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STUDENT
NUMBER

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ACCOUNTING UNITS 3 & 4

2020

TRIAL EXAM A

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>
10	10	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 11 pages
- Answer book of 16 pages

Instructions

- Write your student number in the space provided on the front cover of the answer book.
- 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

Question 1 (11 marks)

Steveo's Sanitiser sells a range of hand sanitisers. The business uses the FIFO inventory cost assignment method and all inventory is marked up by 100%.

Inventory Card

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

Additional Information:

- CN 35 was issued to Mort's Restaurant

Required:

a. Record the following transactions in the Inventory Card provided

- 11 October A credit purchase of 30 Lavender Bloom Sanitiser Bottles for \$5.50 (including GST) from COVID Free (Inv 1-19)
- 20 October The owner donated 10 Lavender Bloom Sanitiser Bottles to the local primary school (Memo 23)
- 25 October Cash sale of 25 Lavender Bloom Sanitiser Bottles (EFT 27)
- 31 October A physical stocktake revealed there were 100 Lavender Bloom Sanitiser Bottles on hand (Memo 24)

4 marks

b. Describe the transaction that has led to the entry in the Inventory Card on 9 October. In your answer, provided a reason for this transaction occurring.

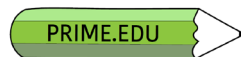
2 marks

c. Prepare the General Journal entry to record CN 35. A narration is **not** required.

3 marks

d. Label the ledger accounts and prepare the ledger entries to record Memo 23

2 marks



Question 2 (9 marks)

Anthony Dai owns and operates Printzzz Pty Ltd, an importer and wholesaler of artwork. They prepare quarterly accounting reports. An extract from the Pre-adjustment Trial Balance as at 31 December 2019 showed the following balances:

Pre-adjustment Trial Balance (extract) as at 31 December 2019

Account	Debit \$	Credit \$
Credit Sales		130,000
Sales returns	3,000	

Additional information:

- Company policy based on past experience requires 3% of Net credit sales to be recognised as doubtful debts.
- On 14 February 2020, Printzzz became aware that Lovely Banks, one of the Accounts Receivable who owed \$990, has been declared bankrupt. Their account is deemed irrecoverable.
- At the end of the next reporting period (31 March 2020), net credit sales were \$150,000. Doubtful debts were again estimated to be 3% of Net credit sales.

Required:

a. Based on the information above, prepare the three General Journal entries necessary from the additional information above. Narrations are **not** required.

3 marks

b. On 31 March 2020, Accounts Receivable in the trial balance had a value of \$21,000. Show how Accounts Receivable would be reported in the Balance Sheet of Printzzz Pty Ltd on this date.

2 marks

c. With reference to a Qualitative Characteristic, explain the need for the creation of an allowance for doubtful debts.

3 marks

**Question 3** (6 marks)

Utopia Fresh Foods is a fruit and vegetable store who employs 15 staff at their location. Currently, they are considering how best to deal with a health pandemic that has impacted the region in which they operate. The health pandemic is highly infectious and causes significant health issues to humans. Currently, the government has not imposed any regulations on business operations.

Option 1: Temporarily close the business immediately. As a result, \$0 revenue will be earned, 10 casual staff will be stood down (saving \$7,000 a week in wages), Utilities expense will decrease by 80%, however rent will remain \$2,000 per week.

Option 2: Remain open but operate under strict rules.

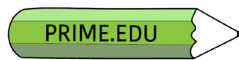
- Only 5 customers will be allowed in the store at a time.
- Hand sanitiser, gloves and face masks will be provided to every customer entering the store.
- All current staff will keep their hours and 2 additional staff will be employed as security guards to enforce the rules.

Option 3: Remain open and continue to operate as before.

Required:

a. Analyse the 3 Options and make a recommendation to Utopia Fresh Foods giving reasons for your answer. Your answer must include the ethical considerations.

6 marks

**Question 4 (9 marks)**

Plum Plumbing reports annually on 31 December. Recently, Plum Plumbing purchased machinery. Details of the purchase are below.

Morton's Machinery 22 Grace St, Carlton VIC 3053 ABN: 11 049 411 049	
Plum Plumbing 15 Edgar Street, Essendon, 3041 ABN: 22 654 885 001	Tax invoice 107 30 June 2020 Terms: Cash
Item	
Machinery	100 000
Installation	8 000
GST (10%)	10 800
	Total: 118 800

Additional Information

- The machinery has an estimated useful life of 10 years and a residual value of \$18,000

Required

a. Prepare the General Journal entries required on 30 June 2020.

