



VCE ACCOUNTING

Unit 3 & 4: Practice Written Examination

Reading time: 15 minutes

Writing time: 2 hours

QUESTION BOOK

Structure of book

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
9	9	100

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

Materials

- Question book of 11 pages.
- Answer book of 14 pages.

Instructions

- Write your name in the space provided on the front page of the answer book.
- Answer **ALL** questions in the space provided.
- All written responses should be in English.

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

Question 1 (22 marks)

Deb's Middle Eastern Bakery offers a range of bread and pastries.

The business prepares reports monthly and applies a fixed mark-up of 50%.

The following journals summarise the transactions for January 2016, up to and including 30 January 2016.

Purchases Journal (summary)

Date	Creditor	Invoice Number	Stock Control	GST	Creditors Control
30 Jan	Totals to date	-	9 000	900	9 900

Sales Journal (summary)

Date	Debtor	Invoice Number	Cost of Sales	Sales	GST	Debtors Control
30 Jan	Totals to date	-	8 000	12 000	1 200	13 200

Cash Receipts Journal (summary)

Date	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sundries	GST
30 Jan	Totals to date	-	38 300	100	5 300	14 000	21 000	10 000	2 100

Cash Payments Journal (summary)

Date	Details	Chq. No.	Bank	Disc. Rev.	Creditors Control	Stock Control	Wages	Sundries	GST
30 Jan	Totals to date	-	26 600		8 500	6 400	8 950	2 300	700

Question 1

- Calculate the total of the 'Discount Revenue' column in the Cash Receipts Journal as at 30 January 2016. 1 mark
- Referring to the definition of revenue, explain why discount revenue is classified as revenue. 3 marks

The following transactions occurred on 31 January 2016 and have not yet been recorded.

- A cash sale of \$231 including GST was made to Angelo Ho (receipt 908).
- A Debtor – Paste Rie has been declared bankrupt (memo 86) and only paid 20 cents of every dollar owed (receipt 909). Their balance owing was \$550.
- Stock purchased on 28 January 2016 on credit from Weavel City for \$900 plus GST was returned and a full credit was received (credit note 71).

c. Record the above transactions in the journals provided.

Narrations are **not** required.

You **are** required to total the Cash Receipts Journal.

7 marks

d. Show how the following accounts would appear in the General Ledger after posting the information above.

- Debtors Control
- Stock Control

You **are** required to balance the Stock Control account.

8 marks

e. Explain the benefit of having a control account system for debtors.

2 marks

f. State one disadvantage of having a control account system for debtors.

1 mark

Question 2 (9 marks)

Pete's Pictures provides you with details of three of their items of stock as at 31 March 2016.

Stock Item	Quantity	Cost per Unit	Selling Price	Marketing Costs
Portraits	100	\$1 000	\$3 000	\$500
Modern Abstract	130	\$1 100	\$2 000	\$900
Landscape	85	\$2 000	\$10 000	\$1 400

