

VCE Accounting Units 3 and 4 practice exam 2024 and suggested solutions

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The following VCE Accounting Units 3 and 4 practice exam consists of eight questions worth 100 marks. Students are required to answer all questions in the spaces provided in the answer book.

The command/task words in each question, the corresponding number of marks allocated, and the number of lines provided after each question, where appropriate, guide the appropriate length of responses. Suggested answers to this practice exam follow the answer book.

Please note that the following questions and solutions have no official status. Teachers are advised to preview and evaluate all practice exam material before distributing it to students.

ACCOUNTING UNITS 3 AND 4

Practice written examination 2024

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

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

Materials supplied

- Question book
- Answer book

Instructions

- Write your name and your teacher's name in the spaces provided on the front page of the answer book.
- Answer **all** questions in the answer book.
- All written responses must be in English.

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

Question 1 (12 marks)

Betty Summer owns a craft store, Lavender Crafts, specialising in DIY accessory kits. Lavender Crafts uses the first in first out (FIFO) inventory cost assignment method. All items are marked up by 100%. Lavender Crafts receives all inventory from one supplier, TSwizzle Inc. All sales were made on credit during October.

Inventory item: Threading Machines					Cost method: FIFO					
Supplier: Bead Era Pty Ltd										
Date 2024	Document	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Oct	Balance							1	30	30
								3	50	150
5 Oct	CN 35				1	30	30	3	50	150
13 Oct	Inv. 123	20	60	1 200				3	50	150
								20	60	1 200
15 Oct	Inv. 650				3	50	150			
					3	60	180	17	60	1 020
26 Oct	CN 46	1	60	60				18	60	1 080

- Prepare the General Journal entries for the transactions on 5 October and 26 October. Narrations are **not** required.
5 marks
- Calculate the Cost of Sales for October.
1 mark

On 28 October, a physical count showed that there were 12 threading machines on hand (Memo 4). Additionally, due to slow sales, Betty Summer has decided to discontinue this inventory. She will discount the selling price of the Threading Machines to \$65 per unit along with a thread kit (Memo 5). The thread kit costs \$7 per unit (GST not included).

- Complete the Inventory Card with the above information
4 marks
- Describe two ways that an Inventory Card can assist in the management of inventory.
2 marks

Question 2 (18 marks)

WinterWarmer is a growing business that specialises in electric fireplaces and biofuel fires on the Mornington Peninsula. The owner, Sally Greensmoke, has decided to establish a double entry system from 1 January 2024. She organised a \$5 000 bank overdraft limit with ZNA Bank and transferred an existing loan of \$100 000 on 1 January 2023 (Memo 3) to the business. The loan repayments are at 6% p.a.

The following is a list of the business's assets and liabilities as at 1 January 2024.

Account	\$
Accounts Payable	86 500
Accounts Receivable	67 100
Accumulated Depreciation – Biofuel Treatment Unit	9 650
Accrued Wages	6 000
Biofuel Treatment Unit	25 000
Bank	(3 000)
GST Clearing	(15 000)
Inventory	159 000
Loan – ZNA Bank	100 000
Prepaid Rent	5 600
Vehicle	38 000

- a. Prepare the General Journal entry to establish the double entry system at 1 January 2024 (Memo 4). A narration **is** required. **6 marks**
- b. Explain with an example, the reason for using a double-entry accounting system. **3 marks**
- c. Prepare the Current Liability section of the Balance Sheet as at 1 January 2024. **3 marks**
- d. With reference to the definition of the appropriate accounting element, explain your treatment of WinterWarmer's bank overdraft. **3 marks**
- e. On 31 January, the owner was advised that she had incorrectly recorded the value of the vehicle she had contributed to the business. She recorded it at its original purchase price instead of its fair value of \$28 000. Prepare the General Journal entry to correct this error (Memo 5). A narration **is** required. **3 marks**

Question 3 (10 marks)

The accountant provided the following extract from the Adjusted Trial Balance of Cronut Capers Cakehouse for the year ended 30 June 2024.

