

ACCOUNTING

Units 3 & 4– Written examination



2022 Trial Examination

SOLUTIONS

Question 1 (12 marks)**a.****General Journal**

Date 2022	Details	Debit	Credit
1 July	Van	16 000	
	Prepaid Insurance Expense	500	
	Bank	10 000	
	Capital		26 500

1 mark for each line**4 marks****b.**

$= \$16\,000 \times 15\% = \$2\,400$ $= \$200 \text{ each month}$ $= 6 \times \$200 = \$1\,200$

Non-Current Assets	
Van	\$16 000
Less Accumulated Depreciation	\$ 1 200
	\$14 800

1 mark for Van \$16 000**1 mark for Less Accumulated Depreciation \$1 200 and \$14 800****2 marks****c.**

$= \$16\,000 \times 21\% = \$3\,360$ $= \$280 \text{ each month}$ $= 6 \times \$280 = \$1\,680$

Non-Current Assets	
Van	\$16 000
Less Accumulated Depreciation	\$ 1 680
	\$14 320

1 mark for Van \$16 000**1 mark for Less Accumulated Depreciation \$1 680 and \$14 320****2 marks**

- d. In the Income Statement the decision to use the straight-line method will result in net profit being higher by \$480 as depreciation expense would be lower using the reducing balance method. In the Balance Sheet non-current assets would be \$480 higher as accumulated depreciation would be \$480 lower using the straight-line depreciation method. Owner's equity would be \$480 higher due to the higher net profit and there would be no effect on liabilities. There would be no effect on the cash flow statement.

1 mark for effect on Income Statement

2 marks for effect on Balance Sheet

1 mark for no effect on Cash Flow Statement

4 marks

Question 2 (6 marks)

The owner is considering choosing option one which would involve contributing funds to source the kits locally and to grow the business. This option would potentially result in a lower debt ratio as debt would be replaced by a capital contribution. This reduction in the debt ratio would potentially result in the lower return on investment indicated in the information provided. The decision to sell higher quality inventory to a wider range of customers would also result in higher selling prices which would deliver a higher gross profit margin despite the additional costs involved in purchased ethically sourced inventory.

The owner is considering ignoring option two which would deliver a higher return on investment as it the business would use debt to purchase the warehouse to store the inventory that is purchased in bulk from overseas. The owner may have decided to avoid using this option as it potentially could lead to higher sales returns by using lower quality inventory. The owner may also have decided to avoid using the option due to the higher risk from having a higher debt ratio.

Mark this question globally. There are a variety of acceptable responses to this question. Students should provide an outline of why the owner would prefer option two.

6 marks

Question 3 (14 marks)**a.****General Journal**

Date 2022	Details	Debit	Credit
1 Nov	Prepaid Advertising Expense	12 000	
	GST Clearing	1 200	
	Bank		1 320

1 mark for each line**3 marks****b.****General Journal**

Date	Details	Debit	Credit
30 Nov	Advertising Expense	3 000	
	Prepaid Advertising Expense		3 000
	Customer awarded prize of one computer that cost \$3 000 (Memo 4)		

1 mark for each line**3 marks****c.****Advertising expense**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
30 Nov	Prepaid Advertising Expense	3 000	31 Dec	Profit and Loss Summary	6 000
31 Dec	Prepaid Advertising Expense	3 000			
		6 000			6 000

Prepaid Advertising expense

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1 Nov	Bank	12 000	30 Nov	Advertising Expense	3 000
			31 Dec	Advertising Expense	3 000
			31 Dec	Balance	6 000
		12 000			12 000
1 Jan	Balance	6 000			

2 marks for Advertising Expense**3 marks for Prepaid Advertising Expense****5 marks**

- d.** The prepaid advertising expense would be reported as a current asset in the balance sheet of Deluxe Bedding as it represents a present economic resource controlled by the Deluxe Bedding as a result of past events (payment of prepaid advertising). The prepaid is reasonably expected to be converted to be consumed by the within 12 months after the end of the reporting period.

