

COMMERCE PRESENTATIONS AND PUBLICATIONS



Letter

Figures

Words

VCE ACCOUNTING 3/4

[2020 ADJUSTED STUDY DESIGN]

CPAP Practice Examination No. 1

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>
11	11	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 12 pages.
- Answer book of 19 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 – Sunny’s Shelving (5 marks)

Sunny Chen owns Sunny’s Shelving.

As at 1 January 2020 the business had the following Asset and Liability balances.

Accounts Payable	\$3 300
Accounts Receivable	\$11 550
Bank Overdraft	\$1 116
GST Clearing	\$774 credit
Inventory	\$28 300
Loan – MNC Bank	\$15 000
Office Equipment	\$10 200
Van	\$36 990

Additional information

- Office Equipment amount includes the three shelves that are in the business’ office space.
- a. Prepare the General Journal entry on 1 January 2020 to establish the double-entry accounting system for Sunny’s Shelving.

3 marks

Sunny has always been confused about how her shelving should be classified in the Balance Sheet.

- b. Referring to the definition of an asset, explain to Sunny how her shelving can actually be classified as both a Current Asset and a Non-Current Asset on the Balance Sheet as at 1 January 2020.

2 marks

Question 2 – Doug’s Dirt and Garden Supplies (11 marks)

Doug Orrico owns Doug’s Dirt and Garden Supplies, a small business that chooses to use the First In, First Out cost assignment method.

Most of the items Doug’s Dirt and Garden Supplies sell, such as dirt, sand and stones, are priced by the kilogram. Customers simply pre-select the weight quantity of the item which is then transferred to the customer’s trailer or truck.

As at 1 January 2020, Doug’s Dirt and Garden Supplies had 190 kilograms of ‘Wilson’ dirt on hand with a cost price of \$12 per kilogram.

The following details relate to the ‘Wilson’ dirt for January 2020.

04/01	Purchased 300 kilograms of ‘Wilson’ dirt from Country Earth for \$14 plus GST per kilogram. (Invoice 828)
11/01	Sold 200 kilograms of ‘Wilson’ dirt to Larry’s Landscaping for a total of \$6 600 including GST. (Invoice 1931)
13/01	Doug took 15 kilograms of ‘Wilson’ dirt home for personal use. (Memo 172)
17/01	Larry’s Landscaping returned 50 kilograms of ‘Wilson’ dirt and were given a full credit. (Credit Note 94)
31/01	Doug determined there was 330 kilograms on hand. (Memo 176)

- Explain why Doug’s Dirt and Garden Supplies chooses to use the First In, First Out cost assignment method in preference to the Identified Cost method.
2 marks
- Prepare the inventory card for the ‘Wilson’ dirt for January 2020.
5 marks
- Record Memo 176 in the General Journal of Doug’s Dirt and Garden Supplies.
A narration **is** required.
2 marks
- Explain how Doug’s Dirt and Garden Supplies can use the perpetual inventory system of inventory cards to improve the management of their inventory.
2 marks

Question 3 – Chloe’s Carpets (9 marks)

Chloe Pan owns and operates Chloe’s Carpets.

The following source document was received from Chloe’s Carpets’ only supplier – Bhagavan.

Bhagavan 1 Virat Place Highett VIC 3190 STATEMENT OF ACCOUNT Account Name: Chloe’s Carpets 22 Straight Road Glen Waverley VIC 3150 Date: 29 February 2020				
Date	Details	Debit	Credit	Balance
01/02	Balance			7 700 DR
10/02	Invoice 908	9 900		17 600 DR
12/02	Credit Note 23		550	17 050 DR
27/02	Payment Received		6 000	11 050 DR

- a. Complete the Accounts Payable - Bhagavan account in the General Ledger of Chloe’s Carpets as at 29 February 2020.
- 4 marks
- b. Explain the importance of Chloe’s Carpets receiving a Statement of Account from Bhagavan each month.
- 2 marks

Bhagavan applies a fixed mark-up of 150%.

- c. Record invoice 908 in the General Journal of Bhagavan.
- A narration is **not** required.