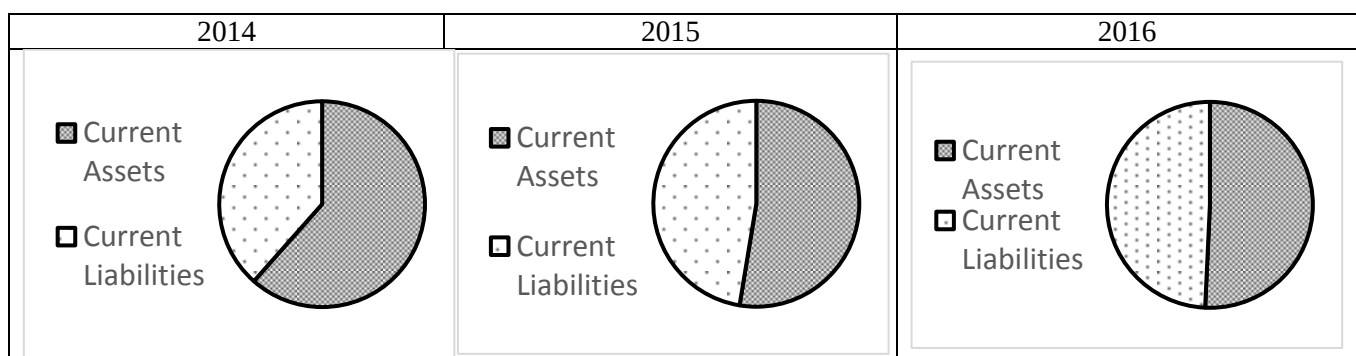
Additional information

10 Landscape pictures have been damaged and can only be sold for \$3 000 each plus GST (Memo 90).

- Calculate the value at which stock should be reported in the Balance Sheet as at 31 March 2016. 3 marks
- Prepare the General Journal entry required on 31 March 2016.
A narration **is** required. 3 marks
- Referring to one accounting principle, explain whether stock should be valued at the lower of cost and net realisable value. 3 marks

Question 3 (4 marks)

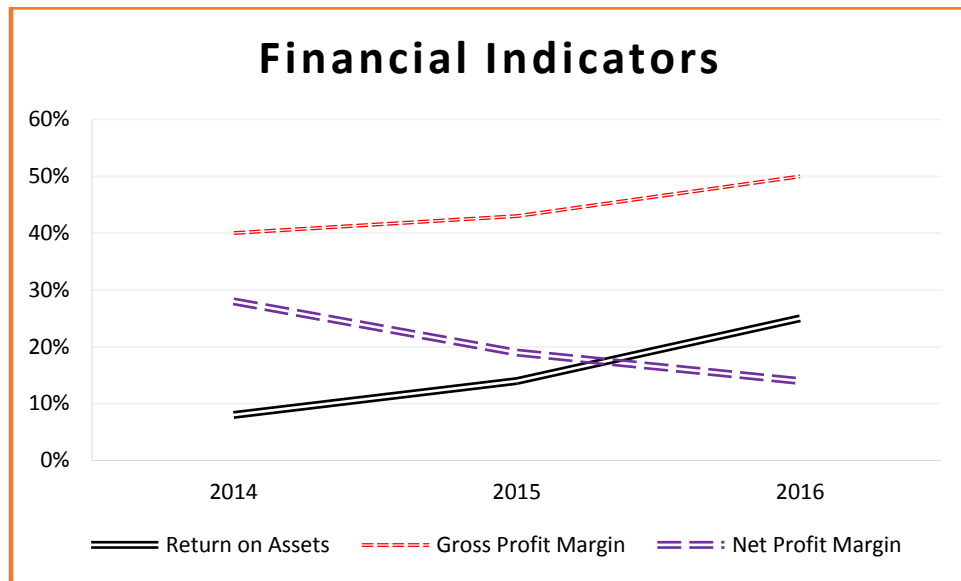
The accountant has provided you with the following information.



- Explain how the changes in the value of Current Assets and Current Liabilities in the charts presented above may impact the Working Capital Ratio of the business. 2 marks
- State one limitation of using the Working Capital Ratio as an indicator of liquidity. 1 mark
- State one other benchmark that could be used to assess the liquidity of the business. 1 mark

Question 4 (5 marks)

The accountant has provided you with the following information.



- a. Explain the difference between the terms ‘profit’ and ‘profitability’. 2 marks
- b. Explain how the Net Profit Margin can decline despite an improvement in the Gross Profit Margin. 2 marks
- c. State one non-financial indicator that can be used to assess the profitability of the business. 1 mark

Question 5 (9 marks)

Chris Crustacean owns and operates Deep Sea Devices, a small business selling a range of equipment for the seafood industry and prepares reports on a monthly basis.

Chris has been using a single entry recording system for the past few years and has decided to shift to an accrual based double entry recording system and applying the FIFO assumption for the recording of stock with control accounts for Debtors, Creditors and Stock.

Chris provides you with the following information on 1 May 2016.

