

ACCOUNTING

Unit 4 – Written examination 2



2010 Trial Examination

SOLUTIONS

Question 1 Ace Gym Equipment

1.1.1

Explanation: When the business sells a NCA the amount received for the asset is compared to the carrying value (Historical Cost – Accumulated Depreciation). [1] If the amount received for the asset is less than the carrying value then a loss is said to have occurred. [1]

1 mark for each point identified

1.1.2

Explanation: Carrying Value is the Historical Cost less Accumulated Depreciation [1]. It represents the unallocated cost of the asset and the residual value of the asset. [1]

Explanation: Depreciation is an expense that aims to match the cost of the asset against the revenue earned by the asset [1]. Depreciation is charged over the life of asset to represent that the asset contributes to revenue earning over its useful life [1].

1 mark for each point identified

1.2.1

GENERAL JOURNAL

| Date 2009 | Particulars | General Ledger | | Subsidiary Ledger | |
|--------------|--------------------------|----------------|--------------|-------------------|--------------|
| | | Debit \$ | Credit \$ | Debit \$ | Credit \$ |
| Dec 31 | Accrued Interest Revenue | 250 | | | |
| | Interest Revenue | | 250 | | |

2 marks

1 mark for each line in the General Journal

1.2.2

CASH RECEIPTS JOURNAL

| Date 2010 | Details | Rec. No. | Bank | Disc. Exp. | Debtors | Cost of Sales | Sales | GST | Sundries |
|--------------|-----------------------------|-------------|------|---------------|---------|------------------|-------|-----|----------|
| Apr 30 | Accrued Interest revenue | 72 | 750 | | | | | | 250 |
| | Interest Revenue | | | | | | | | 500 |

2 marks

1 mark for each line in the CRJ as shown

1.2.3

Explanation: Net Realisable Value is the expected selling price of stock [1] less any expected costs associated with selling that stock [1].

1 mark for each point identified

1.2.4

GENERAL JOURNAL

| Date 2009 | Particulars | General Ledger | | Subsidiary Ledger | |
|--------------|--|----------------|--------------|-------------------|--------------|
| | | Debit \$ | Credit \$ | Debit \$ | Credit \$ |
| Dec 31 | Stock Writedown | 240 | | | |
| | Stock Control | | 240 | | |
| | <i>12 units written down by \$20 per unit – Memo 7</i> | | | | |

3 marks

1 mark for each line of the entry

1 mark for narration – must include number of units AND document number.

1.2.5

Stock card: Item – Ace Treadmill

| Date | Details | IN | | | OUT | | | BALANCE | | |
|-------------------|---------|-----|--------------------|---------------------|-----|--------------------|---------------------|---------|-----------------|------------------|
| | | Qty | Unit Cost \$ | Total Cost \$ | Qty | Unit Cost \$ | Total Cost \$ | Qty | Unit Cost \$ | Total Cost \$ |
| 2009 Dec 31 | Balance | | | | | | | 12 | 400 | 4 800 |
| | Memo 7 | | | | 12 | 20 | 240 | 12 | 380 | 4 560 |

1 mark

1 mark for the whole line of the Stock Card

1.2.6

State: Revenue ↑ \$250 Expenses ↑ \$240 Profit ↑ \$10. Therefore Profit lower if adjustments not made.