3 marks

Question 4 – Hannah’s Hats (8 marks)

Hannah Jacobs owns Hannah’s Hats, a small business that had a bank balance as at 1 March 2020 of \$15 420.

Hannah has provided the following summary of cash transactions for the month ended 31 March 2020.

Cash Inflows	\$	Cash Outflows	\$
Capital	10 000	Advertising	900
Cash Sales	8 940	Drawings	850
Disposal of Van	7 500	GST Paid	6 440
GST Collected	894	GST Settlement	593
Loan Borrowings – MNC Bank	15 000	Interest Paid	175
Receipts from Accounts Receivable	11 924	Loan Repayments – MNC Bank	500
Unearned Sales Revenue	2 500	Payments to Accounts Payable	3 300
		Prepaid Rent Expense	18 000
		Purchase of Van	42 000
		Purchases of Inventory	3 500
		Wages	1 960
	\$56 758		\$78 218

Prepare the Cash Flow Statement for the month ended 31 March 2020.

Question 5 – Gertrude’s Golf (6 marks)

Gertrude Nguyen owns Gertrude’s Golf, a small business that sells a wide range of golf equipment and clothing.

Gertrude applies a fixed mark-up of 200% and prepares reports on a monthly basis.

For the first time, Gertrude has decided to source inventory from Maldonado Merc.

Gertrude’s Golf will sell the black ‘Footy’ golf bags with the local sports team’s name and logo printed on the front.

The purchase of the black ‘Footy’ golf bags is included in Maldonado’s invoice below.

Maldonado Merc			
Date 25/04/2020		Tax Invoice 1003	
Charge to Gertrude's Golf			
Item	Qty	Unit Cost	\$
'Footy' Golf Bags (Black)	40	240	9 600
'Kapoor' Shirts	20	60	<u>1 200</u>
			10 800
Import Duties (5%)			540
Cartage Inwards			<u>660</u>
			12 000
		GST	1 200
		Total Owing	13 200
Terms 2/10, n/30			

Upon arrival at Gertrude’s Golf’s business premises, Gertrude arranged for Andy’s Crafts to make, print and attach the local sports team’s logo to each black ‘Footy’ golf bag.

Andy’s Crafts provided Gertrude’s Golf with the following receipt.

<u>ANDY’S CRAFTS</u>	
Date: 27 April 2020	Receipt Number: 207
Making, Printing and Attaching Logos to 40 ‘Footy’ Golf Bags.	
Total Received: \$792 including GST	

Question 5 – continued

- a. Using product costing, calculate the cost price of each 'Footy' golf bag as it would be recorded in the inventory card on 27 April 2020.

2 marks

- b. Explain the importance of Gertrude's Golf applying product costing to the 'Footy' golf bags.

2 marks

On 2 May 2020 cheque 458 was used to settle Maldonado Merc's outstanding account.

- c. Record the settlement of the outstanding account in the General Journal of Gertrude's Golf.

A narration is **not** required.

2 marks

Question 6 – Waterhouse's Whitegoods (5 marks)

Cate Waterhouse owns Waterhouse's Whitegoods, a small business selling a wide range of fridges, washing machines, dishwashers and other household appliances.

Cate's accountant has presented her with the following information.

Value of Inventory	As Per Inventory Cards	As Per Physical Inventory Count	Net Realisable Value
As at 30 June 2020	\$110 670	\$110 000	\$92 000

The accountant has instructed Cate to record balance day adjustments in the General Journal on 30 June 2020 as a result of the physical inventory count and the calculation of the inventory's net realisable value.

However, Cate has made it clear that no adjustments will be made to her business' financial statements as she currently has an application to have the business' bank overdraft limit increased from \$10 000 to \$25 000. Her bank will only make their decision on the application upon receiving and reviewing Waterhouse's Whitegoods Income Statement for the year ended 30 June 2020 and the Balance Sheet as at 30 June 2020.

Cate has suggested her accountant increase their annual accounting fee by 25% should the adjustments not be recorded and therefore effect the financial statements.

Referring to qualitative characteristics, discuss the ethical considerations faced by both Cate and her accountant in finalising Waterhouse's Whitegoods financial statements.

