

STUDENT
NUMBER

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Letter]

ACCOUNTING UNITS 3 & 4 2020

TRIAL EXAM A

Reading time: 15 minutes

Writing time: 2 hours

SOLUTIONS

- A question book is provided with this answer book
- Answer all questions in the spaces provided in this book.
- Write your **student number** in the space provided above on this page.
- Refer to **Instructions** on the front cover of the question book.

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

Question 1 (9 marks)**a.**
Inventory Card

3 marks

Product: Lavender Bloom Sanitiser Bottles					Cost Assignment Method: FIFO					
Date	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Oct	Balance							30 80	4 5	120 400
7 Oct	Inv 43				30 5	4 5	120 25	75	5	375
9 Oct	CN 35	30 5	4 5	120 25				30 80	4 5	120 400
11 Oct	Inv 1-19	30	5	150				30 110	4 5	120 550
20 Oct	Memo 23				10	4	40	20 110	4 5	80 550
25 Oct	EFT 27				20 5	4 5	80 25	105	5	525
31 Oct	Memo 24				5	105	525	100	5	500

1 mark per entry

b.

2 marks

Explanation
Sales return of 35 units of Lavender Bloom Sanitiser Bottles by a customer (1 mark)
This could be due to customer changing mind. (1 mark)

c.

3 marks

**Steveo's Sanitiser
General Journal**

Date 2020	Details	Debit	Credit
9 October	Sales Returns	290	
	GST Clearing	29	



	<i>Accounts Receivable – Morts Restaurant</i>		<i>319</i>
	<i>Inventory</i>	<i>145</i>	
	<i>Cost of Sales</i>		<i>145</i>

1 mark: Sales Returns / GST Clearing

1 mark: Accounts Receivable – Morts Restaurant

1 mark: Inventory / Cost of Sales

d.

2 marks

Advertising

Date	Cross Reference	Amount	Date	Cross Reference	Amount
20 Oct	Inventory	40			

Inventory

Date	Cross Reference	Amount	Date	Cross Reference	Amount
			20 Oct	Advertising	40

1 mark per ledger. Must include title, date, cross reference, amount.

Question 2 (8 marks)**a.**

3 marks

Printzzz Pty Ltd
General Journal

Date	Details	Debit	Credit
31 Dec	Bad Debt Expense	3,510	
	Allowance for Doubtful Debts		3,510
14 Feb	Allowance for Doubtful Debts	900	
	GST Clearing	90	
	Accounts Receivable – Lovely Banks		990
31 Mar	Bad Debt Expense	1 890	
	Allowance for Doubtful Debts		1 890

1 mark per entry

b.

2 marks

Printzzz Pty Ltd

Balance Sheet (extract) as at 31 July 2019

	(\$)	(\$)
Current Assets		
Accounts Receivable	43 000	
Less: Allowance for Doubtful Debts	4 500	38 500

1 mark per line.

-1 for not including total.

c.

3 marks

Qualitative Characteristic <i>Relevance</i>
Explanation
<i>Allowance for doubtful debts allows a more accurate figure of Accounts Receivable to be reported. This net figure of Accounts Receivable minus Allowance for Doubtful debts makes the users of the Balance Sheet more capable of making decisions based relating to the business.</i>

1 mark: Qualitative Characteristic

2 marks : explanation

Question 3 (6 marks)**a.****6 marks**

Mark globally

Answers may include:

- Ethical considerations are;
 - the health of staff, customers and the wider community.
 - Financial wellbeing of staff
- Option 1
 - Negative impact on net profit as no revenue is earned
 - Issues with fruit and vegetable inventory going off.
 - Savings in wages and utilities expense.
 - Casual staff will receive no wage.
 - Customers may be permanently lost to competitors
 - There should be health benefits from this option
- Option 2
 - Limit of customers in store may decrease revenue
 - Strict rules may attract some customers who feel safe shopping there.
 - Expenses will increase (safety equipment and wages)
 - Negative impact on net profit
 - All staff will keep their job and 2 additional people will be employed.
 - There should be health benefits from this option
- Option 3
 - Most profitable option in the short term. Not illegal as there are no current government regulations.
 - Worst health impacts on staff and the wider community.
 - Could see negative long term impact if the pandemic worsens.

