



2022 Trial Examination

THIS BOX IS FOR ILLUSTRATIVE PURPOSES ONLY

STUDENT
NUMBER

--	--	--	--	--	--	--	--

Letter

--

ACCOUNTING

Unit 3 & 4 – Written examination

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>
8	8	100
		Total 100

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners and rulers
- Students are NOT permitted to bring into the examination room: blank sheets of paper and/or white out liquid/tape.
- No calculator is permitted in this examination.

Materials supplied

- Question book of 9 pages.

Instructions

- Print your name in the space provided on the top of this page.
- All written responses must be in English.

Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic communication devices into the examination room.

Question 1 (12 marks)

On 1 July 2022 David started his business, Sweet Delight. David contributed his van to the business as well as \$10 000 cash. David purchased the Van on 1 December 2021 for \$18 700 (including GST). When he purchased the van, he also paid \$1 200 (plus GST) of annual registration. On 1 July 2022 David had the van professionally valued at \$16 000. The business reports on a six-monthly basis.

- a. Record the General Journal entry required on 1 July 2022 to record the contribution of the assets by David to Sweet Delight.

A narration is not required

4 marks

David spoke to his friend who recommended that he use the straight-line method to depreciate the van at a rate of 15%. When he double checked with his accountant, he was advised to use the reducing balance method of 21%.

- b. Show how the Balance Sheet would report the Vehicle as at 31 December 2022 if he used the straight-line method.

2 marks

- c. Show how the Balance Sheet would report the Vehicle as at 31 December 2022 if he used the reducing balance method.

2 marks

- d. Explain the impact on the accounting reports of the decision to use the straight-line method rather than the reducing balance method.

4 marks

Question 2 (6 marks)

Kit Up are the exclusive suppliers of authentic branded football outfits to the Westin Football League. The business has had difficulty sourcing inventory from its main supplier and is considering making changes to the business.

The business is considering two options for its future operations.

The first option involves the owner contributing funds to the business to help them to source the outfits from a social enterprise in Melbourne that employees disadvantaged youth. The new operation would allow the business to target other sporting leagues and to have more control over the quality of their inventory.

The second option involves importing the outfits from overseas. The business will need to borrow funds to buy a warehouse to store inventory that would be imported in bulk. The business would deal with an importer who would source the outfits from a range of supplies. The importer has a reputation for being able to find the best deal, although it does come with some risk as they use a number of sources and quality control has been an issue for them in the past.

The owner is leaning toward choosing option one.

The following budgeted indicators have been prepared based on the two options that the business has for the business.

Indicator	Option one (Estimate)	Option two (Estimate)
Return on Investment	6%	9%
Debt Ratio	22%	51%
Gross Profit Margin	44%	40%
Net Profit Margin	14%	12%

Referring to the information provided, discuss the implications of the owner choosing option one.

6 marks

Question 3 (14 marks)

Deluxe Bedding has engaged Corporate Gifts to supply branded computers as part of an advertising campaign. Deluxe Beds purchased 4 computers from Corporate Gifts on 1 November 2022 for \$12 000 plus GST (EFT).

Every customer who purchases a bed is entered into a competition in which they can win a computer which is provided by Corporate Gifts on the day it is awarded.

Computers are awarded at the end of each month

Both businesses report on a quarterly basis with the previous period ending on 30 September 2022.

Corporate Gifts uses a 100% mark-up.

The first prize was awarded on 30 November 2022. (Memo 4)

- a. Prepare the General Journal entry required for Deluxe Bedding on 1 November 2022.

A narration is not required

3 marks

- b. Prepare the General Journal entry required for Deluxe Bedding on 30 November 2022.

A narration is required

3 marks

- c. Complete the Advertising Expense and Prepaid Advertising Expense accounts for Deluxe Bedding for the quarter ended 31 December 2022.

5 marks

- d. Explain how the Prepaid Advertising Expense would be reported in the Balance Sheet of Deluxe Bedding as at 31 December 2022.

3 marks

Question 4 (18 marks)

Get Out are retailers of outdoor furniture. The business reports on an annual basis and sells its inventory using a 100% mark-up.

