



YEAR 12 Trial Exam Paper

2019

ACCOUNTING

Written examination

Suggested solutions

This book presents:

- correct solutions
- mark allocations
- tips.

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Question 1a.**Solution**

Hughes' Hardware
Balance Sheet as at 1 March 2020

Assets			Equities		
Current Assets	\$	\$	Current Liabilities	\$	\$
Cash at Bank	40 200		Loan – CBE Bank	6 000	
Prepaid Rent Expense	18 000		Accounts Payable	<u>63 800</u>	69 800
GST Clearing	7 600				
Inventory	<u>58 000</u>	123 800	Non-Current Liabilities		
			Loan – CBE Bank		9 000
Non-Current Assets			Owner's Equity		
Vehicle	22 000		Capital		71 500
Computer Equipment	<u>4 500</u>	<u>26 500</u>			
Total Assets		<u>150 300</u>	Total Equities		<u>150 300</u>

Mark allocation: 5 marks

- 1 mark for Cash at Bank
- 1 mark for GST Clearing
- 1 mark for Prepaid Rent Expense
- 1 mark for Vehicle/Computer Equipment
- 1 mark for Loan – CBE Bank (loan must be separated)

Note: The amount for Capital is consequential – failure to show the value may result in a loss of one mark.

**Tip**

- In preparing a financial report, it is important to finish the report: identify and calculate Net Profit in an Income Statement and identify and calculate Cash at End in a Cash Flow Statement.

Question 1b.**Solution**

Explanation <i>Inventory is a current asset as it is a resource controlled by the entity that will generate an economic benefit to the business. This economic benefit is generated when the asset is sold within 12 months of the business acquiring control of the item. Expenses are defined as decreases in assets that result in a decrease in owner's equity that is not related to the owner's drawings. This expense is incurred during the course of the ordinary trading activities of the business, which in this case is when the asset (the inventory) is sold. Inventory (an asset) is decreased when it is sold. This inventory becomes classified as an expense (cost of sales), decreasing profit and owner's equity.</i>

Mark allocation: 4 marks

- 1 mark for identifying that assets are resources controlled by the entity
- 1 mark for recognising that assets generate an economic benefit when sold
- 1 mark for recognising expenses as decreases in assets and owner's equity
- 1 mark for identifying that assets are decreased when inventory is sold

Note: Referring to a definition that doesn't relate to the question may result in a loss of one mark.

**Tip**

- *Definitions of accounting elements are often asked for. Remember to link the key terms in the definition with the specific item being referred to in the question.*

Question 1c.**Solution**

Explanation <i>Balance Sheets are classified to provide the readers and users of the report</i>
<i>with information that is more comprehensible. If the report is prepared in a manner that is</i>
<i>comprehensible, then the users of that report will be able to make better, more informed</i>
<i>decisions, such as assessing the liquidity position of the business.</i>
<i>This complies with the qualitative characteristic of understandability.</i>

Mark allocation: 2 marks

- 1 mark for identifying understandability
- 1 mark for explaining that balance sheets are classified to be comprehensible to users of the report

Question 2a.**Solution**

Invoice Price = \$30

Shipping = \$2

Import Duties = \$4

Cost of one unit: \$36

Mark allocation: 2 marks

- 1 mark for Shipping
- 1 mark for Import Duties

**Tip**

- *In general, these questions allocate one mark for each item to be added to the Invoice Price. Examiners are looking for an understanding of the product and period cost concepts.*

Question 2b.**Solution**

Explanation <i>Product costing is a method of establishing the cost price of inventory so that the selling price can be accurately set. It involves including costs that are associated with bringing the inventory into a position and condition for sale, as well as the costs that can be logically allocated to each unit of inventory.</i>
<i>Once the cost price is determined, the business is able to establish the selling price of inventory.</i>
<i>This system of establishing the value of inventory is used by businesses because it best represents the accounting assumption of the accounting period – that expenses are recognised in the period in which they occur. The expense is incurred when the inventory is sold so only these costs are included in the calculation of profit.</i>

