



INSIGHT

Trial Exam Paper

2010

ACCOUNTING

Written examination 2

Suggested solutions

This book presents:

- correct solutions
- mark allocations
- tips

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Question 1 - Bruce's Billiards

Bruce Lindrum owns and operates a small business, Bruce's Billiards, selling a range of billiard tables and supplies. His accounting system is based on the double entry accrual system of recording and reporting. Other features of the accounting system are:

- i The business uses control accounts and subsidiary records for Debtors, Creditors and Stock.
- ii Use of the perpetual method of stock recording and the FIFO method of cost assignment.
- iii The business completes accounting reports monthly.
- iv Stock is sold on a mark-up of 100%.

1.1 The following account balances were taken from the Trial Balance on 1 December 2010.

Current Assets

Debtors Control	\$5 500
• Minnesota Pool Supplies	\$3 200
• Jackie Gleeson	\$2 300
Stock Control	\$12 000

Current Liabilities

Creditors Control	\$6 200
• Walter's Supplies	\$1 500
• Newman Sports	\$3 100
• Alex Cruise	\$1 600
Prepaid Sales Revenue	\$2 800

The following Journals have been prepared for the month ending 31 December 2010.

Sales Journal

Date 2010	Debtor	Invoice number	Cost of sales	Sales	GST	Total Debtors
16 Dec	Jackie Gleeson	B12	225	450	45	495
22 Dec	Minnesota Pool Supplies	B13	450	900	90	990
	Totals		675	1 350	135	1 485

Purchases Journal

Date 2010	Creditor	Invoice number	Stock	GST	Total Creditors
11 Dec	Newman Sports	11	800	80	880
12 Dec	Ringwood Imports	V34	1 200	120	1 320
19 Dec	Walter's Supplies	A99	640	64	704
	Totals		2 640	264	2 904

General Journal

		General Ledger		Subsidiary Ledger	
Date 2010	Details	Debit \$	Credit \$	Debit \$	Credit \$
13 Dec	Creditors Control	880			
	Newman Sports			880	
	Stock Control		800		
	GST Clearing		80		
	Return of damaged stock – Credit Note 17				

Cash Receipts Journal

Date 2010	Details	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of sales	Sales	GST	Sundries
	Totals		10 100	350*	5 500*	2 200	4 500	450	

* **Debtor receipts made up of:**

- \$3,000 from Minnesota Pool Supplies (discount expense \$200) on 14 December
- \$2,150 from Jackie Gleeson (discount expense \$150) on 23 December

Additional information:

The following information and document have **not** been recorded:

Cash Payments

Cheque 91 Payment on 9 December of six months' rent in advance, \$4,800 (plus \$480 GST)

Cheque 92 On 22 December, settled account with Newman Sports, taking advantage of a 5% discount

Cheque 93 Payment on 23 December to Australian Taxation Office, \$800

Bruce's Billiards	
Credit Note C5	18/12/10
To:	Jackie Gleeson
For:	Damage on delivery
Amount:	\$450
GST:	\$45
	\$495.00

Required

1.1.1 Record the payments above in the Cash Payments Journal.

Solution 1.1.1**Cash Payments Journal**

Date 2010	Details	Ch. No.	Bank	Disc. Rev.	Creditors	Stock	Wages	GST	Sundries
Dec 9	Prepaid Rent expense	91	5280					480	4800
22	Newman Sports	92	2945	155	3100				
23	GST Clearing	93	800						800

3 marks

Mark Allocation:

- 1 Mark for each line correctly recorded in the CPJ
- Only 'GST Clearing' accepted in the details column on December 23 transaction
- Must state full name of individual creditor

Tip:

- Students should note that 'GST Settlement' or 'ATO' is not an acceptable answer in the 'Details' column. Examiners will only accept 'GST Clearing'.

1.1.2 Record Credit Note C5 in the General Journal.

(A narration is **not** required.)

Solution 1.1.2**General Journal**

Date 2010	Details	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Dec 18	Sales Returns	450			
	GST Clearing	45			
	Debtors Control		495		
	Jackie Gleeson				495
	Stock Control	225			
	Cost of Sales		225		

4 marks

Mark Allocation:

- 1 mark for correct sales returns figure on the debit side
- 1 mark for correctly identifying the correct amount of GST Clearing
- 1 mark for the Debtors Control and Jackie Gleeson entries recorded correctly
- 1 mark for the Stock Control and Cost of Sales entry

1.1.3 Show how the Debtors Control account would appear in the General Ledger after all the above information has been recorded. **Balance** the account at 31 December 2010.