Get Out
Pre-adjustment Trial Balance as at 30 June 2022

Account	Debit	Credit
Bank	14 000	
Accounts Receivable	6 800	
Accounts Payable		8 200
Office Equipment	60 000	
Accumulated Depreciation – Office Equipment		6 000
Delivery Van	20 000	
Loan – ABC		30 000
Sales		88 000
Cost of Sales	44 000	
GST Clearing		4 100
Prepaid Rent Expense	4 800	
Prepaid Insurance Expense	2 200	
Inventory	12 000	
Capital		27 500
	163 800	163 800

Additional Information:

- Get Out paid the annual insurance on Office Equipment for the year ended 31 May 2023 of \$1 200 (plus GST) on 1 June 2022.
- A customer returned inventory that they paid \$3 000 (plus GST) for. The transaction was not recorded at the time.
- Get Out depreciates equipment using a 20% reducing balance depreciation rate. No equipment was purchased during the year.
- \$1 200 of rent was unexpired at 30 June 2022.
- Get Out purchased their first Delivery Van on 1 January 2022. The vehicle will have an estimated useful life of 5 years and an estimated residual value of \$5 000. The vehicle will be depreciation using the straight-line depreciation method.
- A stocktake found inventory on hand to be \$12 500 at 30 June 2022.

- a. Record the General Journal entries required to record the balance day adjustments on 30 June 2022.

Narrations are not required

12 marks

After preparing the accounting reports for the year ended 30 June 2022, Get Out's owner approached a new accountant. The accountant questioned the business using the straight-line depreciation method for the Delivery Van.

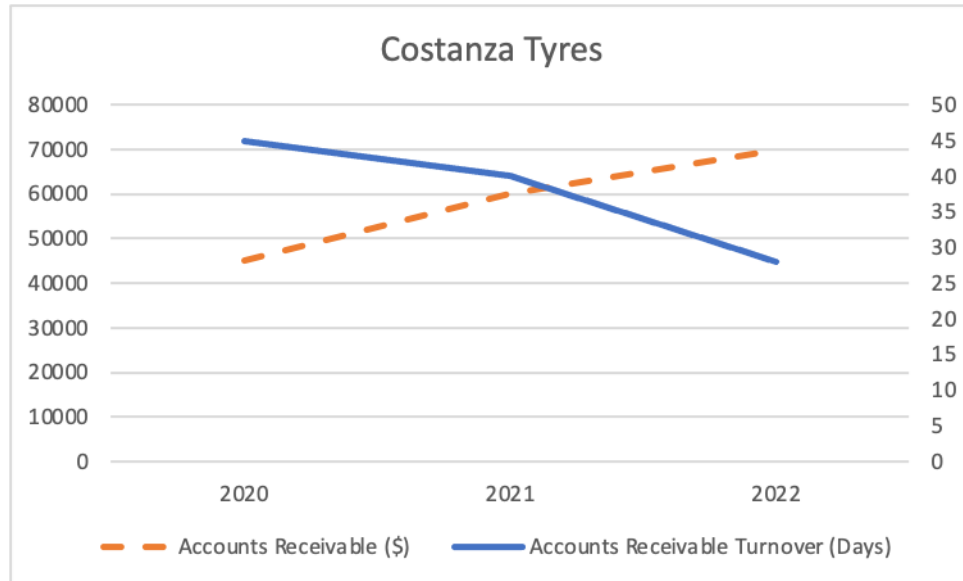
- b. Referring to accounting assumptions and qualitative characteristics, discuss the advice from the new accountant to change the depreciation method for the delivery van.

6 marks

Question 5 (7 marks)

George is the owner of Costanza Tyres. The business offers its accounts receivable credit terms of 2/7, n30.

George has reviewed the accounting reports for the past three years and has noticed that customers have taken advantage of discounts each year.



- a. Explain how it is possible for customers to have received a discount despite the accounts receivable turnover being 40 days in 2021.

3 marks

- b. Describe the trend in both accounts receivable and accounts payable turnover in the graph provided.

