

STUDENT
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Letter

ACCOUNTING UNITS 3 & 4

2021

TRIAL EXAM A

Reading time: 15 minutes

Writing time: 2 hours

QUESTION BOOK

Structure of Book	Number of Questions to be Answered	Total Marks
10 Questions	10 Questions	100

- 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 (7 marks)

Jenny's Jackets is a business that sells custom made clothing including jumpers, jackets and scarves. All inventory is marked up at 50 percent. The following source document has not yet been recorded:

Jenny's Jackets			
 <i>Selling Quality Jackets, Jumpers and Scarves</i> ABN 99 009 939 102			
123 Main St Melbourne, 3000		Date: 12/10/21 Tax Invoice No: Inv710 Terms: 2/15, n30	
Sold To: M. Harrison			
Description	Qty	Unit Price	Total
Yellow Jumper	3	90	270
GST			27
Total			297

- Identify** the source document above.

1 mark
- Record** the above source document in the General Journal of Jenny's Jackets.
Narrations are **not** required.

3 marks
- Show** the effect of the document on the Accounting Equation of Jenny's Jackets.

3 marks

**Question 2** (13 marks)

Gamer Z is a video gaming business that sells a range of multiplayer online games for the home market. Gamer Z applies the First In First Out (FIFO) Accounting Assumption to their inventory which includes a game called *IsoLockNLoad*. The following relevant transactions are to be recorded in the Inventory Card for the *IsoLockNLoad* Video Game for the month of September 2021.

- 3/09 Sold 4 *IsoLockNLoad* @ \$50 each (Inv 8890)
- 10/09 Owner donated two *IsoLockNLoad* Games for a raffle for the local school (Memo 31)
- 15/09 Purchased 10 *IsoLockNLoad* Games for @30 each (Inv I6061)
- 17/09 Sold 3 *Stow-Away-Friday Games* for Cash @ \$39 each (Rec. 0057)
- 22/09 A customer returned one *IsoLockNLoad* game due to damage (CR 103)
- 23/09 Purchase Return of one *IsoLockNLoad* game for \$29 (CR Note. 00082)
- 28/09 Following a newly released game, the *IsoLoackNLoad V2*, the owner decided to discount all remaining *IsoLockNLoad* games for a quick sale. The new sale price is \$25 each (Memo 32)
- 30/09 An inventory count showed 9 *IsoLockNLoad* games on hand (Memo 33)

- a. **Record** the above transactions for the IsoLockNLoad video game into the inventory card for Gamer Z.

7 marks

The owner of Gamer Z has asked you to not record the transaction on 10 September and instead write it off as an inventory loss.

- b. **Discuss** the impact of the owner's request on the accounting reports. You should include ethical considerations in your answer.

6 marks

Question 3 (18 marks)

Maverick Medicines sells a range of medical remedies to help people who are ill. The business has provided you with the following account balances as at 31 August 2021:

Bank	10 000	GST Clearing (Cr)	4 980
Sales	55 500	Prepaid Advertising	2 000
Vehicle (<i>carrying value</i>)	12 600	Rent Expense	1 800
Accounts Payable	2 280	Customs Duty	1 410
Wages	8 400	Sale Returns	1 550
Accounts Receivable	3 590	Inventory	3 600
Loan - BBHG	10 000	Inventory Gain	170
Discount Revenue	600		

Additional Information

- Capital as at 1 August \$29 400.
- Discount expense is 2% of net sales.
- Sales is marked up at 100% of cost of inventory.
- Loan repayments are \$200 per month.
- Depreciation of vehicle is 15% per annum, allocated monthly, using a straight-line method. The original cost of the vehicle was \$18 000 and it was purchased 1 July, 2019 with a residual value of \$4 500 at the end of its useful life of five years. Depreciation is recorded on the last day of each month and is not yet recorded in the above balances (Memo 22).
- Advertising expenses from 29 August for \$1 500 is yet to be recorded for the month of August (Memo 23).
- The owner withdrew \$4 500 cash during the month of August (Memo 24).

- a. From the information provided **create** an Income Statement for the month of August.

6 marks

- b. **Reconstruct** the Prepaid Advertising Account for the month of August and prepare it for the next reporting period.

3 marks

- c. **Record** all relevant equities in an extracted Balance Sheet as at 31 August.

4 marks

- d. The owner of Maverick Medicines would like you to explain the difference between the straight-line depreciation method and the reducing balance methods of depreciation. They are considering purchasing a second vehicle and believe that a different method of depreciation might increase their profit over the vehicle's useful life. In your answer **recommend** your preferred method for the depreciation of the new vehicle.

