

COMMERCE PRESENTATIONS AND PUBLICATIONS



Letter

Figures

Words

VCE ACCOUNTING 3/4 2019

CPAP Practice Examination No. 4

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 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 10 pages.
- Answer book of 13 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 – Heather’s Hats (11 marks)

On 1 January 2019 Heather Dale started Heather’s Hats.

The following events took place on 1 January 2019.

- Heather deposited \$10 000 into the business bank account.
- Heather will use her own computer and printer for business use. The computer and printer was purchased in 2017 for \$4 500 plus GST. It was decided that the computer and printer be reported as Office Equipment at a fair value of \$1 500.
- Inventory costing \$20 000 plus GST was purchased on credit from Albert Park’s.
- A business loan of \$15 000 was received from MNC Bank. The loan will be repaid in quarterly repayments of \$750.
- Cheque 1 was used to purchase Shelving for \$8 800 including GST.
- Rent for January, February and March at \$1 540 per month including GST was paid with cheque 2.

a. Prepare a classified Balance Sheet for Heather’s Hats as at 1 January 2019.

7 marks

b. With reference to the qualitative characteristics of relevance and verifiability, discuss whether fair values should be used when non-cash assets are contributed to a business by their owner.

4 marks

Question 2 – Walter’s Warehouse (6 marks)

Walter Whyte, the owner of Walter’s Warehouse, has been concerned with his business’ rising electricity costs.

As a result, a solar panel energy system, to be reported as Equipment, was purchased.

The following documents relate to the purchase of the energy system.

MNC BANK BANK STATEMENT Walter’s Warehouse				
Date	Particulars	Debit	Credit	Balance
01/02	Loan Transfer: MNC Bank		15 000	17 430 CR
02/02	Transfer: Sunrise Solar	16 060		1 370 CR

SUNRISE SOLAR	
Date: 02/02/19	Tax Invoice: 24601
Charge to: Walter’s Warehouse	
Item	\$
‘Albuquerque’ Panel Energy System	11 400
Installation	2 300
Annual Service Agreement	<u>900</u>
	14 600
	<u>GST (10%) 1 460</u>
	Sub Total 16 060
	Less: EFT Payment (16 060)
	Balance Owing NIL

- a. Prepare the General Journal entries required to record all transactions from both source documents.

Narrations are **not** required.

4 marks

- b. Explain how the above purchase demonstrates Walter’s Warehouse’s commitment to operating as an ethical trading business.

2 marks

Question 3 – Tom’s Tents (20 marks)

Tom Hilfiger owns and operates Tom’s Tents, a small business that uses the FIFO (First In, First Out) cost assignment method.

Details of the ‘Kensington’ tent for March 2019 are shown below.

01/03	Balance – 3 tents with a cost price of \$100 each.
09/03	Credit purchase of 10 tents from MRF for \$90 plus GST each (Invoice 773). These were the only stock items purchased by Tom’s Tents from MRF on this day.
09/03	Cheque 446 used to pay Don’s Deliveries \$60 plus GST for the delivery of the 10 tents from MRF.
14/03	Credit sale of 5 units for \$330 plus GST each to Chadstone Scouts (Invoice 209).
18/03	Chadstone Scouts returned 1 tent as it was damaged (Credit Note 27).
18/03	Tom decided that the damaged tent will only be able to be sold for \$22 including GST (Memo 89).

- a. Using product costing, prepare the General Journal entries required to record the above transactions.

Narrations are **not** required.

14 marks

- b. Discuss whether the use of both product costing and period costing satisfy the demands of the accrual basis assumption.

6 marks

Question 4 – Pier’s Pianos (6 marks)

The following accounts are from the General Ledger of Pier’s Pianos.

