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ACCOUNTING UNITS 3 & 4 2020

TRIAL EXAM B

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 (12 marks)**a.**

7 marks

Accounts Receivable

Date	Cross Reference	Amount	Date	Cross Reference	Amount
1/12/20	Balance	17 000		Allowance for Doubtful Debts	500
	Sales	22 000		GST Clearing	50
	GST Clearing	2 200		Sales Returns	1 300
				GST Clearing	130
				Bank	21 540
				Discount Expense	380
			31/7/19	Balance	17 300
		41 200			41 200

Credit Sales for July 2019	\$22 000
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1 mark: Opening Balance

1 mark: Closing Balance

1 mark: Allowance for Doubtful Debts / GST Clearing

1 mark: Sales Returns / GST Clearing

1 mark: Bank / Discount Expense

1 mark: GST Clearing debit entry

1 marks: Credit Sales

b.

3 marks

Accounting Assumption: Period (1 mark)

Explanation: There would be no effect on Net Profit for the period ended 31 December 2020. (1 mark). The Bad Debt Expense is incurred in the previous period when the credit sale occurred. In the period ended 31 December 2020, the previously raised allowance for doubtful debts is used. (1 mark)

c.

2 marks

Credit checks for all credit customers. Before customers are offered the chance to buy on credit, their credit will be checked to see if they have the ability to repay their short term debts. Customers with bad credit ratings, will not be granted credit facilities. This will decrease the number of Accounts Receivable who will need to be written off due to their inability to pay.

1 mark for appropriate strategy

1 mark for explaining strategy

Question 2 (11 marks)

a.

3 marks

Snowy's Skiwear**General Journal**

Date	Details	Debit	Credit
30 June	Advertising	1 500	
	Drawings		1 500
	Correcting entry (Memo 41)		

1 mark for each line including narration.

Date must be included

b.

2 marks

No overall effect on owners equity.

Advertising expense will increase by \$1 500 decreasing net profit and owners equity (1 mark).

Drawings will decrease by \$1 500 thus increasing owners equity (1 mark).



c.

4 marks

Mark globally however both profitability and liquidity must be covered to receive full marks..

Answers may include:

- The graphs reveal there was a decrease in the debt ratio from 40% in 2019 to 25% in 2020.
- When the debt ratio decreases due to lowering of liabilities, there will be a positive impact on profitability and liquidity as there will be lower interest expense and payments.
- If the decrease in debt ratio is caused by capital contributions, there may be a negative impact of profitability as the Return on Owner's Investment will decrease.
- Cash capital contributions can have a positive effect on the liquidity of the business as a large inflow of cash will occur. This has long term benefits as it will not attract interest.

d.

4 marks

Any 2 of for 1 mark each:

- Customer satisfaction surveys
- Number of repeat customers
- Number of sales returns (not dollar value)
- Staff satisfaction surveys
- Staff turnover etc

Question 3 (11 marks)**a.**

6 marks

**Lisa's Carpets
General Journal**

Date 2020	Details	Debit	Credit
11 Oct	Bank	2 000	
	Unearned Revenue		2 000
22 Oct	Accounts Receivable – Rising Sun Pty Ltd	6 250	
	Unearned Revenue	2 000	
	Sales		7 500
	GST Clearing		750
	Cost of Sales	2 250	
	Inventory		2 250
31 Oct	Bank	6 250	
	Discount Expense	250	
	Accounts Receivable – Rising Sun Pty Ltd		6 250

1 mark: 31 Jan entry

2 marks: Accounts Receivable – KMGP / Unearned Revenue / Sales / GST Clearing entry

1 mark: Cost of Sales / Inventory entry

2 marks: 8 Feb entry

b.

2 marks

Explanation

In the ordinary course of business there is a decrease in the Accounts Receivable asset (1 mark) that leads to a decrease in owners equity (1 mark). This decrease is not relating to a distribution from the owner.

c.

3 marks

Explanation

The Bank asset would be understated by \$2 000 (1 mark). The Unearned revenue liability would be understated by \$2 000 (1 mark). There would be no effect on owners equity (1 mark).