Narrations are **not** required.

3 marks

Plum's Plumbing is deciding whether to depreciate the machinery using the straight-line method or the reducing balance method at 20% per annum.

b. Calculate the amount of depreciation that would be recorded at 31 December 2020 using the:

- Straight-line method
- Reducing balance method

2 marks

c. Suggest an appropriate method for depreciating the machinery. Justify the method selected

4 marks

Question 5 (10 marks)

Draper's Boutique sells high end menswear. They report annually on 31 December. The following is an extract of the Trial Balance as at 31 December 2020:

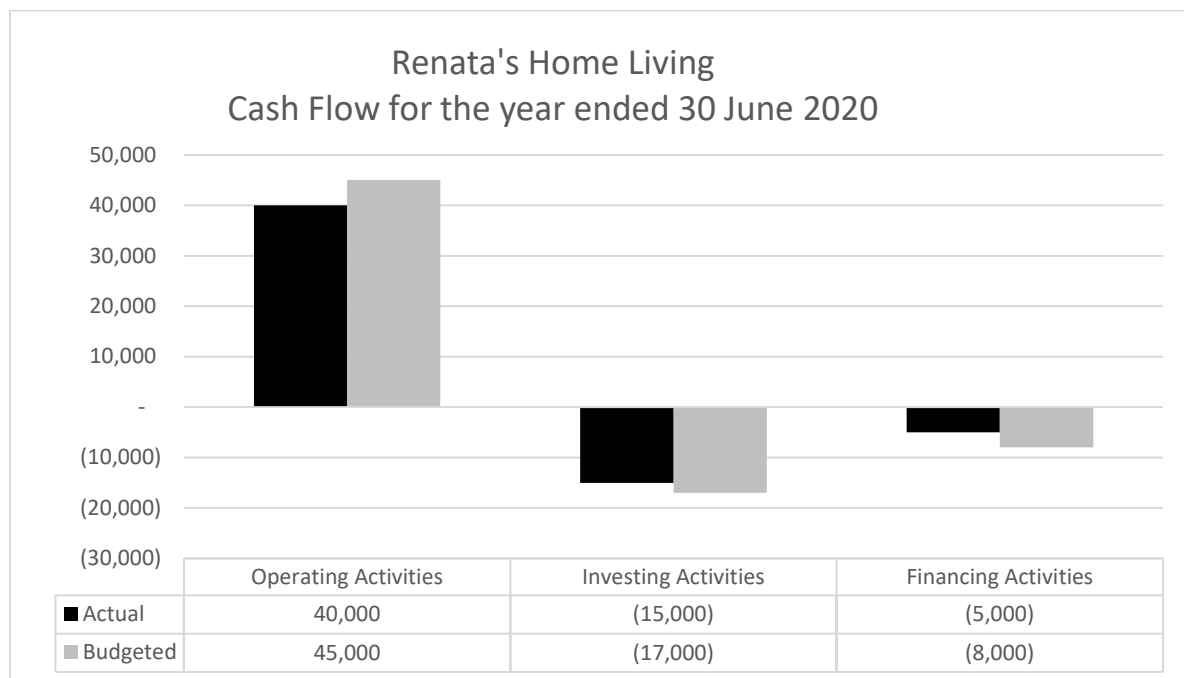
	Debit	Credit
Computer	5 000	
Interest Expense	500	
Cost of Sales	123 000	
Drawings	50 000	
Customs Duty	300	
Wages	12 000	
GST Clearing		6 700
Loss on Disposal of Vehicle	8 000	
Inventory Gain		600
Sales		320 000
Sales Returns	1 500	
Bad Debts	400	

Additional Information

- The balance of the Capital account as at 31 December 2019 was \$70 000
 - The computer was contributed by the owner on 8 June 2020
- a. Calculate the total revenues and expenses for the period.
2 marks
 - b. Show how the Capital Account would appear in the General Ledger after all the closing and transfer entries have been posted
5 marks
 - c. With reference to a Qualitative Characteristic, **explain** why revenue and expense accounts are closed.
3 marks

Question 6 (10 marks)

Renata Turner is the owner and manager of Renata's Home Living. Renata has an excellent product knowledge and is heavily involved in the sales side of the business. She does not have much knowledge of accounting. As a result, she has employed you as a full-time accountant to support her in running the business. Budgeting is done annually, and Renata receives the following variance report on 31 December 2020.

