

# ACCOUNTING

## Unit 4 – Written examination 2



### 2009 Trial Examination

### SOLUTIONS

#### J & S Scone-Makers

##### 1.1.1

Stock Item: J & S: Scone-Maker

Date 2009	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Jul 1	Balance							2	80	160
Jul 4	Inv 355	10	85	850				2	80	160
								10	85	850
Jul 8	Inv SC25				2	80	160			
					4	85	340	6	85	510
Jul 11	CN.3	2	85	170				8	85	680
Jul 12	CN SM3				2	85	170	6	85	510

3 marks

##### 1.1.2

Sales Journal

Date 2009	Debtor	Inv. No	Cost of Sales	Sales	GST	Debtors
Jul 8	C.Puff	SC25	500	900	90	990

**General Journal**

Date 2009	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Jul 11	Sales returns	300			
	GST clearing	30			
	Debtors control		330		
	Debtor – C. Puff				330
	Stock control	170			
	Cost of sales		170		
Jul 12	Creditors control	187			
	Creditor – F.B. Slim			187	
	Stock control		170		
	GST clearing		17		

2 + 5 + 3 = 10 marks

**1.2.1****General Journal**

Date 2009	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Nov 2	Stock write down	75			
	Stock write down		75		

5 units x (Cost \$85 – NRV \$70) = 75 S.W.D Have assumed the stock that were damaged were the \$85 stock following FIFO

3 marks

**1.2.2**

<b>Qualitative Characteristic:</b> Relevance
The Accounting reports must contain information that is useful for the users of the reports.
This includes adjustments to the stock that will be sold for less than cost, to prevent overstating the value of the assets (stock) and net profit

2 + 1 = 3 marks

**1.3.1**

Photocopier \$15,000 + Fax \$700 (excluding GST) = \$15,700 x 10% =	\$1,570
Safe \$2,000 @ 10% = \$200 p.a x 9/12 months =	\$150
Desk & Chairs @ \$8,800 x 10% = \$880 per annum x 6/12 months =	<u>\$440</u>
	\$2,160

3 marks

**1.3.2****General Journal**

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
1-July	Disposal of Office Equipment	2,000			
	Office Equipment		2,000		
	Acc Dep – Office Equipment	150			
	Disposal of Office Equip		150		
	Sundry Creditor – Safe Crackers	1,500			
	Disposal of Office Equip		1,500		
	Loss on Disposal	350			
	Disposal of Office Equip		350		
	Office Equipment	2,500			
	GST clearing	250			
	Sundry Creditor – Safe Crackers		2,750		

4 + 2 + 2 = 8 marks

**1.3.3**

Balance Sheet extract as at 1-July-2010

Current Liabilities	\$
Sundry Creditors – Safe Crackers	1,250

1 mark

**1.3.4**

The disposal account is a temporary account used to (a) close off the NCA Office Equipment and Accumulated Depreciation

accounts and (b) calculate the profit or loss on disposal, which is reported in the

Profit and Loss Statement

2 marks

**1.4.1****Purchases Journal**

Date 2010	Creditor	Inv. No	Stock Control	GST	Creditors
15-Jul	Dough boys	235	2,760	276	3,036

**General Journal**

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
15-Jul	Delivery expense	800			
	GST clearing	80			
	Creditors control		880		
	Creditor – Dough boys				880

2 + 3 = 5 marks

**1.4.2**

Period costing is used when a cost is incurred in getting stock into a condition and location ready for sale, that can not be logically allocated to an individual unit of stock e.g. Delivery in this case.

2 marks

**1.5.1**

The favourable increase in GPR is a result of an increased mark-up, due to either (or both) of an increased sale price or reduced cost price of stock.

An increased sale price could lead to a reduction in revenue if some of the customers have opted for cheaper alternatives. If expenses have remained relatively constant, then this would explain a drop in the NPR.

Alternatively expenses have increased more significantly than revenue leading to a ↓ in NPR

2 marks

**1.5.2**

Suggestion 1: increase sales revenue via a promotion (providing revenue increases more proportionally than expenses).

Suggestion 2: reduce expenses (e.g. reduce wages by limiting the hours of casuals during off peak periods)

2 marks

**1.5.3**

The comparison of net profit to a base figure such as Assets (ROA) or Sales (NPR).

1 mark

**Question 2 – Laz’s Lsippers****2.1.1****STOCK CONTROL**

<b>Date 2009</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2009</b>	<b>Cross-reference</b>	<b>Amount</b>
01-Jul	Balance	6,730	31-Dec	Stock Write Down	440
31-Dec	<b>Creditors Control</b>	<b>44,425</b>		Cost of Sales	45,555
				Advertising	300
				Drawings	200
			31-12	Balance	<u>4,660</u>
		51,155			<u>51,155</u>

4 marks

*Explanation**1 mark for opening and closing balance**2 marks for the 4 other credit entries**1 mark for the calculation of credit purchases***2.1.2****CREDITORS CONTROL**

<b>Date 2009</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2009</b>	<b>Cross-reference</b>	<b>Amount</b>
<b>31-Dec</b>	<b>Bank</b>	<b>44,435</b>	01-Jul	Balance	4,660
	Discount	1,100	31-Dec	Stock Control	<u>44,425</u>
31-Dec	Balance	<u>3,550</u>			
		49,085			49,085

3 marks

*Explanation**1 mark for the opening and closing balances**1 mark for discount & credit purchases entries**1 mark for calculation of payments***2.1.3****DEBTORS CONTROL**