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

8 marks

**Draper's Boutique
General Journal**

Date 2019	Details	Debit	Credit
31 December	Profit and Loss Summary	144 200	
	Interest Expense		500
	Cost of Sales		123 000
	Customs Duty		300
	Wages		12 000
	Bad Debts		400
	Loss on Disposal of Vehicle		8 000
	Sales	320 000	
	Sales Returns		1 500
	Inventory Gain	600	
	Profit and Loss Summary		319 100
	Profit and Loss Summary	174 900	
	Capital		174 900

1 mark per 2 expense items (3 marks)

1 mark for 2 revenue items (1 mark)

1 mark for Sales Returns

1 marks for both Profit and Loss entries to balance expenses and revenues

1 mark for closing Profit and Loss Summary to Capital account.

1 mark for transferring Drawings to the Capital account

b.

3 marks

Accounting Assumption
<i>Period</i>
Explanation
<i>Revenue and expense accounts are closed so that an accurate net profit figure can be calculated for the period (1 mark) and so revenue and expense accounts are reset to zero for the following period (1 mark)</i>

1 mark: Accounting Assumption

2 marks: Explanation

Question 5 (12 marks)

a.

3 marks

Product: Barracuda Four Wheel Drive					Cost Assignment Method: FIFO					
Date	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Oct	Balance							3	220	660
6 Oct	Inv 45				1	220	220	2	220	440
8 Apr	CN 12	1	220	220				3	220	660
9 Apr	Inv 270	2	225	450				3	220	660
								2	225	450
15 May	Memo 8				3	5	15			
					2	10	20	5	215	1 075

1 mark per line in inventory card (3 marks)

b.

2 marks

Justification
<i>The Assembly cost is treated as a product cost. (1 mark)</i>
<i>It is incurred to get the inventory in a condition and location ready for sale and can be allocated to individual inventory items on a logical basis. (1 mark)</i>

c. 1 mark

Calculation
250 (selling price) – 35 (direct selling expense)
Net Realisable Value 215

d. 3 marks

Evans Bikes
General Journal

Date 2019	Details	Debit	Credit
31 October	Inventory Write Down	25	
	Inventory		25
	Write down of 5 Downhill Racer Bikes to their NRV (Memo 8)		

1 mark per line including narration (3 total)

e. 3 marks

Qualitative Characteristic: <i>Faithful Representation</i>
Explanation: <i>Due a lowering of the sale price, the net realisable value of the Downhill Racer has fallen below its cost price. The original purchase price is no longer an accurate representation of the value of the inventory to the business. As a result of the lower of cost and Net realisable value rule, the inventory is written down to its net realisable value.</i>

Question 6 (8 marks)

a. 2 marks

APTO has slowed (1 mark) from 25 days to 38 days (1 mark)

b. 1 mark

Possible reasons:

- Change in credit terms by supplier
- No longer taking advantage of discounts for early payment.



c. 2 marks

Positive: Cash is being kept in the business for a longer period and could be put to other uses (eg paying expenses or other liabilities as they fall due)
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Negative: May exceed credit terms.

d. 3 marks

Mark globally. For full marks, students will need to look at both reasons (decrease in Average Inventory or increase in Sales/Cost of Sales) the ITO may have changed.

- If average inventory remains the same (or increases) over the 2 years while mark up remains unchanged, this will lead to an increase in gross profit. As a higher sales quantity with the same mark up will increase gross profit.
- If the faster ITO is caused by lower average inventory levels and constant sales, gross profit will only increase if the mark up increases.

Question 6 (13 marks)

a.

