a period until the domestic orange industry was able to recover and produce again **[1]**. If it became known that the owner was raising her prices on the back of the bushfires, it would be considered unethical and customers may stay away from her business, having a negative impact on her reputation, sales and profit **[1]**. Her decision to donate a portion of her increased profits may be viewed as a cynical attempt to gain public support but it is only a token gesture as it is only 10% of her increased profits **[1]**. |

**Question 9 (14 marks)**

**Regal Chairs**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date**  **2020** | **Details** | **Debit** | **Credit** |  |
| Oct 31 | Accounts Receivable | 57 200 |  | **1** |
|  | Sales |  | 52 000 | **1** |
|  | GST Clearing |  | 5 200 |
|  | Cost of Sales | 26 000 |  | **1** |
|  | Inventory |  | 26 000 |
|  |  |  |  |  |
|  | Sales Returns | 3 000 |  | **1** |
|  | GST Clearing | 300 |  |
|  | Accounts Receivable |  | 3 300 | **1** |
|  | Inventory | 1 500 |  | **1** |
|  | Cost of Sales |  | 1 500 |
|  |  |  |  |  |
|  | Allowance for Doubtful Debts | 300 |  | **1** |
|  | GST Clearing | 30 |  | **1** |
|  | Accounts Receivable |  | 330 | **1** |
|  | Bad Debts | 306 |  | **1** |
|  | Allowance for Doubtful Debts |  | 306 | **1** |
|  | Bank | 50 000 |  | **1** |
|  | Discount Expense | 2 000 |  | **1** |
|  | Accounts Receivable |  | 52 000 | **1** |
|  |  |  |  |  |

**OR**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Bank | 50 000 |  | **1** |
|  | Accounts Receivable |  | 50 000 |
|  | Discount Expense | 2 000 |  | **1** |
|  | Accounts Receivable |  | 2 000 | **1** |

**END OF SOLUTION BOOK**