Question 7 – Leong’s Ladders (15 marks)

On 1 April 2015 Melissa Leong started Leong’s Ladders, a small business that purchases and sells inventory on credit only. Melissa prepares reports on a half-yearly basis.

A Balance Sheet extract as at 31 December 2019 is provided below.

Leong’s Ladders

Balance Sheet (extract) as at 31 December 2019

	\$	\$
Current Assets		
Accounts Receivable	25 740	
Less: Allowance for Doubtful Debts	3 800	
Inventory	27 500	
Prepaid Rent Expense	3 600	53 040
Non-Current Assets		
Equipment	15 000	
Less: Accumulated Depreciation	14 250	
Van	30 000	
Less: Accumulated Depreciation	8 400	22 350
Total Assets		75 390

The Pre-Adjusted Trial Balance extract as at 30 June 2020 is provided below.

Leong’s Ladders

Pre-Adjusted Trial Balance (extract) as at 30 June 2020

Account	Debit	Credit
Accounts Receivable	24 750	
Allowance for Doubtful Debts	1 700	
Equipment	18 000	
Sales		216 500
Sales Returns	3 500	

Additional information

- On 1 February 2020 annual Rent Expense of \$24 000 plus GST for the period ended 28 February 2021 was paid.
- On 1 April 2020 replacement Equipment of \$19 800 including GST was purchased.
- All Equipment is depreciated at a rate of 20% per annum using the straight-line method and is assumed to have no residual value.
- Van is depreciated at a rate of 40% per annum using the reducing balance method.
- Melissa has a policy to report 2% of Net Sales as a doubtful debt for each period

Question 7 – continued

- a. Prepare the balance day adjustment required in the General Journal in relation to rent as at 30 June 2020.
A narration is **not** required.
2 marks
- b. Calculate the depreciation expense for the Equipment for the six months ended 30 June 2020.
3 marks
- c. Calculate the carrying value of the Van as at 30 June 2020.
3 marks
- d. Justify why the Van is depreciated using the reducing balance method yet the Equipment is depreciated using the straight-line method.
4 marks
- e. Calculate and explain the effect on the Income Statement for the six months ended 30 June 2020 as a result of the adjustment to the Allowance for Doubtful Debt account in the General Ledger on 30 June 2020.
3 marks

Question 8 – Phil’s Pillows (5 marks)

Phil Smyth owns and operates, Phil’s Pillows, and has seen the Gross Profit Margin increase from 40% in 2019 to 50% in 2020.

Phil believes that this, together with the \$25 780 increase in Net Profit, is a good indication of improved business performance.

However, Phil’s accountant says that additional information is required to fully assess whether Phil’s Pillows’ performance has improved in 2020 compared to 2019.

Discuss whether Phil’s accountant is correct.

Question 9 – Eden’s Electronics (20 marks)

Eden Monaro, the owner of Eden’s Electronics, has been provided with the following Trial Balance.

Eden’s Electronics Post-Adjusted Trial Balance as at 30 June 2020

Account	Debit	Credit
Accounts Payable		3 080
Accounts Receivable	11 275	
Accrued Wages		750
Accumulated Depreciation - Equipment		10 830
Advertising	860	
Bank	2 030	
Capital		46 075
Cash Sales		12 190
Cost of Sales	9 840	
Credit Sales		8 280
Depreciation - Equipment	570	
Discount Revenue		220
Equipment	34 200	
Freight Inwards	390	
GST Clearing		835
Interest Expense	150	
Inventory	26 000	
Inventory Loss	1 390	
Loan – MNC Bank		16 800
Prepaid Rent Expense	8 000	
Rent Expense	1 600	
Sales Returns	790	
Unearned Sales Revenue		1 500
Wages	3 300	
Totals	100 560	100 560

Additional information

- Reports are prepared on a monthly basis.
- Loan repayments of \$1 200 are made to MNC on a quarterly basis.

