



VCE ACCOUNTING UNIT 3 / 4

2021

CPAP Practice Examination No. 2

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>
9	9	100

Directions to students

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 white out liquid/tape.

Materials supplied

- Question book of 12 pages.
- Answer book of 15 pages.

Instructions

- Answer all questions in the Answer book.
- All written responses must be in English.

At the end of the examination

- Please submit both this Question book and the Answer book at the end of the examination.

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 – Kevin’s Keyboards (7 marks)

Kevin Nguyen owns and operates Kevin’s Keyboards, a small business that prepares reports monthly.

On 28 January 2021 Kevin’s Keyboards received an order from Melbourne Music School for 40 ‘Wonder’ keyboards.

Melbourne Music School were issued with receipt 774 for the \$4 000 deposit they paid.

- a. Explain how the \$4 000 deposit received from Melbourne Music School meets the definition of an accounting element.

3 marks

Kevin’s Keyboards purchases each ‘Wonder’ keyboard for \$660 including GST and then sells them for \$1 980 including GST.

On 14 February 2021 Kevin’s Keyboards issued invoice 536 when 25 ‘Wonder’ keyboards were delivered to Melbourne Music School.

- b. Record invoice 536 in the General Journal of Kevin’s Keyboards.

A narration is **not** required.

4 marks

Question 2 – Catherine’s Camping (5 marks)

Catherine Zhang owns and operates an online camping supplies business called Catherine’s Camping.

On 31 March 2021 a physical inventory count determined there were 18 ‘Outback’ tents on hand.

Each of these ‘Outback’ tents originally cost Catherine’s Camping \$220 plus GST.

Catherine has decided to reduce the selling price of each ‘Outback’ tent from \$550 including GST to \$121 including GST. (Memo 73)

With each ‘Outback’ tent sold, Catherine will give each customer a free inflatable mattress. These inflatable mattresses cost Catherine’s Camping \$25 plus GST each.

The cost paid by Catherine’s Camping to deliver each tent to the customer is \$15 plus GST.

- a. Calculate the Net Realisable Value of one ‘Outback’ tent.

2 marks

- b. Record the General Journal entry required on 31 March 2021 in relation to the valuation of the ‘Outback’ tent.

A narration **is** required.

3 marks

Question 3 – Leandra’s Ladders (5 marks)

Leandra Turner owns Leandra’s Ladders.

Leandra’s accountant has provided the following information.

Indicator	2020	2021
Debt Ratio	45%	80%
Return on Owner’s Investment	6%	9%
Cash Flow Cover	11 times	7 times

Explain the implication of the change in the Debt Ratio on the profitability and stability of Leandra’s Ladders.

Question 4 – Elise’s Electronics (7 marks)

The following documents relates to Elise’s Electronics’ purchase of a Van from ZHU’s.

MNC BANK BANK STATEMENT Elise’s Electronics				
Date	Particulars	Debit	Credit	Balance
15/04	Loan Transfer: MNC Bank		30 000	34 920 CR
16/04	Transfer: ZHU’s	28 380		6 540 CR

ZHU’s	
Date: 16/04/2021	Tax Invoice: 279
Charge to: Elise’s Electronics	
Item	\$
‘Bolt’ Van	22 500
Business Signwriting Service	1 800
Annual Road Registration	<u>1 500</u>
	25 800
	<u>GST (10%) 2 580</u>
	Sub Total 28 380
	Less: EFT Payment (28 380)
	Balance Owing NIL

- a. Record the transactions from 15 April and 16 April 2021 in the General Journal of Elise’s Electronics.
Narrations are **not** required.

5 marks

- b. Referring to your answer in part a., explain your treatment of the business signwriting service in determining the cost price of the Van.

2 marks

Question 5 – Jerome’s Jackets (25 marks)

Jerome Piven owns and operates Jerome’s Jackets, a small business that prepares their reports half-yearly on 31 December and 30 June.

Jerome has provided the following Pre-Adjustment Trial Balance extract as at 30 June 2021.

Jerome’s Jackets**Pre-Adjustment Trial Balance (extract) as at 30 June 2021**

Account	Debit	Credit
Accounts Receivable	26 400	
Accumulated Depreciation - Shelving		4 800
Accumulated Depreciation - Van		22 400
Allowance for Doubtful Debts	1 650	
Capital		38 600
Cash Sales		128 500
Credit Sales		159 450
Discount Revenue		550
Drawings	16 980	
GST Clearing		1 116
Inventory	32 840	
Sales Returns	1 950	
Shelving	28 000	
Van	40 000	

Additional information

- On 15 February 2021 Jerome contributed \$20 000 to the business.
- On 1 March 2021 new shelving was purchased for \$16 000 plus GST.
- On 22 May 2021 Jerome withdrew four ‘Vinnie’ jackets for personal use. Each of these jackets had a cost price of \$160 plus GST and a selling price of \$400 plus GST. This transaction is yet to be recorded.
- Shelving is depreciated at a rate of 15% per annum using the straight-line method.
- Van is depreciated using the reducing balance method at a rate of 30% per annum.
- Jerome has a policy to report 5% of Net Credit Sales as a doubtful debt for each period.

