ACCOUNTING

Unit 4 – Written examination 2

2008 Trial Examination

SOLUTIONS

Question 1 – Dr J's WT's

1.1.1
Stock Item: Deluxe WT's

Date 2010	**Details**	**IN**			**OUT**			**BALANCE**		
		Qty	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
May 1	Balance							15	90	1,350
3	Inv. 91	10	110	1,110				15 10	90 110	1,350 1,110
5	Inv. 86				15 5	90 110	1,350 550	5	110	550
10	Inv. 85	15	100	1,500				5 15	110 100	550 1,500
17	Memo. 6				2	110	220	3 15	110 100	330 1,500
25	C.N. 33	3	110	330				6 15	110 100	660 1,500
26	C.N. 45				3	110	330	3 15	110 100	330 1,500
31	Memo	5	100	500				3 20	110 100	330 2,000

5 marks

1.1.2

General Journal

Date 2010	Particulars	General Ledger Debit $	General Ledger Credit $	Subsidiary Ledger Debit $	Subsidiary Ledger Credit $
May 26	Sales Returns	750			
	GST Clearing	75			
	Debtors Control		825		
	Debtor – L.Alcindor				825
	Stock Control	330			
	Cost of Sales		330		
	(customer returned 3 deluxe W.T's, due to leakage – C.N 33)				

Narration, must identify source document, type of stock and number of units or there is a 1 mark penalty

5 marks

1.1.3

The entry on 26-May is a purchase return. These units were purchased earlier in the month
and were subsequently sold to the customer who discovered the damage. The 3 units were
returned to Dr J's who then returned them back to the original supplier for a credit.

2 marks

1.1.4

1: oversupply from supplier
2: undersupply to customer
3: recording error in stockcard

(2 marks for any 2 of the above explanations)

2 marks

1.2.1

Suppliers invoice	$70	per unit
Insurance on delivery	$5	per unit
Testing for leakage	$4	per unit
	$79 per unit	

1.2.2

Product cost: Insurance on delivery: is a direct cost incurred in getting stock ready for sale.
Period cost: Service fee, is not incurred in getting the stock ready for sale, it is an ongoing
expense that is contingent upon customer request, therefore can not be reliably measured,
against a stock item prior to sale and therefore expensed separately

4 marks

1.2.3

Sales	= $170 each
Less C.O.G.S	= $79 each
Gross profit per unit	= $91 per unit
85 units sold x $91 G.P per unit	
Total Gross Profit = $7,735	

1.3

Cash Receipts Journal

Date 2010	**Details**	**Rec. No.**	**Bank $**	**Disc. Exp.**	**Debtors $**	**Cost of Sales**	**Sales $**	**GST $**	**Sundries $**
Aug 15	Prepaid sales	456	500						500

2 marks

1.4.1

General Journal

Date 2010	**Particulars**	**General Ledger Debit $**	**General Ledger Credit $**	**Subsidiary Ledger Debit $**	**Subsidiary Ledger Credit $**
Sep 1	Debtors Control	924			
	Ervin Johnson			924	
	Prepaid Sales		840		
	GST Clearing		84		
	Cost of Sales	480			
	Stock Control		480		

5 marks

1.4.2

Classification: Current liability
Explanation: The prepayment results in a future sacrifice of an economic benefits that is due
within 12 months. In this case there is the obligation to provide the 10 units to the customer.

2 marks

1.5.1

General Journal

Date 2010	Particulars	General Ledger Debit $	General Ledger Credit $	Subsidiary Ledger Debit $	Subsidiary Ledger Credit $
Oct 1	Manufacturing Equipment	18,700			
	GST clearing	1,870			
	Sundry creditor-L.Bird		20,570		

Cost of Equipment:		<u>GST</u>
Purchase price =	$17,000	$1,700
+ Modifications =	$1,500	$150
+ Insurance on delivery	<u>$200</u>	<u>$20</u>
	$18,700	$1,870

3 marks

1.6

General Journal

Date 2012	Particulars	General Ledger Debit $	General Ledger Credit $	Subsidiary Ledger Debit $	Subsidiary Ledger Credit $
2-June	Disposal of Man Equip	18,700			
	Man'f Equipment		18,700		
	Acc Dep – Man Equip	5,450			
	Disposal of Man Equip		5,450		
	Sundry Creditor – G.Gervin	13,000			
	Disposal of Man Equip		13,000		
	Loss on Disposal	250			
	Disposal of Man'f Equip		250		

1 + 2 + 1 + 2 = 6 marks

1.7.1

Stock Item: Deluxe WT's

Date 2011	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
April 14	Balance							20	110	2,200
14	Memo 468				5	20	100	15 5	110 90	1,50 450

Working out space:

Realisable value (per unit) =	$100		
- modification cost (per unit) =	- 10	Cost =	$110
Net Realisable value (per unit) =	90	NRV =	- 90
		SWD =	20

Stock Write down = $20 per unit (x 5 units)

2 marks

1.7.2

	Assets	Liabilities	Owners Equity
Overstated/ Understated/ No effect	Overstated	No effect	Overstated
Amount $	100		100

2 marks

1.7.3

Stock was damaged due to leakage. The business benefits by selling the damaged stock by
1: earning some revenue (which is better than no revenue for the 5 units), 2: Disposal of the
Damaged stock will increase storage space and reduce storage costs,
3: Assist business liquidity, by increasing cash inflows.

