



Accounting Unit 4 practice exam 2011 and suggested solutions

The following VCE Accounting Unit 4 practice exam consists of two questions, each worth 45 marks. An answer book and suggested solutions follow the question book.

The practice exam and solutions are based on the author's interpretation of the VCE Accounting Study Design.

Please note that the questions and solutions have no official status and teachers should refer to the Victorian Curriculum and Assessment Authority website <http://www.vcaa.vic.edu.au> for further information.

Teachers are advised to preview and evaluate all practice exam material before distributing it to students.

Disclaimer: This practice examination has been written for students of VCE Accounting. This does not imply that it has been endorsed by the Victorian Curriculum and Assessment Authority (VCAA). While every care is taken, we accept no responsibility for the accuracy of information or advice contained in *Compak*. Teachers are advised to preview and evaluate all *Compak* classroom resources before using or distributing them to students.

ACCOUNTING UNIT 4

Practice written examination 2011

Reading time: 15 minutes
Writing time: 1 hour 30 minutes

QUESTION BOOK

Structure of book

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
2	2	90

- 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

- Answer both 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.

NOTE: This practice examination has no official status and represents an indication only of the type of questions that VCAA examiners may set.

Question 1

Care Bears

Merinda Care owns and operates Care Bears, a small business selling toys and stuffed animals. The business uses a double-entry, accrual-based accounting system. Stock is recorded and reported using the perpetual inventory recording system and the First In First Out (FIFO) cost assignment method. The business also uses Control accounts and subsidiary records for Debtors, Creditors and Stock. Reports are prepared annually at 31 December.

Required

- 1.1** The business has decided to commence selling a new brand of stuffed toy—the Madagascar Mouse. This toy will be fully imported from India from Singh Imports. All stock has a 100% mark-up.

Transactions relating to this stock item for October 2011 are shown in the following incomplete Stock Card.

STOCK CARD: MADAGASCAR MOUSE

Date 2011	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
Oct. 1	Inv. K7	100	20	2 000				100	20	2 000
3	Rec. 74–78				30	20	600	70	20	1 400
7	Memo 5				5	20	100	65	20	1 300
15	Rec. 81–86				45	20	900	20	20	400
18	Inv. K33							20	20	
		100	22	2 200				100	22	2 600
22	Inv. TT22– 25				20	20				1 760
					20	22	840	80	22	

Identify a possible cause for the transaction in Memo 5 and **explain** the effect of that transaction on the Balance Sheet.

1 + 2 = 3 marks

- 1.2** On 24 October 2011 a customer returned 5 units of stock due to damage. These units were sold to C. Roberts on 22 October 2011 for \$40 (plus \$4.00 GST) each. Credit Note A3 was issued at this time.

Upon closer inspection of the stock after the return on 24 October, Merinda discovered an additional 25 units that were damaged. All 30 units were returned to the supplier for a full credit (Credit Note 81) on 27 October 2011.

Required

1.2.1 Record Credit Note A3 and Credit Note 81 in:

- the Stock Card
 - the General Journal.
- (Narrations are **not** required).

2 + 6 = 8 marks

1.2.2 State the overall effect on the financial reports of the transaction shown in Credit Note A3.

4 marks

1.2.3 Explain, with reference to a qualitative characteristic, the importance of documents in the recording process.

1 + 2 = 3 marks

On 1 November 2011 the owner was informed that this particular line of stock (Madagascar Mouse) was no longer going to be produced. She determined that the stock could be sold for \$20 (plus \$2 GST) each. To ensure that the stock would be sold, she worked out that she would need to spend \$2 (plus \$0.20 GST) per unit on advertising the reduced price.

Required

1.3.1 Prepare the General Journal entry necessary on 1 November 2011 (Memo 10). (A narration is **not** required.)

2 marks

1.3.2 Explain, with reference to an accounting principle, why the journal entry on 1 November 2011 was necessary.

1 + 2 = 3 marks

1.4 During November 2011 the business signed a contract, agreeing to supply A2Z Child Care Centres (known as A2Z) with all their stuffed animal needs for the next 4 years.

