

ACCOUNTING
UNITS 3&4
2020 Trial Examination

Reading time: 15 minutes

Writing time: 2 hours

SOLUTIONS

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Question 1 (22 marks)**a.**

10 marks

Inventory Item: Type R Scooter					Supplier: JD Supplies					
Code: 678					Cost Assignment Method: First In First Out					
Date 2020	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Jan 1	Balance							15	150	2 250
2	Inv. L58	25	160	4 000				15	150	2 250
								25	160	4 000
4	Rec. 132				10	150	1 500	5	150	750
								25	160	4 000
7	C/N 12				2	160	320	5	150	750
								23	160	3 680
12	Inv. 23				5	150	750			
					6	160	800	18	160	2 880
15	Memo 4				3	160	480	15	160	2 400
16	C/N 799	1	160	160				16	160	2 560
19	Memo 5				1	160	160	15	160	2 400
20	EFT Rec. 133				5	160	800	10	160	1 600
27	Inv. L70	10	170	1 700				10	160	1 600
								10	170	1 700
31	Memo 6	1	170	170				10	160	1 600
								11	170	1 870

1 mark per transaction

Deduct 1 mark max for not including Doc no's.

Deduct 1 mark for including Jan 28

b.

4 marks

Delivery cost on January 2
Explanation – The cost of the delivery is treated as a product cost as it is a cost incurred in getting The Type R Scooter into a condition and location for sale (1 mark) and can be allocated to each individual scooter on a logical basis. (1 mark)
Cost of stickers on January 2
Explanation – The cost of the stickers are treated as a period cost, (1 mark) even though the cost is incurred in order to bring the scooters into a condition and location ready for sale and can be allocated to each individual unit on a logical basis, it is only 20 cents per unit and is therefore insignificant value and is unlikely to affect decision-making. (1 mark)

c.

1 mark

Reason – Oversupply from supplier
OR Undersupply to customer

d.

3 marks

Qualitative characteristic Faithful Representation (1 mark)
Explanation - By recording an inventory gain using the latest purchase price it gives the most faithful representation of the value of inventory on hand (1 mark) as the most recent cost price reflects what the business would be charged if it was to purchase those items at the time of the inventory count. (1 mark)

e.

4 marks

General Journal

Date	Details	Debit	Credit
Jan 16	Sales returns	320	
	GST Clearing	32	
	Accounts Receivable-Scoot Club		352
	Inventory	160	
	Cost of sales		160
	Sales return of one Type R Scooter from Scoot Club due to being faulty (Memo 799)		

1 mark – Sales returns, GST Clearing

1 mark - Accounts Receivable – Scoot Club (must have name) 1 mark – Inventory, Cost of sales

1 mark – Narration

Question 2 (14 marks)**a.**

3 marks

Distinguish
Profitability refers to the ability of the business to earn a profit, measured by comparing the profit
against a base such as sales, assets or owner's equity, (1 mark) whereas,
Profit is defined under accrual accounting as revenue earned less expenses incurred (1 mark)
expressed as a dollar amount. (1 mark)

b.

6 marks

Discussion:
Kat's Kurtains has undertaken a few new initiatives in 2020 that have impacted on the businesses
profitability both positively and negatively. A loan was taken out to extend and renovate the store
and to invest in additional display fittings and expand inventory lines. Taking out the loan has
resulted in an increase in the Debt Ratio indicating that the business is relying more heavily on
external finance in order to fund its assets. The additional borrowings have resulted in the firm's
ability to increase its ROI as the business is using external sources rather than contributions from
the owner to finance the assets of the firm, indicating an improvement in profitability. Furthermore,
the expansion and improvements to the business will result in more customer which in turn should
increase sales and profit in the future. If the net profit increase proportionally more than the increase
in average capital, this will improve the ROI and the profitability of the firm. However, the
increased borrowings will have a negative impact on profitability due to the increase in interest and
depreciation expenses which result in a decrease in net profit. The NPM has decreased indicating
that less of the sales dollar is being retained as net profit. This can be attributed to the fact that the
business closed the store for two weeks, resulting in a decline in sales. This, along with the
increase in expenses related to higher levels of borrowing, new non-current assets as well as
increased costs related to the extension and renovation of the stores have all resulted in a decline in
profitability. The return on assets has declined indicating that the average assets of the business are
being used less effectively to generate net profit. This is due to the increase in average total assets

increasing proportionally more than the increase in net profit as a result of purchasing more assets
resulting in a decline in the firm's profitability. The Inventory Turnover has increased indicating that
it is taking longer on average to convert inventory into sales. This in turn would impact profitability
negatively due to the decline in sales due to the closure of the store and the increase in average
inventory levels due to expanding its inventory mix.