Solution 1.1.3**Debtors Control**

Date 2010	Cross Reference	Amount \$	Date 2010	Cross Reference	Amount \$
<i>1 Dec</i>	<i>Balance</i>	<i>5 500</i>	<i>Dec 31</i>	<i>Bank/Discount Expense</i>	<i>5 500</i>
<i>31 Dec</i>	<i>Sales/GST Clearing</i>	<i>1 485</i>		<i>Sales Returns/GST Clearing</i>	<i>495</i>
				<i>Balance</i>	<i>990</i>
		6 985			6 985

5 marks

Mark Allocation:

- 1 mark for Sales/GST Clearing entry on debit side of ledger
- 1 mark for Bank/Discount Expense entry on credit side of ledger
- 1 mark for Sales Returns/GST Clearing entry on credit side
- 1 mark for Balance entry on credit side of ledger
- 1 mark for balancing the account correctly on both sides of the ledger

Tip:

- *Students should always write the Cross References out in full and avoid using abbreviations. Students should write 'Sales/GST Clearing' and 'Sales Returns/GST Clearing' in full. If there is not enough room in the space provided to write out the Cross Reference in full, students should use two lines as long as only one amount dollar appears.*

1.1.4 Show how Newman Sports account in the Creditors Subsidiary Ledger would appear after all the above information has been recorded.

(You are **not** required to balance the account.)

Solution 1.1.4

Creditor – Newman Sports

Date 2010	Cross Reference	Amount \$	Date 2010	Cross Reference	Amount \$
Dec 13	Stock Control/GST Clearing	880	1 Dec	Balance	3 100
22	Bank/Discount Revenue	3 100	11	Stock Control/GST Clearing	880

3 marks

Mark Allocation:

- 1 mark for Stock Control/GST Clearing entry on debit side
- 1 mark for Bank/Discount Revenue entry on debit side
- 1 mark for Stock Control/GST Clearing entry on credit side
- -1 for incorrect dates

Tip:

- See 1.1.3 tip – no abbreviations should be used when Cross Referencing in ledger accounts.

1.1.5 Apart from damage, **list** two reasons stock might be returned.

Solution 1.1.5

Reason1	<i>Wrong stock (size, colour, style)</i>
Reason 2	<i>Customer has changed their mind</i>

2 marks

Mark Allocation

- 1 mark for each correct reason identified
- Answers should be relevant to the stock item sold (billiard tables)

Tip:

- When considering this question, students need to be aware of the type of stock the scenario is dealing with. In this case, the stock is billiard tables; these are usually very large, and therefore it would be unlikely that too many billiard tables were delivered. Therefore, this would not be an acceptable reason for stock to be returned in this situation.

The business completed the prepaid sales transaction on 30 December 2010 by supplying the two billiard tables to a client.

Required

1.1.6 Referring to an accounting principle, explain why the amount of prepaid sales was recorded as a current liability in the reports on 1 December 2010.

Solution 1.1.6

Explanation	<i>The reporting period principle states that revenue earned in an accounting period must be matched against expenses incurred in the same reporting period in order to calculate an accurate profit. On 1 December the business had an obligation to supply the billiard tables (which it would do on 30 December) so it must be treated as a current liability until the tables are supplied.</i>
Principle	<i>Reporting Period</i>

3 marks

Mark Allocation

- 1 mark for identifying the correct principle
- 1 mark for definition of reporting period principle
- 1 mark for link – *the billiard tables not supplied on 1 December*

Tip:

- *This question requires a reference to the definition of a 'Current' Liability. A definition of a Liability alone will not be precise enough to obtain full marks. Students also need to identify that the business has an obligation in the next reporting period to supply the billiard tables after receiving the deposit.*

1.1.7 Record the adjustment resulting from the supply of the two tables in the General Journal.

(A narration is **not** required.)

Solution 1.1.7

General Journal

Date 2010	Details	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Dec 30	Prepaid Sales Revenue	2 800			
	Sales Revenue		2 800		
	Cost of Sales	1 400			
	Stock Control		1 400		

4 marks

Mark Allocation

- 1 mark per line

Question 1 – continued

- 1.1.8 Explain** the effect (Overstated/Understated/No Effect) on the Balance Sheet of Barry's Billiards at 31 December 2010 if the adjustment for the prepaid sale was **not** made.