Adjusted Trial Balance (extract) as at 30 June 2024

Account	Debit \$	Credit \$
Advertising	14 000	
Bank		9 000
Bad Debts	7 500	
Cost of Sales	320 000	
Depreciation – Fittings	6 500	
Discount Revenue		1 500
Drawings	23 000	
Interest Revenue		2 500
Prepaid Advertising	2 000	
Sales		584 000
Sales Returns	8 000	
Wages	112 000	
Drawings		15 000

- a. Prepare the General Ledger to:
 - show the closing of the revenue and expense accounts.
 - transfer the accounts required to complete the Capital account.
 Narrations are **not** required.

- b. With reference to the Period accounting assumption, explain why revenue and expense accounts need to be closed at the end of each reporting period.

7 marks
3 marks

Question 4 (10 marks)

Retro Review is a vintage designer goods reseller located in the Melbourne CBD. The business reports monthly and has provided the following information.

Information for the month ended 31 December 2024

Sales	\$120 000
Wages	\$10 000
Rent	\$12 000
Electricity	\$3 000
Drawings (cash)	\$6 000
Depreciation (furniture)	\$1 500
Inventory Loss	\$4 000
Bad Debts Expense	\$10 000

Additional information

- All purchases of inventory are from the same supplier with terms 10/7, n/30. Retro Review always takes advantage of the discount terms.
 - 50% of Sales are on credit.
 - Cash receipts from Accounts Receivable are \$20 000.
 - Mark up on Sales is 200%.
 - Accounts Payable at the start and end of the period were \$10 000.
 - All expenses are paid in cash.
 - Sales Returns are \$6 000 (plus GST) and are immediately returned to the supplier.
 - A payment of \$14 800 was made to the Australian Taxation Office (ATO) in December 2024 as a GST settlement.
- a. Calculate the following:
GST paid on cash payments
Payments to Accounts Payable. **2 marks**
- b. Prepare the operating activities section of the Cash Flow Statement for the period ended 31 December 2024. **5 marks**
- c. Explain why Retro Review's Net Cash Flow from Operations could be higher than their Net Profit for the same period. **3 marks**

Question 5 (12 marks)

Dallas Taylor owns and operates Discount Dallas, a small business selling white goods. The business comprises three store locations and reports quarterly. An extract of the business's Balance Sheet as at 30 June 2024 is shown below:

Discount Dallas		
Balance Sheet (extract) as at 30 June 2024		
ASSETS		
Non-Current Assets		
Delivery Vans	95 000	
Accumulated Depreciation	(75 000)	20 000

- a. Referring to the information above, describe what is meant by carrying value.

2 marks

On 30 September 2024, Dallas decided to replace the oldest Delivery Van. On 30 June 2024 the Delivery Van had a carrying value of \$5 000 and a cost of \$50 000. The Delivery Van was sold for \$2 000 cash plus GST. Delivery Vans are depreciated at a rate of 12% pa on cost.

- b. Show how the disposal of the Delivery Van would appear in the General Ledger.

4 marks

On 1 December 2024 Dallas contributed his own Vehicle to the business. The Vehicle was purchased for \$42 000 but has a fair value of \$20 000 (Memo 8).

Dallas also paid \$2 000 plus GST to have the business name painted on the Vehicle (Chq. 973)

- c. Explain what is meant by fair value.

2 marks

- d. Show the General Journal entries necessary to record Memo 8 and Chq. 973. Narrations are not required.

4 marks

Question 6 (8 marks)

On 3 May 2024 Ashley Graham, the owner of Graham Consulting, arranged a contract with Shine Marketing for a series of six advertisements to be designed and published in trade magazines over the six months commencing 1 June 2024. Each advertisement will cost \$600 plus GST with the amount to be paid after the final advertisement has been published.

- a. Show the General Journal entries required for the transactions on the dates below. A narration is **not** required.
- 30 June 2024
 - 30 November 2024

2 + 3 = 5 marks

- b. Explain, with reference to an accounting assumption, why the business made the adjusting entry on 30 June 2024.

