

Student Name: _____

PES

2021 ACCOUNTING Unit 3&4 Exam 2

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

Materials supplied

- Question Book of 10 pages.
- Answer Book of 17 pages.

Instructions

- Write your name and your teacher's name in the space provided on the front page of both this Question Book and the Answer Book.
- Answer all questions in the Answer Book.

At the end of the task

- Place this Question Book on top of the Answer Book and wait for both to be collected.

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

Question 1 (11 marks)

The following inventory card from Expo Products was provided. The business applies a 100% mark-up.

Inventory Item: Nuline Pro					Cost Assignment Method: FIFO					
Date 2021	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
June 1	Balance							3	50	150
3	Inv. G801	15	60	900				3	50	150
								15	60	900
7	EFT 346				1	50	50	2	50	100
								15	60	900
12	Inv. Q012				2	50	100	15	60	900
18	Inv. Q083				6	60	360	9	60	540
20	CN 019	1	60	60				10	60	600
	CN X12				1	60	60	9	60	540
								9	60	540
23	Inv. G934	12	62	744				12	62	744
								8	60	480
28	EFT 411				1	60	60	12	62	744

- a. Prepare the General Journal entries required to record the transactions on 20th June 2021.

6 marks

- b. At 30 June 2021 a physical count revealed 22 units on hand.
Prepare the General Journal entry required at 30 June 2021.

2 marks

- c. With reference to one qualitative characteristic justify the value allocated to the inventory as a result of the physical count.

3 marks

Question 2 (14 marks)

Sam's Skateboards is a business that sells customized skateboards to the public. At 31 December he provides the following Account balances:

	2021	2022
	Dec 31	Dec 31
Accounts Receivable	\$57 500	\$95 000
Allowance for Doubtful Debts	\$525	

Other information

- Total sales for the year are expected to be \$800 000 (50% are expected to be credit sales)
- Sales Returns are generally 2% of Credit Sales, and this inventory is returned to the supplier
- Bad Debts are usually 1% of Net Credit Sales but following COVID this is expected to increase to 2%
- All inventory is marked up 50%
- Late December 2021 the business was notified that a customer who owed \$1 650 had been declared bankrupt.
- 50% of Net Credit Sales including GST are paid for within the credit terms (2/7, n30) and receive the discount.

- a. Reconstruct the Accounts Receivable General Ledger account to calculate the Budgeted Receipts from Accounts Receivable for the year ended 31 December 2022.

5 marks

- b. Reconstruct the Allowance for Doubtful Debts General Ledger account to calculate the budgeted bad debts expense for the year ended 31 December 2022.

2 marks

- c. Show how the Accounts Receivable would be reported in the Budgeted Balance Sheet as at 31 December 2022.

2 marks

- d. With reference to a qualitative characteristic explain the need for creating an Allowance for Doubtful Debts.

3 marks

- e. Explain one concern about the budgeting on an annual basis.

2 marks

Question 3 (6 marks)

Splashboxx sells a range of IT products. Sales to other businesses are on credit (terms 5/7, n/30) and sales to individual customers who come into the store are recorded as cash sales. Inventory is purchased on credit, with all products being imported directly from overseas (credit terms 3/10, n/45).

The business has focused on upgrading its premises over the past six months, including installing additional security measures to reduce inventory loss.

Some financial information for the year ended 30 June 2021 is provided below.

Financial indicators	2020	2021
Accounts Receivable Turnover	61 days	65 days
Inventory Turnover	59 days	57 days
Debt Ratio	9.9%	12.6%
Return on Assets	28%	20%
Net Profit Margin	5.2%	5.7%
Return on Owner's Investment	15.7%	21.8%

Using the information provided, evaluate the profitability of the business.

Question 4 (3 marks)

Accrued Wages

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
Aug 5	Bank (1)	1 200	Aug 1	Balance	1 200
			31	Wages (2)	1 750

a. Describe the transactions that led to the following entries:

- Bank (1)
- Wages (2)

2 marks

b. Complete the Accrued Wages account.