Solution 1.1.8

	Overstated / Understated / No Effect	Amount \$
Assets	<i>Overstated</i>	<i>1 400</i>
Liabilities	<i>Overstated</i>	<i>2 800</i>
Owner's Equity	<i>Understated</i>	<i>1 400</i>

3 marks

Mark Allocation

- 1 mark per line

Tip:

- *Students must use the terminology 'overstated/understated/no effect' in this question. They should not put 'higher' or 'lower', or use upwards or downwards arrows. These will be marked incorrect. Students should also write 'no effect' out in full if there is no effect – leaving the space blank, or putting a dash, will not be accepted by the examiners.*

- 1.2** On 1 January 2011 Barry's Billiards purchased a photocopier on credit from Photocopiers Online (Inv 35) for \$2 400 plus \$240 GST (total \$2 640). He paid a deposit of \$400 (chq 22) at the time of purchase and agreed to pay the remainder in monthly installments over the next 24 months.

Required

- 1.2.1 Record** the purchase of the photocopier in the journals provided in the answer book.
(A narration is **not** required.)

Solution 1.2.1**General Journal**

Date 2011	Details	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
<i>Jan 1</i>	<i>Photocopier</i>	<i>2 400</i>			
	<i>GST Clearing</i>	<i>240</i>			
	<i>Sundry Creditor – Photocopiers Online</i>		<i>2 640</i>		

Cash Payments Journal

Date 2011	Details	Ch. No.	Bank	Disc Rev	Creditors	Stock	Wages	GST	Sundries
<i>Jan 1</i>	<i>Sundry Creditor – Photocopiers Online</i>	<i>22</i>	<i>400</i>						<i>400</i>

3 marks

Mark Allocation

- 1 mark for Photocopier and GST Clearing entries
- 1 mark for Sundry Creditor – Photocopiers Online entry on credit side
- 1 mark for correct entry in Cash Payments Journal

Tip:

- *Students must write ‘Sundry Creditor – Photocopiers Online’ out in full in the General Journal, and in the details of the Cash Payments Journal. Abbreviations should be avoided (see 1.1.3 tip for explanation). Another common mistake is for students to put the CPJ amount into the ‘Creditors’ column – this column is only for payments made to ‘Trade Creditors’ for purchases of stock. Payments to Sundry Creditors must be recorded in the ‘Sundries’ column.*

1.2.2 Explain how the \$400 deposit would be recorded in the Cash Flow Statement.

Solution 1.2.2

Explanation	<i>Investing Activities Outflow – Sundry Creditor: Photocopiers Online</i>
	<i>The cash payment of \$400 relates to the purchase of a non-current asset.</i>

2 marks

Mark Allocation

- 1 mark for identifying Investing Activities Outflow
- 1 mark for explanation

Tip:

- *Students must remember to put ‘Investing Outflow’ into their answer. Students who omit ‘Outflow’ cannot receive full marks.*

Question 1 – continued

The photocopier was depreciated at 25% p.a. using the straight-line method of depreciation. On 31 May 2011, Barry decided to trade in the photocopier for a new one due to poor performance.

Details of the trade-in and purchase of the new photocopier are shown in the following invoice:

Office Supplies Ltd	
Date 31/5/11	Invoice No. 907
ABN 234 567 980	
Sold to Bruce's Billiards	
Photocopier as per Order 42	\$ 2 900
Plus GST	\$ 290
Less Trade-in allowance	\$ (1 100)
TOTAL DUE	\$ 2 090

Required

1.2.3 Show how the Disposal of Photocopier account would appear in the General ledger after the disposal was posted to the General Ledger of Bruce's Billiards.

Solution 1.2.3

Disposal of Photocopier

Date 2011	Cross Reference	Amount \$	Date 2011	Cross Reference	Amount \$
May 31	Photocopier	2 400	May 31	Accumulated Depreciation – Photocopier	250
				Sundry Creditor – Office Supplies Ltd	1 100
				Loss on Disposal of Photocopier	1 050
		2400			2400

3 marks

Mark Allocation

- 1 mark for Photocopier and Accumulated Depreciation – Photocopier entries
- 1 mark for Sundry Creditor – Office Supplies Ltd entry on credit side of ledger account
- 1 mark for Loss on Disposal of Photocopier entry

Tip:

- A common error made by students is to forget to associate the Accumulated Depreciation' to the correct Non-Current Asset. The cross reference must be 'Accumulated Depreciation – Photocopier'; no variation is acceptable.
- Students should also be vigilant about the correct use of titles in this account, e.g. 'Loss on Disposal' without reference to the Non-Current Asset is incorrect.

