

COMMERCE PRESENTATIONS AND PUBLICATIONS



Letter

Figures

Words

VCE ACCOUNTING 3/4 2019

CPAP Practice Examination No. 2

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>
10	10	100

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners, rulers, and a 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 of 11 pages.
- Answer book of 14 pages.

Instructions

- 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 electronic devices into the examination room.

Question 1 (1 mark)

Outline the importance of qualitative characteristics in accounting reports.

Question 2 – Steve’s Shoes (9 marks)

Steve McGarrett owns and operates Steve’s Shoes.

The following source document was received from Steve’s Shoes’ only credit supplier – Leather Goods Australia.

Leather Goods Australia 24 Tanner Road HORSHAM VIC 3400 STATEMENT OF ACCOUNT Account Name: Steve’s Shoes 17 Madden Grove GLEN IRIS VIC 3146 Date: 31 January 2019				
Date	Details	Debit	Credit	Balance
01/01	Balance			13 200 DR
04/01	Payment Received		12 936	264 DR
04/01	Discount Allowed		264	Nil
11/01	Invoice 652	15 950		15 950 DR
13/01	Credit Note 37		880	15 070 DR
28/01	Payment Received		4 000	11 070 DR

- a. Show how the Accounts Payable account would appear in the General Ledger of Steve’s Shoes as at 31 January 2019.

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

6 marks

Leather Goods Australia applies a fixed mark-up of 150%.

- b. Record invoice 652 in the General Journal of Leather Goods Australia.

A narration is **not** required.

3 marks

Question 3 – Kono’s Kitchen Supplies (10 marks)

Kono Kalakaua owns and operates Kono’s Kitchen Supplies, a small business that had a bank overdraft balance as at 1 March 2019 of \$4 070.

Kono has provided the following summary of cash transactions for the month ending 31 March 2019.

Cash Inflows	\$	Cash Outflows	\$
Capital	5 000	Advertising	800
Cash Sales	14 830	Drawings	1 500
GST Collected	1 483	Freight Inwards	580
Loan Borrowings – MNC Bank	10 000	GST Paid	3 238
Receipts from Accounts Receivable	19 600	GST Settlement	1 278
		Interest Paid	125
		Loan Repayments – MNC Bank	500
		Payments to Accounts Payable	7 546
		Prepaid Rent Expense	6 000
		Purchase of Van	21 000
		Purchases of Inventory	4 000
		Wages	1 800
	\$50 913		\$48 367

- a. Prepare the Cash Flow Statement for the month ended 31 March 2019.

8 marks

- b. Explain the importance of a trading business generating positive net cash flows from operations.

2 marks

Question 4 – Catherine’s Cutlery (7 marks)

Catherine Rollins owns and operates Catherine’s Cutlery, a small business that prepares reports on an annual basis on 30 June.

On 30 June 2019 Catherine traded-in a Van that originally cost \$39 600 including GST.

As at 30 June 2019 the carrying value of the Van was \$21 200.

Vic’s Vans agreed to a trade-in allowance of \$20 000 on the cash purchase of a new Van with a selling price of \$35 200 including GST.

- a. Complete the Disposal of Van account in the General Ledger as at 30 June 2019. 4 marks
- b. With reference to your answer in part a., explain why a Profit or Loss on the trade-in of the Van occurred. 2 marks
- c. State the cash amount paid to Vic’s Vans to purchase the new Van. 1 mark

Question 5 – Max’s Mattresses (6 marks)

Max Bergman has been provided with the following information about his business.

Indicator	2017	2018	2019
Working Capital Ratio	2.25 : 1	3.75 : 1	5.45 : 1

Max believes that the trend in the Working Capital Ratio is a good indicator of his management of the business’ Assets and Liabilities, particularly the liquidity of his business.

Discuss whether Max is correct in making this connection.

Question 6 – Danny’s Desks (13 marks)

Danny Williams owns and operates Danny’s Desks, a small business that chooses to use the First In, First Out cost assignment method.

The following transactions relate to the ‘Noshimuri’ desk for June 2019.