Mark allocation: 3 marks

- 1 mark for explaining that product costing is a method of determining the cost price of inventory
- 1 mark for including all costs associated with getting inventory into a condition and position for sale
- 1 mark for explaining why businesses use this approach for a better, more accurate calculation of profit

**Tip**

- *When asked 'why', it is not enough to define terms. You need to go further – what is the benefit of adopting this costing method?*

Question 3a.**Solution****Inventory Card**

Item: Korhuo LED Lamp					Cost Assignment Method: Identified Cost					
Supplier: LED Palace										
Date 2019	Document	IN			OUT			BALANCE		
		Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost
1 Aug.	Inv. 739	40	60	2 400				40	60	2 400
3	EFT				4	60	240	36	56	2 160
7	Inv. LU962				25	60	1 500	11	60	660
12	Inv. 798	80	70	5 600				11 80	60 70	660 5 600
14	EFT				2 4	60 70	400	9 76	60 70	540 5320
20	Inv. LU987				20	70	1 400	9 56	60 70	540 3 920

Mark allocation: 6 marks

- 1 mark for each entry in the Inventory Card (up to 6 marks)

**Tip**

- The Study Design requires you to be able to accurately record inventory movements using the Identified Cost or First In, First Out (FIFO) method. You should read the question carefully to avoid errors in recording.

Question 3b.**Solution****Lights Up****General Journal**

Date 2019	Details	Debit	Credit
22 Aug.	Sales Returns	320	
	GST Clearing	32	
	Accounts Receivable – Conference World		352
	Inventory	140	
	Cost of Sales		140
24	Accounts Payable – LED Palace	154	
	Inventory		140
	GST Clearing		14
31	Inventory Loss	540	
	Inventory		540

Mark allocation: 7 marks

- 1 mark for Sales Returns/GST Clearing
- 1 mark for Accounts Receivable
- 1 mark for Inventory/Cost of Sales
- 1 mark for Accounts Payable
- 1 mark for Inventory/GST Clearing
- 1 mark for Inventory Loss
- 1 mark for Inventory

**Tip**

- Recording in the General Journal is a basic recording skill which you must be able to complete. Remember that entries in the debit column must be matched with a corresponding entry (or entries) in the credit column.

Question 3c.**Solution**

Explanation <i>The transactions of 14 and 20 August would have seen the inventory valued at \$60 sold before the inventory that cost \$70 was sold. The cost of sales would then have been \$1 710 rather than \$1 800, meaning Net Profit would have been \$90 higher. The Current Asset Inventory in the Balance Sheet would then have been valued \$90 more as there would be more expensive inventory on hand and none of the \$60 inventory on hand. Owner's Equity (Net Profit) would also be \$90 higher. There would have been no effect on the Cash Flow Statement.</i>

Mark allocation: 4 marks

- 1 mark for the effect on the Income Statement
- 1 mark for the effect on the Balance Sheet
- 1 mark for the effect on the Cash Flow Statement
- 1 mark for value calculation

**Tip**

- When asked for the effect on the financial reports, it is important to reference all three reports and provide a value of the effect.

Question 4a.**Solution**

Explanation <i>An Allowance for Doubtful Debts is an entry made on the presumption that not all customers who have purchased inventory on credit will settle the amount they owe to the business. Businesses should recognise that events happen that will cause these customers to not pay the amount owed or the full amount.</i>
<i>In order to better match the expenses incurred against the revenue earned and to faithfully represent the real world economic events as they apply to the business, the business can use past experience and allocate a specific amount of accounts receivable as unlikely to pay.</i>
<i>This expense can then be created and written off against revenue in the period the account was incurred.</i>

Mark allocation: 3 marks

- 1 mark for reference to faithful representation
- 1 mark for recognising that not all accounts receivable will settle their accounts
- 1 mark for matching the expense against the revenue incurred or overstating the assets in the Balance Sheet

**Tip**

- *The Allowance for Doubtful Debts and the qualitative characteristic of faithful representation are new concepts. You should expect to be assessed on some of these new areas and be able to address them.*

Question 4b.**Solution****Stevens Silk Road****General Journal**

Date 2019	Details	Debit	Credit
7 May	<i>Allowance for Doubtful Debts</i>	1 100	
	<i>GST Clearing</i>	110	
	<i>Accounts Receivable – M Hibberd</i>		1 210