1.2.4 Show how the above transaction would affect the Profit and Loss Statement for the **month** ended 31 May 2011 by completing the table supplied in the answer book.

Solution 1.2.4

Item	Revenue/Expense	Amount
<i>Depreciation – Photocopier</i>	<i>Expense</i>	<i>\$50</i>
<i>Loss on Disposal of Photocopier</i>	<i>Expense</i>	<i>\$1 050</i>

2 marks

Mark Allocation

- 1 mark per line

Tip:

- *This question is a test of reading skills. Students are required to calculate one month's depreciation; many students will record the amount of Accumulated Depreciation (\$250) in this question.*

1.2.5 Identify whether the photocopier was over or under depreciated, and **suggest** two possible reasons for the over/under depreciation.

Solution 1.2.5

Over or under depreciated	<i>UNDER depreciated</i>
Reason 1	<i>Overestimated scrap value/residual value</i>
Reason 2	<i>Asset was obsolete/damaged/not in demand</i>

3 marks

Mark Allocation

- 1 mark for identifying under depreciation
- 1 mark each for identifying two appropriate reasons for the under depreciation

Tip:

- *Do not use poor estimates as a reason. Students must specifically provide reasons for the under depreciation in their response.*

1.3 The following table shows the financial analysis of Bruce's Billiards over last two years ending 31 December 2011:

Ratio	2010	2011
Gross Profit Ratio	51%	58%
Net Profit Ratio	21%	21%
Return on Assets	40%	35%

Required

1.3.1 **Describe** the trend in Gross Profit Ratio from 2010 to 2011. **Explain** two reasons that could account for this trend.

Solution 1.3.1

Description	<i>The trend in the GPR is favourable, from 51% in 2010 to 58% in 2011.</i>
	<i>This indicates that the business is retaining more of each sales dollar as gross profit.</i>
Reason 1	<i>Selling price has remained constant but Cost of Sales has decreased, increasing mark-up</i>
	<i>The business may have found a cheaper supplier.</i>
Reason 2	<i>Cost of Sales has remained constant but selling price has increased; increasing mark-up</i>

3 marks

Mark Allocation

- 1 mark for identifying the trend as favourable and a description of what it means for the business
- 1 mark each for explaining the two reasons

Tip:

- *Students should refer to both the numerator and denominator of the Gross Profit Ratio when answering this question.*

1.3.2 The Return on Assets has fallen over the two years. **Explain** *one* reason for this fall.

Solution 1.3.2

Explanation	<i>The business is holding too many unproductive or idle assets.</i>
OR	<i>The business may have recently purchased stock in bulk, or other assets, that have not yet fully contributed to revenue.</i>

2 marks

Mark Allocation

- 1 mark for identifying the reason for the change
- 1 mark for explanation

Tip:

- *In this question, students are not required to provide two reasons for the fall of the ratio. They need to give one reason, and explain it well. This is the only way to obtain two marks in this question.*

Total 45 marks

End of Question 1

Question 2 – Wanda’s Wines

Wanda Fontes owns and operates a small trading business called Wanda’s Wines, selling a range of wines and wine accessories. Her accounting system is based on the double entry accrual system of recording and reporting. Other features of the accounting system are:

- i The business uses control accounts and subsidiary records for Debtors, Creditors and Stock.
- ii Use of the perpetual method of stock recording and the FIFO method of cost assignment.
- iii The business completes accounting reports yearly.

2.1 The following transaction occurred during August 2010:

Fine Wines Ltd	
Date 30/8/10	Invoice No. 85
ABN 432 765 980	
Terms: 10/7, n/30	
Sold to Wanda’s Wines	
36 bottles of Chardonnay @ \$35 each	\$1 260
22 bottles of Port @ \$40 each	\$ 880
plus delivery fee	<u>\$ 160</u>
Sub-total	\$2 300
+ GST	<u>\$ 230</u>
TOTAL DUE	\$2 530

Required

2.1.1 **State** the cost price of one of the bottles of chardonnay purchased during August 2010.

Solution 2.1.1

State	<i>\$35 each</i>
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1 mark

Mark allocation

- 1 mark for correct answer.

