



INSIGHT
Trial Exam Paper

2011

ACCOUNTING

Written examination 2

QUESTION BOOK

Reading time: 15 minutes

Writing time: 90 minutes

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

Materials supplied

- The question book of 11 pages.
- The answer book of 13 pages.

Instructions

- Write your **name** in the space provided on the front page of the answer book.
- Answer both questions in the answer book.
- All written responses must be in English.

At the end of the examination

- You may keep this question book.

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

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Question 1

Charlie's Model Trains

Charlie Michaels owns and operates a small business, Charlie's Model Trains, which specialises in the sale of rare miniature train sets. The business uses the double entry accounting system based on the accrual method of accounting. Other features of Charlie's Model Trains accounting system are as follows.

- The business uses control accounts and subsidiary records for Debtors, Creditors and Stock.
- The perpetual method of stock recording and the FIFO cost assignment method are used.
- The business reports quarterly in March, June, September and December.

1.1 The following Non-Current Asset appeared in the Balance Sheet of Charlie's Model Trains on 31 December 2010:

	\$	\$
Display Equipment	50 000	
Less Accumulated Depreciation of Display Equipment	<u>15 000</u>	<u>35 000</u>

The following information was extracted from the journals and other records:

Cash Receipts Journal

Date 2011	Details	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of sales	Sales	GST	Sundries
Mar 31	Disposal of Display Equipment	67	1 000						1 000*

* Proceeds of the sale of Display Equipment that cost \$8000 when purchased on 1 April 2008.

Fixtures R Us	
ABN 234 567 980	
Date 31/3/11	Invoice No. 907
Sold to CHARLIE'S MODEL TRAINS	
Display Equipment as per Order 42	17 500
Installation fee	500
Plus GST	<u>1 800</u>
TOTAL DUE	\$19 800

All display equipment is to be depreciated at 30% per annum.

Required

- 1.1.1 Calculate** the depreciation expense on the Display Equipment for the quarter ending 31 March 2011.
2 marks
- 1.1.2 Show** how the following accounts will appear in the General ledger after all entries have been posted.
- Display Equipment
 - Accumulated Depreciation – Display Equipment
 - Disposal of Display Equipment
- (You are **not** required to balance the accounts.)
2 + 2 + 2 = 6 marks
- 1.1.3 Suggest** two reasons for the profit or loss on the disposal of the Display Equipment.
2 marks
- 1.1.4 Show** how the display equipment would appear in the Balance Sheet as at 31 March 2011.
2 marks
- 1.1.5 Explain** the difference between Creditors Control and a Sundry Creditor.
2 marks

- 1.2** The following table indicates the financial analysis of Charlie's Model Trains over the last 2 years ending 31 June:

	2010	2011
Gross Profit Ratio (Gross Profit/Sales)	51%	58%
Return on Assets (Net Profit/ Ave Total Assets)	40%	35%

Required

- 1.2.1 Explain** the trend in the Gross Profit Ratio from 2010 to 2011. **Explain** two factors that might account for this trend.
4 marks
- 1.2.2 Explain** the trend in the Return on Assets. Identify one **reason** for change.
3 marks
- 1.2.3 Explain** one limitation of using ratios to analyse the performance of Charlie's Model Trains.
2 marks

- 1.3** At 1 July 2011 the balance of stock held of the Eurostar 100 Model Train Set was recorded as follows:

Date	Item	Units on Hand	Cost price
1 July 2011	Eurostar 100 (purchased 13/6/11)	25	70
	Eurostar 100 (purchased 22/5/11)	10	65

During July the following transactions occurred in relation to this stock item.

Document A

Charlie's Model Trains			
231 Low St Highett 3190 ABN: 98 908 987 654			
Inv No: 23	Date 8/7/11		
Sold to	Preston Model Train Club		
<u>QTY</u>	<u>DESC.</u>	<u>COST</u>	<u>TOTAL</u>
15	Eurostar 100	140	\$2 100
		+ GST	210
TOTAL DUE		\$2 310	
Terms: 2/14, n/30			

Document B

Charlie's Model Trains	
231 Low St Highett 3190 ABN: 98 908 987 654	
Credit Note C5	Date: 14/7/11
To:	Preston Model Train Club
For:	10 Eurostar 100 train sets - faulty
Amount:	\$1 400
GST:	<u>\$140</u>
	\$1 540

