

VCE ACCOUNTING

Unit 3 & 4: Practice Written Examination

FOR ADJUSTED STUDY DESIGN (2020 ONLY)

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

Materials

- Question book of 12 pages.
- Answer book of 18 pages.
- Students are permitted to bring into the examination room: pencils, pens, highlighters, sharpeners, rulers, erasers and one scientific calculator.
- Students are NOT permitted to bring into the examination room: blank sheets of paper and/or white out liquid/tape.

Instructions

- Write your name in the space provided on the front page of the answer book.
- Answer **ALL** questions in the space provided.
- All written responses should be in English.

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

Question 1 (15 marks)

Taylor Clarke owns and operates Taylor's Tables, a small business that chooses to use the First In, First Out cost assignment method.

As at 1 January 2020 the Inventory card for the 'Jennifer' study desk appears as follows.

ITEM: 'Jennifer' Study Desk								Cost method: First In, First Out		
		IN			OUT			BALANCE		
Date	Document	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
01/01	Balance							42	60	2 520

Taylor has provided the following six source documents.

PINE'S PRODUCTS			
Date 07/01/20		Invoice 989	
Charge to		Taylor's Tables	
Item	Qty	Unit Cost	\$
'Jennifer' Study Desk	50	50	2 500
'Barry' Chair	100	19	1 900
		<u>GST(10%)</u>	<u>440</u>
		Total Owing	4 840
5/10, n/30			

TAYLOR'S TABLES			
Date 12/01/20		Invoice 276	
Charge to		GAZI Group	
Item	Qty	Unit Cost	\$
'Jennifer' Study Desk	44	125	5 500
		<u>GST(10%)</u>	<u>550</u>
		Total Owing	6 050
2/7, n/30			

TAYLOR'S TABLES	
Date 14/01/20	Memo 8
Event Took 1 'Jennifer' study desk for personal use.	
Signature <i>Taylor Clarke</i>	

Question 1 - continued

TAYLOR’S TABLES			
Date 15/01/20		Credit Note 9	
Credit to GAZI Group			
Item	Qty	Unit Cost	\$
‘Jennifer’ Study Desk	4	125	500
		<u>GST(10%)</u>	<u>50</u>
		Total Credit	550

Taylor's Tables	
Receipt Number 410	
Date	17 January 2020
To	GAZI Group
For	Outstanding Account
Amount	\$5 390

TAYLOR'S TABLES	
Date 31/01/20	Memo 11
Event 4 'Jennifer' study desks returned by GAZI Group were scratched.	
Will only be sold for \$33 including GST each.	
Signature <i>Taylor Clarke</i>	

- a. Referring to one qualitative characteristic, explain the importance of source documents in the accounting process.

3 marks

- b. Record each of the following source documents in the 'Jennifer' study desk inventory card:

- Invoice 989
- Invoice 276
- Memo 8

3 marks

- c. Record each of the following source documents in the General Journal:

- Credit Note 9
- Receipt 410
- Memo 11

A narration **is** required for memo 11 **only**.

9 marks

Question 2 (7 marks)

The following information relates to Christine's Camping's most recent purchase of inventory.

TRIVAGO'S TENTS			
Date: 18/02/20		Invoice: 24601	
Charge to: Christine's Camping			
Item	Qty	Unit Cost	\$
'Franklin' Tent	30	\$90	\$2 700
'Campfire' Chair	30	\$20	\$ 600
Tent Pegs Set	30	\$25	\$ 750
Tent Carry Bags	30	\$12	<u>\$ 360</u>
			\$4 410
Cartage			<u>\$ 480</u>
			\$4 890
			GST: <u>\$ 489</u>
			Total Owing: \$5 379

Additional information

- Each tent is packed, together with a set of tent pegs, in a tent carry bag that serves as protective packaging ready for display.
- a. Using product costing, calculate the cost price of one 'Franklin' tent.
2 marks
 - b. In calculating the cost price of the 'Franklin' tent, explain your treatment of the Cartage charged by Trivago's Tents.
2 marks
 - c. Assuming not all of the 'Franklin' tents that were purchased on 18 February 2020 were sold by 29 February 2020, explain the effect on Net Profit for the month ended 29 February 2020 if Christine's Camping used period costing instead of product costing.
3 marks

Question 3 (5 marks)

The owner of Damian's Desks has been presented with the following information.

Indicator	2019	2020
Debt Ratio	50%	80%
Cash Flow Cover	14 times	9 times
Return on Owner's Investment	7%	10%

Discuss the effect of the change in the Debt Ratio on the liquidity and profitability of the business.

Question 4 (6 marks)

The GST Clearing account from Padre's Pianos' General Ledger appears as follows.

