

COMMERCE PRESENTATIONS AND PUBLICATIONS



Letter

Figures										
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VCE ACCOUNTING 3/4 2019

CPAP Practice Examination No. 3

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>
13	13	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 16 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 – William’s Windows (4 marks)

William Mitchell owns William’s Windows.

As at 1 January 2019 the business had the following Assets and Liabilities.

Accounts Payable	\$3 300
Accounts Receivable	\$14 850
Bank Overdraft	\$1 270
GST Clearing	\$1 019 credit
Inventory	\$22 630
Loan – MNC Bank	\$16 800
Van	\$27 500

Prepare the General Journal entry on 1 January 2019 to establish the double-entry accounting system for William’s Windows.

A narration is **not** required.

Question 2 – Costa’s Canoes (5 marks)

Costa Georgiadis owns Costa’s Canoes, a small business that uses the identified cost assignment method.

- a. Explain why Costa’s Canoes would choose to use the Identified Cost assignment method instead of the First In, First Out cost assignment method.

2 marks

The following transactions relate to the ‘Viking’ canoe for February 2019.

16/02	Purchased 8 ‘Viking’ canoes from Sven’s for a total of \$3 360 plus GST (Invoice 2040).
21/02	Sold two ‘Viking’ canoes to Club Med for \$1 980 including GST. One canoe had a cost price of \$390 and the other canoe had a cost price of \$420 (Invoice 519).
27/02	Rancho Relaxo purchased a ‘Viking’ canoe for \$990 including GST and was issued with receipt 784. This canoe had a cost price of \$420.

- b. Record the transactions in the ‘Viking’ canoe inventory card.

3 marks

Question 3 – Cliff's Carpets (15 marks)

Cliff Edge owns and operates Cliff's Carpets, a small business that prepares their reports on a monthly basis.

Cliff applies a fixed mark-up of 200 per cent on his supplier's cost prices.

The following source documents were found in Cliff's office.

ADANI			
Date 23/03/19		Tax Invoice 1278	
Charge to Cliff's Carpets			
Item	Qty	Unit Cost	\$
'Laxman' Carpet	8	1 200	9 600
'Sehwag' Carpet	4	2 700	10 800
			<u>GST 2 040</u>
			Total Owing 22 440
Terms 5/7, n/30			

ADANI			
Date 26/03/19		Credit Note 38	
Credit to Cliff's Carpets			
Item	Qty	Unit Cost	\$
'Laxman' Carpet	2	1 200	2 400
		<u>GST(10%)</u>	<u>240</u>
		Total Credit	2 640

MNC BANK				
BANK STATEMENT				
Cliff's Carpets				
Date	Particulars	Debit	Credit	Balance
28/03	Transfer: Adani	18 810		12 320 CR

CLIFF'S CARPETS			
Date 29/03/19		Tax Invoice 203	
Charge to Q Hotels			
Item	Qty	Unit Cost	\$
'Bowman' Carpet	20	1 500	30 000
		<u>GST(10%)</u>	<u>3 000</u>
		Sub Total	33 000
		Less Deposit	4 000
		Total Owing	29 000

Additional information

Q Hotels paid their \$4 000 deposit on 19 February 2019.

- a. Explain how the deposit received from Q Hotels would be classified on the Balance Sheet of Cliff's Carpets as at 28 February 2019.

3 marks

- b. Record each of the source documents in the General Journal.

Narrations are **not** required.

10 marks

- c. Explain how a Bank Statement assists with Cliff's Carpets' internal control.

2 marks

Question 4 – Tania’s Toys (11 marks)

Tania Sun is the owner of Tania’s Toys, a small business that uses the FIFO cost assignment method.

The following inventory card relates to the ‘BTS’ toy doll sets.

ITEM: ‘BTS’ toy doll set					Cost method: First In, First Out					
SUPPLIER: Dukakis										
		IN			OUT			BALANCE		
Date	Document	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
01/04	Balance							9	108	972
02/04	Rec.1988				1	108	108	8	108	864
04/04	Inv.2556	20	115	2 300				8	108	864
								20	115	2 300
15/04	Memo 87				1	108	108	7	108	756
								20	115	2 300
27/04	Rec.2003				1	108	108	6	108	648
								20	115	2 300

Memo 87 refers to Tania donating inventory to the local school to be used as a prize in their fundraising raffle.

- a. Explain how the donation of inventory is an example of Tania’s Toys being an ethical trading business.

2 marks

The physical inventory count conducted on 30 April 2019 determined there were 27 ‘BTS’ toy doll sets on hand. (Memo 94)

- b. Prepare the General Journal entry required on 30 April 2019 to record the result of the physical inventory count.

A narration **is** required.

3 marks

Tania has determined that the net realisable value of 3 of the ‘BTS’ toy doll sets on hand is \$33 each.

