

Accounting Units 3 and 4 practice exam 2019 and suggested solutions

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The following VCE Accounting Units 3 and 4 practice exam consists of nine questions worth 100 marks. Students are required to answer all questions in the spaces provided in the answer book.

The command/task words in each question, the corresponding number of marks allocated and the number of lines provided after each question, where appropriate, give a guide to the appropriate length of responses. Suggested answers to this practice exam follow the answer book.

Please note that the following questions and solutions have no official status. Teachers are advised to preview and evaluate all practice exam material before distributing it to students.

ACCOUNTING UNITS 3 AND 4

Practice written examination 2019

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: pens, pencils, highlighters, erasers, sharpeners, rulers 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 supplied

- Question book
- Answer book

Instructions

- Write your name and your teacher's name in the spaces provided on the front page of the answer book.
- Answer **all** questions in the answer book.
- All written responses must be in English.

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

QUESTION 1: WASURA'S WAVE HEAVEN (11 MARKS)

Wasura Hammond is about to commence a small business selling surfboards and accessories. On 1 March 2019, he undertook the following transactions to commence business:

- Deposited \$30 000 into a business bank account.
 - Transferred ownership of personal Vehicle to the business. The Vehicle has a current value of \$36 000. The business will also take over the balance of the loan taken out to purchase the Vehicle in 2016. The current balance of the loan from Delaney Finance is \$7 000 and the loan is due to be repaid by 31 December 2019.
 - Purchased Inventory from Curley Wurley valued at \$42 000 plus GST (Inv. CW95). Wasura expects to sell inventory at a mark-up of 50%.
 - Borrowed \$15 000 from Natural Bank. The loan will be repaid in equal instalments over the next three years. In addition, the business has negotiated an overdraft of \$20 000.
 - Wasura leased a shop in a local shopping complex. Rent is \$2 000 per month plus GST and Wasura paid in full the rent for the first six months.
 - Purchased Office Furniture (\$12 000) and Fixtures and Fittings (\$18 000) for cash. Both amounts are exclusive of GST.
- a. Prepare the Balance Sheet of the business as at 1 March 2019.
- 5 marks
- b. Justify the role of documents in the accounting system of the business, making reference to the purchase of Inventory.
- 3 marks
- c. Explain your treatment of Wasura's personal Vehicle in your preparation of the Balance Sheet, referring to **one** accounting assumption.
- 3 marks

QUESTION 2: COFFEE CAVERN (12 MARKS)

Stephanie Zocco is the owner and manager of Coffee Cavern. The business sells coffee machines, accessories and coffee beans to customers.

In May 2019, the business began selling a new brand of coffee machine—the Dream Machine. This item is an exclusive item imported from overseas and currently not available in any other Victorian store.

Details of the first purchase of 20 Dream Machines are below:

- Invoice price—\$350 plus GST.
- Customs duty of 10% was paid on the invoice price.
- GST was paid based on cost plus customs duty.
- Delivery charges of \$500 plus GST was charged. The delivery included other items of inventory.
- The machines will be rebadged in Australia with a Coffee Cavern logo at a cost of \$5 per machine (plus GST) before being ready for sale.

- a. Calculate the unit cost at which the Dream Machine should be recorded in the Inventory card.

2 marks

- b. Explain your treatment of the following items when calculating your answer to **part a**:

- Cost of rebadging
- Delivery charges

2 + 2 = 4 marks

Stephanie prepared the following Inventory Card for a line of the most popular coffee beans sold by the business:

STOCK ITEM: Magic Beans					SUPPLIER: The King of Beans					
LOCATION: Viewbank					COST ASSIGNMENT METHOD:					
Date 2019	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
May 1	Balance							9 400	20 22	8 980
May 8	Rec. B67– B78				3 57	20 22	1 314	6 343	20 22	7 666
May 12	Inv. GF04				25	22	550	6 318	20 22	7 116
May 14	CN L04	2	22	44				6 320	20 22	7 160

- c. State the cost assignment method being used by the business.

1 mark

- d. Calculate the Cost of Sales figure for the sale on 8 May if the other cost assignment method had been used.