<b>Date 2009</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2009</b>	<b>Cross-reference</b>	<b>Amount</b>
01-Jul	Balance	4,450	31-Dec	Bad Debts	450
31-Dec	Credit Sales	65,660		Sales Returns	880
				<b>Bank</b>	<b>62,480</b>
				Discount Expense	1,650
			31-12	Balance	<u>4,650</u>
		70,110			70,110

4 marks

*Explanation**1 mark for opening and closing balance**2 marks for the 4 other credit entries**1 mark for the calculation of credit sales*

## 2.1.4

**Extract of Budgeted Cash Flow Statement for 6 months ending 31-December-2009**

<b>Operating Activities</b>	<b>\$</b>	<b>\$</b>
Cash Sales	17,450	
Receipts from Debtors	<u>62,480</u>	79,930
Advertising	3,200	
Freight in	1,090	
Freight out	980	
Payments to creditors	44,435	
Prepaid Insurance	1,800	
Wages	<u>16,550</u>	<u>68,055</u>
Net cash from operating activities		<u>11,875</u>

4 marks

*Explanation**1 mark for 2 inflows**3 marks for 6 outflows*

## 2.2.1

<b>Classification:</b> Current asset
<b>Explanation:</b> The term deposit is a resource controlled by the business, that will provide a future economic benefit in the form of cash that will flow into the business within 12 months, in this case 7 months at the expiration of the term deposit.

1 + 2 = 3 mark

*Explanation**1 mark for correct classification**1 mark for definition of a current asset**1 mark for linking response to definition*

## 2.2.2

**Cash Flow Statement**

<b>Account name</b>	<b>Classification</b>	<b>Amount</b>
Interest revenue	Operating inflow	\$240

2 marks

$\$6,000 \times 8\% = \$480$  per annum – received in quarterly instalments: 2 received (1-Feb + 1 May)  $\times \frac{1}{2}$  of \$480 = \$240

**2.2.3 Cash Receipts Journal**

Date 2011	Details	Rec. No.	Bank	Disc. Exp.	Sales	GST	Sundries
31-Jan	Term deposit	654	6,120				6,000
	Accrued interest rev						80
	Interest revenue						40

3 marks

*Explanation*

1 month interest earned (1-Jan-2012 – 31-Jan-2012) @ \$480 per annum x 1/12

2 months interest owing (1-Nov-2011 – 31-Dec-2012) @ \$480 per annum x 2/12

**2.3.1**

<b>Accounting principle:</b> Conservatism
The stock is valued at the cost price \$2,100. Even though it is highly probable that this
stock will be sold for \$3,500, it is not certain until the control of goods passes from the
vendor (Laz) to the buyer, thus the stock is valued at cost to avoid overstating the value of
the assets & the net profit

1 + 2 = 3 marks

**2.3.2 Cash Receipts Journal**

Date 2010	Details	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries
13- Nov	Prepaid Sales Revenue	555	1,000						1,000

2 marks

**2.3.3 General Journal**

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
3/1	Prepaid Sales Revenue	1,000			
	Sales Revenue		1,000		

**Sales Journal**

Date 2011	Debtor	Inv. No	Cost of Sales	Sales	GST	Debtors
3/1	Greta Grass	689	1,500	1,500	250	1,750

5 marks

*Explanation*

2 marks for general journal entries

1 mark for calculation of cost price (5 units x \$300 each)

1 mark for calculation of GST (5 units x \$50 each)

1 mark for calculation of sales (5 units x \$500 - \$1,000 prepaid)

**2.3.4**

The provision of the stock to the customer (Greta Glass) has resulted in an inflow of economic benefits, in the form of a decrease in Liabilities (Prepaid Sales) and a simultaneous increase in Owners Equity.
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2 marks

**2.4.1**

The prepayments are excluded from the QAR formula, because it is difficult to convert to cash.
Stock is excluded because it is not always easily and quickly converted into sales – i.e. it may be obsolete or become damaged. The bank overdraft has no due date, as long as Laz does not exceed his bank overdraft limit he will not face any pressure from the bank.

2 marks

**2.4.2**

The purchase of additional stock due to a strategic decision to diversify the stock mix has increased stock on hand & current assets, consequentially increasing the WCR.
The QAR may have declined due to a reduction in the bank balance (to pay for additional Stock) thus causing a decline in the quick assets and consequentially the QAR.

2 marks

**2.4.3**

The slower STO has adversely affected the liquidity as highlighted by the decline in QAR.
The additional stock purchased has resulted in more cash outflows, which hasn't been paired with a corresponding increase in sales and a proportional increase in operating inflows in the form of cash sales/ receipts from debtors. Thus the slower STO (extra 32 days) is putting additional pressure on cash resources in the short terms.

2 marks

**2.5.1 Laz's Lsippers****Extract of Variance report for the year ending 31-December 2012**

	<b>Actual</b> <b>\$</b>	<b>Budget</b> <b>\$</b>	<b>Variance</b> <b>\$</b>	<b>F/U</b>
<u>Other revenue</u>				
Profit on Disposal of Vehicle	200	0	200	F
Discount revenue	440	390	50	F
Interest on Term deposit	600	600	0	-

1 mark



**2.5.2**

The Vehicle has been over depreciated due to the under estimation of either/both of
the useful life or scrap value. Non current Assets such as Vehicles are not purchased with
the intention of selling them for a profit. Thus Laz has not budgeted for a profit on the
disposal as he would have assumed an accurate allocation of the cost of the Vehicle over its
useful life.

2 marks

**2.5.3**

Interest on a term deposit is fixed in advance, thus accurately budgeted for.

1 mark

Total 45 marks