3 marks

Question 7 (18 marks)

Grant Pearce is about to open a toy shop, Pearce's Toys, in Melbourne's west. He will be using the perpetual system of recording inventory and the double entry system of recording financial data. To assist in planning, his accountant has asked him to provide a budget for the first six months of operations.

Grant has provided you with the following budgeted information for the first 6 months of operation.

- During the first accounting period Grant hopes to generate total sales of \$130 000 plus GST, with cash sales making up 60% of all sales.
- He has estimated the Accounts Receivable balance at the end of the first 6 months will be approximately \$8 500 and discount expense to be \$600.
- Most purchases of Inventory will be made on credit with only 10% being cash.
- Grant estimates Cost of Sales will be 50% of total sales with Inventory on hand at end being \$23 000.
- At the end of the six months, he estimates Accounts Payable will be owed \$15 600.
- He is anticipating an Inventory loss of \$2 000.

- a. Using the information above, reconstruct the Accounts Receivable Account to calculate the budgeted cash received from Accounts Receivable for the six months ended 30 June 2024.

4 marks

- b. Using the information above, reconstruct the Accounts Payable and Inventory accounts to calculate budgeted payments to Accounts Payable for the six months ended 30 June 2024.

6 marks

Upon reviewing the provided information, the accountant expresses concern that Grant may not have accounted for all potential scenarios related to his Accounts Receivable.

- c. With reference to one accounting assumption, identify and explain why the accountant is concerned.

3 marks

On 30 June 2024 Grant's accountant prepared a variance report to determine the success of the budgeting process. An extract is shown below:

- d. Complete the extract in the Answer Book.

3 marks

Pearce's Toys
Cash Variance Report for the six months ended 30 June 2024

	Budgeted	Actual	Variance	Fav/Unfav
Operating Activities				
Cash Sales	78 000	83 000		
Investing Activities				
Cash Purchase of Shelving		22 500	1 500	U
Financing Activities				
Capital	60 000		10 000	U

- e. Explain one reason for the variance in Capital.

2 marks

Question 8 (12 marks)

Blyth Bedrooms has recently purchased a new Delivery Van in January 2024. The Delivery Van had a cost price of \$60 000 and an expected life of 5 years after which the asset will be disposed of for \$10 000.

The owner is considering charging depreciation at either:

- 20% per annum using the straight-line method.
- 35% per annum using the reducing balance method.

- a. Explain the most appropriate method of depreciation for the Delivery Van. **4 marks**
- b. Calculate the depreciation expense for the first year using both methods. **4 marks**
- c. Show an extract of the Balance Sheet as at 31 December 2024 assuming the business adopted the reducing balance method of depreciation. **2 marks**
- d. Explain the likely effect on profit of each depreciation method over the life of the asset. **2 marks**

END OF QUESTION BOOK

Name: _____ Teacher: _____

ACCOUNTING UNITS 3 AND 4

Practice written examination 2024

Reading time: 15 minutes

Writing time: 2 hours

ANSWER BOOK

Instructions

- A question book is provided with this answer book.
- Answer all questions in the spaces provided in this book.
- Write your name and your teacher's name in the spaces provided above on this page.
- Refer to the **Instructions** on the front cover of the question book.

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Inventory item: Threading Machines					Cost method: FIFO					
Supplier: Bead Era Pty Ltd										
Date 2024	Document	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Oct	Balance							1	30	30
								3	50	150
5 Oct	CN 35				1	30	30	3	50	150
13 Oct	Inv. 123	20	60	1 200				3	50	150
								20	60	1 200
15 Oct	Inv. 650				3	50	150			
					3	60	180	17	60	1 020
26 Oct	CN 46	1	60	60				18	60	1 080

d. 2 marks

Description 1
Description 2

Question 2 (18 marks)

a. 6 marks

General Journal

Date 2024	Details	Debit	Credit

b. 3 marks

Explanation

c. 3 marks

WinterWarmer Balance Sheet (extract) as of 1 January 2024		
Current Liabilities	\$	\$

d. 3 marks

Accounting Element
Explanation

e. 3 marks

Working Space

General Journal

Date 2024	Details	Debit	Credit

Question 3 (10 marks)

a.