Mark allocation: 2 marks

- 1 mark for both debit entries
- 1 mark for credit entry

**Tip**

- *It can be helpful to include a General Journal template in your revision.*

Question 4c.**Solution****Stevens Silk Road****General Journal**

Date 2019	Details	Debit	Credit
31 May	<i>Bad Debts</i>	2 224	
	<i>Allowance for Doubtful Debts</i>		2 224
	<i>Allowance raised to 5% of Net Credit Sales – Memo 34</i>		

Mark allocation: 3 marks

- 1 mark for debit entry
- 1 mark for credit entry
- 1 mark for narration with document number and percentage of Net Credit Sales

**Tip**

- *A narration should be an explanation of the entry in the journal. You must include as much information as possible, including the document number, to fully explain the entry recorded.*

Question 5a.**Solution****Working Space*****Receipts from Accounts Receivable:***

Opening Balance + Credit Sales + GST – Discount Expense + Sales returns + GST + Bad Debts + GST + Closing Balance = Receipts from Accounts Receivable

(12 000 + 294 000 + 29 400) – (5 600 + 2 500 + 250 + 2 500 + 250 + 30 000)

= 335 400 – 41 100

= 294 300

Payments to Accounts Payable:

Opening Balance + Inventory purchases + GST – Discount Revenue + Purchase returns + GST + Closing balance

(15 000 + 180 000 + 18 000) – (4 200 + 1 250 + 125 + 45 000)

= 213 000 – 50 575

= 162 425

Olivia's Olives**Budgeted Cash Flow Statement (extract) for year ending 31 December 2020**

	\$	\$
Budgeted Cash Flows from Operating Activities		
<i>Cash Sales</i>	<i>126 000</i>	
<i>Receipts from Accounts Receivable</i>	<i>294 300</i>	
<i>GST Collected</i>	<i><u>12 600</u></i>	<i>432 900</i>
<i>Payments to Accounts Payable</i>	<i>(162 425)</i>	
<i>Purchases of Inventory</i>	<i>(30 000)</i>	
<i>Cash Expenses</i>	<i>(161 000)</i>	
<i>Prepaid Rent Expense</i>	<i>(25 200)</i>	
<i>GST Paid</i>	<i><u>(21 620)</u></i>	<i>(400 245)</i>
<i>Net Cash Flow from Operations</i>		<i><u>32 655</u></i>

Mark allocation: 5 marks

- 1 mark for Cash Sales/GST Collected
- 1 mark for Receipts from Accounts Receivable/Payments to Accounts Payable
- 1 mark for Purchases of Inventory/GST Paid
- 1 mark for Cash Expenses
- 1 mark for Prepaid Rent Expense

Note: The amount for Net Cash Flow from Operations is consequential – failure to show the value may result in a loss of one mark.

Question 5b.**Solution****Olivia's Olives****Budgeted Income Statement (extract) for year ending 31 December 2020**

	\$	\$
Revenue		
<i>Sales</i>	420 000	
<i>Less Sales Returns</i>	(2 500)	417 500
<u>Less Cost of Goods Sold</u>		
<i>Cost of Sales</i>	208 750	
<i>Import Duties</i>	<u>5 750</u>	<u>214 500</u>
<u>Gross Profit</u>		203 000
<i>Less Inventory Loss</i>		900
<u>Adjusted Gross Profit</u>		<u>202 100</u>

Mark allocation: 5 marks

- 1 mark for Sales
- 1 mark for Sales Returns
- 1 mark for Cost of Sales
- 1 mark for Import Duties
- 1 mark for Inventory Loss

Note: The calculation of Adjusted Gross Profit and the headings are consequential – failure to show the value and headings may result in a loss of one mark.