- c. Show the effect on the accounting equation as a result of the inventory valuation.

2 marks

- d. Discuss the effect of applying the lower of cost and net realisable value rule on the liquidity of Tania’s Toys.

4 marks

Question 5 – Bernard’s Bookcases (5 marks)

Bernard King owns and operates his own small business, Barnard’s Bookcases, importing bookcases from Indonesia.

Bernard’s Bookcases prepares reports on a monthly basis.

The following source documents relate to Bernard’s Bookcases most recent purchase of Inventory.

LOMBOK			
Date 17/05/19		Tax Invoice: 3146	
Charge to Bernard's Bookcases			
Item	Qty	Unit Cost	\$
'Jakarta' Bookcase	4	450	1 800
'Semarang' Bookcase	2	1 100	<u>2 200</u>
			4 000
Import Duties (8%)			320
Freight			<u>480</u>
			4 800
			<u>GST(10%) 480</u>
		Total Owing	5 280

- Using product costing, calculate the cost price of each ‘Jakarta’ bookcase as it would be recorded in the inventory card on 17 May 2019.
1 mark
- Explain your treatment of the Freight cost in calculating the cost price of the ‘Jakarta’ bookcase.
2 marks
- Assuming not all of the bookcases that were purchased on 17 May 2019 were sold by 31 May 2019, explain the effect on profit for the month ended 30 June 2019 if Bernard’s Bookcases used period costing instead of product costing.
2 marks

Question 6 – Freida’s Furniture (9 marks)

Freida has provided the Bank account from the General Ledger for June 2019.

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount
01/06	Balance	9 120	04/06	Prepaid Rent / GST Clearing	26 400
02/06	Cash Sales / GST Clearing	1 430	05/06	Accounts Payable	10 780
08/06	Accounts Receivable	7 546	09/06	Inventory / GST Clearing	6 050
14/06	Cash Sales / GST Clearing	4 950	15/06	Wages	1 740
18/06	Disposal of Van	25 000	17/06	Cartage In / GST Clearing	990
21/06	GST Clearing	1 089	22/06	Van / GST Clearing	34 320
28/06	Cash Sales / GST Clearing	2 200	25/06	Drawings	2 500
			29/06	Interest	125
			30/06	Wages	1 910

- Prepare the Cash Flow from Operating Activities extract of the Cash Flow Statement for the month ended 30 June 2019.
5 marks
- Explain to Freida, with the use of an example, how the Cash Flow Statement reported a negative Net Cash from Operations even though the Income Statement reported a Net Profit for the month ended 30 June 2019.
3 marks
- Based on the Bank account ledger above, state the item that would be reported in the Cash Flow from Financing Activities section of Freida’s Furniture’s Cash Flow Statement for the month ended 30 June 2019.
1 mark

Question 7 – Amy’s Air Conditioners (13 marks)

Amy Cutter, the owner of Amy’s Air Conditioners, has employed you to assist in finalising her budgeting process for the year ended 30 June 2020.

Amy has provided the following information to be included in your budgeting process.

	Actual Balance Sheet as at 30 June 2019	Budgeted Balance Sheet as at 30 June 2020
Non-Current Assets		
Equipment	24 100	28 200
Less: Accumulated Depreciation	13 940	9 800
	10 160	18 400

**Amy’s Air Conditioners
Budgeted Cash Flow Statement (extract)
for the year ended 30 June 2020**

	\$
Cash Flow from Investing Activities	
Proceeds from Disposal of Equipment	1 750

**Amy’s Air Conditioners
Budgeted Income Statement (extract)
for the year ended 30 June 2020**

	\$
Other Expenses	
Depreciation – Equipment	3 920
Loss on Disposal – Equipment	2 590

- Explain what the carrying value of \$10 160 in the Balance Sheet as at 30 June 2019 represents.
2 marks
- Reconstruct the accounts provided in the Answer Booklet to calculate the budgeted cash purchase of Equipment for the year ended 30 June 2020.
7 marks
- Explain why Amy’s Air Conditioners would have a budgeted Loss on Disposal – Equipment.
2 marks
- Explain how the preparation of a Budgeted Cash Flow Statement can assist Amy’s Air Conditioners with managing their future cash flows.
2 marks

Question 8 – Tayla’s Tambourines (12 marks)

Tayla’s Tambourines prepares reports on a quarterly basis ending 31 March, 30 June, 30 September and 31 December each year.

Tayla has provided the following Pre-Adjustment Trial Balance extract as at 30 June 2019.