Mark globally

Must relate changes to information provided in the question

c.

2 marks

Explanation
The increase in the Inventory Turnover indicates longer on average for the business to convert its
average inventory into sales. As additional lines of inventory have been purchased to keep up with
competitors this has resulted in an increase in average inventory. (1 mark)
However, the expansion of inventory lines is expected to attract more customers to the business in
the future resulting in increased sales and profits. (1 mark)

1 mark – increase in average inventory linked to additional lines of inventory

1 mark – will provide increased sales and profits in the future

d.

1 mark

Benchmark Industry average

No other option accepted. Trying to keep up with competitors.

e.

2 marks

Non-financial indicator Number of sales returns (1 mark)
Explanation
Provide a useful guide to the suitability and quality of inventory and can also be a measure of
customer satisfaction. The higher the number of sales returns the higher the level of dissatisfaction
resulting in lower profits impacting negatively of the firm's profitability. (1 mark)

Many other options acceptable

Question 3 (37 marks)

a.

15 marks

Accounts Receivable

Date	Cross-reference	Amount	Date	Cross-reference	Amount
Jan 1	Balance	24 000	Dec 31	Bank	140 090
Dec 31	Sales	135 000		Discount expense	2 000
	GST Clearing	13 500		Sales returns	2 700
				GST Clearing	270
				Allowance for Doubtful Debts	400
				GST Clearing	40
				Balance	27 000
		172 500			172 500

Accounts Payable

Date	Cross-reference	Amount	Date	Cross-reference	Amount
Dec 31	Bank	96 003	Jan 1	Balance	13 000
	Inventory	250	Dec 31	Inventory	90 480
	GST Clearing	25		GST Clearing	9 048
	Balance	16 250			
		112 528			112 528

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
Jan 1	Balance	32 000	Dec 31	Cost of sales	112 500
Dec 31	Accounts receivable	1 350		Inventory write down	1 200
	Accounts payable	90 480		Inventory loss	500
	Bank	22 620		Accounts Payable	250
				Drawings	2 000
				Balance	30 000
		146 450			146 450

b.

10 marks

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	140 090	
Accrued Interest Revenue	480	
Interest Revenue	240	239 810
Payments to Accounts Payable	(96 003)	
Wages	(19 500)	
Accrued wages	(500)	
Prepaid Rent expense	(12 000)	
Advertising	(8 250)	
GST Paid	(3 207)	
Cash Purchase of Inventory	(22 620)	(162 080)
Net Cash Flows from Operating Activities		77 730

GST Paid $2262+120+825 = 3\,207$

c.

8 marks

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

Revenue		
Cash Sales	90 000	
Credit Sales	135 000	225 000
Less Sales Returns		2 700
		222 300
Less Cost of Goods Sold		
Cost of sales		111 150
Gross Profit		111 150
Less Inventory Loss	500	
Less Inventory write down	1 200	1 700
Adjusted Gross Profit		109 450
Add Other Revenue		
Interest Revenue		720
		110 170
Less Other Expenses		
Bad debts	1 150	
Discount expense	2 000	
Depreciation of Furniture & Fittings	3 570	
Wages	20 300	
Advertising	8 250	
Rent expense	12 000	47 270
Net Profit/(Loss)		62 900

d.

4 marks

Example 1 Inventory loss/Inventory write-down, Bad Debts, Depreciation are all non-cash expenses and decrease net profit however, they are not cash outflows and have no effect on net cash flows from operations. (1 mark)
Example 2 Prepaid Rent expense greater than rent expense incurred decreasing net cash flows from operations more than net profit. (1 mark) (1 mark if two examples given)
Explanation
Under accrual accounting there is a difference between net cash flows from operations and net profit. Net cash flows from operations is calculated by deducting cash outflows from cash inflows related to the firms from day to day trading activities whereas, net profit is calculated by deducting expenses incurred from revenue earned. (1 mark)

1 marks – for identifying two examples

2 marks – explanation of the impact on NCFO and net profit of the examples

1 mark – distinction between NCFO and net profit.