**Tip**

- *Income Statements and Budgeted Income Statements contain numerous possible headings. As a study aid to prepare for these types of questions, create a template of an Income Statement that includes all possible entries and headings.*

Question 5c.**Solution**

Explanation <i>Cash and profit refer to different resources, so the report extracts contain different types of information.</i>
<i>The extract from the Cash Flow Statement includes all operating activity items, including the cash expense of \$161 000 paid by the business. The extract from the Income Statement only includes the revenue and expense items related to the buying and selling of inventory.</i>
<i>When a full Income Statement is prepared and the expenses of the business are deducted from the Adjusted Gross Profit, the two figures will be closer together in value.</i>

Mark allocation: 3 marks

- 1 mark for identifying cash and profit as different resources
- 1 mark for explaining what is contained in each report
- 1 mark for identifying a factor that explains the difference

**Tip**

- *Cash and profit is a common area for assessment and it is important that any example used is linked specifically to the reports provided.*

Question 5d.**Solution**

Description <i>Each of the indicators shown in the graph are displaying an upward trend.</i>
<i>Inventory Turnover has moved from 49 days to 52 and then 59 days. Accounts Receivable</i>
<i>Turnover has moved from 28 to 31 to 38 days. Both of these indicators are displaying</i>
<i>negative trends as they are taking longer to turn over – this means that cash is taking longer</i>
<i>to be received from Accounts Receivable and the sale of inventory. Accounts Payable</i>
<i>Turnover has moved from 32 days to 36 and then 47 days – again showing a downward trend</i>
<i>as it is taking longer for the business to settle its accounts with its Accounts Payable.</i>
<i>The trends in Inventory and Accounts Receivable Turnover will negatively affect cash flow as</i>
<i>it is taking longer for the business to receive cash. This would have negatively affected the</i>
<i>Accounts Payable Turnover as a reduced inflow of cash would mean it would take longer for</i>
<i>the business to have the cash available to settle those accounts.</i>
<i>In order to settle the Accounts Payable promptly and maintain the good relationship the</i>
<i>business has with its suppliers, the business may need to take out a short-term loan or go</i>
<i>into overdraft to continue to settle accounts in a relatively prompt manner.</i>

Mark allocation: 4 marks

Mark globally.

- response must address all three indicators
- describing a trend in an indicator requires more than stating that it has increased or decreased – the effect on the item (such as the Inventory Turnover) must be described
- response must include reference to cash flow

**Tips**

- *Reviewing performance indicators is a key concept in the Accounting course. You must be able to interpret graphs and accurately describe trends.*
- *Remember that you can refer to days increasing or decreasing, but the same terms do not apply to trends.*

Question 5e.**Solution**

Explanation <i>Non-financial information allows a business owner to assess performance from a different perspective.</i>
<i>Asking customers to complete a customer satisfaction survey is one way a business can identify new areas of improvement to increase sales, customer returns and turnovers.</i>
<i>This non-financial information can often be qualitative and can shed light on different areas of business performance.</i>

Mark allocation: 3 marks

- 1 mark for explaining non-financial information, often from a qualitative/different perspective
- 1 mark providing an example
- 1 mark for identifying that business performance can improve

**Tip**

- *You should have a list of non-financial performance indicators you can draw upon that can be linked to improving business performance.*

Question 6a.**Solution****Northern Traders****General Journal**

Date 2019	Details	Debit	Credit
<i>30 Jun.</i>	<i>Wages</i>	<i>1 900</i>	
	<i>Accrued Wages</i>		<i>1 900</i>
	<i>Rent Expense</i>	<i>17 400</i>	
	<i>Prepaid Rent Expense</i>		<i>17 400</i>
	<i>Depreciation – Vehicle</i>	<i>9 300</i>	
	<i>Accumulated Depreciation – Vehicle</i>		<i>9 300</i>

Mark allocation: 5 marks

- 1 mark for both lines of the Wages/Accrued Wages entry
- 1 mark for each line of the Rent Expense/Prepaid Rent Expense entry represented as an Expense (up to 2 marks)
- 1 mark for each line of the Depreciation/Accumulated Depreciation entry, including the asset (up to 2 marks)

**Tip**

- *Balance day adjustments are often asked. As with many journal entries, it can be helpful to prepare and memorise a template of each adjustment.*

Question 6b.**Solution****Northern Traders****General Journal**

Date 2019	Details	Debit	Credit
<i>3 Jul.</i>	<i>Accrued Wages</i>	<i>1 900</i>	
	<i>Wages</i>	<i>2 200</i>	
	<i>Bank</i>		<i>4 100</i>

Mark allocation: 2 marks

- 1 mark for both debit entries
- 1 mark for credit entry

Note: The payment in this situation is for an expense and a liability so it is required that the debit entries are recorded separately.