Tip:

- *Students may try to over think this question as it may appear to be too easy. The mark structure of the question gives away what is required – one mark means only one amount is necessary.*

2.1.2 Referring to a qualitative characteristic, **explain** your treatment of the delivery fee.

Solution 2.1.2

Explanation	<i>The delivery fee should be treated as a period cost because, although the cost can be directly related to the chardonnay, it cannot be done so on a logical basis as it relates to more than one type of stock.</i>
Qualitative characteristic	<i>Relevance</i>

2 marks

Mark allocation

- 1 mark for stating that there is no logical basis for associating the delivery fee to the chardonnay.
- 1 mark for identifying relevance as the qualitative characteristic

Tip:

- *Where the opportunity provides, students should explain why the cost should be treated as a period cost when it relates to more than one type of stock, or is part of a larger shipment.*

2.2 The following stock card appeared as at 30 September 2010.

Stock Item: Merlot					Location: Cellar shelf 1A					
Date 2010	Details	IN			OUT			BALANCE		
		Qty	Unit cost	Value \$	Qty	Unit cost	Value \$	Qty	Unit cost	Value \$
Sep 30	Balance							20	40	
								25	42	1 850

On 30 September, Wanda informs her accountant that no bottles of merlot have been sold in the past four months. In an effort to sell the bottles, she has decided to sell the bottles for \$30 per bottle. This special price will be advertised in the local newspaper at a cost of \$900 plus \$90 GST.

Required

2.2.1 Define the term Net Realisable Value.

Solution 2.2.1

Definition	<i>Net Realisable value is defined as the estimated selling price less all costs incurred in marketing, selling and distributing the stock</i>
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1 mark

Mark allocation

- 1 mark for precise definition

Tip:

- *Students should not omit the words 'estimated' and 'less' from their definitions. An answer cannot obtain full marks if these words are not included.*

2.2.2 Show the General Journal entry necessary to record the stock write down of the merlot (memo 43).

(A narration **is** required.)

Solution 2.2.2

General Journal

Date 2010	Details	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Sept 30	Stock Write Down	1 400			
	Stock Control		1 400		
	Memo 43 – 45 bottles of merlot written down to NRV due to decrease in demand.				

4 marks

Mark allocation

- 1 mark for correct calculation of the Stock Write Down
- 1 mark each for Stock Write Down and Stock Control entries on correct side of Journal
- 1 mark for correct narration – must refer to the number, the type of stock affected and the document number

Tip:

- *This is the only question on the examination where a narration is required. A precise narration must be provided – it must contain the number of stock items affected, the type of stock affected and the document number. If any of these three items are not included, the mark cannot be given.*

2.2.3 Record the Stock Write Down in the stock card for merlot.

Solution 2.2.3

Stock Item: Merlot					Location: Cellar shelf 1A					
Date 2010	Details	IN			OUT			BALANCE		
		Qty	Unit cost	Value \$	Qty	Unit cost	Value \$	Qty	Unit cost	Value \$
Sep 30	Balance							20	40	
								25	42	1 850
	Memo 43				20	30	600			
					25	32	800	45	10	450

2 marks

Mark Allocation

- 1 mark for correct entry in the OUT column
- 1 mark for correct entry in the BALANCE column

Tip:

- *Questions 2.2.2 and 2.2.3 are linked - the total value in the 'Out' column of the stock card (2.2.3) must be the same as the amount of the Stock Write Down in 2.2.2.*

For the purposes of Question 2.3 you are not required to consider GST.

2.3 On 1 January 2011 Wanda provides the following information:

Account balances at 1 January 2011:

Debtors Control	\$17 000	Equipment	\$20 000
Creditors Control	\$20 000	Accumulated Depreciation of Equipment	\$9 600
Stock Control	\$22 000	Bank (debit balance)	\$40 000
Prepaid Sales Revenue	\$5 000	Capital – Wanda Fontes	64 400

Anticipated transactions for 2011:

- Expected balances at 31 December 2011:
 - o Stock Control \$60 000
 - o Creditors Control \$27 500
- All stock purchases are on credit. Stock purchases for the year will be \$270 000.
- On 1 December 2011 additional equipment will be purchased for \$18 000 from Bob's Hardware Store. This will be paid as follows: one third on date of purchase; the balance which is repayable two months later.
- Depreciation of Equipment 12% per annum on cost.
- Payments for the period:
 - o Office expenses – \$52 000
 - o Other cash expenses – \$25 000 including customs duty \$4 000
 - o Wages expense for the year will be \$28 000 which includes \$800 owing at the end of December 2011
 - o During the year Wanda will withdraw \$1000 per month in cash
- Prepaid Sales Revenue is for a 'special order' that will be delivered on 14 February 2011.
- There are no drawings of stock.
- Sales – cash \$300 000; credit \$100 000. Previous reports show that 2% of credit sales are returned to the business.
- 20% of the credit sales for 2011 will be outstanding at the end of the year.
- Bad Debts are expected to be \$1500 and Discount Expense is expected to be \$2000.