1 mark for prepaid assets**2 mark for explanation****3 marks**

Question 4 (18 marks)**a.****General Journal**

Date 2022	Details	Debit	Credit
30/6	Insurance Expense	1 100	
	Prepaid Insurance Expense		1 100
30/6	Sales Return	3 000	
	GST Clearing	300	
	Accounts Receivable		3 300
	Inventory	1 500	
	Cost of Sales		1 500
30/6	Depreciation – Office Equipment	10 800	
	Accumulated Depreciation – Office Equipment		10 800
30/6	Rent Expense	3 600	
	Prepaid Rent Expense		3 600
30/6	Depreciation – Delivery Van	1 500	
	Accumulated Depreciation – Delivery Van		1 500
30/6	Inventory Loss	1 000	
	Inventory		1 000

2 marks for each entry**12 marks**

- b.** The business has used the straight-line depreciation method to depreciate the delivery van which assumes that the delivery van would generate the same amount of revenue each year to the business. While the accrual basis assumption allows the owner to choose a method that matches the revenue earning pattern of the delivery van they may have not taken into account that a delivery van has moving parts and would generally contribute more to the business earlier in its life when it is in its best condition. The period assumption requires the business to recognise profit based on the revenue earned less expenses incurred and therefore the most accurate recognition of depreciation expense is important. While the change to the reducing balance method is more accurate it represents a change in the accounting methodology and therefore a breach of comparability while improving the decision making of the business and therefore relevance. **Mark this question globally. There are a variety of acceptable responses to this question.**

6 marks

Question 5 (7 marks)

- a. The accounts receivable turnover represents the average number of days that it takes to collect amounts owing from accounts receivable. While the average number of days that it takes to collect the amounts owing is over 25 days over the three years and the discount period is 7 days it is possible that some accounts could pay in less than 7 days while most accounts receivable will take longer than the discount period.

1 mark for the average number of days that it takes to collect amounts owing from accounts receivable

1 mark for some accounts could pay in less than 7 days

1 mark for most accounts' receivable will take longer than the discount period.

3 marks

- b. Accounts receivable are increasing over the period which could indicate that the business has increased credit sales. Costanza Tyres has collected accounts receivable faster over the three years which would indicate that the increasing accounts receivable is due to the business having increased credit sales.

1 mark for increasing accounts receivable

1 mark for either increased credit sales or accounts receivable turnover is slowing

1 mark for collected accounts receivable faster over the three years

1 mark for due to the business having increased credit sales.

4 marks

Question 6 (21 marks)**a.**

Sneaker Kings
Cash Flow Statement for December 2022

	\$	\$
Cash Flows from Operating Activities		
Cash Sales	30 000	
GST Collected	3 000	
Interest Received	400	
Collections from Accounts Receivable	22 000	55 400
GST Paid to ATO	(3 200)	
Prepaid Advertising	(4 000)	
Wages	(16 000)	
Inventory	(12 000)	
Payments to Accounts Payable	(18 000)	
GST Paid	(2 600)	
Prepaid Rent	(2 000)	(58 200)
Net Cash Flows from Operating Activities		(2 800)
Cash Flows from Investing Activities		
Purchase of Equipment	(8 000)	
Net Cash Flows from Investing Activities		(8 000)
Cash Flows from Financing Activities		
Loan from ABC	12 000	
Capital Contribution	8 000	20 000
Loan repayment to ABC	(3 000)	
Drawings	(3 000)	(6 000)
Net Cash Flows from Financing Activities		14 000
Net Cash Surplus		3 200
Opening Bank Balance		5 500
Closing Bank Balance		8 700

4 marks for Operating Activities**1 mark for Investing Activities****2 marks for Financing Activities****1 mark for Format****8 marks**

b.