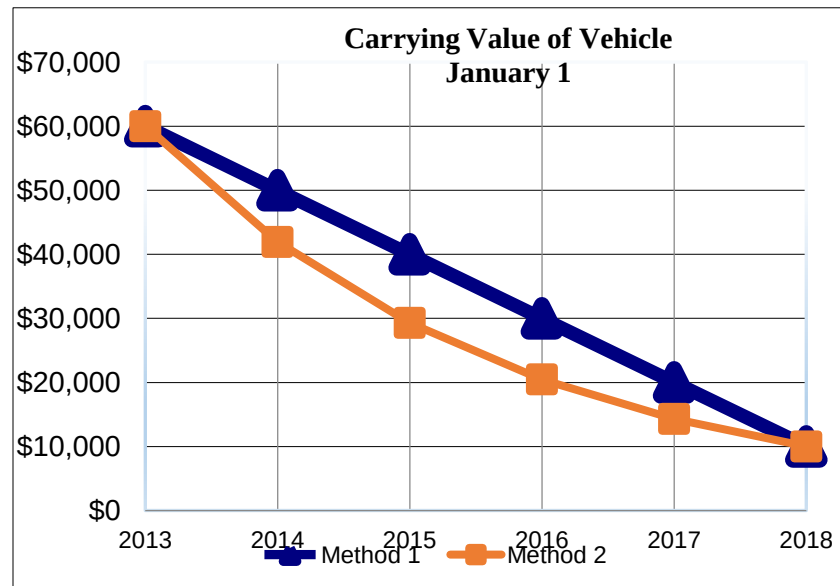
- Cash at Bank was \$2 000.
- GST summary from the April journals were:
 - GST paid \$1 080
 - GST collected \$150
 - GST charged \$1 200
 - GST incurred \$900
- Annual rent of \$24 000 plus GST was paid on 1 January 2016 for the 12 months ending 31 December 2016.
- The following customers owe Deep Sea Devices:
 - D.Dive \$4 900
 - S.Bob \$3 250
 - F.Fish \$3 320
- A physical stocktake revealed \$61 500 of stock on hand, however, the stock cards show \$62 000.
- Chris transferred his own Van to the business on 1 January 2016. Chris had originally purchased the Van for \$46 000 plus GST in 2013. Chris determined that the agreed value of the Van on the date it was transferred to the business to be \$25 000. The Van is to be depreciated using the straight line method based on a residual value of \$7 000 and an effective life of 3 years.

- a.** Prepare the Asset section of the Balance Sheet as at 1 May 2016. 7 marks
- b.** Explain how the preparation of a classified Balance Sheet satisfies the qualitative characteristic of understandability. 2 marks

Question 6 (18 marks)

On 1 January 2013 the owner of Murry Merchandise purchased a new Motor Vehicle for \$60 000 plus GST.

The accountant provided him with the chart below displaying the carrying value of the motor vehicle using two alternative depreciation methods.



- a. Identify the method of depreciation you would recommend for a Motor Vehicle.

Justify your choice.

3 marks

The owner decided to use the Straight Line Method to depreciate the Motor Vehicle.

On 1 January 2016 the owner decided the Motor Vehicle was not large enough so it was traded-in for a larger model.

The details of the trade-in are provided in the Invoice over the page

Invoice: B1010		Big Movers	222 Northern Highway East Gippsland 3837
Terms: 2/7, n/30		ABN: 10 000 909 459	Tax invoice
Charge to:	Murry Merchandise 77 River Rise Murrayville		
Date	Details	\$	
01/01/2016	Big Loader Motor Vehicle	72 500	
	Shelving	2 100	
	12 Month Service Contract	1 000	
	GST (10%)	7 560	
	Less Trade-In	34 760	
		Total	\$48 400
Please keep this document in a safe place it may be required for Taxation purposes			

- b.** Prepare the General Journal entries required to dispose of the old Motor Vehicle and the purchase of the new Motor Vehicle.

Narrations are **not** required.

9 marks

- c.** Explain why a profit or a loss on the trade-in of the Motor Vehicle occurred. 2 marks
- d.** Referring to your answer in **part b.**, explain your treatment of the shelving in recording the purchase of the new Motor Vehicle. 2 marks

On 6 January 2016 cheque 842 was used to pay the amount owing to Big Movers.

- e.** Record cheque 842 in the Cash Payments Journal. 2 marks

Question 7 (18 marks)

Goosebumps is a business owned by J Black, selling horror movies. He sells on a credit basis, but insists that special orders are paid in advance. The business applies a fixed mark-up of 100%.

The following pre-adjustment Trial Balance for the six months ended 30 September 2016 was prepared by the accountant.