Required

2.3.1 Calculate budgeted cash receipts from debtors during 2011.

Solution 2.3.1

Calculation			
<i>Debtors Control</i>			
<i>Balance</i>	<i>17 000</i>	<i>Sales Returns</i>	<i>2 000</i>
<i>Credit Sales</i>	<i>100 000</i>	<i>Bad Debts</i>	<i>1 500</i>
		<i>Discount expense</i>	<i>2 000</i>
		BANK	91 500
		<i>Balance</i>	<i>20 000</i>
Budgeted Receipts from Debtors			\$ 91 500

3 marks

Mark Allocation

- 1 mark for correctly recognising the opening and closing balances of debtors account
- 1 mark for correctly including sales returns in calculation
- 1 mark for correctly including the bad debts and discount expense in calculation

Tip:

- *The Sales Return, Bad Debts and Discount Expense make this a difficult reconstruction. Students that are able to memorise their Debtors Control ledger account template will have the most success on this question. Remember there is no GST in this calculation and students would be penalised if they included it.*

2.3.2 Calculate the budgeted cost of sales for 2011.

Solution 2.3.2

Calculation			
<i>Stock Control</i>			
<i>Balance</i>	<i>22 000</i>	Cost of Sales	232 000
<i>Creditors Control</i>	<i>270 000</i>	<i>Balance</i>	<i>60 000</i>
Budgeted Cost of Sales			\$ 232 000

3 marks

Mark Allocation

- 1 each for identifying the opening balance, credit purchases and closing balance figures.

2.3.3 Prepare the Operating Activities section of the Budgeted Cash Flow Statement for the year ended 31 December 2011.

Solution 2.3.3

Wanda's Wines

Budgeted Cash Flow Statement (extract) for year ending 31 December 2011

	\$	\$
OPERATING ACTIVITIES		
Cash inflows		
<i>Receipts from Debtors</i>	91 500	
<i>Cash Sales</i>	300 000	391 500
less Cash outflows		
<i>Payments to creditors</i>	(262 500)	
<i>Office expenses</i>	(52 000)	
<i>Other cash expenses</i>	(25 000)	
<i>Wages</i>	(27 200)	(366 700)
Net Operating Cash Flows		24 800

4 marks

Mark Allocation

- 1 mark for both cash inflows
- 1 mark for correct payments to creditors figure
- 1 mark for correct office expenses and selling expenses
- 1 mark for correct wages figure
- -1 mark each for alien entry in report (max – 1 mark)

Tip:

- *Students can separate other cash expenses \$21 000 and customs duty \$4000 as separate items.*
- *Many students will forget to subtract the \$800 Accrued Wages from the Wages figure.*

2.3.4 Calculate the Budgeted depreciation expense for the year ended 31 December 2011.

Solution 2.3.4

$$\begin{aligned}\text{Calculation} &= \$2\,400 + ((18\,000 * 12\%)/12) \\ &= \$2400 + \$180\end{aligned}$$

Budgeted Depreciation expense **\$2 580**

2 marks

Mark Allocation

- 1 mark for \$2,400 figure
- 1 mark identifying the \$180 depreciation on the purchase of the equipment

Tip:

- *Many students will forget to include depreciation on the new Equipment, purchased in December.*

2.3.5 Prepare the Budgeted Profit and Loss Statement for the year ended 31 December 2011 to determine Gross Profit.

Solution 2.3.5**Wanda's Wines****Budgeted Profit and Loss Statement (extract) for year ending 31 December 2011**

	Revenues	\$	\$
	<i>Cash Sales</i>	305 000	
	<i>Credit Sales</i>	100 000	405 000
	<i>Less Sales Returns</i>		2 000
			403 000
less	Cost of Goods Sold		
	<i>Cost of Sales</i>	232 000	
	<i>Customs Duty</i>	4 000	236 000
	Gross Profit		167 000

3 marks

Mark allocation

- 1 mark for including \$5,000 prepaid sales in cash sales figure
- 1 mark for identifying \$2,000 sales returns
- 1 mark for including customs duty in Cost of Goods Sold

Tip:

- *Omission of the Sales Returns figure will be a common mistake here. Students will also forget to include Customs Duty as a 'Cost of Goods Sold' expense.*

2.3.6 Prepare the current liabilities section of the Budgeted Balance Sheet as at 31 December 2011.

Solution 2.3.6

Wanda's Wines

Budgeted Balance Sheet (extract) as at 31 December 2011

Current Liabilities	\$	\$
<i>Creditors Control</i>	27 500	
<i>Accrued Wages</i>	800	
<i>Sundry Creditor – Bob's Hardware Store</i>	12 000	40 300

3marks

Mark allocation

- 1 mark for each item
- -1 for each alien entry in report

Tip:

- '*Sundry Creditor – Bob's Hardware Store*' must be written out in full to obtain a mark here. Students will also forget to include *Accrued Wages* as a Current Liability.