1 mark

Question 5 (22 marks)

Future Savers is a small business that sells a variety of items which have been discontinued by major retailers. While the business reports annually the owner was concerned about a poor Christmas sales period and is worried about the future. He has decided to prepare budgeted reports for the quarter ended 31 March 2022.

The following information is provided:

Item	As at 1 January 2022	Budgeted as at 31 March 2022
Accounts Receivable	25 700	27 800
Inventory	36 800	37 500
Prepaid Rent (paid on 1 October every 12 months)	9 000	6 000
Accounts Payable	21 300	18 400
Loan – due 30 June 2022	6 000	4 500
Accrued Wages	1 100	850
GST Clearing (Cr)	2 510	
Unearned Sales Revenue		1 500
Bank Overdraft	2 540	

Item	Budgeted amounts for the 3 months ended 31 March 2022 *
Sales (40% are cash)	84 000
Sales Returns	3 000
Interest Paid	600
Cartage In	4 000
Inventory Gain	300
Discount Revenue	1 100
Discount Expense	1 400
Wages Paid (including amount owing at 1 January 2022)	21 900
Advertising (including inventory used for store display \$350)	4 500
Rent expense	3 000
Depreciation - Equipment	1 800
Office Expenses paid (all items attract GST)	11 400

* Note – all amounts **exclude GST**

Question 5 CONTINUED

Additional information:

- Inventory is marked up by 100%
- All inventory returned by customers is returned to the supplier
- Purchases of inventory are 60% on credit
- Drawings of Inventory totalled \$700
- Receipts from Accounts Receivable is expected to be \$48 640
- The balance of the GST Clearing account at 1 January 2022 will be paid on 1 February 2022

b. Reconstruct the following general ledger accounts for the quarter ended 31 March 2022:

- Inventory to identify budgeted cash and credit purchases of inventory
- Accounts Payable to identify budgeted payments to Accounts Payable
- GST Clearing – to determine the budgeted balance of the GST Clearing account at 31 March 2022.

12 marks

b. Prepare the Operating Activities of the Budgeted Cash Flow Statement for the three months ended 31 March 2022.

5 marks

c. Prepare the Budgeted Income Statement for the quarter ended 31st March 2022

5 marks

Question 6 (5 marks)

Sketch sells a range of safety equipment to businesses and the public. In August 2020, following the closure of many small businesses due to COVID, the business moved to smaller rented premises to reduce costs and commence online sales. The business required a significant computer upgrade and reduced many of their non-current assets. The owner of the business hopes that the growth of online shopping will increase sales levels in 2021.

Discuss the difficulties Sketch may experience when measuring its performance against past performance and other online businesses in the same industry.

Question 7 (15 marks)

The following journals were prepared for the month of August 2021 for **Woolly Jumpers** – a small business selling wool garments:

Cash Payments (Summary)

Payments to Accounts Payable	32 500
Discount Revenue	1 500
Inventory	5 000
Wages	4 500
Drawings	10 000
Advertising	750
Cartage Inwards	900
Office Expenses	350

Cash Receipts (Summary)

Receipts from Accounts Receivable	23 500
Discount Expense	500
Sales	28 000

Additional Information

Credit Sales	22 000
Credit Purchases	19 000

All inventory is marked up 100%

- Drawings of inventory \$500
- Depreciation of Equipment \$200
- Sales Returns \$900 plus GST. This inventory was returned to the supplier for a full credit.
- Inventory Loss \$250
- Wages owing \$170

Prior to preparing the reports of the business the owner discovered documents that he had failed to record:

- A credit sale to M. Lewis for \$660 including GST (Inv. D68) on 30 August 2021 was not recorded.
- The business invested \$10 000 in a two-year Term deposit on 1 August 2020. Interest is earned at a rate of 6% per annum and is paid every 3 months. No entry for interest revenue has been made (Memo 5).