Sales Returns

Date	Cross-reference	Amount	Date	Cross-reference	Amount
27/04	Accounts Receivable	6 000			

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
01/04	Balance	36 500	09/04	Cost of Sales	4 400
27/04	Cost of Sales	2 000	24/04	Cost of Sales	9 600
29/04	Accounts Payable	12 500			

GST Clearing

Date	Cross-reference	Amount	Date	Cross-reference	Amount
01/04	Balance	1 050	09/04	Accounts Receivable	1 320
03/04	Bank	120	21/04	Bank (1)	1 050
12/04	Accounts Receivable	30	24/04	Accounts Receivable	2 880
14/04	Bank	180			
27/04	Accounts Receivable	600			
29/04	Accounts Payable (2)	1 250			

Additional information

- Mark-up is 200%.
- Balance of Allowance for Doubtful Debts as at 1 April 2019 was \$680 credit.
- Pier has a policy to report 2% of Net Credit Sales as a doubtful debt for each period.

a. State the nature of transaction **(1)** and transaction **(2)** in the GST Clearing account.

2 marks

b. Prepare the General Journal entry required on 30 April 2019 to increase the Allowance for Doubtful Debts account for the current period.

A narration is **not** required.

2 marks

c. Referring to the faithful representation qualitative characteristic, explain why it is important to report the Allowance for Doubtful Debts.

2 marks

Question 5 – Mary’s Magnets (22 marks)

Mary Borough owns and operates Mary’s Magnets, a small business that prepares reports on a half yearly basis on 30 June and 31 December.

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

Mary’s Magnets

Pre-Adjustment Trial Balance (extract) as at 30 June 2019

Account	Debit	Credit
Accumulated Depreciation - Equipment		4 400
Capital		58 290
Discount Revenue		506
Drawings	9 570	
Equipment	23 900	
GST Clearing		1 084
Interest Revenue		600
Prepaid Rent Expense	38 600	
Sales		80 450
Sales Returns	1 740	
Term Deposit	30 000	

Additional information

- Cash purchase of Equipment of \$9 900 including GST was made on 1 April 2019.
- Equipment is depreciated at a rate of 20% per annum using the reducing balance method.
- A 12 month term deposit of \$30 000 started on 1 November 2018. Interest of 6% per annum is paid quarterly on 31 January, 30 April, 31 July and 31 October.
- Rent is paid yearly in advance. The most recent payment of \$33 600 plus GST was made on 1 February 2019 for the year ending 28 February 2020.
- On 16 April 2019 Mary took 3 'Accomplish' magnet sets for personal use. Each of these magnet sets has a cost price of \$40 plus GST and a selling price of \$90 plus GST. This event had not been recorded.
- On 14 June 2019 Mary made a capital contribution of \$15 000 cash.
- As at 30 June 2019 Wages owing were \$1 500.

Question 5 – continued

- a. Explain the benefit of preparing a Pre-adjustment Trial Balance. 2 marks
- b. Calculate the carrying value for Equipment as at 30 June 2019. 4 marks
- c. Prepare the General Journal entry required to close the Revenue accounts on 30 June 2019.
A narration is **not** required. 4 marks
- d. Referring to the period assumption, explain the purpose of recording closing entries. 2 marks

Total expenses of \$56 110 were closed to the Profit and Loss Summary account on 30 June 2019.

- e. Show how the Prepaid Rent Expense and Capital accounts would appear in the General Ledger at 30 June 2019 after all adjusting, closing and transfer entries have been posted.
You are **not** required to balance either account. 7 marks

On 4 July 2019 cheque 197 was used to pay Wages of \$1 800.

- f. Explain the effect on the Accounting equation of recording cheque 197. 3 marks

Question 6 – Westy’s Wallets (9 marks)

On 1 July 2019 John West started his own small business called Westy’s Wallets.

John will only purchase and sell stock on credit.

John has provided you with the following information to be used to complete the budgeting process for the year ended 30 June 2020.

- Sales \$300 000 plus GST
- Sales Returns \$5 000 plus GST
- Inventory Purchases \$200 000 plus GST
- Advertising \$9 000 plus GST
- Discount Expense \$3 000
- Drawings \$2 500 per month
- Purchase of Equipment \$15 000 plus GST
- General Expenses \$7 500 plus GST
- GST Settlements \$3 050
- Loan Repayments \$12 000 including \$3 000 interest
- Prepaid Rent Expense \$18 000 plus GST
- Wages Expense \$35 000

Expected closing balances as at 30 June 2020:

- Accounts Payable \$16 500
- Accounts Receivable \$22 000

There are no further prepayments or accruals.

