

ACCOUNTING

Unit 4 – Written examination 2



2010 Trial Examination

SOLUTIONS

Question 1 Ace Gym Equipment

1.1.1

Explanation: When the business sells a NCA the amount received for the asset is compared to the carrying value (Historical Cost – Accumulated Depreciation). [1] If the amount received for the asset is less than the carrying value then a loss is said to have occurred. [1]

1 mark for each point identified

1.1.2

Explanation: Carrying Value is the Historical Cost less Accumulated Depreciation [1]. It represents the unallocated cost of the asset and the residual value of the asset. [1]

Explanation: Depreciation is an expense that aims to match the cost of the asset against the revenue earned by the asset [1]. Depreciation is charged over the life of asset to represent that the asset contributes to revenue earning over its useful life [1].

1 mark for each point identified

1.2.1

GENERAL JOURNAL

Date 2009	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Dec 31	Accrued Interest Revenue	250			
	Interest Revenue		250		

2 marks

1 mark for each line in the General Journal

1.2.2

CASH RECEIPTS JOURNAL

Date 2010	Details	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries
Apr 30	Accrued Interest revenue	72	750						250
	Interest Revenue								500

2 marks

1 mark for each line in the CRJ as shown

1.2.3

Explanation: Net Realisable Value is the expected selling price of stock [1] less any expected costs associated with selling that stock [1].

1 mark for each point identified

1.2.4

GENERAL JOURNAL

Date 2009	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Dec 31	Stock Writedown	240			
	Stock Control		240		
	<i>12 units written down by \$20 per unit – Memo 7</i>				

3 marks

1 mark for each line of the entry

1 mark for narration – must include number of units AND document number.

1.2.5

Stock card: Item – Ace Treadmill

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
2009 Dec 31	Balance							12	400	4 800
	Memo 7				12	20	240	12	380	4 560

1 mark

1 mark for the whole line of the Stock Card

1.2.6

State: Revenue ↑ \$250 Expenses ↑ \$240 Profit ↑ \$10. Therefore Profit lower if adjustments not made.

1 mark

1.3.1

Ace Gym Equipment*Budgeted CASH FLOW STATEMENT FOR YEAR ENDED 31 DECEMBER 2010*

	\$	\$
Cash Flow from Operating Activities		
Cash Sales	372 500	
Receipts from Debtors	368 300	
Accrued Interest Revenue	250	
Interest Revenue	1 250	742 300
Payments to Creditors	(418 355)	
Accrued Wages	(2 000)	
Wages	(98 000)	
Prepaid Rent Expense	(24 000)	
Advertising	(10 000)	
Interest Expense	(10 000)	
Other Expenses	(45 000)	(607 355)
<i>Net cash from Operating Activities</i>		134 945
Cash Flow from Investing Activities		
Equipment	(5 000)	
Sundry Creditor – King Motors	(12 000)	
<i>Net cash from Investing Activities</i>		(17 000)
Cash Flow from Financing Activities		
Drawings	(70 000)	
Loan	(24 000)	
Mortgage	(12 000)	
<i>Net cash from Financing Activities</i>		(106 000)
<i>Change in cash balance</i>		11 945
Bank at Start (1/1/2010)		6 500

Bank at End (31/12/2010)		18 445
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8 marks

2 mark for Financing Activities : 1 for Drawings + 1 for loan and mortgage

1 mark for Investing Activities : 1 for Equipment + Sundry Creditor

1 mark for cash sales and receipts from debtors & 1 mark for Interest Revenue and Accrued Interest Revenue

1 mark for payments to creditors, 1 mark for Wages/Accrued Wages & 1 for other cash operating outflows

1.3.2

Ace Gym Equipment
Extract of Budgeted Balance Sheet as at 31 December 2010

	\$	\$		\$	\$
CURRENT ASSETS			CURRENT LIABILITIES		
Bank	18 445		Creditors Control	34 545	
Debtors Control	42 000		Sundry Creditor – King Motors	1 000	
Stock Control	103 800		Loan - Loanlease	3 000	
Accrued Interest Revenue	250		Mortgage	12 000	50 545
Prepaid Rent Expense	6 000	170 495			

5 marks

1 mark for Bank and Debtors

1 mark for Stock Control

1 mark for Accrued Interest Revenue and Prepaid Rent Expense

1 mark for Mortgage and Loan

1 mark for Creditors and Sundry Creditor

1.3.3

Explanation: Budgets assist the business in seeing where the business is heading [1]. It allows the business to identify any potential problem areas or matters that may need attention (eg; large stock holdings) [1].

1 mark for each point identified

1.4.1

Item	Budget \$	Actual \$	Variance \$	F/U
Sales	745 000	780 000	35 000	F
Cost of Sales	364 000	390 000	26 000	U
Depreciation - Equipment	4 000	4 375	375	U

1 mark for Sales line

3 marks

1 mark for Cost of Sales + Depreciation line

1 mark for each completed line of report

1.4.2

Explanation: Depreciation – Equipment The original budget may not have included depreciation on the asset that was planned to purchase [1] or purchases of equipment were greater than the \$5 000 expected [1].

Explanation: Cost of Sales As sales were more than expected [1], it would have been necessary for the business to purchase more stock. Hence a higher than expected Cost of Sales figure. [1].