2.4 On 1 June 2011 Wanda invested \$6,000 in a flexible 3-year term deposit account with the Bank of Frankston earning 8% per annum. The interest is directly credited to the firm's bank account in equal instalments every second month commencing in July.

During July 2011, Wanda negotiated to receive half of the deposit to cover an upcoming shortfall in cash. This amount, plus the interest owed, appeared in the bank statement as at 31 July.

Required

2.4.1 Prepare the general journal entry required to record the interest earned at 30 June 2011.

(A narration is **not** required.)

Solution 2.4.1

General Journal

Date 2011	Details	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
<i>Jun 30</i>	<i>Accrued Interest Revenue</i>	40			
	<i>Interest Revenue</i>		40		

2 marks

Mark allocation

- 1 mark for correct calculation of amount
- 1 mark for correct debit and credit entries

2.4.2 Record the cash received on 31 July 2011 in the Cash Receipts Journal.

Solution 2.4.2**Cash Receipts Journal**

Date 2011	Details	Rec. No.	Bank	Disc expense	Debtors	Cost of sales	Sales	GST	Sundries
<i>Jul 31</i>	<i>Accrued Interest Revenue</i>	<i>BS</i>	<i>3 080</i>						<i>40</i>
	<i>Interest Revenue</i>								<i>40</i>
	<i>Term Deposit</i>								<i>3000</i>

3 marks

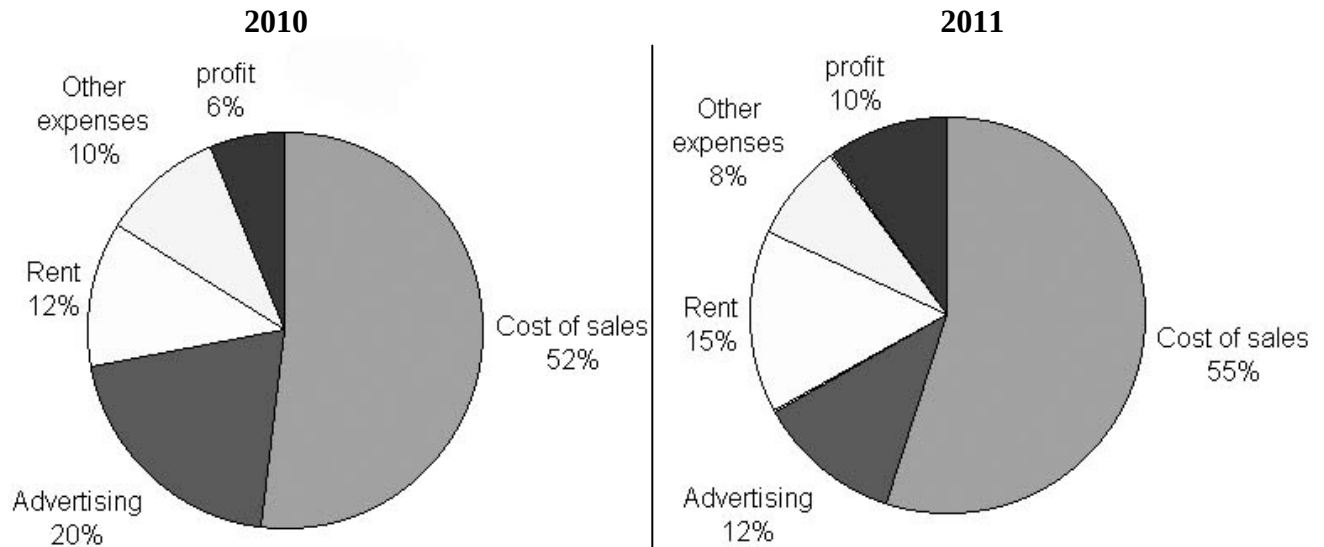
Mark allocation

- 1 mark for each line correctly recorded in CRJ
- -1 for omission of or incorrect recording of the receipt column (Bank Statement)

Tip:

- *Three lines are required in this General Journal entry. Students must be careful to break up the \$3 080 received into the three amounts listed above. Students need to always pay attention to the mark allocation of a question before giving their answer.*

2.5 Below is a breakdown of each sales dollar in 2010 and 2011, expressed in a pie chart.



2.5.1 Using the information contained in the above pie charts, **explain** two areas that have *improved*, and two areas that have *deteriorated*, from 2010 to 2011.

