

Student Name: _____

ACCOUNTING
UNITS 3&4
2020 ADJUSTED Trial Examination

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>
6	6	100

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners, rulers and one scientific calculator.
- Students are NOT permitted to bring into the examination room: blank sheets of paper and/or correction fluid/tape.

Materials supplied

- Question book of 12 pages
- Answer book of 17 pages

Instructions

- Answer all questions in the answer book.
- All written responses must be in English.

At the end of the examination

- You may keep this question book.

Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the examination room.

THIS PAGE IS BLANK

Question 1 (22 marks)

Scott's Scooters sells a wide range of scooters and bicycles. The business uses the FIFO inventory cost assignment method.

As at January 1 2020, Scott's Scooters had 15 Type R Scooters (inventory code 678) on hand, which it had purchased for \$150 each plus GST.

During January the following transactions took place:

- | | |
|------------|---|
| January 2 | Purchased 25 Type R Scooters from JD Suppliers for \$130 each plus GST, delivery for the purchase was \$250 plus GST and modification costs were \$22 per unit including GST (Inv. L58). On the same day 100 stickers costing \$20 plus GST were purchased which are put on each Type R Scooter (Chq. 009). |
| January 4 | Sold 10 Type R Scooters for \$330 including GST for cash (EFT. Rec. 132). |
| January 7 | Returned two Type R Scooters to JD Supplies, from the Jan 2 delivery, due to inventory being scratched (Cr. Note 12). |
| January 12 | Sold 10 Type R Scooters to Scoot Club on credit (Inv. 23). |
| January 15 | Took 3 Type R Scooters which were donated to the local school for fete raffle (Memo 4). |
| January 16 | Scoot Club returned one Type R Scooter due to it being faulty (Cr. Note 799). |
| January 19 | Scott took one scooter home for his son's birthday (Memo 5). |
| January 20 | Sold 5 Type R Scooters for cash (EFT Rec. 133). |
| January 27 | Purchased 10 Type R Scooters on credit for \$170 each plus GST (Inv. L70). |
| January 28 | Purchased 20 Hero Scooters for \$220 including GST from JD Supplies. (Chq. No.010). |
| January 31 | Physical count revealed 21 Type R Scooters on hand. (Memo 6). |

- | | | |
|-----------|---|----------|
| a. | Record the above transactions in the Inventory Card provided. | 10 marks |
| b. | Explain your treatment of the following items when determining the valuation of inventory: <ul style="list-style-type: none"> • Delivery cost on January 2 • Cost of stickers on January 2 | 4 marks |
| c. | Provide one reason for the difference identified on January 31, 2020. | 1 mark |
| d. | Referring to one Qualitative characteristic, explain your valuation of the transaction on January 31, 2020. | 3 marks |
| e. | Record the transaction on January 16, 2020 in the General Journal of Scott's Scooters. (Narration is required). | 4 marks |

Question 2 (14 marks)

Kat's Kurtains has concerns about its profitability. In June 2020 Kat took out loan to extend and renovate the store, purchase additional display fittings and purchase additional lines of inventory to keep up with its major competitor.

The store needed to be closed for two weeks during this time.

The following indicators have been provided:

Indicator	2019	2020
Debt Ratio	30%	70%
Return on Investment	10%	15%
Return on Assets	7%	5%
Net Profit Margin	12%	8%
Inventory Turnover	30 days	48 days

- a. **Distinguish** between the terms 'profit and profitability'. 3 marks

- b. **Discuss** the profitability of Kat's Kurtains. 6 marks

- c. Based on the information provided, **explain** how the change in the Inventory Turnover could be viewed as a positive change. 2 marks

- d. **Identify**, from the information provided, one other benchmark that should be used to evaluate the performance of the business. 1 mark

- e. **Identify** and **explain**, one non-financial indicator that could be used to measure the profitability of the business. 2 marks

Question 3 (18 marks)

Cath MC operates a small business, Important Little Things, which sells a range of costume jewellery, handbags and accessories. All inventory is marked up by 100%. At December 31 it is expected that the business will have \$5 500 in the business bank account. During the period it is expected that the rent will increase by 10%. The business is also expecting to purchase new equipment during the budgeted period which will be financed by taking out Loan from JNJ Bank. Credit terms offered to customers are n/30. Suppliers offer credit terms of 2/7, n30.