1 mark

- e. The Magic Beans sell for \$45 per bag plus GST. Record the transaction on 8 May into the General Journal.

Note: A narration **is** required.

4 marks

QUESTION 3: CHLOE'S COUTURE (12 MARKS)

Chloe Kalimnios made the following transactions in March 2019 as she commenced trading and made her first sales.

- Deposited \$40 000 of her own money into the business bank account.
 - Transferred ownership of her personal Vehicle to the business. The Vehicle was purchased in 2017 for \$40 000 plus GST and has a current value of \$29 000.
 - Purchased Inventory on credit from Feng Fashion at a cost of \$32 000 plus GST.
 - Paid the following amounts:
 - Rent on premises \$6 000 plus GST
 - Freight costs on Inventory \$190 plus GST
 - Wages \$900.
 - Cash Sales of Inventory \$3 000 plus GST.
 - Credit Sale of Inventory to O. Fernandez, \$1 320 including GST.
 - Returned damaged Inventory to Feng Fashions \$275 including GST.
- a. Using the information above, complete the GST Clearing general ledger account at 31 March 2019.

7 marks

- b. Record the return of Inventory in the General Journal.

Note: A narration is **not** required.

2 marks

- c. Describe how the balance of the GST Clearing account would be reported in the financial reports of the business.

3 marks

QUESTION 4: LINCOLN'S LOUNGES (16 MARKS)

Lincoln Pascoe owns and operates Lincoln's Lounges, a small business that specialises in leather lounge suites. He is in the process of preparing his financial reports for the year ended 31 December 2019.

The accountant provided the following pre-adjustment Trial Balance as at 31 December 2019.

LINCOLN'S LOUNGES
Pre-adjustment Trial Balance as at 31 December 2019

Account	Debit \$	Credit \$
Accounts Payable		35 800
Accounts Receivable	27 900	
Accumulated Depreciation—Equipment		4 800
Advertising	5 600	
Allowance for Doubtful Debts		1 500
Capital		82 800
Cash at Bank		2 650
Cash Sales		86 000
Cost of Sales	114 300	
Credit Sales		147 600
Customs Duty	12 450	
Discount Expense	3 200	
Discount Revenue		2 650
Drawings	36 800	
Equipment	48 000	
GST Clearing		4 280
Interest Expense	6 000	
Inventory	42 810	
Loan—Abless Finance		42 000
Office Expenses	12 480	
Prepaid Insurance Expense	2 340	
Unearned Sales Revenue		7 400
Rent Expense	33 000	
Sales Returns	5 000	
Wages	62 800	
Totals	412 680	412 680

The following information is yet to be considered:

- Wages owing \$1 250.
- Depreciation of Equipment is charged at a rate of 5% per annum on cost.
- Annual Insurance of \$1 500 was paid on 1 August 2019.
- Inventory is sold at a mark-up of 100% and on 31 December 2019, \$3 000 of the Unearned Sales Revenue was earned when Inventory was delivered to a customer. This had not been recorded.
- Inventory loss was subsequently determined to be \$700.
- An Account Receivable—M Cletus—informed the business on 31 December 2019 that she was unable to settle her account (\$2 970) and this amount is to be written off.

a. Explain the purpose of a pre-adjustment Trial Balance.

2 marks

b. Record the additional information into the General Journal.

Note: Narrations are **not** required

1 + 2 + 2 + 2 + 1 + 3 = 11 marks

c. Explain, with reference to an accounting assumption, why it is necessary to prepare balance day adjustments.

3 marks

QUESTION 5: BURN'S BOUTIQUE (5 MARKS)

Elana Burns owns and operates a small boutique selling women's clothes. She takes clothes that have been discarded from friends, family and second-hand clothes purchased from charity stores, modifies them and then resells them.

With no real cost prices to record, Elana values her inventory in her Balance Sheet at the expected selling price—all inventory items are priced by Elana at her discretion and she will often negotiate on price with her customers.

Discuss the ethical issues Elana Burns should have considered in her reporting of the value of inventory.

QUESTION 6: STANKO'S STAIRCASES (9 MARKS)

Thomas Stanko owns and operates Stanko's Staircases, a small business selling pre-made staircases to housing and building construction companies. Thomas keeps a range of models in stock but can also make staircases to order.