Goosebumps
Pre-adjustment Trial Balance as at 30 September 2016

Ledger Account	Debit \$	Credit \$
Accumulated Depreciation – Display Fittings		4 500
Advertising	6 000	
Bank	3 200	
Capital		18 565
Cost of Sales	44 065	
Creditors Control		8 540
Customs Duties	1 280	
Discount Expense	240	
Discount Revenue		160
Drawings	9 000	
Electricity	450	
Freight Inwards	850	
Freight Outwards	1 060	
GST Clearing		1 250
Interest Expense	600	
Loan – Bank of Loans		15 000
Display Fittings	45 000	
Office Expenses	900	
Prepaid Commission Revenue		7 900
Sales		90 000
Sales Returns	1 870	
Stock Control	9 400	
Wages	22 000	
Totals	145 915	145 915

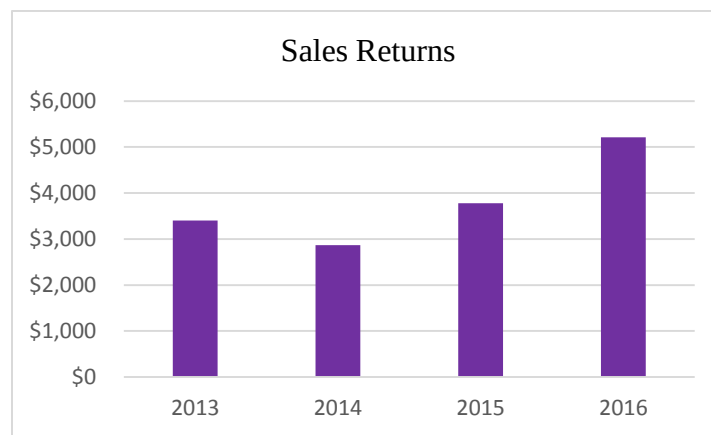
Additional information

- Wages owing as at 30 September 2016 were \$1 400.
- Depreciation of Motor Vehicle is charged at 10% per annum using the reducing balance method.
- As an incentive to encourage sales, J Black was given commission from his supplier of vintage horror movies. Of the amount received, Jack was yet to earn \$3 400.
- A physical stocktake determined stock on hand to be \$8 500.

- a. Prepare the General Journal entries required as a result of the information above.
Narrations are **not** required. 7 marks
- b. Referring to one accounting principle, explain the purpose of preparing balance day adjustments. 3 marks
- c. Prepare the Income Statement extract up to, and including, Other Revenue for the six months ending 30 September 2016. 8 marks

Question 8 (3 marks)

The accountant has provided you with the following information.



- a. Explain how the above trend may impact the profitability of a business. 2 marks
- b. State one strategy the business could introduce to reverse the above trend. 1 mark

Question 9 (12 marks)

On 31 December 2016 the owner provided the following incomplete Budgeted Cash Flow Statement Variance Report (extract) for the year ended 31 December 2016.

Budgeted Cash Flow Statement Variance Report (extract)
for the year ended 31 December 2016

	Budget	Actual	Variance	F / U
Advertising	\$14 000	\$32 000	\$18 000	
Interest Paid	\$6 000		\$1 500	F
Capital		\$4 000	\$4 000	F
Loan Repayments – NEB	\$12 000	\$19 500		U

a. Complete the Variance Report (extract) in the Answer Booklet. 4 marks

b. Explain a possible impact of the variance in Advertising on the Profit of the business. 2 marks

c. The Variance Report for the Income Statement showed a higher profit than expected, yet the actual Bank Balance at the end of the budget period was less than budgeted.

Explain, with the use of one example, how this can occur. 3 marks

d. Explain how the preparation of Variance Reports can assist planning **and** decision making. 3 marks

END OF QUESTION BOOK



NAME: _____

VCE® ACCOUNTING
Unit 3 & 4: Practice Written Examination

Reading time: 15 minutes**Writing time: 2 hours**

ANSWER BOOK

Instructions

- A question book is provided with this answer book.
- Answer all question in the spaces provided in this book.
- Write your **student name** in the space provided above on this page.
- Refer to Instructions on the front cover of the question book.

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

Question 1 (22 marks)**a.**

1 mark

Cash Payments Journal (summary)

Date	Details	Chq. No.	Bank	Disc. Rev.	Creditors Control	Stock Control	Wages	Sundries	GST
30 Jan	Totals to date	-	26 600		8 500	6 400	8 950	2 300	700

b.