Question 4 (8 marks)

a.

2 marks

Explanation
The impact of Napoleon's decision is that it can lead to increased sales due to the increased number
of people purchasing goods from the store (1 mark) which in turn will result in higher profits.
(1 mark)

b.

4 marks

Discussion
The business has a responsibility to act ethically. Napoleon's actions have benefits as this practice
will result in an increase in sales revenue and cash inflows having positive impact on both
The Income Statement and Cash Flow Statement. This could also improve the firm's indicators
such as the Inventory Turnover, Net Profit Margin and ROI. This information could then
influence potential buyers to purchase the business at a higher selling price.
However, this is unethical as the information provided to potential buyers of the business does
not provide a faithful representation of the real-world economic events the reports claim to
represent. Whilst the figures are correct and accurate the transactions related to Napoleon's
friends and relatives are not a true reflection of the firm's customer base. Thus, providing
misleading information to potential buyers who may base their decision to purchase the business
on the number of customers and figures depicted in the firm's financial reports.

Mark Globally

c.

2 marks

Identify
Integrity, Impartiality, Objectivity, Confidentiality

Ethical consideration are listed in study design – page 12

Question 5 (10 marks)**a.**

2 marks

4 x 230 = 920 6 x 208 = 1248 3 x 175 = 525 7 x 142 = 994	
Inventory on Hand 25 Dec 2020	\$ 3 687

b.

2 marks

4 x 130 = 520 6 x 80 = 480 3 x 80 = 240 7 x 70 = 490	
Inventory on Hand 25 Dec 2020 at LCNRV	\$1 730

c.

2 marks

General Journal

Date	Details	Debit	Credit
Dec 25	Inventory Write down	1 957	
	Inventory		1 957

d.

4 marks

Qualitative characteristic Faithful Representation (1 mark)
Explanation
By continuing to value the Christmas Trees at their cost price would breach faithful representation
as the original purchase price would not account for the fact that the inventory is no longer in
demand, meaning it would no longer provide a valuation which is complete or free from error
(1 mark). It would result in overstating the value of the firm's assets due to the inventory not being
written down and would also overstate owner's equity and net profit by not recognising the loss
that is probable on the sale of the inventory. (1 mark) If the write-down is not recognised, this could
also seen as being unethical as the business' reports would actually be misleading as decisions will
decisions will be made based on this information. (1 mark)

Question 6 (9 marks)**a.**

1 mark

Jan 1 2018 – June 30 2018 $(36\,000 \times 30\% = 5\,400)$ $36\,000 - 5\,400 = 30\,600$ July 1 2018 – June 30 2019 $(30\,600 \times 30\% = 9\,180)$ $30\,600 - 9\,180 = 21\,420$ July 1 2019 – June 30 2020 $(21\,420 \times 30\% = 6\,426)$ $21\,420 - 6\,426 = 14\,994$	
Carrying Value	\$ 14 994

b.

8 marks

Delivery Van

Date	Cross-reference	Amount	Date	Cross-reference	Amount
July 1	Balance	36 000	Oct 31	Disposal of Delivery Van	36 000
Oct 31	Disposal of Delivery Van	5 000			
Oct 31	Loan – ABC Bank	35 000			
Oct 31	Bank	250			

Accumulated Depreciation – Delivery Van

Date	Cross-reference	Amount	Date	Cross-reference	Amount
Oct 31	Disposal of Delivery Van	22 505	July 1	Balance	21 006
			Oct 31	Depreciation – Delivery Van	1 499

Disposal of Delivery Van

Date	Cross-reference	Amount	Date	Cross-reference	Amount
Oct 31	Delivery Van	36 000	Oct 31	Acc. Dep'n – Delivery Van	22 505
			Oct 31	Delivery Van	5 000
			Oct 31	Loss on disposal of Delivery Van	8 495
		36 000			36 000

END OF SOLUTIONS