On 17 November 2011 A2Z paid \$3 000 to Care Bears (Rec. 56) as a deposit on an order for stuffed toys for its Victorian child care centres.

The stuffed toys were supplied over the next three weeks. On 15 December 2011 the business sent the following invoice.

CARE BEARS

43 Smith Road

Piermont

ABN: 92 469 394 165**Invoice:** CB28**Date:** 15/12/11**Credit to:** A2Z

17 Winter Road

Samville

<u>Item</u>	<u>Qty</u>	<u>Unit Price</u>	<u>GST</u>	<u>Total</u>
Krazy Kittens	100	\$30	\$3.00	\$3 300
Playful Puppy	100	\$35	\$3.50	\$3 850
Lumpy Lizard	100	\$32	\$3.20	\$3 520
Invoice total				\$10 670
Less Deposit (Rec. 96)				<u>\$3 000</u>
Balance owing				<u>\$7 670</u>
Terms: 2/7,n30				

Required

1.4.1 Record the deposit received and the information in the invoice in the appropriate journals.
(Narrations are **not** required in the General Journal.)

1 + 2 + 2 = 5 marks

1.4.2 Explain how Prepaid Sales Revenue would be reported in a:

- Cash Flow Statement
- Balance Sheet.

2 + 2 = 4 marks

1.5 At 31 December 2011 the following ledger account was provided.

INTEREST REVENUE

Date 2011	Cross Reference	Amount	Date 2011	Cross Reference	Amount
			Sep. 1	Bank	600

The Interest Revenue was earned on a 12-month \$10 000 Term Deposit. The business opened this account on 1 March 2011 and earns interest at the rate of 12% per annum with interest payable twice a year on 1 September 2011 and 1 March 2012.

Required

- 1.5.1 Calculate** the Interest Revenue earned for the period ending 31 December 2011. 2 marks
- 1.5.2 Show** the entry required in the Cash Receipts Journal on 1 March 2012 to record the receipt of Interest and the Term Deposit (BS 23). 3 marks
- 1.6** At 31 December 2011 financial reports were prepared by the accountant. The accountant also provided the following information in response to Merinda's concerns about the cash flow of the business:

	31 December 2010	31 December 2011
Bank balance	(14 000)	(16 000)
Working Capital Ratio	1.42:1	1.45:1
Quick Asset Ratio	1.07:1	0.70:1

Required

- 1.6.1 Explain** what is meant by the term 'liquidity'. 2 marks
- 1.6.2** Apart from the increasing overdraft, **explain** why Merinda should be concerned about business liquidity. 2 marks
- 1.6.3 Explain** why stock and prepayments are excluded from the calculation of the Quick Asset Ratio. 2 marks
- 1.6.4** Excluding the ratios shown above, **identify** two other methods of monitoring business liquidity. 1 + 1 = 2 marks
- Total: 45 marks

Question 2

Mike's Bikes

For the purposes of Question 2.1 you are not required to consider GST.

Mike's Bikes is a small business owned and operated by Mike Dennis. The business sells a range of bicycles and records stock movements using the First In, First Out (FIFO) method.

To assist in managing cash, the accountant decides to prepare a cash budget. The following information is provided.

MIKE'S BIKES
Cash Flow Statement for the year ended 31 December 2011

Operating Activities		
Cash Sales	300 000	
Receipts from Debtors	<u>246 800</u>	546 800
Cash Purchases of Stock	(80 000)	
Payments to Creditors	(216 800)	
Wages	(86 400)	
Rent	(18 000)	
Interest Expense	(2 500)	
Prepaid Advertising Expense	(20 000)	
Customs Duty	(10 000)	
Vehicle Expenses	(16 000)	
Office Expenses	<u>(23 000)</u>	<u>(472 700)</u>
Net Cash provided by Operating Activities		74 100
Financing Activities		
Drawings	(78 000)	
Loan—Bank of Perth	<u>(12 000)</u>	
Net Cash used by Financing Activities	(90 000)	<u>(90 000)</u>
Net change in Cash		(15 900)
Bank Balance at 1 January 2011		<u>32 700</u>
Bank Balance at 31 December 2011		<u>16 800</u>

During the next year Mike expects the following to occur:

- Sales are expected to be \$640 000.
- Sales are usually 60% cash and 40% credit.
- Debtors at 1 January 2012 were \$34 000. The owner expects the balance at the end of the budgeted reporting period to be \$30 000.

