



INSIGHT

Trial Exam Paper

2010

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 13 pages.
- The answer book of 11 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 – 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

Question 1 – continued
TURN OVER

General Journal

Date 2010	Details	General Ledger		Subsidiary Ledger	
		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.

3 marks

1.1.2 Record Credit Note C5 in the General Journal.

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

4 marks

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.

5 marks

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.)

3 marks

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

2 marks

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.

3 marks

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

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

4 marks

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

3 marks

Question 1 – continued
TURN OVER

- 1.2** On 1 January 2011 Bruce'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.)

3 marks

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

2 marks

The photocopier was depreciated at 25% p.a. using the straight-line method of depreciation. On 31 May 2011, Bruce 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.

3 marks

- 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.

2 marks

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

3 marks

- 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%

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

3 marks

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

2 marks

Total 45 marks

End of Question 1
TURN OVER

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.

1 mark

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

2 marks

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.

2.2.1 **Define** the term Net Realisable Value.

1 mark

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

(A narration **is** required.)

4 marks

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

2 marks

Question 2 – continued
TURN OVER

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.

3 marks

2.3.2 Calculate the budgeted cost of sales for 2011.

3 marks

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

4 marks

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

2 marks

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

3 marks

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

3 marks

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.

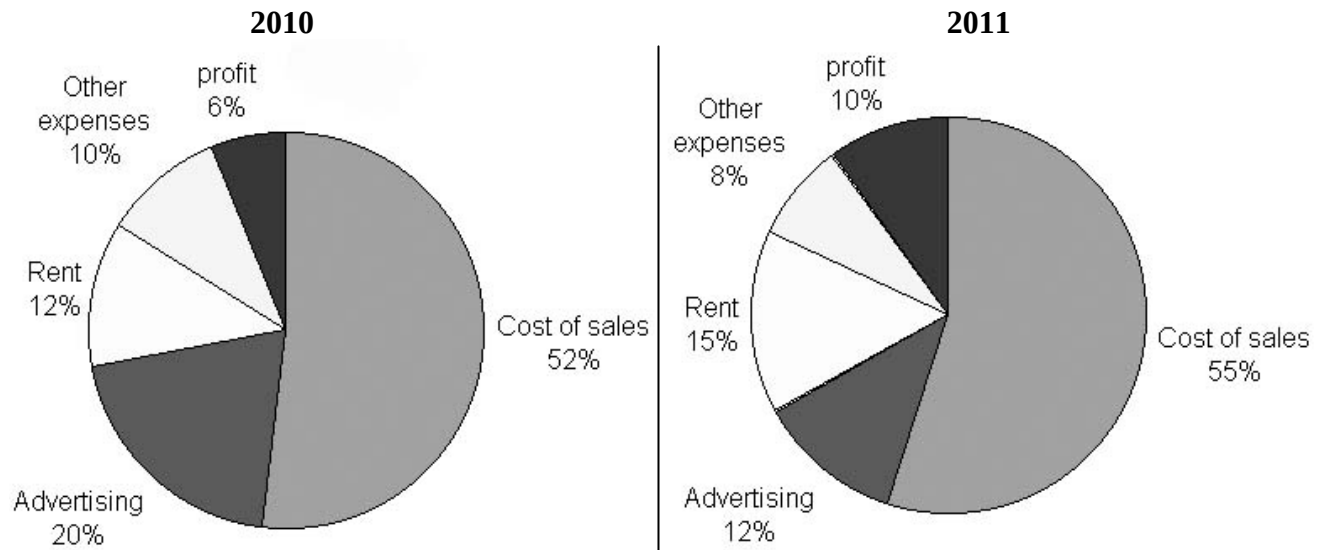
(A narration is **not** required.)

2 marks

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

3 marks

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



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.

4 marks

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

1 mark

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.

2 marks

- 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.

2 marks

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

1 mark

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

2 marks

Total 45 marks

END OF QUESTION BOOK