Question 4 (11 marks)**a.****General Journal**

Date	Details	Debit \$	Credit \$
30 June	Machinery	108 000	
	GST Clearing	10 800	
	Bank		118 800

1 mark per entry (3 marks)

b.

2 marks

Straight-line method	Reducing balance method
12 months depreciation: $90\,000 / 10 = \$9\,000$	12 months depreciation: $108\,000 \times 20\% = \$21\,600$
Deprecation for year ended 31 Dec 2020	Deprecation for year ended 31 Dec 2020
$9\,000 / 2 = 4\,500$	$21\,600 / 2 = 10\,800$
\$4 500 (1 mark)	\$10 800 (1 mark)

c.

Method Reducing balance (1 mark)
Justification
<i>A machinery is likely to be more efficient in its earlier years of use and will therefore generate more revenue in its earlier years (1 mark)</i>
<i>The decision to use the reducing balance method is justified as this allocates more of the machinery's cost as a depreciation expense in its earliest years and less in its later years. (1 mark) By doing this, expenses are better matched to revenues and hence a more accurate net profit will be calculated. (1 mark)</i>

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

2 marks

Calculation of Revenues Sales 320 000 Sales returns (1 500) Inventory gain 600	Calculation of Expenses Interest Expense 500 + Cost of Sales 123 000 Customs Duty 300 Wages 12 000 Bad Debts 400 Loss on disposal of Vehicle 8 000
Total Revenues 319 400 (1 mark)	Expenses 144 200 (1 mark)

b.

5 marks

Capital

Date	Cross Reference	Amount	Date	Cross Reference	Amount
31 Dec	Drawings	50 000	1 Jan	Balance	70 000
			8 Jun	Computer	5 000
	Balance	200 200	31 Dec	Profit and Loss Summary	175 200
		250 200			250 200
			1 Jan	Balance	200 200

1 mark per entry (4 total)

1 mark for balancing

c.

3 marks

Qualitative Characteristic Relevance (1 mark)
Explanation
Closing revenue and expense accounts ensures that only revenues earned and expenses incurred for the period are used to calculate net profit. (1 mark)
This accurate net profit figure enhanced the usefulness of information for decision making (1 mark)

**Question 6** (10 marks)**a.** 3 marks

Explanation
<i>Cash inflows minus cash outflows (1 mark) relating to the purchase and sale of non-current assets (1 mark).</i>
<i>An example of a cash outflow from Investing Activities would be the cash purchase of a Vehicle/computer/premises. (1 mark for 1 example of a non current asset)</i>

b. 3 marks

<i>Operating activities has an unfavourable variance of \$5 000</i>
<i>Investing activities has a favourable variance of \$2 000</i>
<i>Financing activities has a favourable variance of \$3 000</i>

1 mark per variance. Must include dollar amount.

c. 4 marks

Marked globally. Answers may include:

- Prepare a budgeted income statement as well as a budgeted cash flow.
- In the budgeted cash flow provide more detail showing individual cash flow items.
- Prepare budgets more frequently than once a year.
- Budget must be delivered in a timelier manner. December 2018's variance analysis is provided in June 2019

Question 7 (15 marks)**a.**

4 marks

Aidan's Fishing
General Journal

Date 2020	Details	Debit	Credit
30 June	Inventory	200	
	Inventory Gain		200
	Wages	1 200	
	Accrued Wages		1 200
	Unearned Sales Revenue	3 000	
	Sales Revenue		3 000
	Rent	3 000	
	Prepaid Rent		3 000

1 mark per journal entry

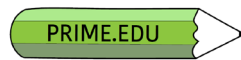
b.

