



YEAR 12 Trial Exam Paper

2021

ACCOUNTING

Written examination

Suggested solutions

This book presents:

- correct solutions
- mark allocations
- tips.

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Question 1a.**Solution****Daily Dosage****General Journal**

Date 2021	Details	Debit	Credit
31 Aug.	Inventory Loss	1 440	
	Inventory		1 440
	Advertising	7 600	
	Inventory		7 600
	Inventory Write Down	3 780	
	Inventory		3 780

Mark allocation: 6 marks

- 1 mark for each correct line in the General Journal (up to 6 marks)

Note: If debit and credit entries are correct but the amount is incorrect, deduct 1 mark per entry.

**Tip**

- *Recording in the General Journal is a basic recording skill which you must be able to complete. Remember that entries in the debit column must be matched with a corresponding entry (or entries) in the credit column.*

Question 1b.**Solution**

Accounting element <i>expense</i>
Explanation <i>Expenses are decreases in assets or increases in liabilities that result in a decrease in Owner's Equity, other than those relating to distributions to the owner.</i>
<i>In this case, assets have decreased as a result of the inventory being donated to a local charity. This had led to a decrease in Owner's Equity. The expense is Advertising and is reported as an Other Expense as it is not part of Cost of Goods Sold.</i>

Mark allocation: 3 marks

- 1 mark for identifying the item as an expense
- 1 mark for defining 'expense'
- 1 mark for linking the expense with the classification

**Tip**

- While the identification of the element is generally straightforward, it is important that you can link the transaction to the element – it is not enough to define the element.

Question 1c.**Solution**

Qualitative characteristic <i>faithful representation</i>
Explanation <i>The information reported must be a faithful representation of the real-world economic event it represents. The user is assured that the information presented is complete, free from material error and neutral (without bias).</i>
<i>Reporting the inventory at its net realisable value reflects the events that have occurred and provides a true picture of the value of the inventory as it will no longer be sold at or above cost price.</i>

Mark allocation: 3 marks

- 1 mark for identifying faithful representation
- 1 mark for defining faithful representation
- 1 mark for linking the transaction with faithful representation

**Tip**

- *While other qualitative characteristics may be accepted, such as relevance and a discussion on decision-making, it is not the most applicable. You should always look to provide the best answer, rather than justify a weaker one.*

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Question 2a.**Solution****D'Mac Sports****General Journal**

Date 2021	Details	Debit	Credit
5 May	Account Receivable – Domain Primary	2 640	
	Sales		2 400
	GST Clearing		240
	Cost of Sales	1 200	
	Inventory		1 200
9 May	Bank	2 508	
	Discount Expense	132	
	Account Receivable – Domain Primary		2 640

Mark allocation: 5 marks

- 1 mark for Accounts Receivable entry on 5 May
- 1 mark for Sales/GST Clearing entry on 5 May
- 1 mark for Cost of Sales/Inventory entry on 5 May
- 1 mark for Bank/Discount Expense entry on 9 May
- 1 mark for Accounts Receivable entry on 9 May

**Tip**

- *While in principle this is straightforward, you must be able to read documents to know if this is a sale or a purchase of inventory. In these instances, it is important to know which entity issued the document.*

Question 2b.**Solution**

Explanation <i>Invoice No. UV64 provides documentary evidence that a transaction has taken place and allows the business to record that information correctly.</i>
<i>It acts as a cross-checking mechanism between the records and reports of the business as well as between D'Mac Sports and their customer in the event of a query over the transaction.</i>

Mark allocation: 2 marks

- 1 mark for stating that the invoice is evidence of a transaction
- 1 mark for reference to a cross-checking mechanism

**Tip**

- *The question is asking for the purpose of the document: what it is used for? You must address this point to be awarded full marks.*

Question 3a.**Solution**

Explanation and analysis <i>The charts depict the percentage of Accounts Receivable that is outstanding for the business. In 2020, 63% of all Accounts Receivable were over 30 days old, which means that over half of the customers of the business were taking longer to settle their accounts than is required by their credit terms.</i>
<i>On the surface, things improved in 2021 as only 58% of Accounts Receivable were older than 30 days. There was a greater amount (49% compared to 45%) of accounts being aged between 31–45 days old. This could indicate that the business is improving the management of the older accounts.</i>
<i>However, there is still an issue with having accounts settled within their credit terms. The increase in the number of accounts aged between 1–14 days could suggest that fewer customers are taking advantage of the discount offered.</i>
<i>Overall, the management of these accounts seems to be worsening and the business needs to improve collections from accounts aged 15–30 days to ensure they settle their accounts within their credit terms. They also need to deal with the accounts owing for 46+ days, which may end up as bad debts.</i>

Mark allocation: 5 marks

- 2 marks for explaining the charts
- 3 marks for analysing what it means for the business and for commenting on the management of Accounts Receivable, providing an overall statement as to the performance

Note: The question requires an analysis of the management of Accounts Receivable. Students must include a comment that the management of Accounts Receivable is poor, has worsened or similar.