08/06	Purchased 20 ‘Noshimuri’ desks from Aloha Designs for \$6 600 including GST. (Invoice 1902)
16/06	Sold 8 ‘Noshimuri’ desks to Yarra Heights for \$990 each inclusive of GST. (Invoice 168)
20/06	Danny took one of the ‘Noshimuri’ desks home for personal use. (Memo 19)
22/06	Yarra Heights returned one of the ‘Noshimuri’ desks and were given a full credit. (Credit Note 4)
30/06	Physical inventory count revealed 15 ‘Noshimuri’ desks on hand. (Memo 23)

- a. Record the transactions in the ‘Noshimuri’ desk inventory card. 5 marks
- b. Referring to the qualitative characteristic of relevance, explain why Sales Returns should be reported separately in the Income Statement. 2 marks
- c. Justify one strategy Danny could introduce to reduce the number of Sales Returns. 2 marks
- d. Explain the effect on Owner’s Equity as at 30 June 2019 if the transaction on 20 June 2019 was not recorded. 2 marks
- e. Prepare the General Journal entry at 30 June 2019 to record Memo 23.
A narration is required. 2 marks

Question 7 – Arthur’s Appliances (30 marks)

On 1 July 2018 Arthur Anderson started his own business, Arthur’s Appliances, with a \$30 000 loan from MNC Bank and a \$20 000 capital contribution.

Arthur thinks he is pretty good at accounting and has provided you with the following Trial Balance as at 30 June 2019.

Arthur’s Appliances

Trial Balance as at 30 June 2019

Account	Debit	Credit
Accounts Payable		14 190
Accounts Receivable	9 900	
Accrued Wages		1 500
Accumulated Depreciation - Equipment		2 220
Advertising	3 200	
Allowance for Doubtful Debts		198
Bad Debts	198	
Bank		5 915
Capital		25 000
Cash Sales		54 300
Cost of Sales	70 500	
Credit Sales		88 050
Delivery In Expenses	3 640	
Depreciation Expense - Equipment	2 220	
Discount Expense	561	
Discount Revenue		154
Drawings	1 720	
Equipment	14 800	
GST Clearing		712
Insurance Expense	3 040	
Inventory	37 000	
Inventory Loss	510	
Loan – MNC Bank		22 800
Rent Expense	39 000	
Sales Returns	1 350	
Wages	27 400	
Totals	215 039	215 039

Question 7 - continued

You have identified the following four errors in Arthur's recording for his first year of trading.

- The 2% Allowance for Doubtful Debts has been calculated on the closing balance of Accounts Receivable as at 30 June 2019 instead of Net Credit Sales.
- A payment of \$264 including GST was recorded as a payment for Insurance Expense for the business even though it was Insurance for Arthur's holiday house.
- The Rent Expense account in the General Ledger includes 13 payments of \$3 000.
- Monthly loan repayments of \$600 to MNC Bank include \$100 interest.

- a. Prepare the necessary correcting entries in the General Journal at 30 June 2019.

Narrations are **not** required.

9 marks

- b. Based on the accounts listed in the Trial Balance, discuss whether Arthur's Appliances uses product costing.

4 marks

- c. Prepare the General Journal entry to close the revenue accounts at 30 June 2019.

3 marks

- d. Explain why Asset and Liability accounts are not required to be closed.

3 marks

After preparing the correcting entries, total expenses for the year ended 30 June 2019 were \$149 765.

- e. Prepare the Equities extract from the Balance Sheet as at 30 June 2019.

8 marks

- f. State the definition of Owner's Equity.

1 mark

On 8 July 2019 cheque 563 was used to pay \$2 100 for Wages.

- g. Record cheque 563 in the General Journal.

2 marks

Question 8 – Jerry’s Jackets (10 marks)

Jerry Ortega, the owner of Jerry’s Jackets, has employed you to complete the budgeting process for the year ended 30 June 2020.

Jerry has provided you with the business’ Income Statement for the year ended 30 June 2019.

Jerry’s Jackets Income Statement for the year ended 30 June 2019

	\$	\$
Revenues		
Cash Sales	294 800	
Credit Sales	71 200	
Less: Sales Returns	3 120	362 880
Less: Cost of Goods Sold		
Cost of Sales		181 440
Gross Profit		181 440
Less: Inventory Loss		1 890
Adjusted Gross Profit		179 550
Plus: Other Revenue		
Discount Revenue		4 000
		183 550
Less: Other Expenses		
Advertising	10 000	
Depreciation Expense – Equipment	6 000	
Depreciation Expense – Van	8 000	
Discount Expense	3 000	
General Expenses	35 000	
Interest Expense	2 700	
Rent Expense	36 000	
Wages	42 000	142 700
Net Profit / (Loss)		40 850

Question 8 - continued

Jerry has asked you to use the following information to complete the budgeting process for the year ended 30 June 2020.