7 marks

Working Space

PROFIT AND LOSS SUMMARY

Date 2024	Cross-reference	Amount	Date 2024	Cross-reference	Amount

CAPITAL

Date 2024	Cross-reference	Amount	Date 2024	Cross-reference	Amount
			2023 1 July	Balance	80 000

b.

3 marks

Explanation

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|

Question 4 (10 marks)

a. 2 marks

Working space	
GST paid on cash payments	

Working space	
Cash payments to Accounts Payable	

b. 5 marks

Retro Review
Cash Flow Statement (extract) for the period ended 31 December 2024

	\$	\$

c.

3 marks

Explanation

Question 5 (12 marks)

a. 2 marks

Description

b. 4 marks

Discount Dallas
General Ledger

DISPOSAL OF DELIVERY VAN

Date	Cross-reference	Amount	Date	Cross-reference	Amount

c. 2 marks

Explanation

d. 4 marks

Discount Dallas

General Journal

Date 2024	Details	Debit	Credit

Question 6 (8 marks)

a. 2 + 3 = 5 marks

Graham Consulting

General Journal

Date 2024	Details	Debit	Credit

b. 3 marks

Explanation

Question 7 (18 marks)

a. 4 marks

Pearce's Toys
General Ledger

ACCOUNTS RECEIVABLE

Date 2024	Cross-reference	Amount	Date 2024	Cross-reference	Amount

b. 6 marks

Pearce's Toys
General Ledger

ACCOUNTS PAYABLE

Date 2024	Cross-reference	Amount	Date 2024	Cross-reference	Amount

INVENTORY

Date 2024	Cross-reference	Amount	Date 2024	Cross-reference	Amount

c. 3 marks

Explanation

d. 3 marks

Pearce's Toys				
Cash Variance Report for the six months ended 30 June 2024				
	Budgeted	Actual	Variance	Fav/Unfav
Operating Activities				
Cash Sales	78 000	83 000		
Investing Activities				
Cash Purchase of Shelving		22 500	1 500	U
Financing Activities				
Capital	60 000		10 000	U

e. 2 marks

Explanation

Question 8 (12 marks)

a. 4 marks

Explanation

[illegible]

b. 4 marks

Working Space	
Depreciation expense – Straight-line method:	
Working Space	
Depreciation expense – Reducing balance method:	

c. 2 marks

Blyth Bedrooms

Balance Sheet (extract) as at 31 December 2024

ASSETS		
Non-Current Assets		

d. 2 marks

Definition

END OF ANSWER BOOK

Suggested solutions

Question 1 (12 marks)

a. 5 marks

General Journal

Date	Details	Debit	Credit	
5 Oct	Accounts Payable – T.Swizzle	33		1
	Inventory		30	1
	GST Clearing		3	
26 Oct	Sales Return	120		1
	GST Clearing	12		
	Accounts Receivable		132	1
	Inventory	60		1
	Cost of Sales		60	

b. 1 mark

Calculation Sales less Sales Returns: $(3 \times 50 + 3 \times 60) - (1 \times 60) =$	
Cost of Sales for the month ending 31 October 2024	\$270

c. 4 marks

Working Space:

Calculation for Net Realisable Value (NRV)

Estimated Selling Price - Direct Selling
Expense =

$\$65 - \$7 = \$58$ per unit

$\$58 \times 12$ units = \$696

Calculation for Inventory Write-down

Cost – NRV =

$\$60 - \$58 = \$2$ per unit

$\$2 \times 12$ units = \$24

Inventory item: Threading Machines					Cost method: FIFO					
Supplier: Bead Era Pty Ltd										
Date 2024	Document	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Oct	Balance							1	30	30
								3	50	150
5 Oct	CN 35				1	30	30	3	50	150
13 Oct	Inv. 123	20	60	1 200				3	50	150
								20	60	1 200
15 Oct	Inv. 650				3	50	150			
					3	60	180	17	60	1 020
26 Oct	CN 46	1	60	60				18	60	1 080
28 Oct	Memo 4				6	60	360	12	60	720
28 Oct	Memo 5				12	2	24	12	58	696

One mark each for correct value. **(2 marks)**

One mark each for correct recording into Inventory Card. **(2 marks)**

d. 2 marks

Description 1
Identify inventory losses and the business can then implement counter measures i.e.: install security cameras.
Description 2
Assist with ordering and replenishment to ensure correct inventory levels.