Question 3b.**Solution**

Strategy 1 <i>increase the discount offered</i>
Strategy 2 <i>invoice promptly</i>
OR
Strategy 1 <i>perform better credit checks</i>
Strategy 2 <i>place a limit on the value of individual credit sales</i>

Mark allocation: 2 marks

- 1 mark for each strategy suggested (up to 2 marks)

Note: No detail is required, just identifying the strategy is sufficient.

Note: This question includes a constraint as the business currently offers discounts. Students who suggest that the business could offer discounts can't be rewarded. The response must indicate an increase in the discount offered.

Question 4a.**Solution****Textile Trading****General Journal**

Date 2021	Details	Debit	Credit
31 Mar.	Accrued Interest Revenue	80	
	Interest Revenue		80
30 Jun.	Bank	200	
	Accrued Interest Revenue		80
	Interest Revenue		120

Mark allocation: 4 marks

- 1 mark for Accrued Interest Revenue entry on 31 March
- 1 mark for Interest Revenue entry on 31 March
- 1 mark for Bank entry on 30 June
- 1 mark for Accrued Interest Revenue/Interest Revenue entry on 30 June

**Tip**

- *In questions such as this it is important to read the dates and identify the length of the reporting period.*

Question 4b.**Solution**

Interest Revenue <i>Interest Revenue is reported in the Income Statement.</i>
<i>It is reported as part of Other Revenue as it is not revenue earned from the normal</i>
<i>day-to-day activities of the business.</i>
<i>While not received, the interest has been earned and so is reported as Revenue.</i>
Accrued Interest Revenue <i>Accrued Interest Revenue will be reported in the Balance Sheet.</i>
<i>The item will be reported as a Current Asset as it represents an economic resource that is</i>
<i>likely to be converted into cash within the next 12 months, when the interest is received.</i>

Mark allocation: 4 marks

- 1 mark for identifying the report each item will be reported in (up to 2 marks)
- 1 mark for providing an explanation supporting the identification of each report (up to 2 marks)

**Tip**

- *When asked how an item will be reported, you must identify the report and the classification within that report.*

Question 5a.**Solution**

Explanation <i>The \$15000 represents the carrying value of the asset.</i>
<i>This figure represents the value of the machinery yet to be consumed plus the residual</i>
<i>value of the asset.</i>

Mark allocation: 2 marks

- 1 mark for recognising that the \$15000 is the carrying value
- 1 mark for stating the amount to be depreciated plus residual value

**Tip**

- *When explaining carrying value it is important to not use the term 'worth'. The value doesn't represent what the asset is worth.*

Question 5b.**Solution****Hillside Industries****General Ledger****Machinery**

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
1 Jan.	Balance	45 000	31 May	Disposal of Machinery	45 000
31 May	Bank	58 000			

Accumulated Depreciation – Machinery

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
31 May	Disposal of Machinery	31 875	1 Jan.	Balance	30 000
			31 May	Depreciation – Machinery	1 875

Disposal of Machinery

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
31 May	Machinery	45 000	31 May	Accumulated Depreciation – Machinery	31 875
				Bank	12 000
				Loss on Disposal of Machinery	1 125
		45 000			45 000

Mark allocation: 8 marks

- 1 mark for each entry (up to 8 marks)

Question 5c.**Solution**

Discussion <i>The choice of depreciation method can be linked to the particular type of asset.</i>
<i>The method selected should allocate the cost of the asset in the same proportion in which the asset generates revenue.</i>
<i>Assets that suffer wear and tear and therefore operate less efficiently as they age should be allocated greater depreciation in the early years and less in the later years years– they should use the reducing balance method. Assets that contribute equally to revenue earning over their life should allocate the cost using the straight-line method. The depreciation in both cases would match the use. However, as depreciation aims to allocate the depreciable value of the asset over its useful life, the choice of depreciation method will not affect reports over the life of the asset. The total of the depreciation charged over the life of the asset will be the same regardless of which method is selected.</i>

Mark allocation: 4 marks

Mark globally.

- Consider responses in terms of the depth of understanding of concepts and the discussion.

**Tip**

- Discussion questions require you to consider both sides of a proposition – the positives and negatives/strengths and weaknesses. You are not required to present a balanced argument but you should provide at least one counterargument.