4 marks

Question 6 (22 marks)

Sneaker Kings are an online sneaker store. The owner has provided you with the General Ledger for December 2022. Sneaker Kings report on a monthly basis.

General Ledger
Bank

Date Dec	Cross-reference	Amount \$	Date Dec	Cross-reference	Amount \$
	Balance	5 500		GST Clearing	3 200
	Sales/GST Clearing	33 000		Prepaid Advertising/GST Clearing	4 400
	Interest	400		Prepaid Rent/GST Clearing	2 200
	Loan – ABC	12 000		Loan - ABC	3 000
	Capital	8 000		Wages	16 000
	Accounts Receivable	22 000		Inventory/GST Clearing	13 200
				Accounts Payable	18 000
				Drawings	3 000
				Equipment/GST Clearing	8 800

Additional information

- Sales were made using a 100% mark-up
- Sales returns of \$4 400 (including GST) occurred during December.
- Credit Sales for December were \$44 000 (including GST)
- Accounts Payable provided discounts of \$900 during December
- Accounts Receivable were provided with discounts of \$1 200 during December
- An inventory gain of \$700 was found after a stocktake
- An inventory write-down of \$600 was recorded on for December 2021
- Wages owing at 31 December 2021 were \$7 000. No wages were owing at the start of December
- Rent incurred in December was \$500.
- Advertising incurred in December was \$2 000.
- Inventory on 31 December 2022 was \$40 000
- Equipment was purchased

- a. Prepare the Cash Flow Statement for Sneaker Kings for the month ended 31 December 2021 using the information provided.

8 marks

- b. Reconstruct the Inventory General Ledger Account for December to find the opening balance.

6 marks

- c. Prepare the Income Statement for Sneaker Kings for the month ended 31 December 2021 using the information provided.

8 marks

Question 7 (10 marks)

Davis Designs report annual on 30 June each year.

The owner provided you with the following details relating to inventory on hand at 30 June 2022.

	Quantity as per inventory card	Quantity as per stocktake	Cost price per couch (\$) (plus GST)	Delivery to customer (\$) (plus GST)	Delivery from supplier (\$) (plus GST)	Selling price (\$) (plus GST)
Single Seat Couch	10	9	250	25	30	500
Double Seat Couch	20	20	300	25	40	600
Triple Seat Couch	5	5	400	25	50	800

Davis Designs have managed to organise delivery to customers all over Melbourne for a flat fee.

The delivery is paid by Davis Designs.

The Triple Seat Couch has been discounted to \$420 on 30 June 2022.

- a. Calculate the value of closing inventory prior to the calculation of the lower of cost and net realisable value.

1 mark

- b. Calculate the value of Triple Seat Couches on hand at 30 June 2022 taking into consideration the lower of cost and net realisable value.

2 marks

- c. Record the General Journal entries required on 30 June 2022

4 marks

- d. Referring to an accounting assumption explain your treatment of the Triple Seat Couches.

3 marks

Question 8 (11 marks)

Squeeze It sell juice machines to cafes around Australia. Squeeze It report on a quarterly basis and sell all juice machines on credit terms of 2/7, n30.

The owner, Geoff Juicy, has provided you with the following information as at 1 December 2022. Sales for quarter were \$88 000 (including GST).

Accounts Receivable \$90 000

Allowance for Doubtful Debts (\$4 000)

The only bad debt occurred on 30 December 2022 when City Café was declared bankrupt. Along with an email on 30 December 2022 an EFT payment of \$200 of the \$2 400 owed by City Café was received.

- a. Record the General Journal entry required to record the transaction on 30 December 2022.
A narration is not required.

3 marks

Geoff has decided to report an allowance for doubtful debts of 4% of credit sales on 31 December 2022

- b. Complete the Allowance for Doubtful Debts account that would appear in the ledger after the adjustment has been made on 31 December 2022.

4 marks

- c. Explain the effect on the accounting reports if the business did not record the adjustment on 31 December 2022.

4 marks

END OF QUESTION BOOK