Other similar answers are possible. **(1 mark)**

Question 2 (18 marks)

a.
6 marks
General Journal

Date	Details	Debit	Credit	
1 Jan	Accounts Receivable	67 100		1
	Accumulated Depreciation – Biofuel Treatment Unit		9 650	
	Biofuel Treatment Unit	25 000		
	Inventory	159 000		1
	Prepaid Rent	5 600		
	Vehicle	38 000		
	Accounts Payable		86 500	1
	Accrued Wages		6 000	
	Bank		3 000	
	GST Clearing		15 000	1
	Loan – ZNA Bank		100 000	
	Capital – S. Greensmoke		74 550	1
	Commencement of double-entry records (Memo 4)			1

Award 2 marks for correct recording as assets

Award 2 marks for correct recording of liabilities

Award 1 mark for inclusion of Capital (amount consequential)

Award 1 mark for narration

b.
3 marks

Explanation
A double-entry accounting system records at least two effects on the Accounting equation for each transaction. [1 mark]
A reason for using a double-entry accounting system is to ensure the accounting equation is always balanced. [1 mark]
For example, when WinterWarmer purchases inventory on credit, it records both the increase in assets (inventory) with a debit entry and the increase in liabilities (accounts payable) with a credit entry ensuring the accounting equation (Assets = Liabilities + Equity) remains in balance providing accuracy and completeness in financial reporting. [1 mark]

c.
3 marks
WinterWarmer Balance Sheet (extract) as at 1 January 2024

Current Liabilities	\$	\$	
Accounts Payable	86 500		1
Accrued Wages	6 000		
GST Clearing	15 000		1
Bank	3 000		
Loan – ZNA Bank	6 000	116 500	1

d.
3 marks

Accounting Element Liability
Explanation
The accounting element is a Liability, where the bank overdraft of \$3000 meets the definition of a current liability [1 mark] as it is a present obligation of the business as a result of past events which will result in an outflow of economic benefits when it's repaid, likely to be within the next 12 months. [1 mark] The \$5000 bank overdraft limit is just a facility negotiated with the bank and the amount drawn down becomes the current liability. [1 mark]

e.
3 marks

Working		
Original Recording DR Vehicle 38 000 CR Capital 38 000	Correct Recording DR Vehicle 28 000 CR Capital 38 000	Correction DR Capital 10 000 CR Vehicle 10 000

General Journal

Date 2024	Details	Debit	Credit
Jan 31	Capital [1 mark]	10 000	
	Vehicle [1 mark]		10 000
	Correcting entry – vehicle incorrectly recorded at original purchase price, adjusted for fair value. (Memo 5) [1 mark]		

Question 3 (10 marks)

a.
7 marks
PROFIT AND LOSS SUMMARY

Date 2024	Cross-reference	Amount	Date 2024	Cross-reference	Amount
30 June	Expenses [1]	460 000	30 June	Revenues [1]	580 000
	Capital [1]	120 000			
	[1]	<u>580 000</u>			<u>580 000</u>

CAPITAL

Date 2024	Cross-reference	Amount	Date 2024	Cross-reference	Amount
30 June	Drawings[1]	23 000	2023 1 July	Balance	80 000
30 June	Balance	177 000		Profit and Loss Summary [1]	120 000
		<u>200 000</u>			<u>200 000</u>
			30 June	Balance [1]	185 000

b.
3 marks

Explanation
The period assumption requires that accounting reports are prepared for a particular period of time. [1]
Net profit is calculated by revenues earned during the period less expenses incurred during the period. At the end of the period, revenue and expense accounts need to be 'cleared' and their balances reset to zero in readiness for the next period. [1]
The profit and loss summary account is used to facilitate these closing entries and also provides a ledger record of profit for each period. [1]

Question 4 (10 marks)

a.