The following budgeted reports and additional information have been provided:

Important Little Things**Budgeted Cash Flow Statement (extract) for the year ending 31 December 2021**

Operating Activities		
Cash sales	90 000	
GST Received	9 000	
Receipts from Accounts Receivable	102 000	
Accrued Interest Revenue	480	
Interest Revenue	240	201 720
Payments to Accounts Payable	(128 625)	
Wages	(59 500)	
Accrued wages	(500)	
Prepaid Rent expense	(26 400)	
Advertising	(8 250)	
Interest expense	(2 500)	
GST Paid	(4 762)	
Net Cash Flows from Operating Activities		(28 815)

Important Little Things**Budgeted Income Statement for the year ending 31 December 2021**

Revenue		
Cash Sales	90 000	
Credit Sales	235 000	325 000
Less Sales Returns		4 200
		320 800
Less Cost of Goods Sold		
Cost of sales		160 400
Gross Profit		160 400
Less Inventory Loss	500	
Less Inventory write down	1 200	1 700
Adjusted Gross Profit		158 700
Add Other Revenue		
Interest Revenue	720	
Discount Revenue	1 125	1 845
		160 545
Less Other Expenses		
Bad debts	1 150	
Interest expense	2 500	
Depreciation of Equipment	3 570	
Wages	60 000	
Advertising	8 250	
Rent expense	25 200	100 670
Net Profit/(Loss)		59 875

Additional Information:

Indicator	2020	Budgeted 2021
Accounts Receivable Turnover	38 days	42 days
Accounts Payable Turnover	18 days	15 days

- a. Using the budgeted reports and additional information provided, **evaluate** the impact of the predictions on the liquidity of Important Little Things. 6 marks
- b. **Explain** how Important Little Things could use the Budgeted Income Statement for planning and control purposes. 4 marks
- c. **Suggest** strategies to improve the performance of the business. 4 marks
- d. **Explain** giving two examples, how the Budgeted Net Cash Flows from Operations can be different from the Budgeted Net Profit for the same period. 4 marks

Question 4 (8 marks)

Napoleon runs Muscles R Us and has been selling body building supplements to a number of gymnasiums and to the general public. He has been running the business for 8 years and three months ago decided to sell the business. In order to ensure a good selling price Napoleon asked his friends and relatives to start coming into the store to purchase products.

- a. **Explain** the impact of Napoleon's decision on the Income Statement of the business. 2 marks
- b. **Discuss** the ethical issue that arises as a result of Napoleon's decision. 4 marks
- c. In all consultations and communications accountants are required to maintain a standard of behaviour. **Identify** two of these standards. 2 marks

Question 5 (8 marks)

‘The Christmas Village’ sells Christmas Trees and decorations and operates between July 1 and December 31 each year. Being a seasonal business, it is important that as much of the inventory is sold before Christmas Day at full price.

On 25 December 2020 the following Christmas Trees remained on hand:

Inventory Item	Qty	Cost price (plus GST)	Delivery In	Estimated Selling Price	Direct selling expenses (per unit)
Winter Wonderland	4	220	\$10 per unit	150	20
Black Magic	6	198	\$10 per unit	100	20
Pink Perfection	3	165	\$10 per unit	100	20
Traditional Green	7	132	\$10 per unit	90	20

- a. **Calculate** the inventory on hand as at 25 December 2020 as would be shown in the inventory cards. 2 marks

- b. **Calculate** the inventory on hand as at 25 December 2020 after applying the Lower of Cost and NRV Rule. 2 marks

- c. **Record** the Inventory write-down in the General Journal of ‘The Christmas Village’ on 25 December 2020. A narration is **not** required. 2 marks

- d. Referring to one Qualitative characteristic, **explain** why it would be incorrect and unethical to continue to value the Christmas Trees at their cost price. 2 marks

Question 6 (9 marks)

Julia Pantaz owns and operates JP's Fashion, selling designer T-Shirts online. The business owns a Delivery Van which are used to deliver online T-Shirt sales to the Melbourne Metropolitan area. Interstate and International sales are posted to the customer at their cost. Reports have been prepared at 30 June 2020. On 31 October 2020, it was decided that the Delivery Van would be traded in on a newer model.