1 mark

1.3.1

Ace Gym Equipment*Budgeted CASH FLOW STATEMENT FOR YEAR ENDED 31 DECEMBER 2010*

| | \$ | \$ |
|--|-----------|------------------|
| Cash Flow from Operating Activities | | |
| Cash Sales | 372 500 | |
| Receipts from Debtors | 368 300 | |
| Accrued Interest Revenue | 250 | |
| Interest Revenue | 1 250 | 742 300 |
| Payments to Creditors | (418 355) | |
| Accrued Wages | (2 000) | |
| Wages | (98 000) | |
| Prepaid Rent Expense | (24 000) | |
| Advertising | (10 000) | |
| Interest Expense | (10 000) | |
| Other Expenses | (45 000) | (607 355) |
| <i>Net cash from Operating Activities</i> | | 134 945 |
| Cash Flow from Investing Activities | | |
| Equipment | (5 000) | |
| Sundry Creditor – King Motors | (12 000) | |
| <i>Net cash from Investing Activities</i> | | (17 000) |
| Cash Flow from Financing Activities | | |
| Drawings | (70 000) | |
| Loan | (24 000) | |
| Mortgage | (12 000) | |
| <i>Net cash from Financing Activities</i> | | (106 000) |
| <i>Change in cash balance</i> | | 11 945 |
| Bank at Start (1/1/2010) | | 6 500 |

| | | |
|---------------------------------|--|---------------|
| Bank at End (31/12/2010) | | 18 445 |
|---------------------------------|--|---------------|

8 marks

2 mark for Financing Activities : 1 for Drawings + 1 for loan and mortgage

1 mark for Investing Activities : 1 for Equipment + Sundry Creditor

1 mark for cash sales and receipts from debtors & 1 mark for Interest Revenue and Accrued Interest Revenue

1 mark for payments to creditors, 1 mark for Wages/Accrued Wages & 1 for other cash operating outflows

1.3.2

Ace Gym Equipment
Extract of Budgeted Balance Sheet as at 31 December 2010

| | \$ | \$ | | \$ | \$ |
|--------------------------|---------|----------------|-------------------------------|--------|---------------|
| CURRENT ASSETS | | | CURRENT LIABILITIES | | |
| Bank | 18 445 | | Creditors Control | 34 545 | |
| Debtors Control | 42 000 | | Sundry Creditor – King Motors | 1 000 | |
| Stock Control | 103 800 | | Loan - Loanlease | 3 000 | |
| Accrued Interest Revenue | 250 | | Mortgage | 12 000 | 50 545 |
| Prepaid Rent Expense | 6 000 | 170 495 | | | |

5 marks

1 mark for Bank and Debtors

1 mark for Stock Control

1 mark for Accrued Interest Revenue and Prepaid Rent Expense

1 mark for Mortgage and Loan

1 mark for Creditors and Sundry Creditor

1.3.3

Explanation: Budgets assist the business in seeing where the business is heading [1]. It allows the business to identify any potential problem areas or matters that may need attention (eg; large stock holdings) [1].

1 mark for each point identified

1.4.1

| Item | Budget \$ | Actual \$ | Variance \$ | F/U |
|--------------------------|--------------|--------------|----------------|-----|
| Sales | 745 000 | 780 000 | 35 000 | F |
| Cost of Sales | 364 000 | 390 000 | 26 000 | U |
| Depreciation - Equipment | 4 000 | 4 375 | 375 | U |

1 mark for Sales line

3 marks

1 mark for Cost of Sales + Depreciation line

1 mark for each completed line of report

1.4.2

Explanation: Depreciation – Equipment The original budget may not have included depreciation on the asset that was planned to purchase [1] or purchases of equipment were greater than the \$5 000 expected [1].

Explanation: Cost of Sales As sales were more than expected [1], it would have been necessary for the business to purchase more stock. Hence a higher than expected Cost of Sales figure. [1].

