



INSIGHT

Trial Exam Paper

2009

ACCOUNTING

Written examination 2

QUESTION BOOK

Reading time: 15 minutes

Writing time: 1 hour 30 minutes

Structure of book

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
2	2	90

- Students are permitted to bring the following items into the examination: pens, pencils, highlighters, erasers, sharpeners, rulers and one scientific calculator.
- Students are NOT permitted to bring sheets of paper or white out liquid/tape into the examination.

Materials provided

- The question book of 9 pages.
- The answer book of 13 pages.

Instructions

- Write your **name** in the box provided on the front page of the answer book.
- Answer all questions in the answer book.
- You must answer the questions in English.

At the end of the exam

- You may keep this question book.

Students are NOT permitted to bring mobile phones or any other electronic devices into the examination.

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Question 1

NS Bikes

Nicholas Seoud is the owner and manager of a small business, NS Bikes. At this point in time, he is only selling the Shooting Star X3 and accessories. Nicholas's business maintains a double-entry accrual accounting system, reporting monthly with control accounts for Debtors, Creditors and Stock. The business uses a perpetual inventory recording system with the FIFO (First In First Out) cost assignment method.

1.1 On June 30 2009, Nicholas purchased a Delivery Van from Coopers Cars on credit. The invoice below was issued for the transaction.

COOPER CARS		Invoice 43
Tax Invoice		June 30 2009
Charge To: NS Bikes		Terms: n/90
Description		
Delivery Van	37 650	
Painting of Business logo on Van	450	
Bike Rack (including installation)	1 300	
12 Months Registration	900	
Annual Insurance	1 200	
Freight In	400	
Customs Duty	200	
SUB-TOTAL		42 100
Plus GST		4 210
TOTAL		46 310

Note: the Van has an estimated residual value of \$4 000 and a useful life of 6 years. On August 12 2009, NS Bikes will make a payment of \$20 000 to Cooper Cars. The final payment to Cooper Cars is due by the end of September.

Required

1.1.1 Calculate the cost of the Delivery Van.

1 mark

1.1.2 Define the term 'cost' as it applies to a non-current asset.

2 marks

1.1.3 Using the information provided in 1.1 above only, **show** how the following items would appear in the Balance Sheet as at July 31 2009.

- Registration
- Delivery Van and depreciation
- Sundry Creditor

4 marks

- 1.1.4 Explain** the difference between the General Ledger account for ‘Creditors Control’ and a ‘Sundry Creditor’.

2 marks

- 1.1.5 Show** how the payment on 12 August would appear in the Cash Flow Statement for the month ending August 31.

2 marks

On January 1 2010, NS Bikes purchased a new Delivery Van worth \$30 000 (plus \$3 000 GST) from Cooper Cars (Inv. 163). As a part of the purchase, the firm traded in the Delivery Van for \$25 000.

- 1.1.6 Show** the General Journal entry to record the trade-in and purchase of the Delivery Vans. (Narrations are **not** required)

10 marks

- 1.1.7 State** what is meant by ‘under-depreciation’.

1 mark

- 1.1.8 State two** reasons why scrap value may be overstated.

2 marks

1.2 As at January 1 2010, NS Bikes had 4 Shooting Star X3s valued at \$1 680 in total. The following documents relate to the Shooting Star X3.

NS Bikes		ABN: 313242		Invoice 32	
Tax Invoice				January 1 2010	
Charge To: Summer Roberts				Terms: 5/7, n/30	
Description	Quantity	Each	Sub Total	GST	Total
Shooting Star X3	2	\$650	\$1 300	\$130	\$1 430

Atwood Bikes		ABN:114290		Invoice B3	
Tax Invoice				January 4 2010	
Charge To: NS Bikes				Terms: n/30	
Description	Quantity	Unit Cost	Stock	GST	Total
Shooting Star X3	8	\$450	\$3 600	\$360	\$3 960