Question 9 – continued

- a. State one error that will not be detected by the preparation of a Trial Balance. 1 mark
- b. Prepare the General Journal entry to close the expense accounts on 30 June 2020. 3 marks
- c. Explain how preparing closing entries satisfies the Period accounting assumption. 2 marks
- d. Prepare the Income Statement extract up to, and including, Adjusted Gross Profit for the month ended 30 June 2020. 5 marks
- e. Justify one strategy Eden could introduce to reduce Sales Returns in the future. 2 marks
- f. Prepare the transfer entry required in the General Journal on 30 June 2020.
A narration is **not** required. 2 marks
- g. Prepare the Current Liabilities extract from the Balance Sheet of Eden's Electronics as at 30 June 2020. 3 marks

On 6 July 2020 cheque 802 was used to pay Wages of \$1 850.

- h. Show the effect on the accounting equation of Eden's Electronics as a result of the payment. 2 marks

Question 10 – Bert's Books (8 marks)

Bert Adams owns and operates Bert's Books.

On 30 June 2020 Bert's Books traded-in their Van that originally cost \$55 000 including GST to Vic's Vans.

As at 30 June 2020 Bert's Books determined the balance of the Accumulated Depreciation of the Van to be \$35 600.

Vic's Vans agreed to a trade-in allowance of \$11 000.

The new Delivery Van had a selling price of \$39 900 plus GST.

Bert Adams paid \$5 000 directly to Vic's Vans himself.

Bert's Books borrowed the outstanding balance owing to Vic's Vans from MNC Bank.

- a. Show how the Van account would appear in the General Ledger of Bert's Books as at 30 June 2020.
You are **not** required to balance the account. 4 marks
- b. Calculate the profit or loss made when the Van was traded-in.
You **are** required to circle if the amount is a profit or loss. 2 marks
- c. With reference to your answer in part b., explain why a profit or loss on the trade-in of the Van occurred. 2 marks

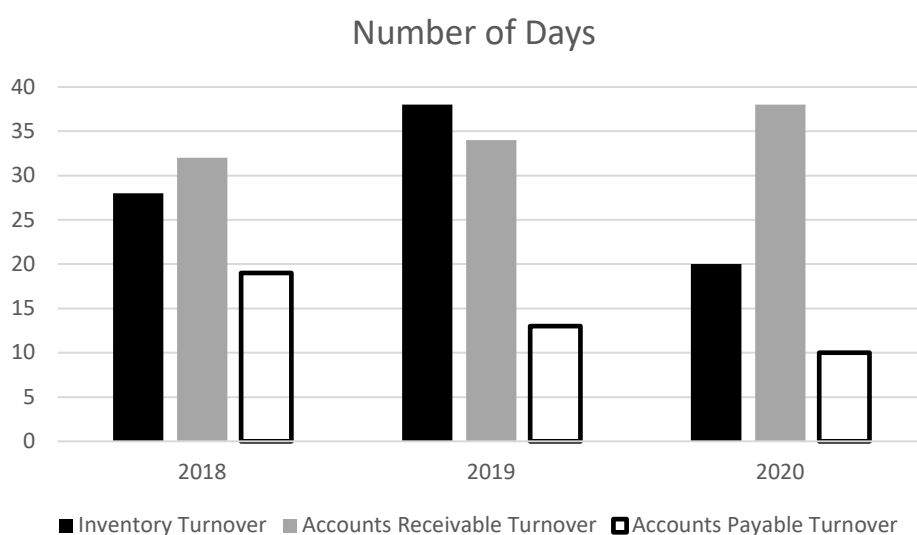
Question 11 – Carole’s Coats (8 marks)

Carole Baskin owns Carole’s Coats.

Even though more than 85% of her sales are on a cash basis, customers are offered credit terms of 2/7, n/30.

All purchases of Inventory are made on a credit basis. Carole has negotiated credit terms of 2/10, n/45 with her supplier.

Carole has been presented with the following.



	2018	2019	2020
Cash Flow Cover	9 times	7 times	?

- a. Discuss whether you expect the trend in the Cash Flow Cover will continue to decrease in 2020.
5 marks
- b. Discuss one strategy Carole could introduce to improve the trend of the Accounts Receivable Turnover in 2021.
3 marks

100 marks

END OF QUESTION BOOKLET