Thomas has provided the following information for the period ended 31 December 2019 and expected figures for the period ending 30 June 2020.

Item	31 December 2019 (Actual)	30 June 2020 (Budgeted)	Comment
Cash Sales	\$280 000		Expected to increase by 10%.
Credit Sales	Nil	\$90 000	Thomas has signed a contract with a construction company scheduled to build 350 houses in a new housing development.
Cost of Sales	\$175 000		Inventory sold at a mark-up of 60%.
Freight Inwards	\$24 000	Increase by 5%	
Inventory Write-down	\$5 000		This is expected to increase by 50%.
Inventory Loss	\$3 000		This is expected to increase by 100%.
Wages	\$62 000		This is expected to increase by \$6 000.
Discount Expense	Nil	\$3 000	Credit terms are 1/14,n30.
Interest Expense	\$6 000		No change expected.
Depreciation—Equipment	\$4 800		The business expects to buy new Equipment at a cost of \$6 000 plus GST on 1 April. Depreciation charged at 10% per annum on cost.
Cartage Out	\$8 000		Expected to increase by 20%.
Office Expenses	\$9 500		Expected to increase by 5%.
Rent Expense	\$12 000		Expected to increase to \$2 200 per month plus GST from March 2020 onwards.

- a. Using the information above, prepare a budgeted Income Statement for the six months ended 30 June 2020.

5 marks

The accountant of the business also provided the following data:

	2018	2019	Budgeted 2020 (up to 30 June)
Gross Profit Margin	28%	26%	28%

- b. Using the information above, suggest **two** reasons why the addition of Credit Sales has not improved the Gross Profit Margin.

2 marks

- c. Explain **one** strategy Thomas could introduce to improve his Gross Profit Margin.

2 marks

QUESTION 7: SAV'S SUITS (15 MARKS)

Saverio Prince owns a men's clothing store specialising in suits, shirts and accessories. On 1 July 2016, Saverio introduced a new service where he drives to customer's houses, measures customers for sizes and returns in three weeks with the finished product for fitting. To facilitate this service he purchased a small Van at a cost of \$32 000 plus GST. The business name and details were painted on the side of the van at a cost of \$880 including GST. The business borrowed \$20 000 from Brymay Finance to fund the purchase of the Van.

The introduction of this service has been so successful that on 31 August 2019, Saverio decided to sell his Van and replace it with two new Vans. At that time the Van had a carrying value of \$17 200. Mayfair Motors paid \$14 000 for the Van and the new Vans were purchased at a cost of \$38 000 each plus GST. Signwriting on the Vans cost \$1 100 each including GST. The purchase of the Vans was financed by a loan from Holmes Loans. The balance owing to Brymay Finance was \$8 000 and this was paid by Saverio out of his personal bank account.

- a. Record the disposal of the old Van into the ledger account.

4 marks

- b. Record the information related to the purchase of the new Vans and the repayment of the Loan to Brymay Finance into the General Journal of the business.

Note: Narrations are **not** required.

4 marks

Saverio depreciates all his assets using the straight-line method. His accountant suggests that he use the reducing balance method for the new Vans. Saverio stated that he could not do that because it would 'break some accounting rules'.

- c. Explain Saverio's statement, explaining the 'rule' he is referring to and the purpose of that rule.