Question 6a.**Solution**

Accounting assumption <i>period assumption</i>
Explanation <i>Reports are prepared periodically and the revenue and expense accounts used in the calculation of periodic profit must be closed so that only information for this period is considered in this period's reports.</i>
<i>The closing of these accounts resets them to zero in preparation for the recording of revenues and expenses in the next period.</i>

Mark allocation: 3 marks

- 1 mark for identifying period assumption
- 2 marks for explaining period assumption, linking to the General Journal entries provided

Note: Students can also use the accrual basis assumption and be awarded full marks if the explanation is appropriate.

Question 6b.**Solution****Arlow's Antiques****General Ledger****Profit and Loss Summary**

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
30 Jun.	Expenses	385 100	30 Jun.	Revenues	479 500
	Capital	94 400			
		479 500			479 500

Capital

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
30 Jun.	Drawings	76 000	2020 1 Jul.	Balance	79 530
	Balance	107 930	2021 30 Jun.	Bank	10 000
				Profit and Loss Summary	94 400
		183 930			183 930
			1 Jul.	Balance	107 930

Drawings

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
30 Jun.	Inventory	4 000	30 Jun.	Capital	76 000
	Bank	72 000			
		76 000			76 000

Mark allocation: 10 marks

- 1 mark for each entry in Profit and Loss Summary Account (up to 3 marks)
- 1 mark for each Drawings/Bank/Profit and Loss Summary entry in Capital Account (up to 3 marks)
- 1 mark for the balances in Capital Account
- 1 mark for each entry in Drawings Account (up to 3 marks)

**Tip**

- *When asked to complete accounts, you must close and/or balance all relevant accounts. Marks may not always be awarded for this task but they may be deducted if not completed.*

Question 7**Solution****Working space**

Balance at Start 3 600 – Debt written off 4 000 = (400)

Allowance for Doubtful Debts:

Sales 680 000 $\times$.6 = Credit Sales 408 000 – Sales Returns 13 000 = Net Credit Sales 395 000

395 000 $\times$ 1% = Allowance for Doubtful Debts 3 950 + underestimated bad debts from previous period 400 = 4 350

Lincoln's Lounges**General Journal**

Date 2021	Details	Debit	Credit
31 Dec.	Bad Debts	4 350	
	Allowance for Doubtful Debts		4 350

Mark allocation: 4 marks

- 1 mark for each entry in the General Journal (up to 2 marks)
- 2 marks for correctly calculating the amount

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Question 8**Solution****Houses by Hickling****Balance Sheet as at 31 March 2021**

Assets			Equities		
Current Assets	\$	\$	Current Liabilities	\$	\$
Inventory	69 000		GST Clearing	4 200	
Accounts Receivable	28 710		Loan – MU Bank	6 000	
Prepaid Rent Expense	12 000	109 710	Bank	8 150	
			Accounts Payable	41 500	59 850
			Non-Current Liabilities		
			Loan – MU Bank		20 000
Non-Current Assets			Owner's Equity		
Vehicle	42 000		Capital	114 360	
Accumulated Depreciation	(23 100)		– Net Loss	(3 625)	
Equipment	55 500		Drawings	(22 000)	88 735
Accumulated Depreciation	(15 525)	58 875			
Total Assets		168 585	Total Equities		168 585

Working space

Cash at Bank: Balance + Net Cash Flow from Operating Activities – Net Cash Flow from Investing Activities + Net Cash Flow from Financing Activities

$$[9850 + 14000] - [12000 + 20000] = 23850 - 32000 = (8150)$$

Inventory: Balance + Cash Purchases + Credit Purchases – Cost of Sales – Loss

$$88000 + 30000 + 82000 - 130000 - 1000 = 69000$$

Accounts Receivable: Balance + Credit Sales + GST – Discount Expense + Receipts from Accounts Receivable

$$24710 + 160000 + 16000 - 2000 - 170000 = 28710$$

Prepaid Rent Expense: Balance + Prepaid Rent Paid – Rent Expense

$$9000 + 24000 - 21000 = 12000$$

Accounts Payable: Balance + Credit Purchases + GST – Discount Revenue + Payments to Accounts Payable

$$[42800 + 82000 + 8200] - [1500 + 90000] = 133000 - 91500 = 41500$$

Mark allocation: 8 marks

- 1 mark for each Current Asset entry (up to 3 marks)
- 1 mark for Non-Current Assets entry
- 1 mark for Bank entry
- 1 mark for Accounts Payable entry
- 1 mark for both Loan entries
- 1 mark for Owner's Equity entry