GST Clearing

Date	Cross-reference	Amount	Date	Cross-reference	Amount
01/05	Balance	517	09/03	Bank	700
12/03	Bank	85	14/03	Accounts Receivable (1)	1 320
19/03	Accounts Payable	725	21/03	Bank	517
27/03	Bank	26	23/03	Accounts Payable (2)	180

- a. Explain, with the use of one example, why the GST Clearing account had a debit balance as at 1 May 2020.

3 marks

- b. Describe transaction (1) and transaction (2) in the GST Clearing account above.

2 marks

- c. In the Answer Book, formally balance the GST Clearing account.

1 mark

Question 5 (22 marks)

The Post-Adjustment Trial Balance for Kelly's Keyboards appears below.

Kelly's Keyboards**Post-Adjustment Trial Balance as at 30 June 2020**

Account	Debit	Credit
Accounts Payable		4 290
Accounts Receivable	16 280	
Accumulated Depreciation - Equipment		8 190
Bank		1 310
Capital		12 262
Cartage Inwards	2 250	
Cash Sales		76 140
Cost of Sales	83 200	
Credit Sales		133 800
Depreciation - Equipment	5 460	
Discount Revenue		1 760
Drawings	15 060	
Equipment	36 400	
General Expenses	18 690	
GST Clearing		2 318
Inventory	43 000	
Inventory Loss	1 070	
Loan – XCX Bank		13 500
Sales Returns	1 940	
Unearned Sales Revenue		2 500
Wages	32 720	
Totals	256 070	256 070

Additional information

- Loan repayments of \$900 are made to XCX Bank on a quarterly basis.

Question 5 - continued

- a. Prepare the necessary General Journal entry to close the expense accounts as at 30 June 2020.

A narration is **not** required.

3 marks

- b. Referring to two accounting assumptions, discuss whether all accounts in the General Ledger are required to be closed as at 30 June 2020.

6 marks

- c. Prepare an Income Statement extract, up to and including Other Revenue, for the year ended 30 June 2020.

5 marks

- d. Prepare the Equities extract of the Balance Sheet as at 30 June 2020.

5 marks

- e. Referring to the definition of a liability, explain how the loan balance owing to XCX Bank was classified on the Equities extract of the Balance Sheet as at 30 June 2020.

3 marks

Question 6 (14 marks)

On 1 January 2019 Dwight's Desks purchased a Van for \$40 000 plus GST.

Dwight can choose to depreciate the Van using the straight-line method based on a \$10 000 residual value and an effective life of 4 years or at an annual rate of 30% using the reducing balance method.

- a.** Explain how Dwight should determine the appropriate depreciation method for the Van.

You are required to refer to **both** depreciation methods in your answer.

4 marks

Dwight has decided to depreciate the Van using the reducing balance method.

Dwight's Desks prepares reports on an annual basis on 30 June.

On 30 June 2020 Dwight's Desks traded-in the Van and received an allowance of \$16 500 on the cash purchase of a new Van from Vic's Vans for \$35 200 including GST.

- b.** Prepare the necessary General Journal entries required on 30 June 2020 in relation to both Vans.

Closing entries and narrations are **not** required.

10 marks

Question 7 (12 marks)

The Bank account in the General Ledger of Francine's Fridges for the month of June 2020 appears as follows.

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount
02/06	Cash Sales / GST Clearing	1 980	01/06	Balance	3 040
03/06	Accounts Receivable	4 620	04/06	Accounts Payable	5 500
06/06	Disposal of Van	13 000	09/06	Van / GST Clearing	37 950
07/06	Capital	15 000	10/06	Prepaid Rent / GST Clearing	33 000
07/06	Loan – XCX Bank	25 000	14/06	Wages	1 800
18/06	Accounts Receivable	3 520	19/06	Drawings	2 000
23/06	Unearned Sales Revenue	1 500	20/06	Loan – XCX Bank	500
			20/06	Interest Expense	125
			21/06	GST Clearing	927
			22/06	Inventory / GST Clearing	9 900
			28/06	Wages	1 850

- a.** Prepare the Cash Flow Statement for the month ending 30 June 2020.

9 marks

- b.** Explain, with the use of one reason, why Francine's Fridges reported a Net Profit in the Income Statement for the month ending 30 June 2020 yet the Cash Flow Statement reported a negative Net Cash from Operations for the same period.

3 marks

Question 8 (8 marks)

Mal Brown owns and operates Mal's Merchandise, a small business selling a range of sporting and movie collectables.

Mal's Merchandise's credit terms are 2/10, n/30.

Mal has presented the following information.