- Creditors at 1 January 2012 were \$46 000. The owner expects to receive discounts to the value of \$6 000 and plans to reduce the balance owing at the end of the budgeted reporting period by \$6 000.
- Stock at 1 January 2012 was \$52 000. The owner expects to hold \$45 000 worth of stock at the end of the budget period.
- Cash Drawings are expected to remain at \$1 500 per week.
- Drawings of stock are generally \$5 000 per year and this is not expected to change
- Credit purchases of stock are expected to be \$200 000 and cash purchases of stock are expected to be \$120 000.
- It is expected that Wages of \$85 000 will be paid during the period.
- Accrued Wages at 31 December 2011 were \$3 200 and these will be paid in January 2012. Wages owing at 31 December 2012 are expected to be \$5 100.
- Prepaid Advertising Expense is expected to increase by \$4 000. Advertising is used at the rate of \$5 000 a quarter. This will increase to \$6 000 a quarter starting 1 July 2012.
- Loan Repayments and Interest Expense are expected to remain the same for 2012.
- All other cash expenses are expected to increase by 10%.
- Mike has had a policy of replacing Vehicles every 6 years. On 1 July 2012, Mike is due to dispose of the current Vehicle. This Vehicle was purchased on 1 July 2006 for \$35 000 and had an expected residual value of \$5 000. The new Vehicle is expected to cost \$50 000 and have a residual value of \$8 000. Mike will trade in the Vehicle at Max's Motors for \$5 000 and pay a deposit on the new Vehicle of \$5 000. The balance is due to be repaid at \$4 000 per month. All vehicles are depreciated using the straight-line method.
- Other estimates are:
 - Discount Expense—1% of credit sales
 - Depreciation Vehicle—\$6 000
 - Bad Debts—\$5 000
 - Stock Loss—1% of credit purchases of stock.

Required

- 2.1.1 Calculate** the expected receipts from Debtors for the year ended 31 December 2012. 2 marks
- 2.1.2 Calculate** the expected payments to Creditors for the year ended 31 December 2012. 2 marks
- 2.1.3 Calculate** the expected Cost of Sales for the year ended 31 December 2012. 3 marks
- 2.1.4 Complete** the Budgeted Cash Flow Statement for the year ended 31 December 2012 provided in the Answer Book. 5 marks
- 2.1.5 Complete** the Budgeted Profit and Loss Statement for the year ended 31 December 2012 provided in the Answer Book. 5 marks



2.2 Mike was concerned about the expected level of Bad Debts—it was the third year in succession that the amount of Bad Debts had increased.

Required

2.2.1 Provide two measures that the business could adopt to improve collection from Debtors. 1 + 1 = 2 marks

2.2.2 Explain how improving collections from Debtors may adversely affect liquidity. 2 marks

On 1 July 2012 Mike traded-in his old Vehicle for a new model (cost \$50 000 plus \$5 000 GST) as per the budgeted information above. One difference, however, was the value of the trade-in received. Max’s Motors provided \$3 500 for the trade-in.

Required

2.3.1 Show how the Disposal of Vehicle ledger account would appear after all relevant entries had been posted. 4 marks

2.3.2 Explain how a Loss on Disposal of Asset can occur. 2 marks

2.4 At the end of the budget period the accountant provided the following Cash Variance Report extract.

Item	Budget \$	Actual \$	Variance \$	F/U
Cash Sales	384 000	390 000		
Payments to Creditors	200 000		15 000	U
Drawings	78 000	70 000	8 000	
Capital	–	40 000		

Required

2.4.1 Complete the extract from the Cash Variance Report. 2 marks

2.4.2 Provide an explanation for the variances in Capital and Drawings. 2 + 2 = 4 marks

2.4.3 Explain one benefit of preparing a Cash Variance Report. 2 marks

2.5 At the conclusion of the budget period the accountant also provided the following information.

	2012	Industry Average 2012
Return on Owner's Investment	9%	11%
Net Profit Rate	7%	6%
Gross Profit Rate	47%	49%

Required

2.5.1 Evaluate the profitability of the business.

2 marks

2.5.2 Explain how the business can have a better Net Profit rate compared to the Industry Average despite a worse Gross Profit rate.