1 mark for each point identified

1.4.3

Explanation: With a higher figure for depreciation this would have increased total expenses leading to a lower Net Profit. [1] This would have negatively affected profitability as NP rate and ROI would have been lower [1]

1 mark for each point identified

1.4.4

Explanation: Budgeted GP was \$381 000.[1] Actual GP would be \$390 000, hence GP would have been higher than expected.[1]

1 mark for each point identified

1.4.5

Explanation: A benefit of preparing variance reports is that it allows comparison to the budget so the business can see where differences occurred [1] and therefore improve its budgeting techniques in the future to allow for more accurate budgeting [1]

Total 45 Marks

Question 2 Walters Whitegoods**2.1.1****SALES JOURNAL**

Date 2010	Debtor	Inv. No.	Cost Price	Sales Price	GST	Total Debtors
Nov 4	Budget Motels	61	2 100	4 200	420	4 620

1 mark for Date, Debtor, Invoice and Cost Price

1 mark for Sales Price, GST and Total

GENERAL JOURNAL

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Nov 7	Advertising	350			
	Stock Control		350		
Nov 12	Stock Control	700			
	Cost of Sales		700		
	Sales Returns	1 400			
	GST Clearing	140			
	Debtors Control		1 540		
	Budget Motels				1 540
Nov 16	Creditors Control	770			
	LZ Limited			770	
	Stock Control		700		
	GST Clearing		70		

7 November 1 mark for Donations/Stock Control entry

12 November 1 mark for cost price of Sales Return entry

1 mark for Sales Returns

1 mark for GST

1 mark for Debtors Control and Debtor – Budget Motels

16 November 1 mark for the 2 debit entries

1 mark for 2 credit entries

PURCHASES JOURNAL

Date 2010	Creditor	Inv. No.	Stock	GST	Total Creditors
Nov 10	LZ Limited	LZ354	3 700	370	4 070

*1 mark for Purchases Journal***CASH RECEIPTS JOURNAL**

Date 2010	Details	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries
Nov 24	Sales	79	759			350	690	69	

 $2 + 1 + 4 + 2 + 1 + 1 = 11$ marks*1 mark for entry in CRJ***2.1.2****Stock card: Item – LZ Dishwasher**

Date 2010	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
Nov 1	Balance							14	350	4 900
4	Inv 61				6	350	2 100	8	350	2 800
7	Memo 12				1	350	350	7	350	2 450
10	Inv LZ 354	10	370	3 700				7 10	350 370	6 150
12	CN 32	2	350	700				9 10	350 370	6 850
16	CN 8				2	350 70	700	7 10	350 370	6 150
24	Rec 79				1	350	350	6 10	350 370	5 800

1 mark for each line except balance

6 marks

2.2.1**Working space**

Cost \$80 + freight \$2

Cost \$ 82

1 mark

2.2.2

Explanation: Product costs are those costs that are used to bring stock into the business and get them into a condition for sale [1]. They can be logically allocated to an item of stock [1], such as the freight cost in the Invoice above .

Period costs are those costs that while are required to bring stock into the business and have them ready for sale, they can not be logically allocated to an item of stock [1]. Insurance is an example from the Invoice above.

1 mark for each point identified

1 mark for the two examples correctly applied.

2.2.3

Explanation: If both expenses were treated as period costs then the full amount of the expenses would have been reported in this reporting period [1]. This would have made the Net Profit figure lower as a product cost treatment of freight would only expense the amount of freight on the items sold [1].

1 mark for each point identified

2.2.4

Explanation: Relevance [1] tells us that reporting should include those items that allow for meaningful analysis and decision-making [1].

1 mark for each point identified

2.3.1**Working space**

\$1 000 per month [1] x 11 months [1] = \$11 000

Rent Revenue \$11 000

2 marks

2.3.2**GENERAL JOURNAL**

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Dec 31	Prepaid Rent Revenue	2 000			
	Rent Revenue		2 000		

1 mark for each line of entry

2 marks

2.4.1

State: Deteriorated

1 mark

2.4.2

Explanation: Walter should be concerned. While the numbers are positive there has been a decline in liquidity over the two years [1]. He is also not performing as well as the industry average although we only have one figure here so we don't know if the industry has suffered a downturn as well [1].
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*1 mark for each point identified***2.4.3**

Explanation: GP rate has probably declined due to a higher cost of stock [1]. Recognising this, the business has cut expenses. The cut in expenses more than offset the increase in cost price of stock [1].

*1 mark for each point identified***2.5.1****Stock Control**

Date 2011	Cross Reference	Amount	Date 2011	Cross Reference	Amount
Jan 1	Balance	56 000	Jan - Dec	Cost of Sales	345 000
Jan - Dec	Cost of Sales	1 250		Creditors Control	1 250
	Creditors Control	363 900		Stock Loss	6 900
				Drawings	5 000
				Stock Writedown	2 000
				Balance	61 000
		421 150			421 150

*1 mark for each balance**1 mark for CoS (Credit entry)**1 mark for Cost of Sales (debit entry)**1 mark for Drawings/Stock Writedown**1 mark for Stock Loss**1 mark for purchase returns*

6 marks

2.5.2

Walters Whitegoods*Budgeted Profit & Loss Statement for year ended 31 December 2011*

	\$	\$
Revenue		
Cash Sales	230 000	
Credit Sales	460 000	690 000
Less Sales Returns		(2 500)
		687 500
Less Cost of Goods Sold		
Cost of Sales	345 000	
Add Customs Duty	4 600	<u>349 600</u>
Gross Profit		337 900
Less Stock Loss	6 900	
Plus Stock Writedown	2 000	<u>8 900</u>
Adjusted Gross Profit		329 000

1 mark for sales and sales returns

4 marks

*1 mark for Cost of Sales**1 mark for Customs Duty**1 mark for Stock Loss/Writedown*

Total 45 Marks