Indicator	2019	2020
Quick Asset Ratio	1.25 : 1	1.75: 1
Working Capital Ratio	1.40 : 1	3.90 : 1
Inventory Turnover	38 days	55 days
Accounts Receivable Turnover	34 days	46 days

- a. Explain what is indicated by the trend in the Quick Asset Ratio when compared to the trend in the Working Capital Ratio. 2 marks
- b. State one limitation of using the Working Capital Ratio as an indicator of liquidity. 1 mark
- c. State one other benchmark Mal could use to assess the liquidity of her business. 1 mark
- d. Recommend a strategy Mal could introduce to improve the Inventory Turnover and one to improve the Accounts Receivable Turnover. 4 marks

Question 9 (5 marks)

Brandon Park owns and operates Brandon's Books.

Brandon has provided the following incomplete Variance Reports extracts.

Cash Budget Variance Report (extract)
for the year ended 30 June 2020

	Budget	Actual	Variance	Favourable / Unfavourable
Cash Sales	\$250 000	\$242 900	\$7 100	U
Receipts from Accounts Receivable	\$220 000	\$258 500	\$38 500	F
Advertising		\$14 500	\$500	F

Income Statement Variance Report (extract)
for the year ended 30 June 2020

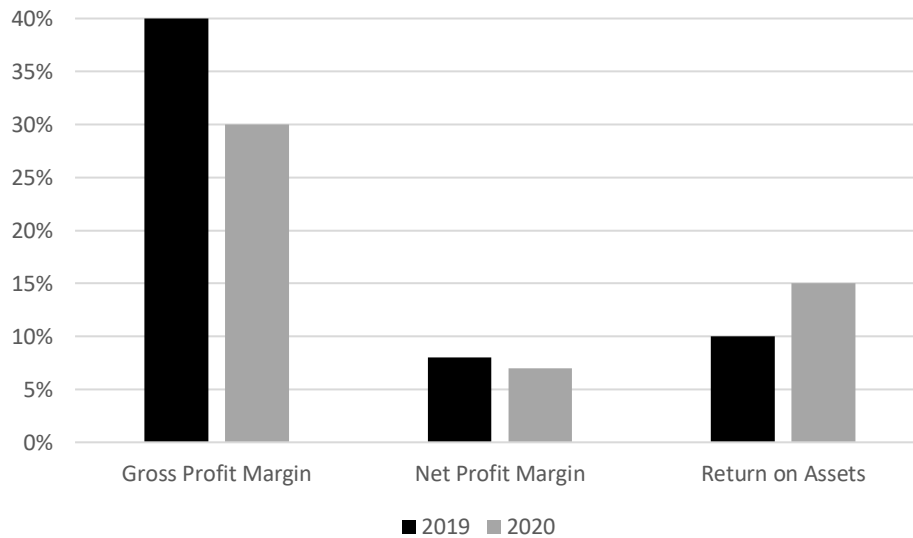
	Budget	Actual	Variance	Favourable / Unfavourable
Credit Sales	\$200 000	\$247 500	\$47 500	F
Sales Returns	\$1 500		\$750	U
Discount Expense	\$2 500	\$4 300	\$1 800	U

- a. In the Answer Booklet, complete the variance report extracts.2 marks
- b. Explain how the preparation of variance reports helps with decision making.2 marks
- c. State the reason why Brandon could view the Discount Expense variance as favourable.1 mark

Question 10 (6 marks)

Brent David owns and operates Brent's Books.

Brent has been presented with the following information.



Discuss whether the Gross Profit and the Asset Turnover increased, decreased or are unable to be determined in 2020 compared to 2019.

END OF QUESTION BOOK



NAME: _____

VCE® ACCOUNTING**Unit 3 & 4: Practice Written Examination****FOR ADJUSTED STUDY DESIGN (2020 ONLY)****Reading time: 15 minutes****Writing time: 2 hours****ANSWER BOOK****Instructions**

- A question book is provided with this answer book.
- Answer all question in the spaces provided in this book.
- Write your **student name** 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 (15 marks)**a.**

3 marks

Explanation

b.

3 marks

ITEM: 'Jennifer' Study Desk					Cost method: First In, First Out					
		IN			OUT			BALANCE		
Date	Document	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
01/01	Balance							42	60	2 520

Question 1 - continued

c.

9 marks

General Journal

Date	Details	Debit	Credit

a. 2 marks

‘Franklin’ tent cost price

Explanation

[illegible]

Question 3 (5 marks)

Discuss

Question 4 (6 marks)**a.**

3 marks

Explanation

b.

2 marks

Transaction (1)
Transaction (2)

c.

1 mark

GST Clearing

Date	Cross-reference	Amount	Date	Cross-reference	Amount
01/05	Balance	517	09/03	Bank	700
12/03	Bank	85	14/03	Accounts Receivable	1 320
19/03	Accounts Payable	725	21/03	Bank	517
27/03	Bank	26	23/03	Accounts Payable	180

Question 5 (22 marks)**a.**

3 marks

General Journal

Date	Details	Debit	Credit

b.**6 marks**

Discuss

c.

5 marks

Kelly's Keyboards**Income Statement (extract) for the year ended 30 June 2020**

	\$	\$
Revenues		

d.