2 marks

2.6 Commencing July 2012 the business is planning on stocking a new line of stock—the Kuomi Mountain Bike.

On 4 July 2012 the business received its first shipment of this new stock item as part of its monthly delivery from Kuomi Ltd. The Invoice relating to the purchase was as follows.

Kuomi Ltd				
Warn Drive, Harbour Town				
ABN: 94 514 872 024				
Invoice:	K7			
Charge to:	Mike's Bikes	Date:	04/07/2012	
	Pedal Road			
	Melbourne			
Quantity	Item	Unit Price	Total Price	
15	Kuomi Mountain Bikes	200	3 000	
10	Kuomi Racing Bikes	250	2 500	
10	Kuomi Kids Special	150	1 500	
	GST (10%)		707	
35	Freight	2	70	
	Balance owing		\$7 777	
Terms:	2/14, n30			

Additional information:

- The whole stock was insured through AXA Insurance at a cost of \$297 (including \$27 GST). This amount was paid on 6 July 2012 (Chq 87).

Required

2.6.1 Classify the Freight and Insurance as either a product or a period cost using the table in the Answer Book.

2 marks

2.6.2 Using your answer to Question 2.6.1, **calculate** the cost of 1 Kuomi Mountain Bike.

1 mark

2.6.3 Record the information in Invoice K7 and Cheque 87 in the appropriate journals.

3 marks

Total: 45 marks



ACCOUNTING UNIT 4

Practice written examination 2011

Reading time: 15 minutes
Writing time: 1 hour 30 minutes

ANSWER BOOK

Instructions

- A question book is provided with this answer book.
- Answer all questions in the spaces provided in this book.
- Refer to the **Instructions** on the front cover of the question book.

Name Teacher

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Question 1

Care Bears

1.1

Cause
Explanation

1 + 2 = 3 marks

1.2.1

STOCK CARD: MADAGASCAR MOUSE

Date 2011	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
Oct. 1	Inv. K7	100	20	2 000				100	20	2 000
3	Rec. 74–78				30	20	600	70	20	1 400
7	Memo 5				5	20	100	65	20	1 300
15	Rec. 81–86				45	20	900	20	20	400
18	Inv. K33	100	22	2 200				20	20	
22	Inv. TT22–25				20	20		100	22	2 600
					20	22	840	80	22	1 760

**1.3.1
General Journal**

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$

2 marks

1.3.2

Accounting principle
Explanation

1 + 2 = 3 marks

**1.4.1
Cash Receipts Journal**

Date 2011	Particulars	Rec. No.	Bank	Disc. Exp.	Debtors	Cost Price	Sales	GST	Sundries

Sales Journal

Date 2011	Debtor	Inv. No.	Cost Price	Selling Price	GST	Total Debtors

1.5.2

Cash Receipts Journal

Date 2012	Particulars	Rec. No.	Bank	Disc. Exp.	Debtors	Cost Price	Sales	GST	Sundries

3 marks

1.6.1

Explanation

2 marks

1.6.2

Explanation

2 marks

1.6.3

Explanation

2 marks

1.6.4

Method 1
Method 2

1 + 1 = 2 marks

Total: 45 marks

Question 2

Mike's Bikes

2.1.1

DEBTORS CONTROL

Date 2011	Cross Reference	Amount	Date 2011	Cross Reference	Amount
Jan. 1	Balance	34 000			

2 marks

2.1.2

CREDITORS CONTROL

Date 2011	Cross Reference	Amount	Date 2011	Cross Reference	Amount
			Jan. 1	Balance	46 000

2 marks

2.1.3

STOCK CONTROL

Date 2011	Cross Reference	Amount	Date 2011	Cross Reference	Amount
Jan. 1	Balance	52 000			