2 marks

Question 2 – Treena's Trivia

2.1.1

DEBTORS CONTROL

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1-07-08	Balance	10,400	30-6-09	Bad Debts	208
30-6-09	**Credit Sales**	**36,544**		Sales Returns	416
				Bank	34,550
				Discount Expense	770
				Balance	11,000
		46,944			46,944

4 marks

2.1.2

STOCK CONTROL

Date	Cross-reference	Amount	Date	Cross-reference	Amount
07-01-08	Balance	35,450	30-6-09	Creditors Control	480
	Creditors Control	24,000		Stock Write Down	200
				Cost of Sales	**21,570**
				Balance	37,200
		59,450			59,450

3 marks

2.1.3

CREDITORS CONTROL

Date	Cross-reference	Amount	Date	Cross-reference	Amount
30-6-09	Bank	25,460	1-7-08	Balance	18,450
	Discount	900	30-6-09	Stock Control	24,000
	Stock Control	480			
	Balance	**15,620**			
		42,460			42,450

3 marks

2.1.4

PREPAID INSURANCE

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1-7-08	Balance	600	30-6-09	**Insurance Expense**	**2,000**
30-6-09	Bank	1,800		Balance	400
		2,400			2,400

2 marks

2.1.5 Budgeted Profit & Loss Statement for the year ending 30 June 2008

Revenue	**$**	**$**
Cash sales	25,400	
Credit Sales	36,544	
Less Sales Returns	-416	
Net Sales		61,528
Less C.O.G.S		
Cost of Sales		21,570
GROSS PROFIT		39,958
Less Stock Write-down		200
ADJUSTED GROSS PROFIT		39,758
Plus Other revenue		
Interest Revenue	90	
Profit on disposal of Vehicle	500	
Discount Revenue	900	1,490
		38,268
***Less* Expenses**		
Wages	16,250	
Interest	110	
Insurance	2,000	
Bad Debts	208	
Discount Expense	770	19,338
NET PROFIT/(LOSS)		18,930

8 marks

(2 marks for revenue/net sale , 2 marks for G.P/Adjusted G.P, 2 marks for other revenue, 2 marks for expenses)

2.1.6 Budgeted Balance Sheet extract as at 30 June 2009

Current Liabilities	**$$$**
Loan-NAB	2,000
Creditors Control	15,620
Accrued Wages	800
Bank	4,820
	23,240

2 marks

2.2.1

	Actual	**Budget**	**Variance**	**F/U**
Gross Profit	$1,250	$1,070	$180	**F**
Stock Gain	$0	$80	**$80**	**U**
Stock Write Down	$50	$20	**$30**	**U**
Adjusted Gross Profit	**$1,200**	**$1,130**	**$70**	**U**

1 mark

2.2.2

The budgeted profit or loss acts as a basis for **comparison** with **actual results** -
to check/assess against set targets eg. net Profit, total sales, percentage stock loss of total
sales. To identify trends and allow corrective action where appropriate eg. if Sales lower than
expected, then management can investigate the impact of competition, performance of sales
staff.

2 marks

2.2.3

An unexpected stockgain may have occurred, possibly due to an oversupply from the
supplier or an undersupply to the customer. The gross profit would have virtually no bearing
on stock counts at the point of sale.

1 mark

2.3.1

For every $1 of the total assets, the firm has generated $3.80 in sales, this is a favourable
trend

2 marks

2.3.2

Given both formula's have the same denominator (average assets) then the discrepancy
could be explained by an increase in sales, whilst assets held constant, hence ATO increased.
If expenses increased more proportionally than the increase in sales, then there could have
have been a drop in the net profit, causing a decrease in ROA.

2 marks

2.3.3

Any of the following responses
1: Number of website hits, 2: customer satisfaction surveys, 3: sales dollar earned per hour
worked by sales staff, 4: percentage of sales returns.

1 mark

2.4.1

General Journal

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit $	Credit $	Debit $	Credit $
30-Jun	Accrued Interest Revenue	150			
	Interest Revenue		150		

$$\$10{,}000 \text{ x } 9\% = \$900 \text{ per year x } \frac{2}{12} \text{ months earned} = \$150$$

2 marks

2.4.2

Effect on Cash Flow Statement

Name of account	Classification	Amount
Accrued Interest Revenue	Operating Inflow	$150
Interest Revenue	Operating Inflow	$825
Government Bond	Investing Inflow	$10,000

$$\$900 \text{ per year x } \frac{11}{12} \text{ months} = \$825 \text{ earned}$$

Total interest earned and to be received on maturity = $75 interest pm x 13 months = $975

3 marks

2.5.1

The significant decrease in CTO (in days) is most likely a result of the business taking
advantage of the generous credit terms offered by the suppliers, i.e the CTO (16 days) is
similar to the discount terms offered (14 days). The business seems to be endeavouring
to pay off it's debts within 2 weeks to receive the 5% discount offered.

2 marks

2.5.2

The paying off of the debts, 2 weeks before the actual due date (2 weeks) would put more
pressure on the firm to obtain adequate funds to pay for the stock bought on credit,
particularly given it sells stock on credit, hence is less likely to have collected the funds from
the debtors. On the other hand, by obtaining the 5% discount, this would reduce outflows
by up to 5% putting less of a strain on the longer term cash resources.

2 marks

2.6.1

Treena's Trivia is generating 3.3 times the net cash flows from its day to day activities when
compared to it's current liabilities, this is a favourable trend when compared to the
previous year.

2 marks

2.6.2

Since both ratios have the same numerator, then the difference can be explained by the
denominator. CFI could have increased because the net cash flows from operations has
increased by more than the increase in current liabilities. If an additional loan was
taken out in 2010, then this could have increased interest more proportionally than an
increase in net cash from operating activities, resulting in the decline in the IC ratio.

2 marks

2.6.3

By decreasing debt, whether it be an overdraft/loan or mortgage, interest will decline and by
holding net cash flows from operations constant, IC will increase – OR – by holding interest
steady and generating more operating cash inflows (by increasing sales), or decreasing
operating outflows and holding interest steady.

1 mark

Total 45 marks