Question 7a.**Solution****Callinane Cupboards****General Journal**

Date 2019	Details	Debit	Credit
1 Mar.	Bank	28 000	
	Loan – MU Bank		28 000
1 Mar.	Machinery	30 000	
	GST Clearing	3 000	
	Bank		33 000

Mark allocation: 3 marks

- 1 mark for Machinery/GST Clearing
- 1 mark for both Bank entries
- 1 mark for Loan – MU Bank entry

Question 7b.**Solution****Straight line method**

$30\,000 \times .1 = 3\,000$ per annum
 $3\,000/12 = 250$ per month $\times 10$ months
 = \$2 500

Reducing balance method

$30\,000 \times .25 = 7\,500$ per annum
 $7\,500/12 = 625$ per month $\times 10$ months
 = \$6 250

Mark allocation: 2 marks

- 1 mark for \$250 per month for 10 months (\$2 500)
- 1 mark for \$625 per month for 10 months (\$6 250)

**Tip**

- The Study Design requires you to understand the different methods of depreciation and the means of calculation.

Question 7c.**Solution**

Explanation <i>The calculations from part b. indicate that more depreciation will be charged in the 10 months to 31 December 2019 using the reducing balance method than the straight line method.</i>
<i>The reducing balance allocates \$6 250 for 10 months to 31 December, while the straight line method only allocates \$2 500. This means that the profit figure for the period ending 31 December 2019 will be \$3 750 lower.</i>
<i>However, over the life of the asset, the total depreciation charged should be the same, as both methods seek to write off a total amount to value the asset at its residual value.</i>

Mark allocation: 3 marks

- 1 mark for explaining that the reducing balance method charges more in the first 10 months
- 1 mark for providing evidence (values from calculation in **part b.**)
- 1 mark for explaining the impact over the life of the asset

**Tips**

- *While you should know how to calculate depreciation using both methods, it's important that you know the application of each method and the impact of that application as well.*
- *Calculating the value of the effect is important as this provides evidence of the application.*

Question 7d.**Solution**

Explanation <i>Non-current assets contribute to the earning of revenue over the course of their life span. They deteriorate and lose value, eventually having to be replaced.</i>
<i>Depreciation attempts to match the expense incurred as the asset wears out with the revenue it helped to earn, so that reports are more accurate and better reflect what has occurred in the business.</i>
OR
<i>The expense of the asset wearing out is matched against the revenue it helped to earn, so that reports are more accurate and better reflect what has occurred. In this way, the asset is not expensed in one period when it is disposed.</i>

Mark allocation: 2 marks

- 1 mark for matching the revenue the asset earns against the expense incurred as it wears out
- 1 mark for explaining that a more accurate calculation of profit can be achieved with depreciation

**Tip**

- *It is important to understand different concepts, such as depreciation, and how they can impact profit, cash flow, business performance and decision-making.*

Question 8**Solution****Inventory**

Date 2019	Details	Amount	Date 2019	Details	Amount
1 Apr.	Balance	37 650	30 Apr.	<i>Cost of Sales</i>	17 500
30 Apr.	<i>Accounts Payable</i>	18 000		<i>Cost of Sales</i>	6 300
	<i>Bank</i>	6 000		<i>Advertising</i>	1 200
	<i>Cost of Sales</i>	350		<i>Accounts Payable</i>	350
				<i>Drawings</i>	500
				<i>Inventory Loss</i>	650
				<i>Balance</i>	35 500
		62 000			62 000
1 May	<i>Balance</i>	35 500			

Mark allocation: 7 marks

- 1 mark for both Cost of Sales entries on credit side of account
- 1 mark for Cost of Sales on debit side and Accounts Payable on credit side of account
- 1 mark for Bank entry and Accounts Payable entry on debit side of account
- 1 mark for Advertising entry
- 1 mark for Drawings entry
- 1 mark for Inventory Loss entry
- 1 mark for balancing the account, including totals of both sides of the accounts and bringing balance forward

Note: The correct titles are consequential – failure to show them may result in a loss of one mark.