5 marks

Question 4 (8 marks)

JK 007 is a business that sells superhero costumes in Melbourne. The owner of JK 007 is upgrading the fittings inside the store and wishes to trade in the oldest fittings for new fittings. The following Balance Sheet (extract) has been provided for year ending June 2021:

JK 007
Balance Sheet (extract)
30 June 2021

Non-Current Assets	\$	\$
Fittings	15 000	
Less Accumulated Depreciation	8 500	6 500

On 1 July, fittings with an original cost of \$10 000 and a carrying value of \$2 700 were traded in for new fittings. The following transaction was issued by the supplier:

Date: July 1st, 2021		<i>Inside Shop Décor</i> ABN 9937 48472 93 21 Main St, Wantirna, 3152		Rec. No. 98
Item	Price	GST	Total	
<i>Shop Fittings</i>	<i>12 000</i>	<i>1 200</i>	<i>13 200</i>	
		<i>Trade in</i>	<i>(3 000)</i>	
		<i>EFT Transfer</i>	<i>10 200</i>	
		<i>Balance</i>	<i>NIL</i>	

Record the above information into the General Ledger of JK 007.

Question 5 (8 marks)

The owner of A.J. Phones imports and sells a range of phones to local customers. The owner has provided you with the following information for inventory during October 2021:

kPhone Phone Units – supplier's price (50 units)	\$20 000	Total Cost, plus GST
kPhone Chargers – supplier's price (50 units)	\$1 250	Total Cost, plus GST
Import Duties for October	\$450	Total Cost
kPhone Packaging for Phone & Chargers	\$10	Each, plus GST
Delivery to Customer per kPhone package	\$15	Each, plus GST

- a. **Calculate** the cost of one kPhone.

2 marks

- b. **Explain** your treatment when calculating the unit cost of one kPhone for:

- The GST amount
- The kPhone Packaging cost
- The cost of the Delivery to Customer

(2 + 2 + 2) = 6 marks

Question 6 (13 marks)

Mary Jane owns and operates a bakery. Her bank balance at the start of the year will be \$2 500 and has provided a forecast list for 2022 based on past information:

Item	Actual 2021	Budgeted 2022	Additional Information
Total Sales	\$30 000	10% increase	50% of all sales are expected to be in cash. As at 31 December, 5% of all credit sales are expected to still be outstanding. Of the credit sales another 1% is expected to turn into irrecoverable debt (bad debt).
Accounts Payable	\$16 500	8% increase	90% of all inventory purchased is expected to be repaid in cash to the supplier by end of year.
Wage expense	\$13 000	3.5% increase	All wages are paid within the year.
Advertising expense	\$1 000	No change	Does not include GST
Capital Contribution	\$2 000 cash	Furniture	Mary Jane is expected to contribute personal furniture with an estimated value of \$2 500 at the time of contribution in June 2022.
Loan	Nil	\$10 000	Loan expected to be taken out 1 March. Repayments of \$200 per month, with monthly interest paid on the final day of each month, calculated on original loan amount at 3% p.a.
Drawings	\$5 000	\$6 000	This is expected to be taken as \$500 per month for the whole year
General expenses	\$2 000 plus GST	15% decrease	Mary Jane is expecting to increase her online sales and as a result lower her general expenses in store for 2022
Computers	\$1 500	\$6 000 plus GST	To support online sales, Mary Jane expects to trade in her old computer for \$1 000 cash and purchases two new computers at \$3 000 each (cash). This is planned for January.

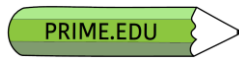
a. Create a Budgeted Cash Flow Statement for 2022.

9 marks

Mary Jane is hoping that once she moves to on-line sales, she will be able to cut back on wages and increase her importing of inventory from overseas. She would also like to send all imported good directly to the customer to save on storage costs.

b. Explain two ethical considerations associated with these choices.

4 marks

**Question 7** (13 marks)

Nate's Garden Supplies has provided you with the following information:

Memo 87
17th November, 2021
Accounts Receivable (Fine Plants Co.) with a current balance of \$880 including GST, has notified Nate's Garden Supplies of bankruptcy with 20 cents in every dollar being received this morning (Rec. 54).
Remaining amount to be written off as irrecoverable.

- a. **Explain** the purpose of a memo.

2 marks

- b. **Record** Memo 87 in the General Journal of Nate's Garden Supplies.
A narration **is** required.

5 marks

- c. **Explain** one qualitative characteristic that supports the recording of Memo 87.