1 mark for each point identified

1.4.3

Explanation: With a higher figure for depreciation this would have increased total expenses leading to a lower Net Profit. [1] This would have negatively affected profitability as NP rate and ROI would have been lower [1]

1 mark for each point identified

1.4.4

Explanation: Budgeted GP was \$381 000.[1] Actual GP would be \$390 000, hence GP would have been higher than expected.[1]

1 mark for each point identified

1.4.5

Explanation: A benefit of preparing variance reports is that it allows comparison to the budget so the business can see where differences occurred [1] and therefore improve its budgeting techniques in the future to allow for more accurate budgeting [1]

Total 45 Marks

Question 2 Walters Whitegoods**2.1.1****SALES JOURNAL**

| Date 2010 | Debtor | Inv. No. | Cost Price | Sales Price | GST | Total Debtors |
|----------------------|---------------|---------------------|-----------------------|------------------------|------------|--------------------------|
| Nov 4 | Budget Motels | 61 | 2 100 | 4 200 | 420 | 4 620 |

1 mark for Date, Debtor, Invoice and Cost Price

1 mark for Sales Price, GST and Total

GENERAL JOURNAL

| Date 2010 | Particulars | General Ledger | | Subsidiary Ledger | |
|----------------------|--------------------|-----------------------|----------------------|--------------------------|----------------------|
| | | Debit \$ | Credit \$ | Debit \$ | Credit \$ |
| Nov 7 | Advertising | 350 | | | |
| | Stock Control | | 350 | | |
| Nov 12 | Stock Control | 700 | | | |
| | Cost of Sales | | 700 | | |
| | Sales Returns | 1 400 | | | |
| | GST Clearing | 140 | | | |
| | Debtors Control | | 1 540 | | |
| | Budget Motels | | | | 1 540 |
| Nov 16 | Creditors Control | 770 | | | |
| | LZ Limited | | | 770 | |
| | Stock Control | | 700 | | |
| | GST Clearing | | 70 | | |

7 November 1 mark for Donations/Stock Control entry

12 November 1 mark for cost price of Sales Return entry

1 mark for Sales Returns

1 mark for GST

1 mark for Debtors Control and Debtor – Budget Motels

16 November 1 mark for the 2 debit entries

1 mark for 2 credit entries

PURCHASES JOURNAL

| Date 2010 | Creditor | Inv. No. | Stock | GST | Total Creditors |
|--------------|------------|-------------|-------|-----|--------------------|
| Nov 10 | LZ Limited | LZ354 | 3 700 | 370 | 4 070 |

1 mark for Purchases Journal

CASH RECEIPTS JOURNAL

| Date 2010 | Details | Rec. No. | Bank | Disc. Exp. | Debtors | Cost of Sales | Sales | GST | Sundries |
|--------------|---------|-------------|------|---------------|---------|------------------|-------|-----|----------|
| Nov 24 | Sales | 79 | 759 | | | 350 | 690 | 69 | |

2 + 1 + 4 + 2 + 1 + 1 = 11 marks

1 mark for entry in CRJ

2.1.2**Stock card: Item – LZ Dishwasher**

| Date 2010 | Details | IN | | | OUT | | | BALANCE | | |
|--------------|------------|-----|--------------------|---------------------|-----|--------------------|---------------------|---------|--------------------|---------------------|
| | | Qty | Unit Cost \$ | Total Cost \$ | Qty | Unit Cost \$ | Total Cost \$ | Qty | Unit Cost \$ | Total Cost \$ |
| Nov 1 | Balance | | | | | | | 14 | 350 | 4 900 |
| 4 | Inv 61 | | | | 6 | 350 | 2 100 | 8 | 350 | 2 800 |
| 7 | Memo 12 | | | | 1 | 350 | 350 | 7 | 350 | 2 450 |
| 10 | Inv LZ 354 | 10 | 370 | 3 700 | | | | 7 10 | 350 370 | 6 150 |
| 12 | CN 32 | 2 | 350 | 700 | | | | 9 10 | 350 370 | 6 850 |
| 16 | CN 8 | | | | 2 | 350 70 | 700 | 7 10 | 350 370 | 6 150 |
| 24 | Rec 79 | | | | 1 | 350 | 350 | 6 10 | 350 370 | 5 800 |

1 mark for each line except balance

6 marks

2.2.1**Working space**

Cost \$80 + freight \$2

Cost \$ 82

1 mark

2.2.2

Explanation: Product costs are those costs that are used to bring stock into the business and get them into a condition for sale [1]. They can be logically allocated to an item of stock [1], such as the freight cost in the Invoice above .

