

Student Name:



2022 ACCOUNTING

Unit 3/4 Trial Examination 1

QUESTION BOOK

Structure of book

<i>Number of Questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
7	7	100

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Question 1 (23 marks)

The following inventory card for the Roomba Robotic Vacuum was prepared by the bookkeeper for the Great Guys at 31 August 2022

Inventory Item: Roomba Robotic Vacuum					Supplier: iRobotics					
Location: Mentone					Cost Assignment Method:					
Date 2022	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Aug 1	Balance							10	900	9 000
5	Inv 546				5	900	4 500	5	900	4 500
12	Inv 98	12	950	11 400				5	900	
	Chq 71			600				12	1 000	16 500
17	Inv 587				3	900		2	900	
					2	1 000	4 700	10	1 000	11 800
30	CN23	1	900	900				3	900	
								10	1 000	12 700
31	Memo 16				1	1 000	1 000	3	900	
								9	1 000	11 700
	CN101				2	1 000	2 000	3	900	
								7	1 000	9 700
	Memo 18				3	100				
					7	200	1 700	10	800	8 000

- Explain and justify the cost assignment used by the business.
3 marks
- Explain the entry for Cheque 71 on August 12 in the inventory card.
3 marks
- Prepare the General Journal entry to record Memo 18. A narration is required.
3 marks
- With reference to one qualitative characteristic justify the entry for Memo 18.
3 marks

The business sells the Roomba Robotic Vacuums at a 150% mark up.

- e. Prepare the extract for the Income Statement for the month ended 31 August to show Adjusted Gross Profit.

4 marks

- f. With reference to a qualitative characteristic explain the purpose for reporting Adjusted Gross Profit.

3 marks

The owner of the business has decided that to improve his Gross Profit Margin (GPM) and Net Profit Margin (NPM) he should increase the selling price of the Roomba Vacuum.

- g. Discuss the impact that this decision could have on both the GPM and the NPM of the business.

4 marks

Question 2 (15 marks)

On 31 August 2022 the owner of a business found that the following transactions had been incorrectly recorded.

- Rent for 12 months commencing 1 August 2022 for \$8 400 plus GST was incorrectly recorded as Insurance expense when determining the total expenses for the month. The GST was correctly recorded.
- Cleaning for August for \$2 200 including GST was incorrectly recorded as Drawings.

Additional Information prior to the identification of the incorrectly recorded transactions:

- Revenue for August totaled \$35 200
- Expenses were \$18 650
- Drawings for the period were \$5 000 cash and \$450 of inventory for personal use
- On 31 August the owner contributed his personal laptop for which he paid \$3 500 in 2020 and which currently has a value of \$1 500

- a. Prepare the General Journal entries necessary to rectify the incorrectly recorded transactions.

Narrations are not required

4 marks

- b. Prepare the transfer entries required at 31 August 2022.

Narrations are not required

4 marks

- c. Complete the Capital account in the General Ledger.

3 marks

- d. Explain why it is necessary to close some accounts and balance other accounts at the end of each reporting period.

4 marks

Question 3 (9 marks)

Cruisin Motorhomes is a business that specializes in creating motor homes using recycled buses and coaches. At present the business is operating from two separate premises – one where the motorhomes are designed and created and the other where the finished motorhomes are sold.

In 2023 the business is seeking to expand and improve their business operations following the increase in demand for mobile homes post COVID.

The business is seeking to obtain a Bank Loan for \$500 000 at 4% interest using their existing business assets as security with repayments of interest and principal over 10 years.

With this financing the owner is considering moving to larger premises in regional Victoria where the business can build, remodel, and sell their motorhomes from the one location. This option would also allow him to produce more motorhomes for resale.

In pursuing this option, the accountant prepared the following budgeted financial indicators for the owner's consideration.

	Budgeted 2023 Move to Larger Premises	Budgeted 2023 Remain at current premises
Working Capital Ratio	2:1	3:1
Return on owner's Investment	18%	10%
Net Profit Margin	20%	17%
Debt Ratio	65%	20%

- a. Explain the impact on the stability of the business if the owner was to move to the larger premises.

3 marks

- b. Using the financial indicators provided and one type of non-financial information discuss if the owner should proceed with the move to larger premises.

6 marks

Question 4 (14 marks)

The following information was extracted from the Pre Adjusted Trial Balance of Caitlin's Copy a local publishing business at 31 December 2022

	\$
Accounts Receivable	69 000
Allowance for Doubtful Debts	2 070
Credit Sales	120 000
Sales Returns	5 000
Discount Expense	1 000
Discount Revenue	900
Receipts from Accounts Receivable	130 619

Additional Information

- The business has been formally notified that R. Biggs, a customer has been declared bankrupt and his debt for \$1 881 (including GST) should be written off as irrecoverable.
 - Past experience suggests that 2% of net credit sales are unlikely to be collected.
-
- a. Prepare the General Journal entries to record the additional information.
Narrations are not required.

4 marks
 - b. Show how the Allowance for Doubtful Debts account would appear in the General Ledger after all the additional information has been recorded.

3 marks
 - c. Reconstruct the Accounts Receivable General Ledger account to find the closing balance.

5 marks
 - d. Show how the Accounts Receivable would be reported in the Balance Sheet as at 31 December 2022.

2 marks

Question 5 (11marks)

D2Drones is an online business specializing in the sale of Drones. A 50% deposit is paid on sales in advance as the goods are purchased in response to demand. The selling price for each drone is \$1 500. The business applies a markup of 100%.