3 marks

2.1.4

Budgeted Cash Flow Statement for the year ended 31 December 2012

Cash Flow from Operating Activities	\$	\$
Stock	(120 000)	
Wages	(85 000)	
Interest Expense	(2 500)	
Rent	(19 800)	
Customs Duty	(11 000)	
Vehicle Expenses	(17 600)	
<i>Cash Flow from Investing Activities</i>		
<i>Cash Flow from Financing Activities</i>		
Loan	(12 000)	
Drawings	(78 000)	

5 marks

2.1.5

Budgeted Profit and Loss Statement for the year ended 31 December 2012

Revenue	\$	\$
Sales		640 000
Less Cost of Goods Sold		
Cost of Sales	320 000	
Customs Duty	<u>11 000</u>	<u>331 000</u>
Rent	19 800	
Interest Expense	2 500	
Bad Debts	5 000	
Depreciation—Motor Vehicle	6 000	
Vehicle Expenses	17 600	

5 marks

2.2.1

Measure 1
Measure 2

1 + 1 = 2 marks

2.2.2

Explanation

2 marks

2.3.1

DISPOSAL OF VEHICLE

Date 2012	Cross Reference	Amount	Date 2012	Cross Reference	Amount

4 marks

2.3.2

Explanation

2 marks

2.4.1

Item	Budget \$	Actual \$	Variance \$	F/U
Cash Sales	384 000	390 000		
Payments to Creditors	200 000		15 000	U
Drawings	78 000	70 000	8 000	
Capital	–	40 000		

2 marks

2.4.2

Explanation—Capital
Explanation—Drawings

2 + 2 = 4 marks

2.4.3

Explanation

2 marks

2.6.3

Purchases Journal

Date 2012	Creditor	Invoice No.	Stock	GST	Total Creditors

Cash Payments Journal

Date 2012	Particulars	Chq No.	Bank	Disc. Rev.	Creditors	Stock	Wages	GST	Sundries

3 marks

Total: 45 marks

Solutions to Accounting Unit 4 practice exam 2011

Question 1

Care Bears

1.1

Cause Drawings of stock by the owner or stock used for advertising purposes.
Explanation Drawings are treated as a reduction in Owner's Equity as the business will no longer be able to sell the stock and it is an outflow of economic benefit that decreases assets.
Stock used for advertising is treated as an expense as it represents an outflow of economic benefit in the form of a decrease in assets (stock, which is no longer able to be sold) that leads to a decrease in Owner's Equity that is not drawings.

1 + 2 = 3 marks

1 mark for identification of possible cause—only 2 options available

2 marks for explanation—students should provide a definition of the appropriate accounting element in their response

1.2.1

STOCK CARD: MADAGASCAR MOUSE

Date 2011	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
Oct. 1	Inv. K7	100	20	2 000				100	20	2 000
3	Rec. 74-78				30	20	600	70	20	1 400
7	Memo 5				5	20	100	65	20	1 300
15	Rec. 81-86				45	20	900	20	20	400
18	Inv. K33	100	22	2 200				20	20	
22	Inv. TT22-25				20	20		100	22	2 600
					20	22	840	80	22	1 760
24	CN A3	5	22	110				85	22	1 870
27	CN 81				30	22	660	55	22	1 210

General Journal

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Oct. 24	Sales Returns	200			
	GST Clearing	20			
	Debtors Control		220		
	Debtor—C. Roberts				220
	Stock Control	110			
	Cost of Sales		110		
	Creditors Control	726			
	Creditor—Singh Imports			726	
	Stock Control		660		
	GST Clearing		66		

2 + 6 = 8 marks

1 mark for each entry in Stock Card

1 mark for Sales Returns

1 mark for GST Clearing

1 mark for Debtors Control/Debtor—C. Roberts

1 mark for Stock Control/Cost of Sales

1 mark for Creditors Control/Creditor—Singh Imports

1 mark for Stock Control/GST Clearing

1.2.2

Item: Credit Note A3	Increase/Decrease/No effect	\$
Cash Flow Statement	No effect	\$0
Profit and Loss Statement	Decrease (Revenue and Cost of Sales)	\$90
Balance Sheet	Assets Decrease	\$110
	Liabilities Decrease	\$20
	Owners Equity Decrease	\$90

4 marks

- 1 mark for Cash Flow Statement line
- 1 mark for Profit and Loss Statement line
- 1 mark for Assets line for Balance Sheet
- 1 mark for Liabilities line for Balance Sheet
- Owner's Equity line is consequential to Profit and Loss Statement entry

1.2.3

Qualitative characteristic Reliability
Explanation Information in records and reports should be based on documentary evidence.
This evidence is reliable and ensures that the information in reports is free from bias.