9 marks

Aidan's Fishing

Income Statement for the year ended 30 June 2020

	\$	\$
Revenue		
Sales	206 000	
Less Sales Returns	1 500	
		204 500
Less Cost of Goods Sold		
Cost of Sales	103 000	
Freight In	500	103 500
Gross Profit		101 000
Add Inventory Gain	200	
Adjusted Gross Profit		100 800
Plus Other Revenue		
Interest Revenue		450
		101 250
Less Other Expenses		
Wages	21 200	
Electricity	8 000	
Rent	15 000	



		44 200
Net Profit		57 050

9 marks:

Sales (1 mark)

Sales Returns (1 mark)

Cost of Goods Sold (2 mark)

Inventory Gain (1 mark)

Wages (1 mark)

Electricity (1 mark)

Rent (1 mark)

Formatting (1 mark)

c.

2 marks

Explanation
<i>Net Profit would be overstated by \$1 200 (1 mark) as Wages expense would be understated by \$1 200 (1 mark)</i>

Question 8 (11 marks)**a.**

6 marks

GA Supplies
Cash Flow Statement (extract) for the 3 months ended 30 June 2020

	\$	\$
Cash Flows from Operating Activities		
Cash Sales	22 500	
GST Received	2 250	
Receipts from Accounts Receivable	8 000	
Interest	(500)	
Wages	(6 000)	
Payments to Accounts Payable	(8 000)	
Net Cash Flow from Operating Activities		18 250

1 mark per entry

-1 for not including Net Cash Flows from Operating Activities

b.

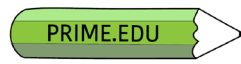
3 marks

Cash is cash inflows minus cash outflows for the period whereas net profit is revenue earned minus expenses incurred for the same period (1 mark)
GA Supplies has a positive net cash flow from operations but this does not necessarily means they made a net profit. (1 mark)
GST received is a cash inflow that is not considered revenue
Credit Sales (revenue) were \$7 500 whereas Receipts from Accounts Receivable was \$8 000
1 mark for one item

c.

2 marks

Any valid description of a security measure around cash.
Keep cash in a secure cash register and move excess cash into a safe frequently. This will prevent thieves gaining access to cash.



Question 9 (12 marks)**a.**

4 marks

- Higher cost of manufactured inventory while maintaining selling price will decrease Gross Profit Margin.
- More reliable supply chain may increase sales quantity thus increasing sales, net profit, net profit margin and Return on Assets.
- New to manufacturing may impact on the quality of the inventory. If the quality of goods is lower, then sales returns may increase lowering net sales and therefore net profit, Net Profit Margin and Return on Assets.
- Commencement of manufacturing will mean new non current assets used in the manufacturing process therefore increasing average total assets and possibly decreasing Return on Assets.
- Depreciation expense on manufacturing assets will decrease Net Profit and therefore Net Profit Margin and Return on Assets.

b.

4 marks

	Net Profit Impact
Additional Depreciation of solar panels (1)	(\$5 000)
Saved electricity (1)	\$3 000
Maintenance and cleaning (1)	(500)
Total	\$6,000

Net Profit (higher or lower)	\$2 500 lower (1 mark)
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**c.**

4 marks

Mark globally. Discussion needs to look at positive and negative considerations.

Answers may include:

- Relationships with lost overseas suppliers
- Increased local employment due to manufacturing
- Relationships with customers as a result of local manufacturing.
- Environmental impact renewable energy
- Negative profit impact of solar panels

Question 10 (8 marks)**a.**

1 mark

ROI is an indicator of how effectively the business has used owner's capital to earn a profit

b.

3 marks

Mark globally. Answers may include:

- Increasing debt ratio means that business risk has increased.
- Increased debt will put pressure on liquidity of business to make required repayments.
- Increased interest expense will decrease net profit.
- Higher debt ratio has led to an increase in ROI as the business has been able to use borrowed funds and not capital contributions to purchase new assets

c.

4 marks

Mark globally. Answers may include:

- Profitability has increased as assets are used more productively and thus increasing the ROI over the 3-year period.
- ROA has increased but net profit has remained constant likely due to a decrease in asset levels.
- Since the Debt Ratio has increased, the business may have purchased new non-current assets.
- Net profit has not increased over the period.

END OF ANSWER BOOK