4 marks

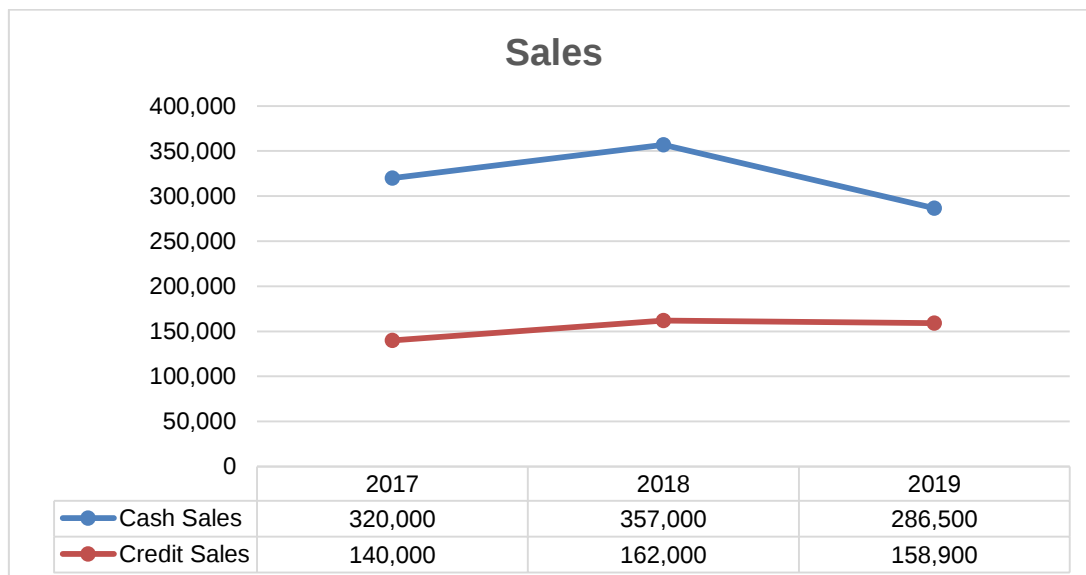
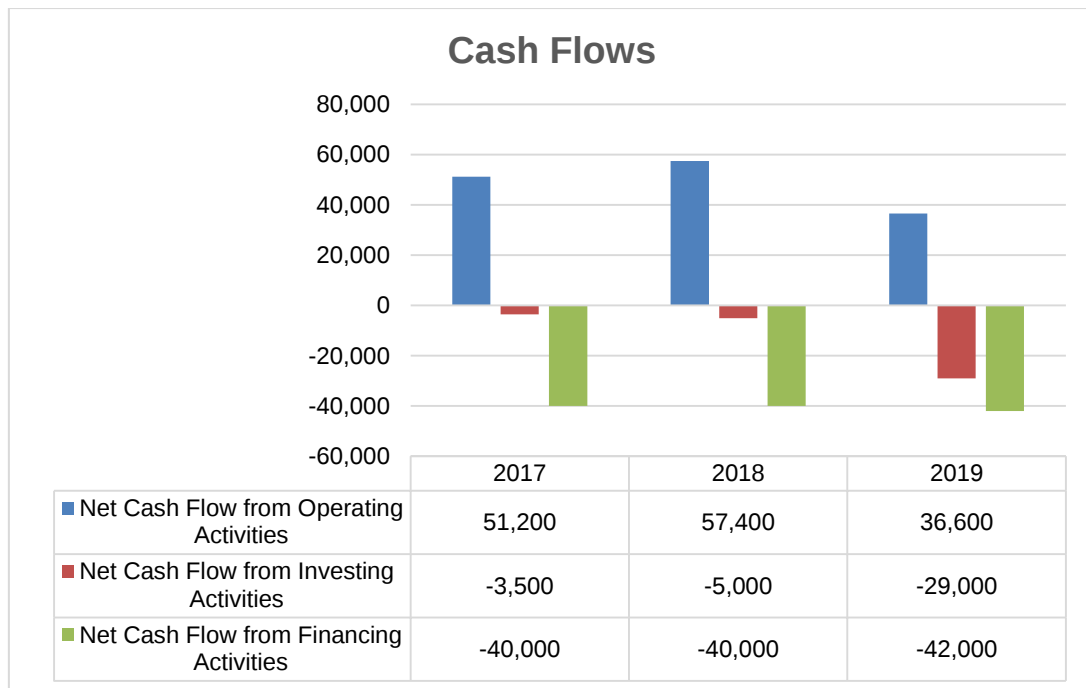
- d. Suggest and justify the most appropriate depreciation method for the new Vans.

3 marks

QUESTION 8: FINEMARRA'S (10 MARKS)

Albert Finemarra owns and operates a small business selling kitchenware, gifts and other items. The business operates in a shopping centre in a south-east suburb of Melbourne. While business has been good for the last few years, Albert has noticed a decrease in the number of customers visiting his store and believes this might be due to a branch of a large national chain of stores opening in a nearby shopping mall.