5 marks

Kelly's Keyboards**Balance Sheet (extract) as at 30 June 2020**

	\$	\$
Current Liabilities		

e.

3 marks

Explanation

Question 6 (14 marks)**a.**

4 marks

Explanation

b.

10 marks

General Journal

Date	Details	Debit	Credit

Question 7 (12 marks)**a.**

9 marks

Francine's Fridges**Cashflow Statement for the month ended 30 June 2020**

	\$	\$
Cash Flow from Operating Activities		
Net Cash Flows from Operations		
Cash Flows from Investing Activities		
Net Cash Flows from Investing Activities		
Cash Flows from Financing Activities		
Net Cash Flows from Financing Activities		
Net Increase / (Decrease) in Cash Position		
Bank Balance at 1 June 2020		
Bank Balance at 30 June 2020		

b.**3 marks**

Explanation

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

Explanation

b. 1 mark

Limitation

c. 1 mark

Benchmark

d. 4 marks

Recommendation 1 (for Inventory Turnover)
Justification
Recommendation 2 (for Accounts Receivable Turnover)
Justification

Question 9 (5 marks)**a.**

2 marks

**Cash Budget Variance Report (extract)
for the year ended 30 June 2020**

	Budget	Actual	Variance	Favourable / Unfavourable
Cash Sales	\$250 000	\$242 900	\$7 100	U
Receipts from Accounts Receivable	\$220 000	\$258 500	\$38 500	F
Advertising		\$14 500	\$500	F

**Income Statement Variance Report (extract)
for the year ended 30 June 2020**

	Budget	Actual	Variance	Favourable / Unfavourable
Credit Sales	\$200 000	\$247 500	\$47 500	F
Sales Returns	\$1 500		\$750	U
Discount Expense	\$2 500	\$4 300	\$1 800	U

b.

2 marks

Explanation

c.

1 mark

Reason

Question 10 (6 marks)

Discuss

END OF ANSWER BOOK



Solution Pathway

NOTE: This task is sold on condition that it is NOT placed on any school network or social media site (such as Facebook, Google Docs etc.) at any time.

NOT FOR PRIVATE TUTOR USE.

FOR ADJUSTED STUDY DESIGN (2020 ONLY)

Below are sample answers. Please consider the merit of alternative responses.

Question 1 (15 marks)

- a.** Referring to one qualitative characteristic, explain the importance of source documents in the accounting process.

3 marks

According to the qualitative characteristic of verifiability, (1 mark) for accounting data to be recorded it needs to be accurate so that all users will come to the same conclusion. (1 mark)

For information to be accurate, verifiability requires that the accounting data needs to be able to be verified by a source document through the auditing process. (1 mark)

b. Record each of the following source documents in the ‘Jennifer’ study desk inventory card:

- Invoice 989
- Invoice 276
- Memo 8

3 marks

ITEM: ‘Jennifer’ Study Desk					Cost method: First In, First Out					
		IN			OUT			BALANCE		
Date	Document	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
01/01	Balance							42	60	2 520
07/01	Inv.989	50	50	2 500				42	60	2 520
								50	50	2 500
12/01	Inv.276				42	60				
					2	50	2 620	48	50	2 400
14/01	Memo 8				1	50	50	47	50	2 350

1 mark – per date entry

c. Record each of the following source documents in the General Journal:

- Credit Note 9
- Receipt 410
- Memo 11

A narration **is** required for memo 11 **only**.

9 marks

General Journal

Date	Details	Debit	Credit
15/01	Sales Returns	500	
	GST Clearing	50	
	Accounts Receivable –GAZI Group		550
	Inventory	210	
	Cost of Sales		210
17/01	Bank	5 390	
	Discount Expense	110	
	Accounts Receivable – GAZI Group		5 500
31/01	Inventory Write Down	90	
	Inventory		90
	4 'Jennifer' study desks written down to NRV of \$30 (Memo 11)		

1 mark – Sales Returns and GST Clearing debit entries on 15/01

1 mark – Accounts Receivable – GAZI Group credit entry on 15/01

1 mark – Inventory debit entry on 15/01

1 mark – Cost of Sales credit entry on 15/01

1 mark – Bank and Discount Expense debit entries on 17/01

1 mark – Accounts Receivable – GAZI Group credit entry on 17/01

1 mark – Inventory Write Down debit entry on 31/01

1 mark – Inventory credit entry on 31/01

1 mark – Narration on 31/01

(Needs to include the quantity, type of inventory item, reason for the entry and source document)

Question 2 (7 marks)

- a. Using product costing, calculate the cost price of one ‘Franklin’ tent.