Tayla’s Tambourines
Pre-Adjustment Trial Balance (extract)
as at 30 June 2019

Account	Debit	Credit
Accumulated Depreciation - Shelving		3 120
Accumulated Depreciation - Van		14 800
Prepaid Rent Expense	15 600	
Shelving	12 800	
Van	40 000	

Additional information

- Shelving is depreciated at a rate of 15% per annum on a straight-line basis.
 - Van is depreciated at a rate of 30% per annum using the reducing balance method.
 - Rent is paid 6 months in advance. The most recent payment of \$13 200 including GST was made on 1 May for the 6 months ending 30 November 2019.
 - Advertising of \$900 plus GST remains owing.
- a. Prepare the General Journal entries to record the necessary balance day adjustments as at 30 June 2019.
- Narrations are **not** required.
- b. Justify why the Van is depreciated using the reducing balance method yet Shelving is depreciated using the straight-line method.

8 marks

4 marks

Question 9 – Fernandez’s Flags (6 marks)

Adit Fernandez, the owner of Fernandez’s Flags, doesn’t believe that debt can be used in a positive manner for a business, whether that be offering credit terms to customers or borrowing money from a bank.

Discuss whether the introduction of offering credit terms to customers and borrowing money from a bank may improve the profitability of Fernandez’s Flags.

Question 10 – Shane’s Suitcases (4 marks)

Shane Grouber, the owner of Shane’s Suitcases, is preparing his cash budget for the month of September 2019.

Inventory purchases are estimated to be 75% on credit and 25% using cash.

Shane expects that 80% of the suppliers are paid in the month following the purchase taking advantage of a 5% discount.

The remaining amount owing will be paid in the 2nd month following purchase.

Inventory purchases for July to September 2019 are provided below.

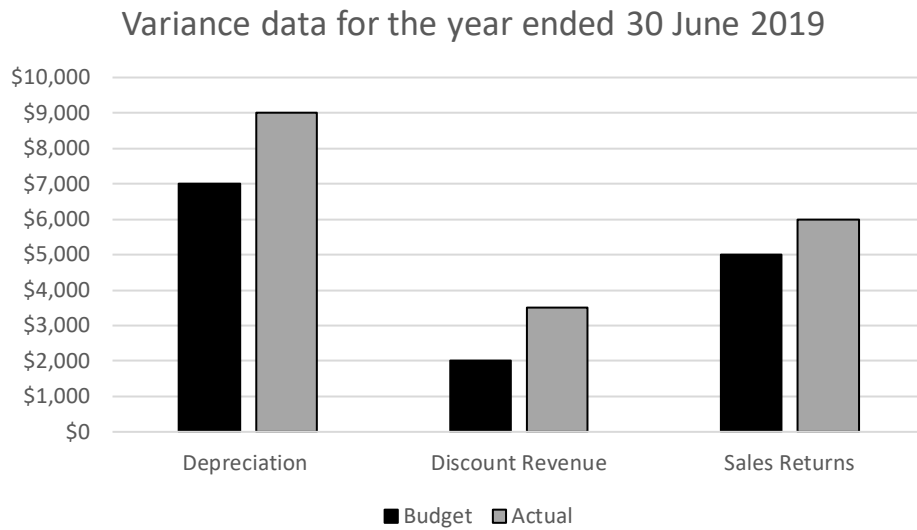
Inventory purchase figures do not include GST.

Month	Inventory Purchases (\$)
July	40 000
August	60 000
September	80 000

Calculate the estimated Payments to Accounts Payable for September 2019.

Question 11 – Henry’s Hammocks (6 marks)

An extract from the Income Statement Variance Report has been presented below.



Describe the variances and provide a possible reason for each variance.

Question 12 – Worsfold’s Windows (6 marks)

Worsfold’s Windows prepares reports on a quarterly basis ending 31 March, 30 June, 30 September and 31 December each year.

On 1 February 2019 Worsfold’s Windows invested \$20 000 in a 24-month Term Deposit with MNC Bank earning 6% interest per annum.

Interest is paid by MNC Bank on a half yearly basis on 31 January and 31 July each year.

- a. Calculate the amount of Interest received during the quarter ended 30 September 2019. 1 mark
- b. Complete the Accrued Interest Revenue account in the General Ledger as at 30 September 2019. 3 marks
- c. Referring to the accrual basis assumption, explain why it is necessary to make a balance day adjustment on 30 September 2019 in relation to the Term Deposit. 2 marks

Question 13 – Hamilton’s Hardware (4 marks)

The accountant of Hamilton’s Hardware has performed the following calculations.

Indicator	2017	2018	2019
Gross Profit Margin	60%	50%	40%
Inventory Turnover	57 days	49 days	41 days

- a. Explain the relationship between the Gross Profit Margin and the Inventory Turnover. 2 marks
- b. State one strategy Hamilton could introduce to improve the Inventory Turnover without effecting the Gross Profit Margin. 1 mark
- c. State one non-financial indicator Hamilton could use to assess the performance of his business. 1 mark

100 marks

END OF QUESTION BOOKLET