His accountant prepared the following data for him:



	2017	2018	2019
Accounts Receivable Turnover	24 days	26 days	39 days
Accounts Payable Turnover	28 days	28 days	25 days

- a. Evaluate the performance of the business using the provided data to respond to the owner's concerns regarding the performance of the business.

6 marks

- b. Explain **two** strategies Albert could introduce to improve performance of his business.

4 marks

QUESTION 9: THE NOOK (10 MARKS)

The accountant at The Nook provided the following extract of a post-adjustment Trial Balance at 31 March 2019:

THE NOOK
Post-adjustment Trial Balance as at 31 March 2019

Account	Debit \$	Credit \$
Cash Sales		194 250
Credit Sales		254 740
Cost of Sales	221 695	
Sales Returns	5 600	
Capital		168 600
Drawings	74 200	
Discount Expense	3 600	
Discount Revenue		4 250
Profit on Disposal of Equipment		300

Additional information

- Capital at 31 March includes a cash contribution of \$17 000 made on 23 February 2019.
- Drawings include withdrawal of inventory by the owner—\$2 350.
- Expenses (including Cost of Sales and Discount Expense) totalled \$461 380.

The business prepares reports annually on 31 March each year.

- a. Prepare the General Journal entry to close the Revenue accounts.

3 marks

- b. Show how the Profit and Loss Summary account and the Capital account would appear after all entries had been posted and the accounts were completed.

3 + 4 = 7 marks

END OF QUESTION BOOK

Name: _____ Teacher: _____

ACCOUNTING UNITS 3 AND 4

Practice written examination 2019

Reading time: 15 minutes

Writing time: 2 hours

ANSWER BOOK

Instructions

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

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QUESTION 1: WASURA'S WAVE HEAVEN (11 MARKS)
a.

5 marks

WASURA'S WAVE HEAVEN
Balance Sheet as at 1 March 2019

	\$	\$		\$	\$
ASSETS			LIABILITIES		
Current Assets			Current Liabilities		

b.

3 marks

Justification

c.

3 marks

Explanation

QUESTION 2: COFFEE CAVERN (12 MARKS)

a. 2 marks

Calculation	
Cost of one Dream Machine	\$

b. 4 marks

Explanation

c. 1 mark

Cost Assignment method:

d. 1 mark

Calculation	
Cost of Sales	\$

e. 4 marks

General Journal

Date	Details	Debit	Credit

QUESTION 3: CHLOE'S COUTURE (12 MARKS)

a.

7 marks

GST Clearing

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount

b.

2 marks

General Journal

Date	Details	Debit	Credit

c.

3 marks

Description

QUESTION 4: LINCOLN'S LOUNGES (16 MARKS)

a.

2 marks

Explanation

b.

$$1 + 2 + 2 + 2 + 1 + 3 = 11 \text{ marks}$$

General Journal

[illegible]

c.

3 marks

Explanation

QUESTION 5: BURN’S BOUTIQUE (5 MARKS)

Discussion

c.

2 marks

Explanation

QUESTION 7: SAV'S SUITS (15 MARKS)

a.

4 marks

Disposal of Van

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount

b.

4 marks

General Journal

Date	Details	Debit	Credit

c.

4 marks

Explanation

d.

3 marks

Suggestion and justification

b.

4 marks

Explanation

QUESTION 9: THE NOOK (10 MARKS)

a.

3 marks

General Journal

Date	Details	Debit	Credit

b.

3 + 4 = 7 marks

Profit and Loss Summary

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount

Capital

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount

END OF ANSWER BOOK

Suggested solutions

QUESTION 1: WASURA'S WAVE HEAVEN (11 MARKS)

a.

5 marks

WASURA'S WAVE HEAVEN
Balance Sheet as at 1 March 2019

	\$	\$		\$	\$
ASSETS			LIABILITIES		
Current Assets			Current Liabilities		
Inventory	42 000		Loan—Delaney Finance	7 000	
GST Clearing	8 400		Loan—Natural Bank	5 000	
Prepaid Rent Expense	12 000	62 400	Accounts Payable	46 200	
			Bank	1 200	59 400
Non-Current Assets			Non-Current Liabilities		
Vehicle	36 000		Loan—Natural Bank		10 000
Office Furniture	12 000				
Fixtures and Fittings	18 000	66 000			
			Owner's Equity		
			Capital		59 000
Total Assets		128 400	Total Equities		128 400

b.