JP's Fashion

Balance Sheet as at 30 June 2020 (extract)

Non-Current Asset	\$	\$
Delivery Van	36 000	
less Accumulated Depreciation – Delivery Van	?	?

Additional information:

- The Delivery Van was purchased on 1 January 2018 and was depreciated using the reducing-balance method of depreciation at a rate of 30% p.a.

a. Calculate the Carrying Value of the Delivery Van at 30 June 2020. 1 mark

On 31 October 2020, the Delivery Van was traded for \$ 5000 on the purchase of a new Delivery Van with an original purchase price for \$44 000 including GST. On the same day the business logo was painted on the Delivery Van at a cost of \$250 plus GST (Chq 775). The cost of the annual registration was \$1200 plus GST (Chq 776).

The purchase of the new Delivery Van was financed by a loan from ABC Bank.

b. Show the following accounts after all the above information has been posted:

- Delivery Van
- Accumulated Depreciation – Delivery Van
- Disposal of Delivery Van

8 marks

Question 7 (7 marks)

Robert owns and operates Top Caps, a business that sells caps to schools and large corporations. The caps have the school or company names printed on them and are purchased in large quantities. All caps are sold on credit. Reports are prepared half yearly on 30 June and 31 December. Robert is concerned about his cash flow and has asked you to calculate the receipts from accounts receivable and wages paid for May 2020.

The following information was extracted from the reports:

	\$
Balance at start	45 000
Balance at end	32 000
Credit sales	65 000
Discount expense	2500
Sales returns	2% of credit sales plus GST
Bad debts written off	1 000

Figures do not include GST

	\$
Accrued wages at start	1 800
Accrued wages at end	2 200
Wages expense	24 500

- a. Reconstruct the Accounts Receivable account to determine the Receipts from Accounts Receivable for the month of May 2020. 5 marks
- b. Calculate the Wages paid for May 2020. 2 marks

Question 8 (14 marks)

Ted owns and operates Ted's Toys. He has provided the following Pre-Adjusted Trial Balance as at 30 June 2020. Reports are prepared on a quarterly basis.

Ted's Toys**Pre Adjusted Trial Balance as at 30 June 2020**

Account	Debit	Credit
Accounts Payable		24 000
Accounts Receivable	32 000	
Allowance for Doubtful Debts		600
Bank		8 250
Capital		97 830
Cartage Inwards	350	
Cartage Outwards	230	
Cash Sales		8 000
Cost of Sales	25 500	
Credit Sales		44 500
Discount Expense	820	
Discount Revenue		180
Drawings	4 600	
Furniture and Fittings	22 600	
GST Clearing		770
Buying expenses	490	
Interest Expense	440	
Inventory	68 200	
Loan – Shark Bank		22 000
Office Equipment	10 500	
Prepaid Rent expense	11 200	
Sales Returns	1 500	
Unearned Sales Revenue		1 000
Wages	28 700	
Totals	207 130	207 130

Additional Information

- A mark-up of 100% is applied to all inventory.
- Unearned sales revenue related to a deposit received from Toys 4 U, the toys had a selling price of \$1 500 plus GST (Inv 55). The inventory was delivered on 30 June 2020.
- A physical count revealed inventory on hand of \$67 000.
- \$9 600 Rent was paid in advance for 6 months commencing 1 May 2020.
- Doubtful debts are 2% of net credit sales.

- a.** Show the general journal entries necessary to record the additional information on 30 June 2020. Narrations are **not** required. 9 marks
- b.** Prepare the General Journal entries required to close the expense accounts for Ted's Toys to the P/L Summary at 30 June 2020. A narration is **not** required. 5 marks

END OF QUESTION BOOK