2 marks

Working space Rent \$12 000 x .1 = \$1 200 Electricity \$ 3 000 x .1 = \$300	
GST paid on cash payments	\$1 500 [1]

Working space Accounts Payable at start: \$10 000 + Credit Purchases plus GST: \$44 000 - Purchase Returns plus GST: \$2 200 - Discount Revenue (\$41 800 x .1): \$4 180 - Payments to Accounts Payable (\$41 800 x .9): \$37 620 = Accounts Payable at end: \$10 000	
Cash payments to Accounts Payable	\$37 620 [1]

b.

5 marks

Retro Review
Cash Flow Statement (extract) for the period ended 31 December 2019

	\$	\$
Cash Flow for Operating Activities		
Cash Sales	60 000	
GST Received	6 000	
Accounts Receivable	20 000	86 000
Electricity	(3 000)	
Rent	(12 000)	
Wages	(10 000)	
Accounts Payable	(37 620)	
GST Paid	(1 500)	
GST Settlement	(14 800)	(78 920)
Net Cash Flows from Operations		7 080

The five marks available on this question are allocated as follows:

- one mark for both cash sales and GST received
- one mark for both accounts receivable and accounts payable
- one mark for electricity and rent
- one mark for GST paid and GST settlement
- one mark for titles

c.

3 marks

Explanation
Net profit is calculated in the Income Statement by subtracting expenses incurred from revenues earned in the period. Net Cash Flow from Operations is calculated by subtracting the net cash inflows and outflows from operating activities in the Cash Flow Statement in the period.
Net Cash Flow from Operations could be higher than Net Profit for any of the following reasons: Cash items that do not affect profit Profit items that do not affect cash Items that affect both profit and cash, but by different amounts
Retro Review's Net Cash Flow from Operations could be higher than their Net Profit for the same period as they have several profit items that do not affect cash such as Bad Debts Expense and Inventory losses. These are not cash flows and are therefore not included in the calculation of net cash from operating activities. This could result in cash from operating activities being greater than the net profit earned for the period.

Question 5 (12 marks)

a. 2 marks

Explanation:

Carrying value is the amount of \$20 000 shown in the Balance Sheet extract, which represents the value of the Delivery Vans yet to be depreciated [1 mark] plus the residual values of the Delivery Vans [1 mark].

b. 4 marks

Discount Dallas
General Ledger

DISPOSAL OF DELIVERY VAN

Date 2024	Cross-reference	Amount	Date 2024	Cross-reference	Amount
30 Sep	Delivery Van	50 000 [1]	30 Sep	Acc. Dep. -Delivery Vans	46 500[1]
				Bank	2 000[1]
				Loss on Disposal of Delivery van	1 500[1]
		<u>50 000</u>			<u>50 000</u>

c. 2 marks

Explanation:

Fair value represents a value given to the asset that represents the value the business expects to gain from the asset [1 mark]. It is determined by an agreed valuation of the asset of the market value of the asset [1 mark].

d. 4 marks

Discount Dallas
General Journal

Date 2024	Details	Debit	Credit	
1 Dec	Delivery Van	22 000		1
	Capital		20 000	1
	GST Clearing	200		1
	Bank		2 200	1

Question 6 (8 marks)

a. 2 + 3 = 5 marks

Graham Consulting

General Journal

Date 2024	Details	Debit	Credit	
30 Jun	Advertising expense	600		1
	Accrued Advertising expense		600	1
30 Nov	Accrued Advertising expense	600		1
	Advertising expense	3 000		1
	GST Clearing	360		1
	Bank		3 960	

b. 3 marks

Explanation:

Under the accrual basis of accounting, profit is determined for each period **[1 mark]**. Expenses for a period will be determined when the consumption of a good or service has occurred and can be measured **[1 mark]** and so they are recognised when they are incurred, which is when the first advertisement was published and so that expense was recorded **[1 mark]**.