7 marks

General Journal

Date	Details	Debit \$	Credit \$
<i>Dec 26</i>	<i>Bank</i>	<i>30 400</i>	
	<i>Loan – Eastpac</i>		<i>30 400</i>
<i>Jan 1</i>	<i>Disposal of Vehicle</i>	<i>36 000</i>	
	<i>Vehicle</i>		<i>36 000</i>
	<i>Accumulated depreciation of Vehicle</i>	<i>18 500</i>	
	<i>Disposal of Vehicle</i>		<i>18 500</i>
	<i>Vehicle</i>	<i>18 000</i>	
	<i>Disposal of Vehicle</i>		<i>18 000</i>
	<i>Disposal of Vehicle</i>	<i>500</i>	
	<i>Gain on Disposal of Vehicle</i>		<i>500</i>
	<i>Vehicle</i>	<i>25 400</i>	
	<i>Prepaid Registration</i>	<i>600</i>	
	<i>GST Clearing</i>	<i>4 400</i>	
	<i>Bank</i>		<i>30 400</i>
	<i>Trade-in of vehicle and cash purchase of new vehicle with</i>		
	<i>12 months prepaid registration (Cheque 113)</i>		

1 mark per entry (6 marks)

1 mark: Narration

b.

Plum's Plumbing**Income Statement (extract) for the year ended 31 December 2019**

	\$	\$
Other Revenue		
Gain on Disposal of Vehicle	500	

1 mark: Other Revenue heading

1 mark: Gain on Disposal of Vehicle



c.

3 marks

The proceeds from the trade in (\$18 000) were greater than the carrying value of the van (\$17 500) at time of disposal. 1 mark

The van was over depreciated due to residual value or useful life being understated (1 mark)

This may be due to the van being in a good condition at the time of disposal. (1 mark)

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d.

Justification

A vehicle is likely to be more efficient in its earlier years of use and will therefore generate more revenue in its earlier years (1 mark)

The decision to use the reducing balance method is justified as this allocates more of the vehicle's cost as a depreciation expense in its earliest years and less in its later years. By doing this, expenses are better matched to revenues and hence a more accurate net profit will be calculated. (1 mark)

d.

Working Space

Reducing Balance: $\$36\,890 \times 15\% = \$5\,533.50$

Straight Line: $\$43\,400 \times 15\% = \$6\,510$

Depreciation using reducing balance	\$5,533.50
Depreciation using straight line	\$6,510
Net Profit (higher or lower)	Lower by \$976.50

QUESTION 8 (9 marks)**a.**

4 marks

Accrued Interest Revenue

Date	Cross Reference	Amount	Date	Cross Reference	Amount
1-Nov	Balance	11 500	15-Nov	Bank	12 000
31-Nov	Interest Revenue	1 000		Balance	500
		12 500			12 500
1 Dec	Balance	500			

1 mark for opening and closing balances

1 mark for Interest Revenue

1 mark for Bank

1 mark for balancing

b.

2 marks

Working Space

12 000 interest per year / 120 000 term deposit

Annual rate of interest 10%**c.**

3 marks

Treated as a current asset (1 mark)

Present economic resource controlled by Armstrong Pty based on past events (1 mark)

That will produce future economic benefits when it is converted to cash in less than 12 months on 15 Nov 2021. (1 mark)

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

6 marks

Margie's Machinery
Cash Flow Statement for January 2020

	\$	\$
Cash Flows from Operating Activities		
Cash Sales	250 000	
GST Received	25 000	
Wages	(67 900)	
Inventory	(150 000)	
GST Paid	(15 100)	
Electricity	(1 000)	
Rent	(3 000)	
Net Cash Flow from Operating Activities		38 000
Cash Flows from Investing Activities		
Cash Flows from Financing Activities		
Loan – Eastpac	150 000	
Drawings	(185 000)	
Net Cash Flow from Investing Activities		(35 000)
Net increase (decrease) in cash position		3 000
Bank balance 1 January 2020		12 000
Bank balance 31 January 2020		15 000

1 mark – Cash Sales / GST Received

1 mark – Wages and Rent

1 mark – Inventory and Electricity

1 mark – GST Paid

1 mark – Loan – Eastpac and Drawings

1 mark – last 3 lines and formatting



b.

3 marks

Mark globally. However discuss requires positives and negatives to be considered.

Answers may include:

- Large positive cash flow from operations for January.
- Only one cash sale for the month.
- Significant mark up.
- Closing cash is not enough to cover wages payment from January.
- Took out a loan that will require interest and principal repayments in the future.
- Large amount of drawings so owner could make a contribution if needed in future.

END OF ANSWER BOOK