2 marks

Invoice Cost Price	\$90
Tent Pegs Set	\$25
Tent Carry Bags	<u>\$12</u>
	\$127

1 mark – Invoice cost price plus either tent pegs set or tent carry bags

1 mark – remaining item

- b. In calculating the cost price of the ‘Franklin’ tent, explain your treatment of the Cartage charged by Trivago’s Tents.

2 marks

*Even though the Cartage charged by Trivago’s Tents was a cost incurred in getting the ‘Franklin’ tent into a location ready for sale (**1 mark**), it cannot be allocated to each individual ‘Franklin’ tent on a logical basis as multiple lines of inventory were delivered. (**1 mark**)*

- c. Assuming not all of the ‘Franklin’ tents that were purchased on 18 February 2020 were sold by 29 February 2020, explain the effect on Net Profit for the month ended 29 February 2020 if Christine’s Camping used period costing instead of product costing.

3 marks

*By using period costing, Cost of Goods Sold would be higher and therefore Net Profit would be lower compared to using product costing. (**1 mark**)*

*This is because, under period costing, these additional costs are reported in the Income Statement under the heading of Cost of Goods Sold in the period they are incurred, regardless of the number of units of inventory sold. (**1 mark**)*

*Whereas, under product costing, these additional costs remain included in the balance of Inventory on the Balance Sheet until the individual units of inventory are sold. (**1 mark**)*

Question 3 (5 marks)

Discuss the effect of the change in the Debt Ratio on the liquidity and profitability of the business.

Suggested Approach

1 mark – explanation of the Debt Ratio.

2 marks – explanation of how the Debt Ratio has affected the Cash Flow Cover.

2 marks – explanation of how the Debt Ratio has affected the Return on Owner's Investment.

Sample Response

The Debt Ratio has increased between 2019 and 2020 as a larger percentage of the business' assets are financed by liabilities. In 2020, for every one dollar of assets, the business owed \$0.80 in liabilities. This has increased from \$0.50 of liabilities in 2019.

The trend in the Cash Flow Cover is unfavourable as the business is only able to generate Net Cash Flows from Operations to cover Current Liabilities 9 times in 2020 compared to 14 times in 2019.

A higher Debt Ratio means the business has a greater reliance on borrowed funds. From a liquidity perspective, the increase in the Debt Ratio has seen a decline in the Cash Flow Cover. Due to the increase in borrowings, a larger proportion of the Net Cash Flows from Operations is being used to repay current liabilities, as reflected in the decrease in the Cash Flow Cover from 2019 to 2020. This can be due to a combination of an increase in interest paid on the borrowings reducing the Net Cash Flows from Operations and the increase in loan repayments increasing the Current Liabilities. This would make it more difficult for the business to meet other short-term debts such as payments to suppliers as they fall due.

The trend in the Return on Owner's Investment is favourable as the business is able to generate more profit from every dollar investment by the owner. In 2020, for every dollar of capital invested by the owner, the business was able to generate \$0.10 in profit. This has increased from \$0.07 of profit in 2019.

A higher Debt Ratio means that the business has a greater reliance on borrowed funds and less reliance on the owner's capital. From a profitability perspective, if the borrowed funds are used to invest in revenue generating assets this would result in an increase in net profit. If liabilities have increased then the percentage of funds contributed by the owner will be less. As the Owner's Equity decreases the business is using other external funds to buy the assets to earn profit and the owner is entitled to the profit resulting in a higher Return on Owner's Investment.

Question 4 (6 marks)

- a. Explain, with the use of one example, why the GST Clearing account had a debit balance as at 1 May 2020.

3 marks

Padre's Pianos had a debit balance in the GST Clearing account as at 1 May 2020 as the GST collected on Cash Sales and the GST charged on Credit Sales (1 mark) was less than the GST paid on payments and GST incurred on credit purchases of Inventory during April. (1 mark)

This may have been due to a purchase of inventory that remained unsold or a purchase of a non-current asset. (1 mark)

- b. Describe transaction (1) and transaction (2) in the GST Clearing account above.

2 marks

Transaction (1) – GST charged on a credit sale of inventory

Transaction (2) – GST on a purchase return of inventory

- c. In the Answer Book, formally balance the GST Clearing account.

1 mark

GST Clearing

Date	Cross-reference	Amount	Date	Cross-reference	Amount
01/05	Balance	517	09/03	Bank	700
12/03	Bank	85	14/03	Accounts Receivable	1 320
19/03	Accounts Payable	725	21/03	Bank	517
27/03	Bank	26	23/03	Accounts Payable	180
31/03	Balance	1 364			
		2 717			2 717
			01/04	Balance	1 364

Question 5 (22 marks)

- a. Prepare the necessary General Journal entry to close the expense accounts as at 30 June 2020.

A narration is **not** required.