3 marks

Explanation

c.

7 marks

Cash Receipts Journal (summary)

Date	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sundries	GST
30 Jan	Totals to date	-	38 300	100	5 300	14 000	21 000	10 000	2 100

Question 1 – continued

General Journal

Date 2016	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit

d.

8 marks

Debtors Control

Date 2016	Cross-reference	Amount	Date 2016	Cross-reference	Amount
01/01	Balance	2 900			

Stock Control

Date 2016	Cross-reference	Amount	Date 2016	Cross-reference	Amount
01/01	Balance	13 600			

Question 1 – continued

e.

2 marks

Explanation

f.

1 mark

Disadvantage

Question 2 (9 marks)**a.**

3 marks

Value of Stock as at 31 March 2016	
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b.

3 marks

General Journal

Date 2016	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit

c.

3 marks

Principle
Explanation

TURN OVER

Question 3 (4 marks)**a.** 2 marks

Explanation

b. 1 mark

Limitation

c. 1 mark

Benchmark

Question 4 (5 marks)**a.**

2 marks

Explanation

b.

2 marks

Explanation

c.

1 mark

Non-Financial Indicator

TURN OVER

Question 5 (9 marks)**a.**

7 marks

Deep Sea Devices
Balance Sheet (extract)
as at 1 May 2016

	\$	\$
Current Assets		
Non-current Assets		

b.

2 marks

Explanation

TURN OVER

Question 6 (18 marks)**a.**

3 marks

Depreciation Method
Justification

b.

9 marks

General Journal

Date 2016	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit

Question 6 – continued

c.

2 marks

Explanation

d.

2 marks

Explanation

e.

2 marks

Cash Payments Journal

Date	Details	Chq. No.	Bank	Disc. Rev.	Creditors Control	Stock Control	Wages	Sundries	GST

TURN OVER

Question 7 (18 marks)**a.**

7 marks

General Journal

Date 2016	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit

b.

3 marks

Principle
Explanation

Question 7 – continued

c.

8 marks

Goosebumps**Income Statement (extract) for the six months ending 30 September 2016**

	\$	\$
Revenues		

Question 8 (3 marks)

a.

2 marks

Explanation

b.

1 mark

Strategy

TURN OVER

Question 9 (12 marks)**a.**

4 marks

**Budgeted Cash Flow Statement Variance Report (extract)
for the year ended 31 December 2016**

	Budget	Actual	Variance	F / U
Advertising	\$14 000	\$32 000	\$18 000	
Interest Paid	\$6 000		\$1 500	F
Capital		\$4 000	\$4 000	F
Loan Repayments – NEB	\$12 000	\$19 500		U

b.

2 marks

Explanation

c.

3 marks

Explanation

Question 8 – continued

d.**3 marks**

Explanation

END OF ANSWER BOOK

Solution Pathway

NOTE: This task is sold on condition that it is **NOT** placed on any school network or social media site (such as Facebook, Wikispaces etc.) at any time.

NOT FOR PRIVATE TUTOR USE.

Question 1 (22 marks)

a.

Cash Payments Journal (summary)

Date	Details	Chq. No.	Bank	Disc. Rev.	Creditors Control	Stock Control	Wages	Sundries	GST
30 Jan	Totals to date	-	26 600	250	8 500	6 400	8 950	2 300	700

Total: 1 mark

b.

The discount revenue represents a reduction in outflow of economic benefit [1] that reduces liabilities [1] that leads to an increase in Owner's Equity through a higher profit. [1]

1 mark for each part indicated. Total: 3 marks

c.