Question 7 (18 marks)

a. 4 marks

Pearce's Toys
General Ledger

ACCOUNTS RECEIVABLE

Date 2024	Cross-reference	Amount	Date 2024	Cross-reference	Amount
30 Jun	Sales / GST Clearing	57 200 [1]	30 Jun	Bank	48 100 [1]
				Discount Expense	600 [1]
				Balance	8 500 [1]
		<u>57 200</u>			<u>57 200</u>

b. 6 marks

Pearce's Toys
General Ledger

ACCOUNTS PAYABLE

Date 2024	Cross-reference	Amount	Date 2024	Cross-reference	Amount
30 Jun	Bank	73 500 [1]	30 Jun	Inventory / GST Clearing	89 100
	Balance	15 600 [1]			
		<u>89 100</u>			<u>89 100</u>

INVENTORY

Date 2024	Cross-reference	Amount	Date 2024	Cross-reference	Amount
30 Jun	Accounts Payable	81 000 [1]	30 Jun	Cost of Sales	65 000 [1]
	Bank	9 000 [1]		Inventory Loss	2 000 [1]
				Balance	23 000
		<u>90 000</u>			<u>90 000</u>

c. 3 marks

Explanation
Grant has overlooked the possibility that a percentage of his Accounts Receivable may be uncollectable. The accountant is concerned that the financial reports will not be a faithful representation of real world events.
Under the period accounting assumption, profit is determined for each period [1 mark] . Profit determination involves the business recognising the expenses for the same period in which the revenue is earned [1 mark] and so he must ensure the business recognises all expenses, even if they aren't incurred, such as bad debts which may not occur until a future period [1 mark] .

d. 3 marks

Pearce's Toys
Cash Variance Report for the six months ended 30 June 2024

	Budgeted	Actual	Variance	Fav/Unfav
Operating Activities				
Cash Sales	78 000	83 000	5 000	F
Investing Activities				
Cash Purchase of Shelving	21 000	22 500	1 500	U
Financing Activities				
Capital	60 000	70 000	10 000	U

e. 2 marks

Explanation
Grant expected to contribute \$60 000 to the business but was required to contribute \$70 000 [1 mark] . This is likely due to the business having spent more than expected on the cash purchase of the shelving for the business [1 mark] .

Question 8 (12 marks)

a. 4 marks

Explanation
The choice of depreciation should be based on the usage / earning pattern of the asset i.e.: as it generates revenue. [1 mark] The straight-line method is best used for assets that contribute evenly to revenue generation whereas assets that contribute to revenue unevenly should use the reducing balance method. [1 mark] The reducing balance method allocates more depreciation in the early years than in the latter years as the asset is often more efficient in the early years than the latter years. [1 mark] This is true of a Delivery Van which has moving parts and is more efficient when newer and less likely to break down, which is a cost to the business. [1 mark]

Mark globally. Use allocated marks as a guide.
b. 4 marks

Working Space Historical Cost – Residual Value x Depreciation Rate = \$60 000 - \$10 000 [1 mark] x 20% [1 mark] = \$10 000 per year Depreciation expense – Straight-line method:	\$10 000
Working Space Historical Cost x Depreciation Rate = \$60 000 [1 mark] x 35% [1 mark] = \$21 000 per year Depreciation expense – Reducing balance method:	\$21 000

c. 2 marks
Blyth Bedrooms
Balance Sheet (extract) as at 31 December 2024

ASSETS		
Non-Current Assets		
Delivery Van	60 000 [1]	
less Accumulated Depreciation	(21 000)	39 000 [1]

d. 2 marks

Explanation
Each depreciation method allocates a different amount of depreciation each period due to different methods of calculation and the depreciation rate applied [1 mark]. However, the intention of each depreciation rate and method over the life of the asset is to result in a carrying value of \$10 000, which is the residual value, and so over the life of the asset the effect of depreciation on profit is the same [1 mark].

END OF SOLUTIONS

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