3 marks

General Journal

Date	Details	Debit	Credit
30/06	<i>Cartage Inwards</i>		2 250
	<i>Cost of Sales</i>		83 200
	<i>Depreciation - Equipment</i>		5 460
	<i>General Expenses</i>		18 690
	<i>Inventory Loss</i>		1 070
	<i>Wages</i>		32 720
	<i>Profit and Loss Summary</i>	143 390	

1 mark – per any three expense credit entries (2 marks in total)

1 mark – Profit and Loss Summary debit entry

- b. Referring to two accounting assumptions, discuss whether all accounts in the General Ledger are required to be closed as at 30 June 2020.

6 marks

Suggested Approach

The key to achieving full marks for this question is interpreting the word ‘discuss’. Students need to explain that not all accounts in the General Ledger are required to be closed. Students can be allocated marks for using the Period assumption as the basis for closing revenue and expense accounts and the Going Concern assumption for explaining why asset and liability accounts are balanced. Teacher flexibility is advised as to whether students are required to make reference to Drawings being transferred to Capital or whether the definition of assets and or liabilities is required.

Sample Response

The Period assumption dictates that only revenue and expense accounts in the General Ledger are required to be closed as at 30 June 2020. The Period assumption outlines that reports are prepared for a particular period of time in order to obtain comparability of results. The purpose of closing entries is to ensure that only the revenues earned and the expenses incurred for the period are included in the calculation of profit by resetting these account balances to zero in readiness for the start of the next period.

Whereas, the Going Concern assumption is the basis for asset, liabilities and the capital account to be balanced at 30 June 2020 rather than being closed to the Profit and Loss Summary account. The Going Concern assumption requires financial reports to be prepared on the assumption that the business will continue with its activities into the future. Therefore, asset accounts are balanced rather than included in the calculation of profit as they are expected to provide future economic benefit beyond the end of the current period. In addition, liability accounts are balanced rather than included in the calculation of profit as they represent a present obligation that will be settled in a period beyond the end of the current period.

- c. Prepare an Income Statement extract, up to and including Other Revenue, for the year ended 30 June 2020.

5 marks

Kelly's Keyboards

Income Statement (extract) for the year ended 30 June 2020

	\$	\$
Revenue		
<i>Cash Sales</i>	<i>76 140</i>	
<i>Credit Sales</i>	<i>133 800</i>	
<i>Less: Sales Returns</i>	<i>1 940</i>	<i>208 000</i>
<i>Less: Cost of Goods Sold</i>		
<i>Cost of Sales</i>	<i>83 200</i>	
<i>Cartage Inwards</i>	<i>2 250</i>	<i>85 450</i>
<i>Gross Profit</i>		<i>122 550</i>
<i>Less: Inventory Loss</i>		<i>1 070</i>
<i>Adjusted Gross Profit</i>		<i>121 480</i>
<i>Plus: Other Revenue</i>		
<i>Discount Revenue</i>		<i>1 760</i>
		<i>123 240</i>

1 mark – Cash Sales and Credit Sales

1 mark – Sales Returns

1 mark – Cost of Sales and Cartage Inwards

1 mark – Inventory Loss

1 mark – Discount Revenue

1 mark deducted – incorrect formatting such as sub-headings or total below Other Revenue

d. Prepare the Equities extract of the Balance Sheet as at 30 June 2020.

5 marks

Kelly's Keyboards

Balance Sheet (extract) as at 30 June 2020

	\$	\$
Current Liabilities		
<i>Accounts Payable</i>	<i>4 290</i>	
<i>Bank</i>	<i>1 310</i>	
<i>GST Clearing</i>	<i>2 318</i>	
<i>Loan – XCX Bank</i>	<i>3 600</i>	
<i>Unearned Sales Revenue</i>	<i>2 500</i>	<i>14 018</i>
Non-Current Liabilities		
<i>Loan – XCX Bank</i>		<i>9 900</i>
Owner's Equity		
<i>Capital</i>	<i>12 262</i>	
<i>Plus: Net Profit</i>	<i>66 370</i>	
<i>Less: Drawings</i>	<i>15 060</i>	<i>65 572</i>
Total Equities		<i>87 490</i>

1 mark – Accounts Payable, GST Clearing and Unearned Sales Revenue

1 mark – Bank

1 mark – Loan – XCX Bank split between Current Liability and Non-Current Liability

1 mark – Capital and Drawings

1 mark – Net Profit

1 mark deducted – incorrect formatting such as absence of Total Equities label and total providing no mark deducted in Question 5c.

- e. Referring to the definition of a liability, explain how the loan balance owing to XCX Bank was classified on the Equities extract of the Balance Sheet as at 30 June 2020.