Cash Receipts Journal (summary)

Date	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sundries	GST
30 Jan	Totals to date	-	38 300	100	5 300	14 000	21 000	10 000	2 100
31 Jan	Cash Sales	908	231			140	210		21
31 Jan	Paste Rie	909	110		110				
			38 641	100	5 410	14 140	21 210	10 000	2 121

General Journal

Date 2016	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
31 Jan	Bad Debts	440			
	Debtors Control		440		
	Debtor - Paste Rie				440
	Creditors Control	990			
	Creditor - Weavel City			990	
	Stock Control		900		
	GST Clearing		90		

*1 mark for receipt 908 in Cash Receipts Journal**1 mark for receipt 909 in Cash Receipts Journal**1 mark for totalling Cash Receipts Journal**1 mark for Bad Debts in General Journal**1 mark for both the Debtors Control and the subsidiary ledger**1 mark for Creditors Control and the subsidiary ledger**1 mark for Stock Control and GST Clearing**Total: 7 marks*

d.**Debtors Control**

Date 2016	Cross-reference	Amount	Date 2016	Cross-reference	Amount
01/01	Balance	2 900	31/01	Bank / Discount Expense	5 410
31/01	Sales / GST Clearing	13 200		Bad Debts	440

Stock Control

Date 2016	Cross-reference	Amount	Date 2016	Cross-reference	Amount
01/01	Balance	13 600	31/01	Cost of Sales	8 000
31/01	Bank	6 400		Cost of Sales	14 140
	Creditors Control	9 000		Creditors Control	900
				Balance	5 960
		29 000			29 000
01/02	Balance	5 960			

*1 mark for Sales / GST Clearing**1 mark for Bank / Discount Expense**1 mark for Bad Debts**1 mark for Bank in Stock Control**1 mark for Creditors Control on debit side of Stock Control**1 mark for both the Cost of Sales entries**1 mark for Creditors Control on credit side of Stock Control**1 mark for balancing Stock Control**Total: 8 marks*

e.

A control account system uses one account to summarise the information in the subsidiary ledger for debtors. It allows the business to have detailed information regarding debtors or creditors, while only using one figure in the general ledger and therefore the accounting reports. **[1]**

The business can split duties between staff, having one staff member responsible for the subsidiary ledger and following up any receipts from debtors, banking and issuing of invoices and statements and a schedule of debtors. Another staff member would check this information when it is compared to the control account, identifying errors and fraud. **[1]**

1 mark for each part indicated. Total: 2 marks

f.

Having a control account system for debtors can be a costly to adopt as the business needs to employ a staff member to look after the subsidiary ledger, increasing wages expense.

Total: 1 mark

Question 2 (9 marks)**a.**

Stock Item	Quantity	Lower of Cost and NRV	Value
Portrait	100	\$1 000	\$100 000
Modern Abstract	130	\$1 100	\$143 000
Landscape	75	\$2 000	\$150 000
Landscape damaged	10	\$1 600	\$16 000
			\$409 000

*1 mark for Portrait and Modern Abstract values**1 mark for Landscape (75 units) values.**1 mark for damaged Landscape (10 units) values**Total: 3 marks***b.****General Journal**

Date 2016	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
31 Mar	Stock Write Down	4 000			
	Stock Control		4 000		
	10 'Landscape' units of stock to be written down to lower of cost and net realisable value due to damage. (Memo 90)				

*1 mark for Stock Write Down**1 mark for Stock Control**1 mark for narration**Total: 3 marks*

c.

Conservatism [1]

Stock should be valued at the lower of cost and net realisable value as the conservatism principle requires that losses are to be recognised when they are likely or probable to occur so as to not overstate the value of assets. [1]

The loss has occurred as the owner has realised that he will not be able to sell the pictures for more than their cost price due to damage. [1]

1 mark for each part indicated. Total: 3 marks

Question 3 (4 marks)

a.

The trend shows an increase in Current Liabilities compared to Current Assets [1]
indicating a deterioration in the Working Capital Ratio. [1]

1 mark for each part indicated. Total: 2 marks

b.

The Working Capital Ratio is a static representation of current elements of the Balance Sheet. It is historical data and may no longer be relevant.

Total: 1 mark

c.

Budgeted figures
Competitors / Industry averages

Total: 1 mark

Question 4 (5 marks)**a.**

Profitability is a ratio of profit as compared to other important elements of the business, such as Total Assets, Total Sales or Owner's Equity. **[1]**

While profit is a dollar value calculated by deducting expenses incurred from revenues earned. **[1]**

1 mark for each part indicated. Total: 2 marks

b.