3 marks

Justification Inventory is an important item for a business—it is purchased by the business and then resold at a higher price so as to generate a profit for the business. [1] The business needs to manage the level of its inventory, ensuring it always has inventory on hand to meet the needs of customers. This is assisted by the use of documents, as these provide verifiable evidence that a transaction has occurred. [1] Quantities of inventory can be determined, reorder points set and reports prepared, ensuring that decisions made are being based on evidence the business can rely upon. [1]
<i>Students can also reference using documents to verify cost price of inventory to determine the selling price</i>

c.

3 marks

Explanation The entity assumption requires the owner's personal assets and liabilities to be kept separate so the information doesn't become confused, and decisions are able to be made on more relevant information. [1] If the owner transfers ownership of the Vehicle to the business then the business needs to report that asset as it will impact decision-making by the business. [1] It will increase the value of assets for the business, incur depreciation expense, impacting profit, and affect the calculation of financial indicators, such as debt ratio, return on assets and return on owner's investment. [1]

QUESTION 2: COFFEE CAVERN (12 MARKS)

a. 2 marks

Calculation	
Invoice price + Customs Duty + Logo 350 + 35 [1] + 5 [1] = 390	
Cost of one Dream Machine	\$390

b. 4 marks

Explanation The rebadging is considered a product cost as it is involved in getting the
Inventory into a position and condition ready for sale. [1] As the badges are a cost per unit of
Inventory, it means the cost can be logically allocated to each unit of inventory and so is added
to the invoice price to determine cost. [1]
The delivery charges are a cost incurred in getting the inventory into a position for them to be
sold. [1] However, as the cost was incurred in bringing a range of inventory items into the
business prior to sale, the cost of the delivery charges cannot be allocated to each individual
line of inventory on a logical basis. Hence, they were treated as a period cost. [1]

c. 1 mark

Cost Assignment method: Identified Cost [1]
--

d.

2 marks

Calculation

Total units sold = 60

Cost of sales = $9 \times \$20 + 51 \times \$22 = \$1\,302$

Cost of Sales **\$1 302**

e.

4 marks

General Journal

Date	Details	Debit	Credit	
May 8	Cost of Sales	1 314		1
	Inventory		1 314	1
	Bank	2 970		1
	Sales		2 700	1
	GST Clearing		270	
	Cash sale 60 bags Magic Beans @\$45 each—Rec. B67–78			

QUESTION 3: CHLOE'S COUTURE (12 MARKS)
a.

7 marks

GST Clearing

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount
Aug 31	Accounts Payable	3 200	Aug 31	Bank	300
	Bank	619		Accounts Receivable	120
				Accounts Payable	25
				Balance	3 362
		3 819			3 819
Sep 1	Balance	3 362			

1 mark for each entry in the account except Bank on the debit side of account—this entry comprises two transactions so award 2 marks

1 mark for balancing the account—calculating closing balance, totalling both sides of the account and carrying forward closing balance

b.

2 marks

General Journal

Date	Details	Debit	Credit	
Mar 31	Accounts Payable	275		1
	Inventory		250	1
	GST Clearing		25	

c.

3 marks

Description
The balance of the GST Clearing account would be reported in the Balance Sheet of the business. [1]
This is because GST Clearing would be reported as a Current Asset as it is a resource controlled by the entity as a result of past transactions. [1] The business has paid and been charged more GST than it has charged and collected. The GST Clearing will provide economic benefit to the business within 12 months when the business receives the GST refund from the Australian Taxation Office. [1]

QUESTION 4: LINCOLN'S LOUNGES (16 MARKS)
a.

2 marks

Explanation
A pre-adjusted Trial Balance lists all the General Ledger accounts and their balances. It is prepared to identify errors that may have occurred in the double entry recording [1] by checking if the total value of all credits equals the values of debits. [1] However, it is unable to detect all errors that occur in the recording process.

b.