- a. Prepare the General Journal entries necessary to record the information in Invoice D68 and Memo 5.
(**Note:** Narrations **are not** required) 3 marks
- b. Calculate the GST paid for the month of August 2021. 2 marks
- c. Explain to the owner the difference between an Account Receivable and accrued revenue. 2 marks
- d. Using the information, prepare the closing and transfer entries required at the end of August 2021. 8 marks

Question 8 (5 marks)

SportsPlus sells sporting equipment to schools and clubs. The business buys and sells inventory on credit (credit terms for both are n/30). Recently, the owner of the shop stated, 'Despite the improvement in sales and profit, I seem to be short of cash all the time – what is wrong with my business?' The following data was extracted from the accounting reports.

	2020	2021
Working Capital Ratio	2.4 times	3.1 times
Quick Asset Ratio	1.7 times	.9 times
Accounts Receivable Turnover	58 days	52 days
Inventory Turnover	91 days	111 days
Accounts Payable Turnover	27 days	23 days

Using the data above, discuss why the business may be experiencing a shortage of cash every month.

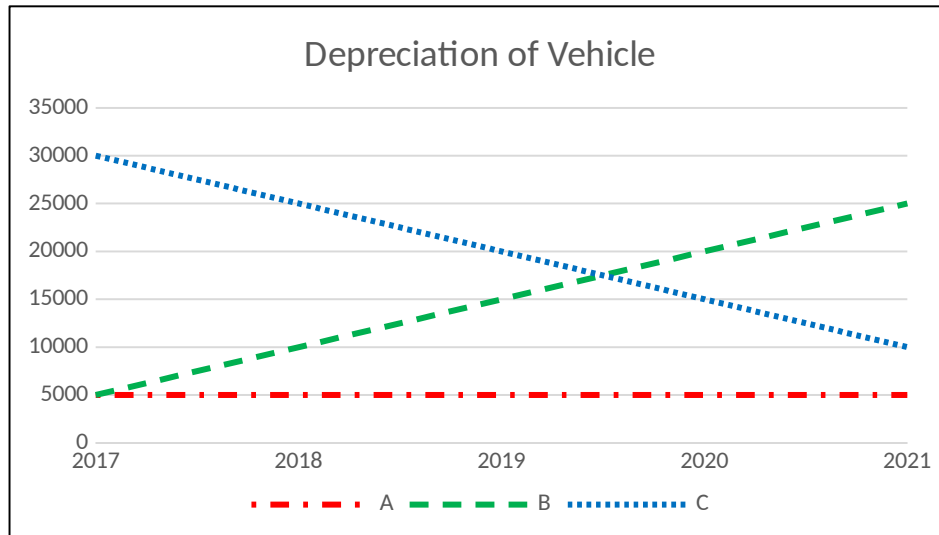
Question 9 (4 marks)

STATEMENT OF ACCOUNT				
Jerry's Jeans				
88 Ningxia Street Chengdu 610031			Date: 31 October 2021	
Account Name: Sheldon School				
Date	Details	Debit	Credit	Balance
01/10	Balance			3 300 DR
04/10	Inv.883	4 180		7 480 DR
06/10	Payment Received		3 234	4 246 DR
	Discount Allowed		66	4 180 DR
13/10	Inv.894	1 760		5 940 DR
17/10	Inv.902	990		6 930 DR
29/10	Payment Received		1 500	5 430 DR
31/10	Balance owing			5 430 DR
Credit Terms 2/10, n/30				

Identify the source document and explain how this document will be used by Sheldon School as an internal control mechanism.

Question 10 (15 marks)

Blake Rosenberg is the owner of IT Gadgets. On 30 June 2021 Blake traded in the business vehicle for \$4 200 on a new vehicle which he purchased after contributing additional capital to the business. Information relating to the Vehicle traded in is presented as follows:



- Identify what each of the lines A, B and C on the graph represent. 3 marks
- Complete the General Journal entries required to record the disposal of the Vehicle. 6 marks
- With reference to the information provided justify if the method of depreciation used was appropriate. 4 marks
- Explain how under-depreciation may lead to a loss on the disposal of a non-current asset. 2 marks

END OF QUESTION BOOK