Cost of sales has decreased at a greater rate than the selling price of stock. The average mark up of the business increased during the year, possibly due to cost price decreases. The owner may have decided to increase selling prices which increased sales however, the cost price remained the same. **[1]**

Other expenses are out of control and increased at a greater rate than the selling price of stock. Large increases in Stock Loss and/or Stock Write Down may have caused net profit to fall. **[1]**

1 mark for each part indicated. Total: 2 marks

c.

Quality of the stock indicated by the number of sales returns.

Employee knowledge and relationship with customers indicated by the results of customer satisfaction surveys and or employee satisfaction surveys.

Total: 1 mark

Question 5 (9 marks)**a.**

Deep Sea Devices
Balance Sheet (extract)
as at 1 May 2016

	\$	\$
Current Assets		
Cash at Bank	2 000	
GST Clearing	630	
Prepaid Rent Expense	16 000	
Debtors Control	11 470	
Stock Control	61 500	91 600
Non-current Assets		
Van	25 000	
Less: Accumulated Depreciation	2 000	27 000

*1 mark per item**Deduct 1 mark if report extract is not labelled and/or totalled Total: 7 marks***b.**

The qualitative characteristic of understandability requires reports to be prepared in such a manner so that users with little accounting information can understand their meaning. **[1]**

This is achieved in a classified Balance Sheet through the use of headings and sub-headings, totals and sub-totals. **[1]**

1 mark for each part indicated. Total: 2 marks

Question 6 (18 marks)**a.****Method 2 - Reducing Balance [1]**

Method B better matches the pattern of use of the asset with the depreciation expense [1] as more of the Motor Vehicle's value will be consumed or used up in the earlier years of its useful life when it is more effective in generating revenue. [1]

1 mark for each part indicated. Total: 3 marks

b.**General Journal**

Date 2016	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
31 Mar	Disposal of Motor Vehicle	60 000			
	Motor Vehicle		60 000		
	Acc.Dep. – Motor Vehicle	30 000			
	Disposal of Motor Vehicle		30 000		
	Sundry Creditor – Big Movers	34 760			
	Disposal of Motor Vehicle		34 760		
	Disposal of Motor Vehicle	4 760			
	Profit on Disposal - Motor Vehicle		4 760		
	Motor Vehicle	74 600			
	Prepaid Service Agreement	1 000			
	GST Clearing	7 560			
	Sundry Creditor – Big Movers		83 160		

1 mark for Disposal of Motor Vehicle / Motor Vehicle \$60 000 entry
1 mark for Accumulated Depreciation – Motor Vehicle \$30 000 debit entry
1 mark for Disposal of Motor Vehicle \$30 000 credit entry
1 mark for Sundry Creditor – Big Movers / Disposal of Motor Vehicle \$34 760 entry
1 mark for Disposal of Motor Vehicle \$4 760 debit entry
1 mark for Profit on Disposal – Motor Vehicle \$4 760 credit entry
1 mark for Motor Vehicle \$74 600 debit entry
1 mark for Prepaid Service Agreement \$1 000 debit credit
1 mark for GST Clearing and Sundry Creditor – Big Movers entries *Total: 9 marks*

c.

A Profit on Disposal occurred as the trade-in allowance from Big Movers for the Motor Vehicle was more than its carrying value. **[1]**

This might be due to over depreciating the Motor Vehicle due to under estimating the Motor Vehicle's useful and/or residual value or the Motor Vehicle was in better condition than expected when it was traded-in. **[1]**

1 mark for each part indicated. Total: 2 marks

d.

As the shelving is a cost incurred in getting the Motor Vehicle into a condition ready for use to start earning revenue **[1]** and it is expected to provide future economic benefits to the business over the life of the Motor Vehicle **[1]** it has been included in the cost of the Motor Vehicle.

1 mark for each part indicated. Total: 2 marks

e.

Cash Payments Journal (summary)

Date	Details	Chq. No.	Bank	Disc. Rev.	Creditors Control	Stock Control	Wages	Sundries	GST
6 Jan	Sundry Creditor – Big Movers	842	47 432	968				48 400	

1 mark for Date / Details / Chq.No./Bank entries

1 mark for Discount Revenue and Sundries entries

Question 7 (18 marks)

a.