1 + 2 + 2 + 2 + 1 + 3 = 11 marks

General Journal

Date	Details	Debit	Credit	
Dec 31	Wages	1 250		1
	Accrued wages		1 250	
	Depreciation Equipment	2 400		1
	Accumulated Depreciation Equipment		2 400	1
	Insurance Expense	1 465		1
	Prepaid Insurance Expense		1 465	1
	Unearned Revenue	3 000		1
	Sales		3 000	
	Cost of Sales	1 500		1
	Inventory		1 500	
	Inventory Loss	700		1
	Inventory		700	
	Allowance for Doubtful Debts	2 700		1
	GST Clearing	270		1
	Accounts Receivable		2 970	1

c.
3 marks

Explanation
The Accrual Assumption [1] assumes that profit is determined by measuring the revenues that have been earned and the expenses that have been incurred. Whether cash has been received or paid is irrelevant. [1] Balance day adjustments are adjusting entries made in the revenue and expense accounts on the last day of the reporting period (balance day), to make them equal expenses earned and expenses incurred. [1]

QUESTION 5: BURN'S BOUTIQUE (5 MARKS)

Discussion
Ella should not only take into account the financial considerations but also the environmental, and especially the social factors, when reporting of the value of inventory.
Although this method of gaining inventory may be beneficial to the environment, as it reduces waste, Ella must also consider if it is ethical to be making profit for her own business when family and friends are the ones donating the items. She might want to consider paying for the items. Ella must also realise this method of gaining inventory from family and friends is not sustainable as their ability to provide Ella with unwanted clothes is limited.
Ella is also recording the cost of her inventory at the expected selling price—this has the potential to inflate asset figures and the value of her business. This is both unethical and goes against the qualitative characteristic of faithful representation.
Also not having a consistent method of pricing or set price might lead to more sales, as Ella may be able to identify individual customer's buying potential; however, it may lead to some of her customers believing that they are being treated unfairly.

Mark globally. Responses need to address both positive and negative aspects of Ella's decisions in relation to:

- *sourcing inventory*
- *valuing inventory*

QUESTION 6: STANKO'S STAIRCASES (9 MARKS)
a.

5 marks

STANKO'S STAIRCASES
Budgeted Income Statement for the six month's ended 30 June 2020

	\$	\$	
Estimated Revenue			
Cash Sales	308 000		1
Credit Sales	90 000	398 000	
Less Estimated Cost of Goods Sold			
Cost of Sales	248 750		1
Freight Inwards	25 200	237 950	
Gross Profit		124 050	
Less Estimated Inventory Loss	6 000		1
Inventory Write-down	7 500	13 500	
Adjusted Gross Profit		110 550	
Less Other Estimated Expenses			
Wages	68 000		1
Discount Expense	3 000		
Interest Expense	6 000		
Depreciation—Equipment	4 950		
Cartage Out	9 600		1
Office Expenses	9 975		
Rent Expense	12 800	114 325	
Net Profit (Loss)		(3 775)	

Deduct 1 mark for incorrect formatting/incorrect/missing headings

Deduct 1 mark (maximum) for aliens included in report

b.

2 marks

Reason 1: The cost price of Inventory has not changed so mark-up has remained unchanged [1]
Reason 2: Freight costs have increased by 5%, which lowers Gross Profit. [1]

c.

2 marks

Explanation
Thomas could improve his Gross Profit Margin by reducing his Cost of Goods Sold. He could do this by sourcing a local supplier who can provide the same quality but cheaper building material for the staircases. [1] This would reduce both Freight Inwards and Cost of Sales and therefore, increase the Gross Profit Margin. [1]

QUESTION 7: SAV'S SUITS (15 MARKS)
a.

4 marks

Disposal of Van

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount
Aug 31	Van	32 800	Aug 31	Accumulated Depreciation Van	15 600
				Loss on Disposal of Van	3 200
				Bank	14 000
		32 800			32 800

1 mark for each entry in account

b.

