

Student Name: _____

ACCOUNTING

UNITS 3&4

2020 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 8 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.

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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). | 3 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 (37 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%.

Important Little Things**Trial Balance as at 31 December 2020 (extract)**

Account	Debit	Credit
Accounts Receivable	24 000	
Less Allowance for Doubtful Debts		6 00
Accounts Payable		13 000
Inventory	32 000	
Accrued Wages		500
Accrued Interest Revenue	480	
Prepaid Rent expense	20 000	
Unearned Sales Revenue		2 000
Term Deposit	12 000	
Fittings and Fixtures	28 000	
Accumulated Depreciation – Fixtures and Fittings		4 200
GST Clearing		1 850

The following estimates have been provided for the year ending 31 December 2021:

Total Sales	\$225 000 (excl. GST)	60% of sales are expected to be on credit
Sales returns		2% of credit sales
Allowance for Doubtful Debts		The allowance is set at 1% of credit sales including GST
Bad Debt	\$400	Bad debt written off as irrecoverable
Discount expense	\$2 000	
Accounts Receivable		The accounts receivable balance is expected to be \$3,000 higher
Purchases of inventory		80% of the inventory purchases are on credit
Inventory write-down	\$1 200	
Purchase returns	\$250	
Accounts Payable		The accounts payable balance is expected to increase by 25%
Inventory loss	\$500	
Inventory balance at end		\$2000 lower than the balance at start
Drawings	\$15 000	\$2 000 inventory \$13 000 cash
Depreciation expense		The fixtures and fitting were replaced on Jan 1, 2020. The owner decided to use the reducing balance method at a rate of 15% p.a.
Wages paid	\$20 000	Accrued wages at December 31, 2021 are expected to be \$800
Rent expense		Prepaid Rent expense included an annual payment made on September 1, 2020 of \$12 000.
Term Deposit		The term deposit was taken out on May 1, 2020 for two years. Interest is earned at a rate of 6% p.a. Interest is received once per year on April 30.
Unearned Sales Revenue		Deposit was paid on a sale of \$6 000 plus GST. The goods are to be provided on June 30, 2021 with the remaining amount to be paid in cash.
Advertising expense		Last year's advertising expense was \$7 500 this is expected to increase by 10%.
GST Paid	?	

- a. Reconstruct** the following ledger accounts:
- Accounts Receivable to determine Receipts from Accounts Receivable
 - Accounts Payable to determine Payments to Accounts Payable
 - Inventory to determine Cash purchases of Inventory
- 15 marks
- b. Prepare** the operating section of the Budgeted Cash Flow Statement for the year ending 31 December 2021.
- 10 marks
- c. Prepare** a Budgeted Income Statement for the year ending 31 December 2021.
- 8 marks
- d. Explain** giving two examples, how the Net Cash Flows from Operations can be different from the 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 (10 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. 4 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 ledger accounts after all the above information has been posted:

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

8 marks