Question 9

Solution

Evaluation <i>The owner can be disappointed with the result as the business has not generated a level of profit equal to the industry average in any of the three periods shown. A further investigation also indicates that the expense control of the business is deteriorating as the Net Profit figures are a smaller percentage of Gross Profit in 2021 than in 2019.</i>
<i>The business also didn't meet the expected results it planned for in 2021 as the actual figures were less than the budgeted figures for both Gross and Net Profit.</i>
<i>The owner needs to consider that the results may not be as poor as the initial evaluation suggests. The business may be relatively new, possibly only three years old and may be competing with larger, more established businesses.</i>
<i>Additionally, it is only the Net Profit figures that are of major concern. In 2020 and 2021 the Gross Profit of the business was higher than the industry average. This again highlights that the business may have an issue with expense control.</i>
<i>There is insufficient data to determine where expenses could be modified or reduced to improve performance but this is the area the business needs to implement strategies to improve performance.</i>
<i>The impact of poor expense control has had little impact on the Net Profit Margin and Gross Profit Margin, suggesting that the business could improve performance in these areas if they were able to improve expense control.</i>

Mark allocation: 6 marks

Mark globally.

- Responses must provide positives and negatives of business performance.
- At least one reason needs to be provided to explain performance.



Tip

- When presented with a graph and asked to comment on business performance, it is important to refer to all indicators and trends in the graph.

Question 10a.**Solution**

Discussion <i>Preparing budgets provides a business with the opportunity to see the possible</i>
<i>future financial performance, cash position and overall financial position of the business.</i>
<i>This allows the business to identify any areas of concern in advance and take corrective</i>
<i>action to avoid those concerns. At the same time, a budget may show improved performance</i>
<i>and the business can use that data to build on the positive aspects of the budget period.</i>
<i>However, it must be remembered that budgets are a prediction of what the business expects</i>
<i>to happen based on past data and trends in the local area, industry and economy. As such, it</i>
<i>is difficult to accurately predict what may occur six months into the future and therefore, the</i>
<i>information provided may not be a reliable basis on which to make decisions.</i>

Mark allocation: 4 marks

- 1 mark for discussing why a budget should be prepared
- 2 marks for discussing the benefits of preparing budgets
- 1 mark for providing a counterargument

Note: Student responses may take the opposite approach where they stress the negatives rather than the positives. If this occurs, award 2 marks for the negatives and 1 mark for the counterargument.

Question 10b.**Solution****White & Bright****General Ledger****Accounts Receivable**

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount
1 Jan.	Balance	27 500	30 Jun.	Sales Returns/GST Clearing	6 600
30 Jun.	Sales/GST Clearing	136 400		Discount Expense	3 500
				Bank	131 200
				Balance	22 600
		163 900			163 900

Mark allocation: 4 marks

- 1 mark for both balances
- 1 mark for Sales/GST Clearing entry
- 1 mark for Sales Returns/GST Clearing entry
- 1 mark for Discount Expense entry

Accounts Payable

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount
30 Jun.	Bank	353 370	1 Jan.	Balance	54 100
	Discount Revenue	4 700	30 Jun.	Inventory/GST Clearing	358 270
	Inventory/GST Clearing	3 300			
	Balance	51 000			
		412 370			412 370

Mark allocation: 4 marks

- 1 mark for both balances
- 1 mark for each Inventory/GST Clearing entry (up to 2 marks)
- 1 mark for Discount Revenue entry

Inventory

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount
1 Jan.	Balance	87 000	30 Jun.	Cost of Sales	310 000
30 Jun.	Accounts Payable	325 700		Accounts Payable	3 000
	Cost of Sales	3 000		Advertising	1 500
				Drawings	3 000
				Inventory Loss	4 000
				Balance	94 200
		415 700			415 700

Mark allocation: 4 marks

- 1 mark for both balances
- 1 mark for both Cost of Sales entries
- 1 mark for both Accounts Payable entries
- 1 mark for Advertising/Drawings/Inventory Loss entries

**Tip**

- *When reconstructing accounts, it is useful to remember the accounts don't need to be formally closed. They need to be balanced so the 'missing' figure can be determined.*

Question 10c.**Solution****Working Space**

GST on Other Expenses: $67\,000 \times .1 = 6\,700$

GST on Prepaid Rent paid: $25\,200 \times .1 = 2\,520$

GST on Advertising paid: $10\,500 \times .1 = 1\,050$

Budgeted GST paid	\$ 10 270
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Mark allocation: 3 marks

- 1 mark for each amount calculated (up to 3 marks)

Question 10d.**Solution**

Explanation <i>Variance reports are prepared after the budget period to compare the figures in the budgeted reports with the figures in the actual reports.</i>
<i>This allows a business to determine if their planning and budgeting was successful and assists future budget preparation by identifying circumstances not considered in previous budgets.</i>

Mark allocation: 2 marks

- 1 mark for explaining a reason for preparing variance reports
- 1 mark for stating that variance reports can be used for comparing figures to assist in future budget preparation

**Tip**

- When asked about the purpose of preparing some form of report you should focus on how the preparation of that report may be used to improve performance and control.

END OF SOLUTIONS

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