Inventory

Date Dec	Cross-reference	Amount \$	Date Dec	Cross-reference	Amount \$
1/12	Balance	54 600	31/12	Cost of Sales	35 000
31/12	Bank	12 000		Inventory Write-down	600
	Cost of Sales	2 000		Balance	40 000
	Inventory Gain	700			
		75 600			75 600
1/1	Balance	40 000			

1 mark for Balances

1 mark for Bank

1 mark for Cost of Sales

1 mark for Inventory Gain

1 mark for Cost of Sales

1 mark for Inventory Write-down

6 marks

c.

Sneaker Kings

Income Statement for December 2022

Revenue	\$	\$
Cash Sales	30 000	
Credit Sales	40 000	
Less Sales Returns	4 000	66 000
Less Cost of Sales		33 000
Gross Profit		33 000
Add Inventory Gain	700	
Less Inventory Writedown	600	
Adjusted Gross Profit		33 100
Add Other Revenue		
Interest Revenue	400	
Discount Revenue	900	1 300
		34 400
Less Other Expenses		
Advertising	2 000	
Rent	500	
Wages	23 000	
Discount Expense	1 200	26 700
Net Profit		7 700

2 marks for Revenues

1 mark for Cost of Sales/Gross Profit

1 mark for Adjusted Gross Profit

1 mark for Other Revenues

2 marks for Other Expenses

1 mark for Format

8 marks

Question 7 (10 marks)**a.**

$$\begin{aligned}
 &= 9 * \$280 + 20 * \$340 + 5 * \$450 \\
 &= 2520 + 6800 + 2250 \\
 &= 11570
 \end{aligned}$$

1 mark for \$11570**1 mark****b.**

$$\text{Cost} = 5 * \$450 = \$2\,250$$

$$\text{NRV} = 5 * (\$420 - \$25) = 5 * \$395 = \$1\,975$$

1 mark for cost**1 mark for NRV****2 marks****c.****General Journal**

Date 2022	Details	Debit	Credit
30/6	Inventory Loss	280	
	Inventory		280
	Inventory Write-down	275	
	Inventory		275

1 mark for each line**4 marks**

- d.** The triple seater couches are valued at the lower of cost and net realisable value which requires the business to complete an inventory write-down. The inventory write-down recognises the write-down prior to the sale of the inventory which complies with the accrual basis assumption which requires the business to recognise losses when they are likely to be incurred. If the net realisable value has dropped below the cost price of the inventory it is likely that this loss will be incurred.

1 mark for lower of cost and NRV**1 mark for Accrual Basis****1 mark for explanation****3 marks**

Question 8 (11 marks)**a.****General Journal**

Date 2022	Details	Debit	Credit
30/12	Bank	200	
	Accounts Receivable		2 400
	Allowance for Doubtful Debts	2 000	
	GST Clearing	200	

1 mark for Bank and Accounts Receivable**1 mark for Allowance for Doubtful Debts****1 mark for GST Clearing****3 marks****b.****Allowance For Doubtful Debts**

Date Dec	Cross-reference	Amount \$	Date Dec	Cross-reference	Amount \$
30/12	Accounts Receivable	2 000	1/10	Balance	4 000
31/12	Balance	3 200	31/12	Bad Debts	1 200
		5 200			5 200
			1/1	Balance	3 200

1 mark for Accounts Receivable**1 mark for Bad Debts****1 mark for Balances****Watch for Dates****4 marks**

- c. If the business did not record the bad debts adjustment on 31 December 2022 the Income Statement would overstate net profit which would be understated by \$1 200 as the bad debts expense would be understated by \$1 200.

The Balance Sheet would overstate current assets by \$1 200 as allowance for doubtful debts would be understated by \$1 200 and the owner's equity would be overstated by \$1 200 due to overstated net profit.

There would be no effect on the Cash Flow Statement.

1 mark for effect on Income Statement**2 marks for effect on Balance Sheet****1 mark for no effect on Cash Flow Statement****4 marks****END OF SOLUTION BOOK**