- Jerry is planning to increase his mark-up percentage from 100% to 150%.
- Total Sales are expected to be \$500 000.
- Cash Sales are expected to be 80%.
- Sales Returns are expected to be 5% of Credit Sales.
- Inventory Loss is expected to reduce to \$2 500.
- Discount Revenue is expected to double.
- Advertising is expected to increase to \$3 000 per quarter.
- The Van was purchased on 1 November 2018 for \$40 000. The Van is depreciated at a rate of 30% per annum using the reducing balance method.
- The \$30 000 interest only loan, charged at a rate of 9% per annum, from MNC Bank is expected to increase to \$50 000 on 1 January 2020.
- Wages are expected to increase by \$6 000.
- All other items are expected to remain constant.

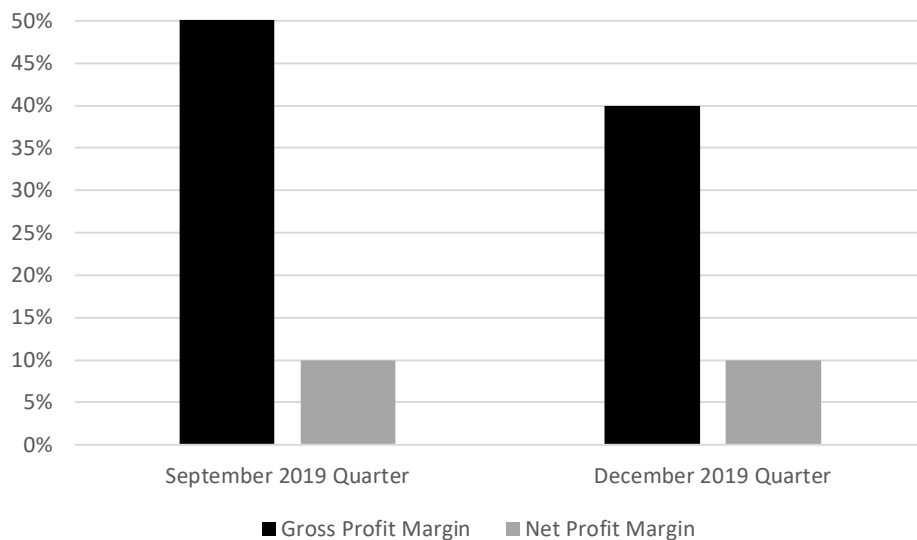
Prepare the Budgeted Income Statement for the year ended 30 June 2020.

Question 9 – Georgie’s Gourmet Foods (8 marks)

On 1 July 2019 Georgie Preston is to start Georgie’s Gourmet Foods, a small business that will sell local and imported food products.

After Georgie’s Gourmet Foods’ first six months of trading, her accountant has presented the following information.

	September 2019 Quarter	December 2019 Quarter
Sales	\$75 000	\$100 000
Assets	\$150 000	\$180 000



a. Explain how the accountant is using both vertical analysis and horizontal analysis.

2 marks

b. Discuss whether Georgie would be happy with the profitability of her business.

6 marks

Question 10 – Tina’s Tents (6 marks)

Tani Rey owns Tina’s Tents.

Tina has provided the following incomplete Variance Reports extracts.

**Cash Budget Variance Report (extract)
for the year ended 30 June 2020**

	Budget	Actual	Variance	Favourable / Unfavourable
Cash Sales		\$215 000	\$15 000	U
Receipts from Accounts Receivable	\$150 000	\$170 000	\$20 000	F

**Income Statement Variance Report (extract)
for the year ended 30 June 2020**

	Budget	Actual	Variance	Favourable / Unfavourable
Credit Sales	\$145 000		\$35 000	F
Discount Expense	\$5 000	\$6 500	\$1 500	U

- In the Answer Booklet, complete the variance report extracts.
- Explain how the preparation of variance reports helps with decision making.
- Explain why Tina could view the Discount Expense variance as favourable.

2 marks

2 marks

2 marks

100 marks

END OF QUESTION BOOKLET