3 marks

The loan owing to XCX Bank is a liability of Kelly's Keyboards as at 30 June 2020 as it represents a present obligation as a result of past events. (1 mark)

Under the heading of Current Liabilities, \$3 600 was reported as this amount represents the amount reasonably expected to be repaid within the next 12 months. (1 mark)

The remaining amount owing on the loan of \$9 900 was reported under the heading of Non-Current Liabilities as it represents the amount reasonably expected to be repaid in a period greater than the next 12 months. (1 mark)

Question 6 (14 marks)

- a. Explain how Dwight should determine the appropriate depreciation method for the Van.

You **are** required to refer to both depreciation methods in your answer.

4 marks

Dwight would determine the appropriate method of depreciation for the Van based on the expected revenue-earning pattern of the Van. (1 mark)

If the Van is expected to generate the same amount of revenue each period, the straight-line method should be adopted as it allocates the same amount of the depreciable value each period. (1 mark)

However, if the Van is expected to be more productive in its earlier years and therefore generate more revenue in those periods, the reducing balance method should be adopted. (1 mark)

The reducing balance method allocates more of the depreciable value in the earlier years and less in the Van's later years, when it is less productive and therefore match the Van's revenue earning pattern with the allocation of the expense. (1 mark)

- b.** Prepare the necessary General Journal entries required on 30 June 2020 in relation to both Vans.

Closing entries and narrations are **not** required.

10 marks

General Journal

Date	Details	Debit	Credit
30/06	<i>Depreciation - Van</i>	10 200	
	<i>Accumulated Depreciation - Van</i>		10 200
	<i>Disposal of Van</i>	40 000	
	<i>Van</i>		40 000
	<i>Accumulated Depreciation - Van</i>	16 200	
	<i>Disposal of Van</i>		16 200
	<i>Van</i>	16 500	
	<i>Disposal of Van</i>		16 500
	<i>Loss on Disposal of Van</i>	7 300	
	<i>Disposal of Van</i>		7 300
	<i>Van</i>	15 500	
	<i>GST Clearing</i>	3 200	
	<i>Bank</i>		18 700

1 mark – Depreciation - Van

1 mark – Accumulated Depreciation – Van (\$10 200)

1 mark – Disposal of Van and Van entries (\$40 000)

1 mark – Accumulated Depreciation – Van (\$16 200)

1 mark – Disposal of Van (\$16 200)

1 mark – Van and Disposal of Van entries (\$16 500)

1 mark – Loss on Disposal of Van

1 mark – Disposal of Van (\$7 300)

1 mark – Van and GST Clearing entries

1 mark – Bank

Question 7 (12 marks)

a. Prepare the Cash Flow Statement for the month ending 30 June 2020.

9 marks

Francine's Fridges**Cashflow Statement for the month ended 30 June 2020**

	\$	\$
Cash Flow from Operating Activities		
<i>Cash Sales</i>	1 800	
<i>GST Collected</i>	180	
<i>Receipts from Accounts Receivable</i>	8 140	
<i>Unearned Sales Revenue</i>	1 500	
<i>Payments to Accounts Payable</i>	(5 500)	
<i>Prepaid Rent Expense</i>	(30 000)	
<i>Wages</i>	(3 650)	
<i>Interest</i>	(125)	
<i>GST Settlement</i>	(927)	
<i>Purchase of Inventory</i>	(9 000)	
<i>GST Paid</i>	(7 350)	
Net Cash Flows from Operations		(44 932)
Cash Flows from Investing Activities		
<i>Disposal of Van</i>	13 000	
<i>Purchase of Van</i>	(34 500)	
Net Cash Flows from Investing Activities		(21 500)
Cash Flows from Financing Activities		
<i>Capital</i>	40 000	
<i>Loan Borrowings – XCX Bank</i>	25 000	
<i>Drawings</i>	(2 000)	
<i>Loan Repayments – XCX Bank</i>	(500)	
Net Cash Flows from Financing Activities		62 500
Net Increase / (Decrease) in Cash Position		(3 932)
Bank Balance at 1 June 2020		(3 040)
Bank Balance at 30 June 2020		(6 972)

1 mark – Cash Sales and GST Collected

1 mark – Receipts from Accounts Receivable and Unearned Sales Revenue

1 mark – GST Paid

1 mark – per any three remaining Operating outflows

1 mark – per three remaining Operating outflows

1 mark – Disposal of Van and Purchase of Van

1 mark – Capital and Loan Borrowings – CCA Bank

1 mark – Drawings and Loan Repayments – CCA Bank

1 mark – Final three lines

- b.** Explain, with the use of one reason, why Francine's Fridges reported a Net Profit in the Income Statement for the month ending 30 June 2020 yet the Cash Flow Statement reported a negative Net Cash from Operations for the same period.