1 + 2 = 3 marks

- 1 mark for reliability
- 1 mark for reports based on evidence
- 1 mark for information is free from bias

1.3.1

General Journal

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Nov. 1	Stock Write-down	220			
	Stock Control		220		

2 marks

- 1 mark for each line of journal
- Amount will be consequential to quantity in Stock Card from Question 1.2.1

1.3.2

Accounting principle Conservatism
Explanation This requires losses to be recorded when probable. It is likely that the business will not be able to sell the stock at a price above cost so the loss is recognised now, rather than when the stock is actually sold.

1 + 2 = 3 marks

- 1 mark for conservatism
- 1 mark for recognise losses when probable
- 1 mark for record loss now rather than when stock is sold



1.4.1

Cash Receipts Journal

Date 2011	Particulars	Rec. No.	Bank	Disc. Exp.	Debtors	Cost Price	Sales	GST	Sundries
Nov. 17	Prepaid Sales Revenue	56	3 000						3 000

Sales Journal

Date 2011	Debtor	Inv. No.	Cost Price	Selling Price	GST	Total Debtors
Dec. 15	A2Z Child Care	CB 28	4 850	6 700	970	7 670

General Journal

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Dec. 15	Prepaid Sales Revenue	3 000			
	Sales		3 000		

1 + 2 + 2 = 5 marks

1 mark for entry in CRJ

1 mark for Date, Debtor, Invoice No. and Cost Price in SJ

1 mark for Selling Price, GST and Total Debtors in SJ

1 mark for each line in GJ

1.4.2

Explanation—Cash Flow Statement Reported as an Operating Activity inflow as it is an inflow of cash from carrying out the day-to-day activities of the business—buying and selling of stock.
Explanation—Balance Sheet Reported as a Current Liability as it represents a present obligation of the business that will result in an outflow of economic benefits within 12 months.

2 + 2 = 4 marks

1 mark for Operating Activity inflow

1 mark for identifying it is part of the day-to-day activities—buying and selling of stock

1 mark for Current Liability

1 mark for outflow of economic benefit within 12 months

1.5.1

<p>Workings</p> <p>10 000 x .12 = \$1 200 per annum</p> <p>Received \$600 for 1 March to 30 August—\$600</p> <p>Interest owing 1 September to 31 December—4 months = \$400</p> <div style="text-align: right; border: 1px solid black; padding: 5px; margin-top: 20px; width: fit-content;"> <p>Interest Revenue: \$ 1 000</p> </div>

2 marks

1 mark for \$600

1 mark for \$400

1.5.2

Cash Receipts Journal

Date 2012	Particulars	Rec. No.	Bank	Disc. Exp.	Debtors	Cost Price	Sales	GST	Sundries
Mar. 1	Term Deposit	BS 23	10 600						10 000
	Accrued Interest Revenue								400
	Interest Revenue								200

3 marks

1 mark for each line in journal

1.6.1

Explanation Liquidity is the ability of a business to meet its short-term financial commitments
as they fall due in the short-term.

2 marks

1 mark for meeting short-term financial commitments

1 mark for 'as they fall due'

1.6.2

Explanation The Quick Asset Ratio has decreased to the point where it is below 1:1 so the business
is unable to meet its 'quick' financial commitments.
While the Working Capital Ratio has improved, this is likely due to an increase in stock, which can be
difficult to sell quickly, meaning that liquidity may not have improved.