3 marks

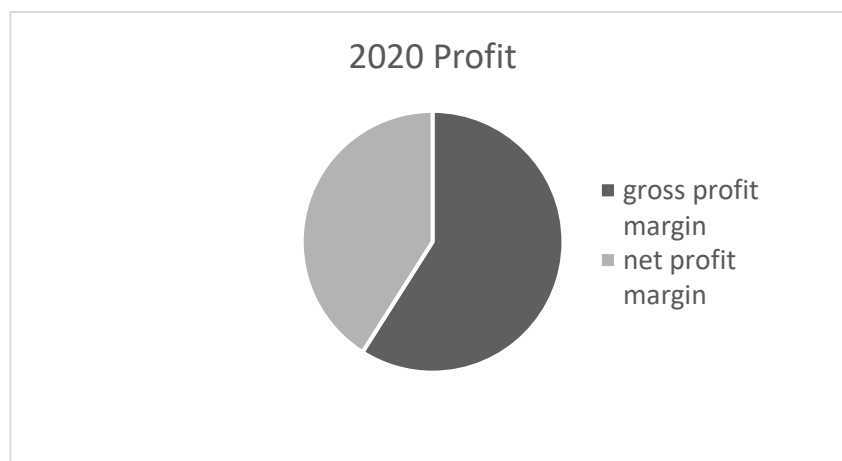
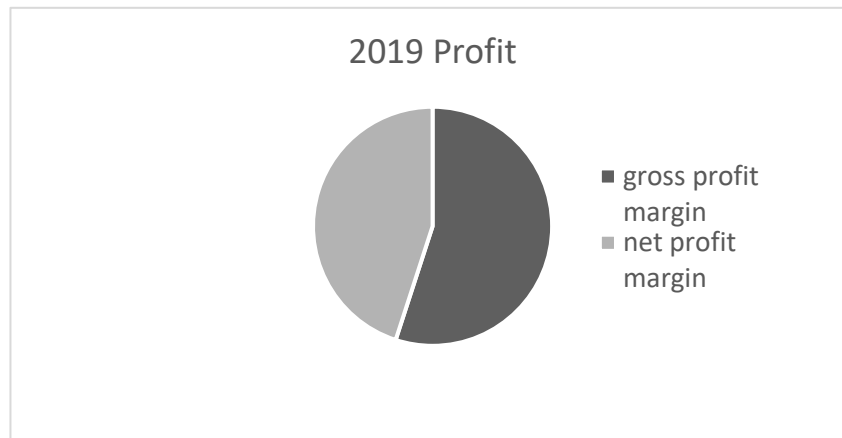
- d. **Explain** how bad debts are reported in the:

- Income statement
- Cash Flow Statement

(2 + 2) = 4 marks

Question 8 (10 marks)

The following information has been provided from TKS Sport Equipment.



2019 - Sales	\$350 000	2019 - Net Profit	\$157 500
2020 - Sales	\$400 000	2020 - Net Profit	\$164 000

The owner of TKS Sport Equipment is satisfied that the business is successful because of the increase in the dollar value of the net profit between 2019 and 2020. The owner has dismissed any concerns raised by the accountant about declining profitability.

- a. Using the information provided **discuss** whether the accountant is correct in showing concern in the trend between the two years.

6 marks

- b. **State** one piece of non-financial information that would help to determine if TKS Sports Equipment is a successful business.

1 mark

- c. **Explain** one strategy, other than changing markup, that might help to improve the overall profitability of TKS Sports Equipment into the future.

3 marks

Question 9 (5 marks)

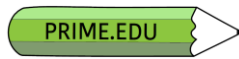
Artic Wonders supplies thermal gear to mountain climbers in Victoria. The business is looking to expand and has provided the following two models to see which option is more profitable:

<u>Option A – new outlet at Mt Bulla (country)</u>	<u>Option B – new outlet in Melbourne (city)</u>
Sales \$160 000	Sales \$155 000
Rent \$25 000	Rent \$60 000
Wages for one employee \$35 000	Wages for one employee \$45 000
Cost of inventory incl. delivery is 55% of income	Cost of inventory incl. delivery is 25% of income
All sales are in cash, due to the high volume of tourist in the country	Cash or Credit sales are available

Based on the modelling provided, **recommend** either Option A or Option B to help Artic Wonders expand their business.

Discuss your reasons for your choice and include any ethical considerations. Working out space has been provided for you.

5 marks



Question 10 (5 marks)

On 24 October 2021, Sunny Hats paid \$2 500 plus GST for electricity it had used (EFT 2289). By balance day on 31 October 2021, a further \$200 of electricity had been consumed but not paid (Memo 15).

- a. **Record** the above transactions in the General Ledger of Sunny Hats, closing relevant accounts in preparation for the next reporting period. A narration is **not** required.

3 marks

On 24 November 2021, Sunny Hats, paid a further \$2 000 plus GST for electricity (EFT 2376).

- b. **Record** EFT 2376 in the General Ledger of Sunny Hats. A narration is **not** required.

2 marks



End of Booklet