Question 5 - continued

- a. Prepare the General Journal entry to close the revenue accounts on 30 June 2021.

A narration is **not** required.

3 marks

- b. Referring to two accounting assumptions, explain why revenue accounts are required to be closed yet asset and liability accounts are balanced.

6 marks

- c. Calculate the depreciation expense for the Shelving for the six months ended 30 June 2021.

3 marks

- d. Calculate the carrying value of the Van that would appear on the Balance Sheet of Jerome's Jackets as at 30 June 2021.

3 marks

- e. Record the General Journal entry required on 30 June 2021 to adjust the Allowance for Doubtful Debts account.

A narration is **not** required.

2 marks

- f. Referring to one qualitative characteristic, explain why it is important to report the Allowance for Doubtful Debts on the Balance Sheet of Jerome's Jackets as at 30 June 2021.

3 marks

After preparing all adjusting entries, total expenses for the six months ended 30 June 2021 were \$234 990.

- g. Complete the Capital account in the General Ledger as at 30 June 2021.

5 marks

Question 6 – Kiki’s Kayaks (5 marks)

Kiki Li owns and operates Kiki’s Kayaks.

Kiki has provided the GST Clearing account from the General Ledger for June 2021.

GST Clearing

Date	Cross-reference	Amount	Date	Cross-reference	Amount
01/06	Balance	927	02/06	Accounts Receivable	90
04/06	Accounts Payable	1 500	07/06	Accounts Payable (1)	350
11/06	Bank	240	21/06	Bank (2)	927
19/06	Accounts Receivable	45	27/06	Bank	410

- a. With the use of one example, explain why the GST Clearing account above had a debit balance at 1 June 2021.

3 marks

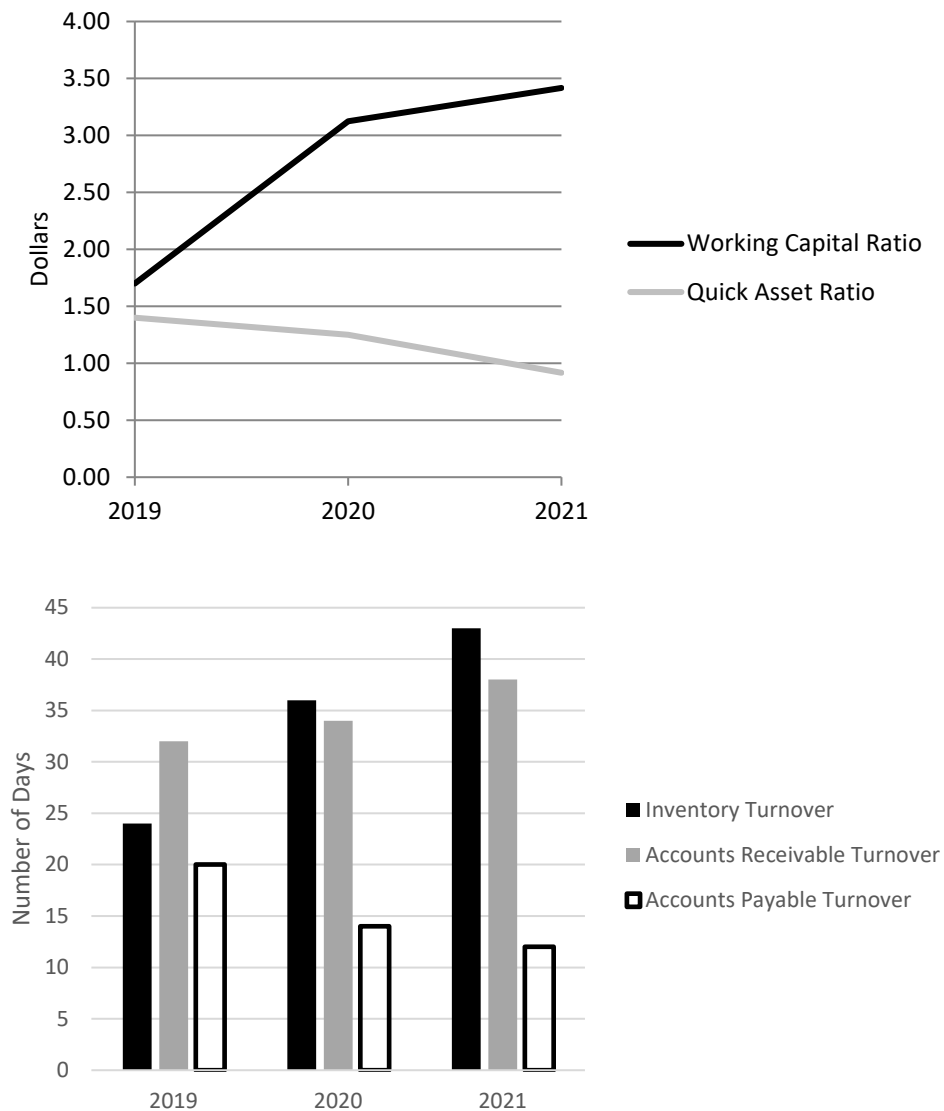
- b. State the nature of transaction (1) and transaction (2) in the GST Clearing account above.