Document C

European Model Train Importers	
231 High St Port Melbourne 3207 ABN: 89 809 789 456	
Credit Note 128	Date: 18/7/11
To:	Charlie's Model Trains
For:	10 Eurostar 100 train sets - faulty
Amount:	\$675
GST:	<u>\$67.50</u>
	\$742.50

Document D

Charlie's Model Trains	
Memo - 33	
Date -	31/7/11
Instruction:	Stocktake revealed 18 units of Eurostar 100 on hand
Signed:	<i>Charlie</i>

Required

- 1.3.1 Record** documents A, B, C, and D in the Stock Card for the Eurostar 100 train set.
- 5 marks
- 1.3.2 Record** Document B in the General Journal of Charlie's Model Trains. A narration is **not** required.

4 marks

On the 31st July 2011 Charlie's Model Trains received notification that a new model of Eurostar model train, the Eurostar 200, would be arriving in Australia in mid-August 2011. This model would supersede the Eurostar 100. Charlie decided that the remaining Eurostar 100 model trains could be sold for \$50. The business would also need to advertise this in the local paper, which would cost \$360 (plus \$36 GST).

Required

- 1.3.3 Record** any necessary stock write-down in the Stock Card provided for Question 1.3.1 (record as Memo 35).
- 2 marks
- 1.3.4 Prepare** the General Journal entry to record any stock write-down at 31 July 2011. A narration is required
- 3 marks
- 1.3.5 Explain** why the lower of cost or net realisable value rule is applied when valuing stock. **Identify** one accounting principle that supports your explanation.

2 + 1 = 3 marks

- 1.4** On 1 August 2011 Charlie's Model Trains purchased a new stock item, the Albuquerque Flyer. The Albuquerque Flyer will be purchased in 40 unit batches delivered monthly with other stock purchases. Details are as follows.

	\$	GST
Supplier's invoice price (per unit)	120	12
Packaging costs (per unit)	15	1.50
Insurance of stock in transit (per unit)	5	0.50
Monthly delivery costs – all stock purchases	350	35

Required

- 1.4.1 Calculate** the cost at which each unit of The Albuquerque Flyer will be recorded in the Stock Card.

1 mark

- 1.4.2 Explain**, using the information provided in **1.4** above, the difference between product and period costs.

2 + 2 = 4 marks

Total 45 marks

End of Question 1

Question 1 – continued
TURN OVER

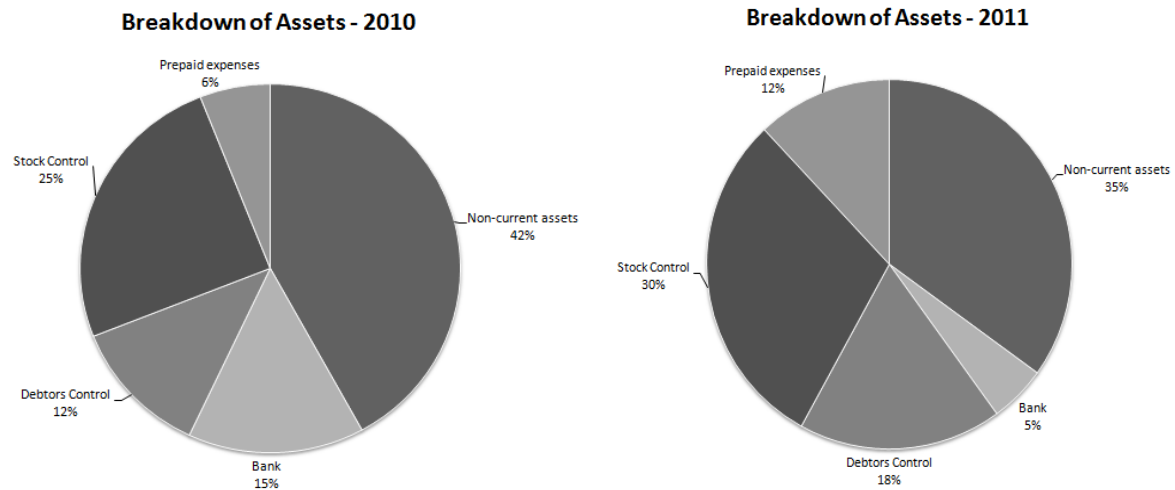
Question 2

Freya's Furniture

Freya Johnson owns and operates a small business, Freya's Furniture, selling a range of household furniture. Her accounting system is based on the double entry accrual system of recording and reporting. Other features of the accounting system are:

- The business uses control accounts and subsidiary records for Debtors, Creditors and Stock.
- Use of the perpetual method of stock recording and the FIFO method of cost assignment.
- The business completes accounting reports monthly.