General Journal

Date 2016	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
30 Sep	Wages	1 400			
	Accrued Wages		1 400		
	Depreciation – Display Fitt	2 025			
	Acc.Dep.–Display Fitt		2 025		
	Prepaid Commission Revenue	4 500			
	Commission Revenue		4 500		
	Stock Loss	900			
	Stock Control		900		

1 mark for Wages / Accrued Wages entry

1 mark for Depreciation – Display Fittings \$2 025 debit entry

1 mark for Accumulated Depreciation – Motor Vehicle \$2 025 credit entry

1 mark for Prepaid Commission Revenue \$4 500 debit entry

1 mark for Commission Revenue \$4 500 credit entry

1 mark for Stock Loss \$900 debit entry

1 mark for Stock Control \$900 credit entry

Total: 7 marks

b.**Reporting Period [1]**

The Reporting Period principle requires the life of the business to be divided into periods of time to allow for the accurate calculation of profit by matching expenses incurred against revenues earned. [1]

Balance day adjustments are required to ensure that the amount reported in the Income Statement reflects the expense incurred, not necessarily paid. [1]

1 mark for each part indicated. Total: 3 marks

c.

**Goosebumps
Income Statement
for the six months ending 30 September 2016**

Revenue		
Sales	90 000	
Less: Sales Returns	1 870	88 130
Less Cost of Goods Sold		
Cost of Sales	44 065	
Customs Duties	1 280	
Freight Inwards	850	46 195
Gross Profit		41 935
Less Stock Loss		900
Adjusted Gross Profit		41 035
Add Other Revenue		
Commission Revenue	4 500	
Discount Revenue	160	4 660
		45 695

1 mark per line item

Deduct 1 mark if incorrect headings used or not totalled Total: 8 marks

Question 8 (3 marks)**a.**

The business is ultimately reducing its sales **[1]** while still incurring the costs associated with those sales, such as wages, the sales returns will decrease profit and decrease profitability. **[1]**

1 mark for each part indicated. Total: 2 marks

b.

Introduce a no returns policy, expect for faulty goods.
 Improve quality of products stocked by business by changing products or supplier.
 Improve sales staff training to be more responsive to customer's needs and improve checking mechanisms when orders are being completed.

Total: 1 mark

Question 9 (12 marks)**a.**

**Budgeted Cash Flow Statement Variance Report (extract)
 for the year ended 31 December 2016**

	Budget	Actual	Variance	F / U
Advertising	\$14 000	\$32 000	\$18 000	U
Interest Paid	\$6 000	\$4 500	\$1 500	F
Capital	\$0	\$4 000	\$4 000	F
Loan Repayments – NEB	\$12 000	\$19 500	\$7 500	U

1 mark for each line. Total: 4 marks

b.

The advertising should increase sales possibly leading to an increase in Net Profit **[1]** and therefore profitability as this increase in sales should outweigh the increase in costs in advertising. **[1]**

1 mark for each part indicated. Total: 2 marks

c.

The higher profit than expected in the Income Statement Variance Report would have been due to a combination of actual revenues earned being greater than budgeted revenues and / or actual expenses being less than budgeted expenses. **[1]**

Whereas the actual Bank Balance at the end of the budget period was less than budgeted due to a combination of actual receipts being lower than budget receipts and / or actual payments being larger than budgeted payments. **[1]**

Example [1]

Capital contribution a cash inflow, which helps to Increase the cash position but is not a revenue and so, has no effect on Net Profit. Receipts from debtors is a cash inflow, which will increase Net Cash Flows from Operations may be more than credit sales revenue will increase net profit.

Cost of sales is an expense, which will may decrease Net Profit more than cash payments to creditors will decrease Net Cash Flows from Operations.

Stock Loss / Depreciation / Discount Expense are non-cash transactions which decrease profit but have no impact on cash.

1 mark for each part indicated.

1 mark for explanation of example. Total: 3 marks

d.

The preparation of Variance Reports allows the actual performance of the business to be compared to the budgeted performance. **[1]**

Budgets provide a plan for the future and guidance for the owner to follow. They predict the future performance of the business and can determine if there are any problems that should be rectified before they occur. **[1]**

The Variance Reports will allow the owner to identify problem areas and make decisions to take corrective action. These variances will allow changes to be made in future reporting periods and future budgets to improve the accuracy of information used as the basis for decision making. **[1]**

1 mark for each part indicated. Total: 3 marks

END OF SOLUTIONS