2 marks

Question 7 – Boris’ Blinds (9 marks)

Boris’ Blinds is reviewing its liquidity.

The accountant has provided the following information upon completing the financial statements for the year ended 30 June 2021.



Additional information

- Boris’ Blinds’ purchases and sells all blinds on credit.
- Boris’ Blinds’ credit terms provided to customers is 2/14, n/30.
- Boris’ Blinds supplier’s credit terms are all n/21.

a. Analyse the liquidity of Boris’ Blinds for 2021.

6 marks

b. Discuss one strategy Boris’ Blinds could introduce to improve the Accounts Receivable Turnover in 2022.

3 marks

Question 8 – Kari’s Kettles (31 marks)

Kari Robinson, the owner of Kari’s Kettles, has employed you to complete the budgeting process for the year ended 30 June 2022.

Her accountant has provided the following reports and additional information.

Kari’s Kettles Balance Sheet	Actual 30 June 2021	Budgeted 30 June 2022
Current Assets		
Bank	37 190	5 120
Accounts Receivable	26 500	15 000
Inventory	31 000	40 000
Prepaid Rent Expense	20 000	25 000
	114 690	85 120
Non-Current Assets		
Equipment	26 000	38 000
Less: Accumulated Depreciation	(11 700)	(16 950)
Van	40 000	50 000
Less: Accumulated Depreciation	(16 200)	(5 000)
	38 100	66 050
Total Assets	152 790	151 170
Current Liabilities		
Accounts Payable	21 200	10 000
Accrued Wages	3 000	1 500
GST Clearing	3 120	6 250
Loan – MNC Bank	24 000	24 000
	51 320	41 750
Non-Current Liabilities		
Loan – MNC Bank	26 000	2 000
Owner’s Equity		
Capital	92 900	75 470
Plus: Profit	81 480	101 950
Less: Drawings	98 910	70 000
	75 470	107 420
Total Equities	152 790	151 170

Question 8 - continued

Budgeted Income Statement for the year ended 30 June 2022

	\$	\$
Revenues		
Sales	500 000	
Less: Sales Returns	5 000	495 000
Less: Cost of Goods Sold		
Cost of Sales		198 000
Gross Profit		297 000
Less: Inventory Loss		3 000
Adjusted Gross Profit		294 000
Plus: Other Revenue		
Discount Revenue		6 000
		300 000
Less: Other Expenses		
Depreciation - Equipment	5 250	
Depreciation - Van	9 760	
General Expenses	45 000	
Loss on Disposal - Van	3 040	
Rent	55 000	
Wages	80 000	198 050
Net Profit / (Loss)		101 950

Additional information

- 60% of Sales are expected to be on cash.
- Kari applies a fixed mark-up of 150%
- 80% of inventory is purchased on credit.
- All General Expenses involve GST.
- Non-current assets are expected to be purchased and sold for cash.
- GST Settlements are expected to be \$8 470.
- Drawings are expected to include \$2 000 of inventory for the year ended 30 June 2022. All other Drawings involved cash.

- a. Reconstruct the Accounts Receivable ledger to calculate budgeted Receipts from Accounts Receivable for the year ended 30 June 2022.

3 marks

- b. Reconstruct the Inventory and Accounts Payable ledgers to calculate budgeted Payments to Accounts Payable for the year ended 30 June 2022.

7 marks

- c. Reconstruct the Accumulated Depreciation – Van and Disposal of Van ledgers to calculate Proceeds from Disposal of Van.

5 marks

- d. Prepare the Budgeted Cash Flow Statement for the year ended 30 June 2022.

13 marks

- e. With the use of an example, explain to Kari how the Bank balance is budgeted to decrease from \$37 190 to \$5 120 while the Net Profit is budgeted to be \$101 950 for the same period.

3 marks

Question 9 – Tim’s Tables (6 marks)

On 1 August 2021 Tim Burr started Tim’s Tables, a small business that uses the Identified Cost assignment method.

The following transactions relate to the ‘Resolute’ table for August 2021.

01/08	Purchased 5 ‘Resolute’ tables from Pine’s Products for \$800 plus GST each (Invoice 1019).
14/08	Sold 3 ‘Resolute’ tables to Homestead Hotels for a total of \$7 920 including GST (Invoice 3).
17/08	Purchased 10 ‘Resolute’ tables from Pine’s Products for \$825 plus GST each (Invoice 1031).
26/08	Sold 4 ‘Resolute’ tables to Mildura Manner for \$2 640 including GST each (Invoice 7). Each of these tables sold had a cost price of \$825.

- a. Record the transactions in the ‘Resolute’ table inventory card for August 2021.

4 marks

- b. Explain the effect on the Gross Profit made from the sale of the ‘Resolute’ tables for the month ended 31 August 2021 if Tim’s Tables used the FIFO cost assignment method instead of the Identified Cost assignment method.

2 marks

Total Exam 100 marks

END OF QUESTION BOOKLET