2.1 The following pie chart provides a breakdown of the business' assets on 2010 and 2011.



Additional information:

	2010	2011
Debtors Turnover	22 days	27 days
Stock Turnover	21 days	33 days

Required

- 2.1.1 Explain** what is meant by the term liquidity. 1 mark
- 2.1.2 Explain** why the Debtors Turnover and Stock Turnover ratios are an effective measure of a business' liquidity. 4 marks
- 2.1.3 State** whether liquidity has improved, deteriorated or remained the same. Referring to at least **two assets** above, explain your answer. 1 + 4 = 5 marks

For the purposes of question 2.2 you are not required to consider GST.

- 2.2** Freya has provided you with the following information about the budgeted and actual cash receipts and payments for July 2011.

FREYA'S FURNITURE		
Profit and Loss Statement (extract) for the month ended 30 July 2011		
	Budgeted	Actual
Revenue		
Cash Sales	7 700	8 500
Credit Sales	2 500	2 800
Less Sales Returns	(125)	(140)
	10 075	11 160
Less Cost of Sales	6 120	6 780
GROSS PROFIT	3 955	4 380
Less stock loss	300	800
ADJUSTED GROSS PROFIT	3 655	3 580

Required

- 2.2.1** In your answer book, **complete** a Profit and Loss Variance Report (extract) for the month ending 30 July 2011, indicating size and direction of each of the variances. 5 marks
- 2.2.2 List** one reason for the variance in sales returns during July 2011 1 mark
- 2.2.3 Explain** how a Profit and Loss Variance report can be used to assist the future planning of a business. 2 marks

Question 2 – continued
TURN OVER

In addition to the Profit and Loss Statement extract for July 2011 (above) Freya provides the following information on the business' expected financial activities for August 2011.

From the Balance Sheet

	Actual 31 July 2011	Predicted 31 August 2011
	\$	\$
Balance of Stock Control	2 600	3 640
Balance of Debtors Control	2 400	2 800
Balance of Creditors Control	8 600	9 600
Balance of Bank account	3 210	3 900

From the Profit and Loss Statement

	Predicted August 2011
Cash Sales	will increase 10% on July figures
Credit sales	will increase 10% on July figures
Discount expense	\$120
Cost of Sales	60% of sales
Sales Returns	\$160
Stock loss	\$600
Discount revenue	\$150
Wages expense	\$1600
Bad debts	\$100
Cash operating expenses	\$200
Depreciation of vehicle	\$210

Additional information:

- All stock is purchased on credit.
- The business pays its rent (\$500 per month) 6 months in advance. It is scheduled to make its next payment on 1 August 2011.
- Freya has also confirmed that a line of stock did not sell. She will write his stock down by \$300 as a result.
- In August Freya expects to receive an order from Down Under Imports, who will pay \$3,000 in advance on the 12th August 2010. The business will supply the order on the 9th September 2011.
- Freya expects to take drawings of \$1,000 (cash), and \$250 (stock).

Required

2.2.4 Reconstruct the Debtors Control Account to **calculate** budgeted cash received from Debtors for August.

3 marks

2.2.5 Reconstruct the Stock Control and Creditors Control accounts to calculate budgeted cash payments to Creditors for August.

5+3 = 8 marks

2.2.6 Prepare a Budgeted Cash Flows from Operating Activities for the month ending 31 August 2011.

8 marks

2.2.7 Identify one disadvantage of producing monthly budgets.

1 mark

2.3 During September 2011 the business received \$2 000 plus \$200 GST from Blackburn Auto Sales. This amount was for the purchase of 4 office chairs, which Freya's Furniture agreed to supply in October. At the end of October 2011 Freya has supplied three of the four items. Freya applied a mark-up of 50% for this transaction.

Required

2.3.1 Show the General Journal entry required at 31 October 2010 to record the sales revenue earned.

(A narration is **not** required.)

4 marks

2.3.2 Referring to one qualitative characteristic, **explain** why a balance day adjustment is required for prepaid sales.

3 marks

Total 45 marks**END OF QUESTION BOOK**