NS Bikes
Cheque 107 January 4 2010 Paid to: ExFed Delivery For: Delivery of Bikes from Inv. B3 Amount: \$176 (incl. \$16 GST)

NS Bikes		ABN: 313242		Invoice 37	
Tax Invoice				January 10 2010	
Charge To: Luke Ward				Terms: 5/7, n/30	
Description	Quantity	Each	Sub Total	GST	Total
Shooting Star X3	3	\$650	\$1 950	\$195	\$2 145

NS Bikes	ABN:	Credit Note 10
313242		
January 15 2010		
Returned by: Summer Roberts		
Item: 1 × Shooting Star X3 – damaged (Inv. 32)		
TOTAL CREDIT: \$715		

Atwood Bikes	ABN:	Credit Note F56
114290		
January 16 2010		
Returned by: NS Bikes		
Item: 2 × Shooting Star X3 \$900		
and refund for Shipping cost on bikes \$40		
GST \$94		
Reason: damaged		
TOTAL CREDIT: \$1 034		

NS Bikes
Cheque 110 January 24 2010 Paid to: AIG Insurance For: Annual Insurance covering 1/2/2010 – 31/1/2011 Amount: \$2200 (incl. \$200 GST)

NS Bikes	Memo 6
	31/1/2010
The physical stocktake revealed 7 Shooting Star X3s on hand	

NS Bikes	Memo 7
Due to competitors selling cheaper imported bikes, Shooting Star X3s will need to be sold for \$500 after \$75 of selling expenses and \$25 of assembling expenses.	

Required

- 1.2.1 Record** all relevant information in the stock cards of Shooting Star X3. 8 marks
- 1.2.2** Referring to **one** Accounting principle, **explain** why the Shooting Star X3 should be valued at the Lower of Cost and Net Realisable Value on January 31. 3 marks
- 1.2.3 Show** how Cheques 107 and 110 would be recorded in the Cash Payments Journal. 2 marks
- 1.2.4** Using the information in 1.2 above, **show** how the Stock Control account would appear as at January 31 2010. Balance the account. 6 marks
- 1.2.5 Explain** why sales returns are reported separately in the Profit and Loss Statement. 2 marks

Total 45 marks

END OF QUESTION 1
TURN OVER

FOR THE PURPOSE OF QUESTION 2 YOU ARE NOT REQUIRED TO CONSIDER GST.

Question 2

Adriano's Amps

Adriano Acquaro is running a trading business called Adriano's Amps. Adriano sells amplifiers and other musical equipment to bands and musicians. His business is based in Melbourne, Victoria. He maintains a double-entry accrual accounting system with control accounts for Debtors, Creditors and Stock. A perpetual inventory system is used with the FIFO (first-in-first-out) method of cost assignment. Reports are to be prepared monthly with balance day falling on the last day of every month.

2.1 On January 1 2009, Adriano is hesitant about whether to prepare budgets for his business, as he thinks they are too time-consuming and have little benefit.

Required

2.1.1 Place these **four** stages of the continuous budgeting process in the order they will occur.

- Variance reports are prepared
- Actual reports are prepared
- Decisions are made
- Budgeted reports are prepared

2 marks

2.1.2 **Explain** to Adriano one purpose of budgeting and why it will be beneficial for his business.

2 marks

2.2 After being persuaded by his accountant, Adriano decides to prepare budgets for his business. He has provided the following information detailing what he expects to occur in January 2009:

- Debtors Balance 1 January \$3 000.
- He hopes to generate sales of \$40 000 with approximately 70% of sales being on credit, where he will offer his customers 30 day credit terms. He will offer a 3% discount for prompt payment and he thinks this will cost him \$300 in January.
- Bad Debts are expected to be 5% of the firm's credit sales in the period. The expected amount owed to the firm by debtors at the end of the month is \$4 000.
- Expected Gross Profit Rate (Gross Profit / Sales) for the month is 60%.
- On 1 January the firm expects to prepay its rent of \$3 000 for the quarter ending March 31 2009.
- Wages expense for the month is expected to be \$1500 and the insurance expense \$300.
- On 1 January, the firm will enter into a fixed term-deposit in which it will invest \$10 000, with the interest return being at a fixed rate of 6% p.a., payable on 30 June and 31 December each year.
- Drawings for the month are expected to be \$2 500.