Period costs are those costs that while are required to bring stock into the business and have them ready for sale, they can not be logically allocated to an item of stock [1]. Insurance is an example from the Invoice above.

*1 mark for each point identified
1 mark for the two examples correctly applied.*

2.2.3

Explanation: If both expenses were treated as period costs then the full amount of the expenses would have been reported in this reporting period [1]. This would have made the Net Profit figure lower as a product cost treatment of freight would only expense the amount of freight on the items sold [1].

1 mark for each point identified

2.2.4

Explanation: Relevance [1] tells us that reporting should include those items that allow for meaningful analysis and decision-making [1].

1 mark for each point identified

2.3.1

Working space

\$1 000 per month [1] x 11 months [1] = \$11 000

| |
|-----------------------|
| Rent Revenue \$11 000 |
|-----------------------|

2 marks

2.3.2

GENERAL JOURNAL

| Date 2010 | Particulars | General Ledger | | Subsidiary Ledger | |
|--------------|----------------------|----------------|--------------|-------------------|--------------|
| | | Debit \$ | Credit \$ | Debit \$ | Credit \$ |
| Dec 31 | Prepaid Rent Revenue | 2 000 | | | |
| | Rent Revenue | | 2 000 | | |

1 mark for each line of entry

2 marks

2.4.1

| |
|----------------------------|
| State: Deteriorated |
|----------------------------|

1 mark

2.4.2

| |
|--|
| Explanation: Walter should be concerned. While the numbers are positive there has been a decline in liquidity over the two years [1]. He is also not performing as well as the industry average although we only have one figure here so we don't know if the industry has suffered a downturn as well [1]. |
|--|

*1 mark for each point identified***2.4.3**

| |
|---|
| Explanation: GP rate has probably declined due to a higher cost of stock [1]. Recognising this, the business has cut expenses. The cut in expenses more than offset the increase in cost price of stock [1]. |
|---|

*1 mark for each point identified***2.5.1****Stock Control**

| Date 2011 | Cross Reference | Amount | Date 2011 | Cross Reference | Amount |
|------------------|--------------------------|----------------|------------------|------------------------|----------------|
| Jan 1 | Balance | 56 000 | Jan - Dec | Cost of Sales | 345 000 |
| Jan - Dec | Cost of Sales | 1 250 | | Creditors Control | 1 250 |
| | Creditors Control | 363 900 | | Stock Loss | 6 900 |
| | | | | Drawings | 5 000 |
| | | | | Stock Writedown | 2 000 |
| | | | | Balance | 61 000 |
| | | 421 150 | | | 421 150 |

*1 mark for each balance**1 mark for CoS (Credit entry)**1 mark for Cost of Sales (debit entry)**1 mark for Drawings/Stock Writedown**1 mark for Stock Loss**1 mark for purchase returns*

6 marks

2.5.2

Walters Whitegoods*Budgeted Profit & Loss Statement for year ended 31 December 2011*

| | \$ | \$ |
|--------------------------------|---------|----------------|
| Revenue | | |
| Cash Sales | 230 000 | |
| Credit Sales | 460 000 | 690 000 |
| Less Sales Returns | | (2 500) |
| | | 687 500 |
| Less Cost of Goods Sold | | |
| Cost of Sales | 345 000 | |
| Add Customs Duty | 4 600 | <u>349 600</u> |
| Gross Profit | | 337 900 |
| Less Stock Loss | 6 900 | |
| Plus Stock Writedown | 2 000 | <u>8 900</u> |
| Adjusted Gross Profit | | 329 000 |

1 mark for sales and sales returns

4 marks

*1 mark for Cost of Sales**1 mark for Customs Duty**1 mark for Stock Loss/Writedown*

Total 45 Marks