2 marks

1 mark for QAR deteriorated to below 1:1

1 mark for improvement in WCR due to increase in stock, which is difficult to sell quickly

1.6.3

Explanation Stock is excluded because it is not always possible to sell stock quickly, particularly
at its actual selling price. And once sold, more stock must be purchased.
Prepaid items are not always able to be recovered—it is not possible to convert Prepaid Rent into
cash without cancelling a rental agreement.

2 marks

1 mark for difficulty in selling stock quickly at actual selling price

1 mark for difficulty in converting prepaid items into cash

1.6.4

Method 1 Preparing a Cash Budget/monitoring Debtors Turnover.
Method 2 Creditors Turnover/Stock Turnover.

1 + 1 = 2 marks

1 mark for any two measures identified

Total: 45 marks

Question 2

Mike's Bikes

2.1.1

DEBTORS CONTROL

Date 2011	Cross Reference	Amount	Date 2011	Cross Reference	Amount
Jan. 1	Balance	34 000		Bank	252 440
	Sales	256 000		Discount Expense	2 560
				Bad Debts	5 000
				Balance	30 000
		290 000			290 000

2 marks

1 mark for Sales

1 mark for Discount Expense/Bad Debts

2.1.2

CREDITORS CONTROL

Date 2011	Cross Reference	Amount	Date 2011	Cross Reference	Amount
	Discount Revenue	6 000	Jan. 1	Balance	46 000
	Bank	200 000		Stock Control	200 000
	Balance	40 000			
		246 000			246 000

2 marks

1 mark for Stock Control

1 mark for Discount Revenue

2.1.3

STOCK CONTROL

Date 2011	Cross Reference	Amount	Date 2011	Cross Reference	Amount
Jan. 1	Balance	52 000		Drawings	5 000
	Creditors Control	200 000		Stock Loss	2 000
	Bank	120 000		Cost of Sales	320 000
				Balance	45 000
		372 000			372 000

3 marks

1 mark for Creditors Control/Bank

1 mark for Drawings

1 mark for Stock Loss

2.1.4

Budgeted Cash Flow Statement for the year ended 31 December 2012

Cash Flow from Operating Activities	\$	\$
Cash Sales	384 000	
Receipts from Debtors	<u>252 440</u>	636 440
Payments to Creditors	(200 000)	
Stock	(120 000)	
Wages	(85 000)	
Accrued Wages	(3 200)	
Prepaid Advertising Expense	(24 000)	
Interest Expense	(2 500)	
Rent	(19 800)	
Customs Duty	(11 000)	
Vehicle Expenses	(17 600)	
Office Expenses	<u>(25 300)</u>	508 400
Net Cash provided by Operating Activities		128 040
Cash Flow from Investing Activities		
Motor Vehicle—Sundry Creditor Max's Motors		(29 000)
Cash Flow from Financing Activities		
Loan	(12 000)	
Drawings	(78 000)	(90 000)
Net Cash provided		9 040
Cash at 1 January 2012		16 800
Cash at 31 December 2012		25 840

5 marks

1 mark for Cash Sales/Receipts from Debtors/Payments to Creditors

1 mark for Accrued Wages/Prepaid Advertising/Office Expenses

1 mark for Motor Vehicle/Sundry Creditor

1 mark for calculation of Cash at 31 December 2012

1 mark for formatting

2.1.5

Budgeted Profit and Loss Statement for the year ended 31 December 2012

Revenue	\$	\$
Sales		640 000
Less Cost of Goods Sold		
Cost of Sales	320 000	
Customs Duty	<u>11 000</u>	<u>331 000</u>
Gross Profit		309 000
Less Stock Loss		<u>2 000</u>
Adjusted Gross Profit		307 000
Add Other Revenue		
Discount Revenue		<u>6 000</u>
		313 000
Less Expenses		
Wages	90 100	
Rent	19 800	
Interest Expense	2 500	
Bad Debts	5 000	
Depreciation—Motor Vehicle	8 500	
Vehicle Expenses	17 600	
Office Expenses	25 300	
Discount Expense	2 560	
Advertising Expense	<u>22 000</u>	<u>193 360</u>
Net Profit		<u>119 640</u>

5 marks

1 mark for Stock Loss

1 mark for Discount Revenue

1 mark for Wages and Office Expenses (Office Expenses consequential to Question 2.1.4)

1 mark for Discount Expense/Advertising Expense

1 mark for Net Profit and formatting



2.2.1

Measure 1 Offer higher discounts/reminder calls.
Measure 2 Better credit checks/prompt invoicing.