**Required**

- a. Explain what is meant by the term Net Cash Flows from Investing Activities. In your explanation, provide an example of a cash outflow from Investing Activities
3 marks
- b. Describe the variances above.
3 marks
- c. Suggest how the budgeting process at Renata's Home Living could be improved
4 marks

Question 7 (15 marks)

Aidan's Fishing sells fishing equipment. They prepare reports every year and have provided the information below for the year ended 30 June 2020.

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

	Debit	Credit
Sales		203 000
Sales Returns	1 500	
Unearned Sales Revenue		6 200
GST Clearing		5 400
Wages	20 000	
Electricity Expense	8 000	
Prepaid Rent	3 000	
Rent	17 000	
Cost of Sales	103 000	
Freight In	500	
Interest Revenue		450
Inventory	22 100	

Additional Information

- The inventory count on 30 June 2020 revealed \$22 300 worth of inventory on hand.
- Wages of \$1 200 are owing at 30 June 2020.
- Unearned Sales Revenue on 30 June 2020 is \$3 200
- All the Prepaid Rent was consumed during the year ended 30 June 2020

Required:

a. Prepare the General Journal entries required to record the additional information. Narrations are **not** required.

4 marks

b. Prepare the Income Statement for the year ended 30 June 2020.

9 marks

c. Explain the effect on the Net Profit of Aidan's Fishing for the year ended 30 June 2020 if the adjustment for Wages was **not** made

2 marks

**Question 8** (11 marks)

Gina Arnold runs GA Supplies, specializing in the sale of stationary. Gina has provided you, as her accountant the following information relating to the 3 months ended 30 June 2020.

Item	\$
Sales	30 000
GST Received and Charged on Sales	3 000
Receipts from Accounts Receivable	8 000
Discount Expense	400
Payment to CAB for loan	10 500
Wages	6 000
Payments to Accounts Payable	8 000
Discount Revenue	320

Additional Information

- 75% of sales are cash. The remainder are on credit.
- The payment to CAB comprised \$10 000 principal and \$500 interest

a. Prepare the operating section of the Cash Flow Statement for the 3 months ended 30 June 2020

6 marks

b. Upon review of the operating section of the Cash Flow Statement Gina exclaims, “Wonderful, my business is profitable!” explain to Gina the difference between cash and profit with reference to **one** specific item.

3 marks

c. Gina is worried about the safety of cash in the business. Describe one specific internal control procedure to safeguard cash against theft.

2 marks

**Question 9** (12 marks)

Tony's Toys imports and sells toys. At the end of 2019, Tony had issues with his overseas suppliers and struggled to get inventory into his store to sell. As a result, he decided to construct a factory and manufacture toys himself.

a. With reference to the information above, analyse the impact on the profitability of Tony's Toys. In your answer, make specific reference to the following financial indicators

- Gross Profit Margin
- Net Profit Margin
- Return on Assets

4 marks

b. On 1 January 2020, Tony has decided to power his newly constructed factory using solar panels and renewable energy. This involves \$50 000 to be spent on solar panels. The solar panels will be depreciated at 10% per annum using the straight-line method. By using solar power, \$250 per month will be saved on electricity bills. The solar panels require annual maintenance and cleaning of \$500.

Model the effect on Net Profit for the year ended 31 December 2020 of this choice.

4 marks

c. Discuss the ethical considerations of both the decisions outlined above.

4 marks

Question 10 (8 marks)

Freedom Art Supplies has been operating for three years and has asked for your assistance in evaluating their performance. The accountant has calculated the following financial indicators. They also mentioned that net profit had remained constant over the three year period.

	2018	2019	2020
Debt Ratio	25%	28%	61%
Return on Owner's Investment	12%	13%	36%
Return on Assets	9%	9%	17%

a. State the purpose of the Return on Owner's Investment in evaluating business profitability.

1 mark

b. Explain the implications of changes in the level of the Debt Ratio for Freedom Art Supplies.

3 marks

c. Evaluate Freedom Art Supplies profitability for the period 2018 – 2020.

4 marks

END OF QUESTION BOOK