The following extract of the Pre-Adjusted Trial Balance was prepared at 30 September 2022

	\$	\$
Unearned Sales Revenue		37 500
Prepaid Rent Expense	8 400	
Wages	4 400	
Loan		6 000
Inventory	24 000	
Web Advertising	1 540	
GST Clearing	400	
Accrued Interest expense	120	

Additional Information

- The business prepares reports quarterly
- The business has completed the sale for 15 drones as at 30 September 2022
- The annual rent was paid in advance on 1 August 2022.
- The Loan was taken out on 1 January 2022. Interest of 4% on the loan is repayable annually 31 December each year

- a. Prepare the General Journal entries to record the balance day adjustments required at 30 September 2022.

Narrations are not required

7 marks

- b. With reference to one of the above adjustments and an accounting assumption explain why balance day adjustments are required.

4 marks

Question 6 (17 marks)

The owner for Honey Bee, a business that provides gift hampers for large organizations has asked their accountant to prepare a Budgeted Cash Flow Statement for the quarter ended 31 March 2023.

The following balances appeared in the accounts of the business as at 1 January 2023.

- Bank \$63 000
- Accounts Payable \$54 560

Over the next 3 months the business expects to purchase inventory as follows:

January	\$50 900 (excluding GST)
February	\$54 000 (excluding GST)
March	\$59 000 (excluding GST)

The business pays their Accounts Payable in the month after purchase to take advantage of a 2% discount.

All sales are on credit and previous experience shows that Accounts Receivable pay 70% in the first month after the sale and 30% in the second month. Credit sales (including GST) are expected as follows:

November (actual)	\$ 99 000
December (actual)	\$110 000
January	\$106 700
February	\$ 93 500
March	\$ 90 200

The business expects to make the following payments over the budget period

Wages	\$116 000
Electricity	\$ 7 800
Advertising	\$ 11 200
Other Expenses	\$ 20 130

In March the business will purchase new Equipment at a cost of \$56 000 plus GST paying cash.

- a. Calculated the expected payments to Accounts Payable for the quarter ended 31 March 2023.

4 marks

- b. Prepare a schedule of receipts from Accounts Receivable to show the amount expected to be received for the budgeted quarter ending 31 March 2023.

4 marks

- c. Calculate the Budgeted GST Payment for the quarter ended 31 March 2023.
2 marks
- d. Prepare an extract of the Budgeted Cash Flow Statement to show Operating Activities.
4 marks
- e. With reference to the extract of the Budgeted Cash Flows From Operations explain how the business would use the information.
3 marks

Question 7 (11 marks)

Coffee Addict is a small business selling coffee machines, coffee beans and other coffee related products. The following information was extracted from the accounts at 1 July 2022

Equipment	\$11 000
Accumulated Depreciation	\$ 5 520

On 1 August 2022 the business purchased additional Equipment costing \$3 000.

The business depreciates its assets 20% per annum using the reducing balance method.

- a. Calculate depreciation expense for the quarter ended 30 September 2022.
2 marks
- b. Justify the owner's decision to use the reducing balance method of depreciation for the Equipment.
3 marks

On 1 December 2022 the business decided to replace all the Equipment purchased prior to 1 August 2022. The Equipment was traded-in for \$3 000 on new equipment costing \$16 000 plus GST purchased with a Loan obtained from Net Bank.

- c. Complete the Disposal of Equipment account in the General Ledger.
(Note: You **are not** required to balance the accounts).
4 marks
- d. Explain how a profit or loss on disposal of a non-current asset may occur.
2 marks

END OF QUESTION BOOK

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ANSWER BOOK

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Question 1 (23 marks)

a.

3 marks

Explanation:

b.

3 marks

Explanation:

c.

3 marks

**Great Guys
General Journal**

Date	Details	Debit	Credit

d.

3 marks

Justification:

e.

4 marks

Great Guys

Income Statement (extract) for month ended 31 August 2022

	\$	\$

f.

3 marks

Explanation:

g.

4 marks

Discussion:

Question 2 (15 marks)

a.

4 marks

General Journal

Date	Details	Debit	Credit

b.

4 marks

General Journal

Date	Details	Debit	Credit

c.

3 marks

Capital

Date	Cross-reference	Amount	Date	Cross-reference	Amount

d.

4 marks

Explanation:

--

Question 3 (9 marks)

a.

3 marks

Explanation:

b.

6 marks

Discussion:

Question 4 (14 marks)

Working Space:

a.

4 marks

General Journal

Date	Details	Debit	Credit

b.

3 marks

Allowance for Doubtful Debts

Date	Cross-reference	Amount	Date	Cross-reference	Amount

c.

5 marks

Accounts Receivable

Date	Cross-reference	Amount	Date	Cross-reference	Amount

d.

2 marks

Caitlin's Copy

Balance Sheet as at 31 December 2022

	\$	\$

Question 5 (11 marks)**Working Space:**

a.

7 marks

General Journal

Date	Details	Debit	Credit

b.

4 marks

Explanation:

Question 6 (17 marks)

a.

4 marks

Estimated Payments to Accounts Payable for the quarter ended 31 March 2023:

b.

4 marks

**Estimated Receipts from Accounts Receivable
for the quarter ended 31 March 2023:**

c.

2 marks

Estimated GST Paid for the quarter ended 31 March 2023:

d.

4 marks

Honey Bee

Budgeted Cash Flow Statement for the quarter ended 31 March 2023

	\$	\$

e.

3 marks

Explanation:

Question 7 (11 marks)**a.****2 marks**

Depreciation Expense: \$

b.**3 marks**

Justification:

c.**4 marks****Disposal of Equipment**

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount

d.**2 marks**

Explanation:

END OF ANSWER BOOKLET