**Tip**

- *Posting information to ledger accounts from journals or some other format requires knowledge of the rules of each ledger account – did the account increase or decrease in value? A template should be prepared to assist in your revision.*

Question 9a.**Solution****Disposal of Equipment**

Date 2019	Details	Amount	Date 2019	Details	Amount
1 Jul.	Equipment	4 000	1 Jul.	Accumulated Depreciation – Equipment	1 900
				Bank	900
				Loss on Disposal of Equipment	<u>1 200</u>
		<u>4 000</u>			<u>4 000</u>

Mark allocation: 4 marks

- 1 mark for each entry in account (up to 4 marks)

**Tip**

- *Completing an account requires you to balance an asset, liability or owner's equity account or close a revenue or expense account.*

Question 9b.**Solution**

Explanation <i>The disposal of the equipment will result in a lower profit for the business as the \$1 200 loss on the disposal will be considered an expense.</i>
<i>The proceeds from the disposal will increase the cash held in the business bank account by \$900 as the cash received is an inflow from financing activities.</i>

Mark allocation: 2 marks

- 1 mark for explaining that an increase in cash held by the business as the proceeds from disposal is a receipt of cash
- 1 mark for identifying lower profit and for recognising loss on disposal as an expense

Note: It could be noted that the depreciation expense for the period would be lower as the business is no longer carrying the asset; however, for 2 marks, this depth is not required.

**Tip**

- *When asked to explain the effect of a transaction on financial reports, it is advisable to always include the value of the effect.*

Question 10a.**Solution****Dainty Dogs****General Journal**

2019	Details	Debit	Credit
30 Jun.	Discount Revenue	3 700	
	Sales	337 000	
	Sales Returns		800
	Profit and Loss Summary		339 900

Mark allocation: 2 marks

- 1 mark for both revenue and negative revenue entries
- 1 mark for total sent to Profit and Loss Summary Account

**Tip**

- Closing accounts in a General Journal entry will usually involve multiple entries. Ensure that the total of the debit entries equals the credit entries amount.

Question 10b.**Solution**

Explanation <i>Revenue and expense accounts are temporary accounts that record</i>
<i>information about these items for a specific reporting period. These figures are transferred</i>
<i>to the Profit and Loss Summary account in order to calculate Net Profit for the period. As</i>
<i>they don't carry onto a future period, they must be closed so the accounts can be reset to</i>
<i>zero for the next period.</i>

Mark allocation: 2 marks

- 1 mark for explaining that accounts are only temporary
- 1 mark for explaining that accounts should reset to zero for next period

Question 11**Solution**

Discussion <i>Kerrin needs to balance her concern for the environment and personal beliefs with her concerns for her customers, future sales and the success of her business.</i>
<i>No longer stocking a particular line of inventory is likely to alienate a section of her customer base, as they will no longer be able to purchase their preferred products from this business. This is lost revenue for Kerrin and her business must consider the financial cost of this decision. In addition, the extra life of the LED globes will see a lower level of returning customers so future cash flow and revenue may be negatively affected.</i>
<i>The higher price of the LED globes will improve revenue for the business in the short term, but Kerrin must consider if the price difference is going to result in less sales as customers may not be able to afford the higher price.</i>
<i>Kerrin's personal beliefs regarding the environment are a positive motivator for the planned move, but Kerrin should ensure that she explains her reasoning to her customers. They they will be able to make their own decisions as to whether or not they will continue to use her business. Kerrin should also explain to customers the benefits of the new product line and that in the long run they will benefit as the new globes are cost-effective.</i>

Mark allocation: 5 marks

Mark globally.

- response must address the ethical issue faced by Kerrin and reference the financial issue associated with the decision
- discusses both positive and negative implications of the decision

**Tip**

- *Ethical considerations are a new component of the Accounting course and appear consistently through each Area of Study. You should familiarise yourself with a range of ethical considerations throughout the course and be prepared to respond to questions on a variety of topics.*

END OF SOLUTIONS