3 marks

Francine's Fridges reported a Net Profit in the Income Statement for the month ending 30 June 2020 as the revenues earned were greater than the expenses incurred. (1 mark)

Whereas, Francine's Fridges reported a negative Net Cash from Operations as the cash outflows from day-to-day trading activities were greater than the cash inflows. (1 mark)

The reason for this is the Prepaid Rent Expense payment contributing to the negative Net Cash from Operations compared to the Rent Expense having less of an impact on the calculation of Net Profit. (1 mark)

Other reasons include Credit Sales being significantly greater than the Cash Sales, GST Collected and Receipts from Accounts Receivable or that the business made a Profit from Disposal of the Van which would contribute to Francine's Fridges reporting a Net Profit.

Question 8 (8 marks)

- a. Explain what is indicated by the trend in the Quick Asset Ratio when compared to the trend in the Working Capital Ratio.

2 marks

Inventory and pre-payments are both included in the Working Capital Ratio but are excluded from the Quick Asset calculation. (1 mark)

An increase in inventory levels may lead to a higher Working Capital Ratio without affecting the Quick Assets Ratio. (1 mark)

- b. State one limitation of using the Working Capital Ratio as an indicator of liquidity.

1 mark

- It is a static or historical measure of the level of liquidity of a business.*

OR

- It does not take into account the spend at which the business is able to generate cash to meet their debts as they fall due.*

- c. State one other benchmark Mal could use to assess the liquidity of her business.

1 mark

- Budget*

OR

- Industry average*

- d. Recommend and justify a strategy Mal could introduce to improve the Inventory Turnover and one to improve the Accounts Receivable Turnover.

4 marks

In order to improve the Inventory Turnover Mal could decrease the selling price of the inventory (1 mark) to attract additional sales. (1 mark)

OR

Mal could increase advertising in order to attract additional sales.

In order to improve the Accounts Receivable Turnover Mal could increase the discount offered (1 mark) to encourage credit customers to pay earlier. (1 mark)

OR

Mal could issue invoices more promptly, apply credit checks to new customers or make regular contact with outstanding credit customers to encourage credit customers to pay earlier.

Question 9 (5 marks)

- a. In the Answer Booklet, complete the variance report extracts.

2 marks

**Cash Budget Variance Report (extract)
for the year ended 30 June 2020**

	Budget	Actual	Variance	Favourable / Unfavourable
Cash Sales	\$250 000	\$242 900	\$7 100	U
Receipts from Accounts Receivable	\$220 000	\$258 500	\$38 500	F
Advertising	\$15 000	\$14 500	\$500	F

**Income Statement Variance Report (extract)
for the year ended 30 June 2020**

	Budget	Actual	Variance	Favourable / Unfavourable
Credit Sales	\$200 000	\$247 500	\$47 500	F
Sales Returns	\$1 500	\$2 250	\$750	U
Discount Expense	\$2 500	\$4 300	\$1 800	U

1 mark – each calculation

- b. Explain how the preparation of variance reports helps with decision making.

2 marks

The preparation of variance reports allows budgeted amounts to be compared to actual amounts during a budget period and can be used to identify problem areas. (1 mark)

Decisions can then be made and corrective action taken to improve future performance and make future budgets more accurate. (1 mark)

- c. State the reason why Brandon could view the Discount Expense variance as favourable.

1 mark

- *More credit customers are taking advantage of the discount available as reflected in the favourable variance in Receipts from Accounts Receivable.*

OR

- *More credit customers are taking advantage of the discount available reducing the likelihood of writing off bad debts.*

Question 10 (6 marks)

Discuss whether the Gross Profit and the Asset Turnover increased, decreased or are unable to be determined in 2020 compared to 2019.

Suggested Approach

This question is designed to be a discriminator and marked globally. In order to receive full marks, students need to demonstrate the difference between the Gross Profit Margin and the Gross Profit and explain that in the absence of Sales the change in Gross Profit is unable to be determined. The second part of this question requires students to apply the 'DuPont' model to identify that the Asset Turnover must have increased given that the Return on Assets increased by a greater percentage than the decrease in the Net Profit Margin.

Sample Response

The decrease in the Gross Profit Margin indicates that a smaller percentage of each sales dollar is made up of Gross Profit due to a reduction in the mark-up percentage. However, given the absence of any Sales values, any change in the actual Gross profit is unable to be determined. Initially, a decline in the Gross Profit Margin would correspond to a decrease in the Gross Profit. However, a reduction in the mark-up percentage due to a reduction in the selling price could lead to an increase in sales quantity and a corresponding increase in Gross Profit.

If the reduction in the selling price led to an increase in the sales quantity, and the value of assets remained relatively constant, there would be an expected increase in the Asset Turnover. This is further supported by the movements in the Net Profit Margin and the Return on Assets indicators. When the Net Profit Margin decreases and the Return on Assets increases it means that the Asset Turnover has increased, meaning that Sales have increased by a greater percentage than the percentage increase in Assets. Even though the Asset Turnover has increased, it is the worsening of expense control that has caused the Net Profit Margin to decrease.

END OF SUGGESTED SOLUTIONS