1 + 1 = 2 marks

1 mark for each appropriate measure identified

2.2.2

Explanation Improving Debtors collections may be brought about by granting higher discounts. This will result in less cash being received and so fewer funds will be available to meet short-term financial debts.

2 marks

1 mark for increased discounts granted

1 mark for less cash received, thus worsening liquidity

2.3.1

Disposal of Vehicle

Date 2012	Cross Reference	Amount	Date 2012	Cross Reference	Amount
Jul. 1	Vehicle	35 000	Jul. 1	Accumulated Depreciation—Vehicle	30 000
				Sundry Creditor—Max's Motors	3 500
				Loss on Disposal of Vehicle	<u>1 500</u>
		35 000			35 000

4 marks

1 mark for each entry in ledger account

2.3.2

Explanation A loss on disposal of an asset occurs when the selling price/trade-in is less than the carrying value of the asset. This occurs if the asset has been under-depreciated due to an overestimation of the residual value and/or the useful life of the asset.

2 marks

1 mark for selling price less than carrying value

1 mark for over-depreciation due to underestimation of residual value or useful life

2.4.1

Item	Budget \$	Actual \$	Variance \$	F/U
Cash Sales	384 000	390 000	6 000	F
Payments to Creditors	200 000	215 000	15 000	U
Drawings	78 000	70 000	8 000	F
Capital	–	40 000	40 000	F

2 marks

1 mark for completing any two lines

2.4.2

Explanation—Capital The financial position of the business and/or liquidity position may have been poor and with financial commitments due, the owner may have contributed additional cash to allow the business to meet these commitments without taking out a loan that would incur interest.
Explanation—Drawings If the business is suffering from liquidity problems that require the owner to contribute capital, the owner may also reduce their drawings to assist in retaining cash in the business to meet the financial commitments.

2 + 2 = 4 marks

1 mark for business suffering liquidity problems

1 mark for owner contributing cash rather than taking out a loan

1 mark for business suffering liquidity problems requiring capital contribution

1 mark for reducing drawings to retain cash

2.4.3

Explanation Variance Reports allow the business to assess budgeting techniques and identify areas where the Cash Budget is not being met so that corrective action can be taken to maximise cash inflows or reduce cash outflows.

2 marks

1 mark for assessing budgeting techniques

1 mark for taking corrective action

2.5.1

Explanation The business has performed poorly overall in comparison with other businesses in the industry. Two of the three indicators show a worse performance by the business—ROI and GPR.

2 marks

1 mark for identifying that the business has performed worse

1 mark for identifying two ratios indicate a worse performance than the industry average

2.5.2

Explanation It is possible for the business to have a better NPR despite a worse GPR through better control of expenses. The difference between Gross Profit and Net Profit are expenses.
By controlling expenses, the business is able to generate more profit as a percentage of sales.

2 marks

1 mark for identifying better control of expenses

1 mark for identifying that expenses are the difference between Gross Profit and Net Profit

2.6.1

Expense	Product or Period Cost
Freight	Product
Insurance	Period

2 marks

1 mark for each correct response

2.6.2

<p>Workings</p> <p>200 + 2 = 202</p> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin-left: auto;"> <p>Unit cost: \$ 202.00</p> </div>

1 mark

Mark given for correct amount



2.6.3

Purchases Journal

Date 2012	Creditor	Invoice No.	Stock	GST	Total Creditors
Jul. 4	Kuomi Ltd	K7	7 070	707	7 777

Cash Payments Journal

Date 2012	Particulars	Chq. No.	Bank	Disc. Rev.	Creditors	Stock	Wages	GST	Sundries
Jul. 6	Insurance	87	297					27	270

3 marks

1 mark for Date, Details and Invoice No. in Purchases Journal

1 mark for amounts in Purchases Journal

1 mark for full entry in CPJ

Total: 45 marks