Solution 2.5.1

Improvement 1	<i>Net profit has improved from 6% of sales to 10% of sales</i>
Improvement 2	<i>Other expenses have decreased from 10% of sales to 8% of sales</i>
OR	<i>Advertising has decreased from 20% of sales to 12% of sales</i>
Deteriorated 1	<i>Rent has deteriorated from 12% of sales to 15% of sales</i>
Deteriorated 2	<i>Cost of sales has increased from 52% of sales to 55% of sales</i>

4 marks

Mark allocation

- 1 mark each for identifying two areas of improvement
- 1 mark each for identifying two areas that deteriorated
- -1 if explanations not linked to sales, and percentage improvements not specified

Tip:

- *Visual information, such as a pie chart has never appeared in a VCAA examination, but students should prepare for this type of question in case it does. In this question, all items must relate to **sales** – merely stating that ‘net profit has increased from 6% to 10%’ is not good enough to obtain full marks. The chart is a representation of the breakdown of a **sales** dollar, and answers need to reflect this.*

2.5.2 Explain one possible negative consequence of the reduction in advertising as a percentage of sales dollars.

Solution 2.5.2

Explanation	<i>A decrease in advertising could lead to less promotion of the business' products amongst customers, which could in turn lead to decreased sales</i>
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1 mark

Mark allocation

- 1 mark for linking a reduction in advertising to a reduction in sales

2.5.3 Referring to the pie charts above, **explain** whether the business has made a larger profit (in dollar terms) in 2010 than in 2011

Solution 2.5.3

Explanation	<i>The business is more profitable than it was in 2011 as it has retained a larger proportion of each sales dollar as net profit. However, this does not mean the business has made a larger profit (in dollar terms) in 2011 as we do not have any data on the amount of sales. If the business made fewer sales in 2011 than 2010, and increased its expenses by a larger proportion, its profit in dollar terms will have decreased.</i>
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2 marks

Mark allocation

- 2 mark for explaining why the increase in net profit per sales dollar may not mean an increase in net profit in dollar terms

Tip:

- *This question requires students to understand the difference between 'profit' and 'profitability'. This business is more profitable, but may not be making a greater profit. This is a difficult distinction for students to make.*

2.6 Wanda provides you with the following table containing information about the creditors turnover and debtors turnover of Wanda's Wines.

	2010	2011
Debtors Turnover	33 days	47 days
Creditors Turnover	44 days	61 days

2.6.1 Explain how the change in Debtors Turnover has affected the Creditors Turnover.

Solution 2.6.1

Explanation	<i>The debtors turnover is longer in 2010 (47 days) than it was in 2011 (33 days), which means that it is taking longer to collect cash from its credit customers. This will, in turn, mean that the business has less cash available to pay its creditors. As a result, the creditors turnover has worsened from 44 days in 2010 to 61 days in 2011.</i>
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2 marks

Mark allocation

- 1 mark for explanation of trend in Debtors Turnover and Creditors Turnover
- 1 mark for explanation of the link between the two

Tip:

- *Students should be able to explain that a worsening Debtors Turnover could lead to a worsening Creditors Turnover. This relationship must be explained for students to obtain full marks on this question.*

2.6.2 Apart from Creditors Turnover, **identify** one piece of information the business could use to assess its debtors turnover

Solution 2.6.2

Item	<i>Credit terms offered, industry averages, budgeted figures, previous years' figures, debtors ageing analysis</i>
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1 mark

Mark allocation

- 1 mark for any item listed above (other suitable answers accepted).

2.6.3 Explain the impact of the changes in Debtors Turnover and Creditors Turnover on the liquidity of Wanda's Wines.

Solution 2.6.3

Explanation	<i>The worsening of the debtors turnover and creditors turnover will mean that the</i>
	<i>business is less able to meet short-term debts as they fall due. The business may have</i>
	<i>to take out a bank overdraft, or take out a loan, in order to meet its obligations if cash</i>
	<i>is not available</i>

2 marks

Mark allocation

- 1 mark for linking the worsening of the ratios to worsening liquidity
- 1 mark for explaining the consequences of worsening liquidity (overdraft, etc)

Total 45 marks

END OF SOLUTIONS BOOK