4 marks

General Journal

Date	Details	Debit	Credit	
Aug 31	Loan—Brymay Finance	8 000		1
	Capital		8 000	
	Bank	85 800		1
	Loan—Holmes Loans		85 800	
	Van	78 000		1
	GST Clearing	7 800		
	Bank		85 800	1

c.

4 marks

Explanation
Once the most accurate depreciation method has been determined it should not be changed as it breaches the qualitative characteristic, 'accounting rule' of comparability. [1] If the method is changed, the reports would not be able to be compared from one period to the another. [1]
However, if the most accurate method was not initially selected then in this instance a change of methods can be made as the qualitative characteristic of relevance [1] will override, as the reports must provide the most useful and accurate information in helping the business make decisions, as stated by this characteristic. [1]

d.

3 marks

Suggestion and justification
The reducing balance method of depreciation is the most appropriate method. [1]
This method allocates more depreciation in the early years of an asset's life and less depreciation in its later life. The more the Van is used, the more likely it will break down and spend time being repaired. This means it is less likely to earn as much revenue for the business as when it was first purchased. [1] Therefore, the depreciation expense should be initially greater as is allocated when using the reducing balance method. [1]

QUESTION 8: FINEMARRA'S (10 MARKS)

a.

6 marks

Evaluation
According to the data provided by Albert's accountant, the performance of his business has declined overall from 2017 to 2019.
The main area of concern, as highlighted by Albert, is the decrease in Sales. Although Credit Sales have increased slightly since 2017, total sales has declined by \$14 600. This is also reflected in the Net Cash Flow from Operating Activities.
Since the change in Net Cash from Operating Activities was consistent with the decrease in Sales, this would indicate that Albert has been able to maintain the operating expenses of the business and these have not increased significantly.
Net cash from Financing Activities has also remained relatively consistent with only an additional \$2 000 cash outflow from 2017 to 2019.
Net Cash Flow from Investing activities had the greatest impact on the cash flow in 2019. This could be a positive as the Non-Current Assets might in the future generate more revenue.
Another factor that is affecting the liquidity of the business is that on average it is taking Accounts Receivable 15 more days to pay their accounts since 2017 and the business on average is settling their accounts 3 days quicker. Both are having a negative effect on the liquidity of the business.

Mark globally. As an evaluation question, responses should include positive and negative aspects of the businesses performance and a statement identifying overall performance.

b.

4 marks

Explanation
To improve the performance and the liquidity of the business, Albert could introduce credit terms for his credit customers. [1] In 2019, on average, Accounts Receivable were being repaid in 39 days. Although discounts are an extra expense they might lead to less bad debts and improve the short-term cash flow of the business. [1]
Another strategy the business could use to improve its performance and its working capital ratio is to hold off on purchasing non-essential Non-Current Assets. In 2019, the business generated -\$29 000 from Investing activities. Leasing Non-Current Assets to help generate more revenue might be an option to consider. [1]
In 2019, on average, the Accounts Payable were being repaid in 25 days. If the credit terms Allow, delay the payment of the Accounts Payable to improve liquidity [1].
<i>Other responses and strategies are possible</i>

QUESTION 9: THE NOOK (10 MARKS)
a.

3 marks

General Journal

Date	Details	Debit	Credit	
Mar 31	Profit and Loss Summary		447 940	1
	Sales Returns		5 600	
	Cash Sales	194 250		1
	Credit Sales	254 740		
	Discount Revenue	4 250		1
	Profit on Disposal of Equipment	300		

b.

3 + 4 = 7 marks

Profit and Loss Summary

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount
Mar 31	Expenses	461 380	Mar 31	Revenues	447 940
				Capital	13 440
		461 380			461 380

Capital

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount
Mar 31	Drawings	74 200	Apr 1	Balance	151 600
	Profit and Loss Summary	13 440	Feb 23	Bank	17 000
	Balance	80 960			
		168 600			168 600
			Apr 1	Balance	80 960

1 mark for Expenses entry

1 mark for Revenues entry

1 mark for Capital entry (in Profit and Loss Summary Account and Profit and Loss Summary entry in Capital account)

1 mark for Drawings entry

1 mark for Opening Balance

1 mark for Bank entry

1 mark for closing balance (including carrying balance forward)

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