Required

2.2.1 **Reconstruct** the debtors control account to **calculate** budgeted receipts from debtors for the month of January.

4 marks

2.2.2 **Explain** what is measured by the gross profit ratio and **identify two** strategies the firm may use to improve this ratio.

3 marks

2.2.3 **Complete** the Profit and Loss Variance report for the month ending 31 January 2009. Enter the relevant budgeted information for the month into the variance report and then complete the variances. (Note: actual figures have been entered in the variance report in the answer book).

8 marks

2.2.4 **Explain** to Adriano a benefit of preparing a profit and loss variance report.

2 marks

2.2.5 Adriano is disappointed that wages expense was higher than expected. **Explain** why Adriano should not be disappointed with this increase in wages.

2 marks

2.2.6 Although sales revenue is higher than expected, the firm's Net Profit Ratio (Net Profit / Sales revenue) is lower than expected. **Explain** to Adriano why this has occurred and **suggest two** strategies by which he can address this problem.

3 marks

2.3 After a further few months of trading, Adriano has provided the following ratios for the months of March and April 2009.

	March	April
Return on Assets (Net Profit / Average total assets)	25%	27%
Net Profit Rate (Net Profit / Sales revenue)	45%	50%
Return on Owner's Investment (Net Profit / Avg Owners' equity)	35%	40%
Asset Turnover (Sales revenue / Avg total assets)	56%	54%

Required

2.3.1 Explain why Return on Assets is usually a smaller percentage figure than Return on Owner's Investment.

2 marks

2.3.2 Explain why Return on Assets has increased from March to April even though the firm's Asset Turnover has decreased.

2 marks

2.3.3 Although the Return on Owner's Investment is improving, **explain** a negative consequence this may have on the firm's liquidity.

2 marks

2.4 As at 30 April 2009, Adriano provided us with the following ratios in relation to the firm's liquidity.

Working Capital Ratio	Current Assets / Current Liabilities	2:1
Quick Asset Ratio	CAs – stock and prepayments / CLs – bank overdraft	1:1

Required

2.4.1 Interpret the Quick Asset Ratio as at 30 April 2009.

1 mark

2.4.2 Explain one possible reason why the firm's Quick Asset Ratio is considerably lower than the firm's Working Capital Ratio.

2 marks

2.5 The indicators below relate to the months of March and April.

	March	April
Stock Turnover rate (Avg stock $\times$ 365 / cost of goods sold)	23 days	19 days
Debtors Turnover rate (Avg debtors $\times$ 365 / credit sales)	30 days	35 days
Cash Cycle (Stock Turnover + Debtors Turnover)	53 days	54 days
Creditors Turnover (Avg creditors $\times$ 365 / credit purchases)	32 days	35 days

Required

2.5.1 Explain what is measured by the stock turnover rate and state **two** ways by which the business can improve this ratio.

3 marks

2.5.2 Explain how the debtors turnover rate has a direct impact on the liquidity of the firm.

2 marks

2.5.3 The creditors' turnover of Adriano's Amps has increased from March to April. **State one advantage and one disadvantage** of this trend.

2 marks

2.5.4 State one limitation of using financial indicators to assess the business' performance.

1 mark

2.6 Adriano is a very quiet and timid man. At times, he gets the impression that members of his staff take advantage and do not show respect towards him, and they do not enjoy working for Adriano's Amps.

Required

2.6.1 State two non-financial indicators that Adriano could use to assess the firm's relationship with its staff.

2 marks

Total 45 marks

END OF QUESTION BOOK