- a. Reconstruct the Accounts Receivable ledger in order to calculate budgeted Receipts from Accounts Receivable for the year ended 30 June 2020.

4 marks

- b. Prepare the Net Cash from Operations extract from the Budgeted Cash Flow Statement for the year ended 30 June 2020.

5 marks

Question 7 – Brian’s Bargains (6 marks)

Brian Gatumbi owns and operates Brian’s Bargains, a small business that sells a wide range of hair and beauty products at discounted prices.

Brian’s accountant has provided the following information for you to explain to Brian.

Indicator	2018	2019
Debt Ratio	40%	75%
Cash Flow Cover	14 times	10 times

- Explain the implication of the change in the Debt Ratio on the Cash Flow Cover. 2 marks
- Explain one consequence for a business that is experiencing a decline in its liquidity. 2 marks
- Justify one strategy Brian could consider to improve the liquidity of his business. 2 marks

Question 8 – Jordan’s Jackets (15 marks)

Jordan’s Jackets prepares reports on an annual basis ending 30 June each year.

On 1 January 2017 Jordan’s Jackets purchased a Van for \$39 600 including GST.

The Van is expected to have a residual value of \$15 000 and an effective life of 5 years.

The Van is depreciated using the straight-line method.

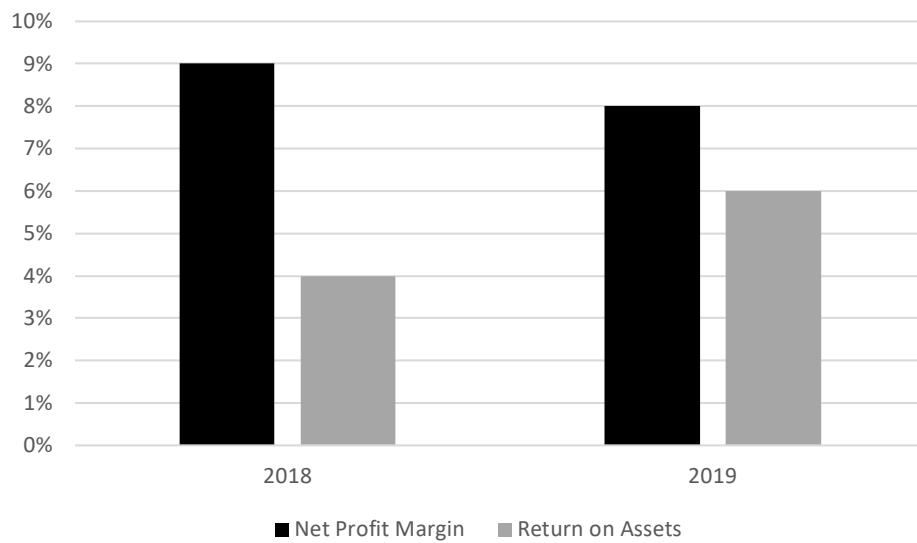
On 30 June 2019 Jordan traded-in the Van and received an allowance of \$20 000 on the cash purchase of a new van from Vic’s Vans for \$35 200 including GST.

- Prepare the necessary General Journal entries required on 30 June 2019 in relation to both Vans.
Closing entries and narrations are **not** required. 13 marks
- With reference to your answer in part a., explain why a Profit or Loss on disposal of the Van occurred. 2 marks

Question 9 – Cheadle’s Candles (5 marks)

Don Cheadle owns and operates Cheadle’s Candles.

Don’s accountant has provided the following information for you to explain to Don.



- Explain the difference between the concepts of 'profit' and 'profitability'.
2 marks
- Explain how it is possible for the Return on Assets to improve even though the Net Profit Margin declined.
2 marks
- State one other benchmark Don could use to assess the profitability of his business.
1 mark

100 marks

END OF QUESTION BOOKLET