

# First Class Trial Examinations 2012



## ACCOUNTING

### Written Examination 1

**Reading time: 15 minutes**

**Writing time: 1 hour 30 minutes**

## SOLUTIONS BOOK

### Structure of book

Number of questions	Number of questions to be answered	Number of marks
7	7	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 of 9 pages.
- Answer book of 10 pages.

#### **Instructions**

- Write your **student number** in the space provided on the front page of the answer book.
- Answer all 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 and/or any other unauthorised electronic devices into the examination room.**

### Question 1

a.

<b>Calculation</b> <i>Assets</i> $8,000+1,120+5,000=14,120$ <i>Less Liabilities</i> $1,250+1,300+1,700+8,000=12,250$	
<b>Owners Equity</b>	<b>\$ 1,870</b>

**1 mark**

b.

<b>Definition</b> <i>The residual interest in the assets of the entity after deducting all its liabilities belong to the owner.</i>

**2 marks**

1 mark for residual interest

1 mark for A-L

c.

<b>Explanation</b> <i>It may be due to a purchase of a significant non-current asset resulting in a large payment of GST to the supplier. This may then exceed the GST charged to customers resulting in the business being able to claim the balance back from the ATO.</i>

**3 marks**

1 mark for Purchase of NCA or Increase in stock levels

1 mark for incurring large amount of GST

1 mark for more than GST charged to customers

d.

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
Mar 1	Stock Control	8 000			
	GST Clearing	1 120			
	Equipment	5 000			
	Bank		1 250		
	Creditors Control		3 000		
	-Farm Fresh				1 300
	-Cows Plus				1 700
	Loan AZN		8 000		
	Capital		1 870		

5 marks

1 mark for debiting Bank, Stock Control and Equipment

1 mark for GST Clearing entry

1 mark for Creditors Control

1 mark for 2 Subsidiary entries

1 mark for Loan and Capital

## Question 2

a.

### Cash Receipts Journal

Date 2012	Details	Rec No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sun- dries	GST
June30	Totals to date		20657	180	8 420	4 350	9 470	2000	947
	Packman	287	490	10	500				
	Totals		21147	190	8 920	4 350	9 470	2000	947

### Cash Payments Journal

Date 2012	Details	Chq No.	Bank	Disc. Rev.	Creditors Control	Stock Control	Wages	Sun- dries	GST
June30	Totals to date		7480	360	3 800	2 000	890	950*	200
	Prepaid Insurance	127	2640					2400	240
	Totals		10120	360	3 800	2 000	890	3350	440

\*Drawings

**Sales Journal**

Date 2012	Debtor	Invoice No.	Cost of Sales	Sales	GST	Debtors Control
June30	Totals to date		6 370	12400	1 240	13 640
	<i>C Sloan</i>	<i>6754</i>	<i>25</i>	<i>50</i>	<i>5</i>	<i>55</i>
	<i>Totals</i>		<i>6395</i>	<i>12450</i>	<i>1245</i>	<i>13695</i>

**Purchases Journal**

Date 2012	Creditor	Invoice No.	Stock	GST	Creditors Control
June30	Totals		8 900	890	9 790

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
<i>June30</i>	<i>Bad Debts</i>	<i>65</i>			
	<i>Debtors Control</i>		<i>65</i>		
	<i>C Reidy</i>				<i>65</i>
	<i>Electricity</i>	<i>400</i>			
	<i>Accrued Electricity</i>		<i>400</i>		
	<i>Wages</i>	<i>350</i>			
	<i>Creditors Control</i>		<i>350</i>		
	<i>M Hince</i>				<i>350</i>

**12 marks**

1 mark for each line

1 mark for totaling special journals

**b.**

<b>Principle</b>	<i>Reporting Period</i>
<b>Explanation</b>	<i>The life of the business should be broken up into equal reporting periods with revenue earned matched against expenses incurred in earning that revenue in those periods in order to determine Net profit. As the electricity has been used up in that period we should recognize this expense as well as the future obligation to pay for it.</i>

**3 marks**

1 mark for reporting period

1 mark for discussion of profit or performance

1 mark for linking back to question

**c.**

<b>Explanation</b> <i>The special journals are used to sort and classify similar transactions</i>
<i>This enables a business to total frequent transactions and post these totals to the general ledger.</i>
<i>Posting is then easier and faster with fewer entries required.</i>

**2 marks**

1 mark for reference to grouping of transactions

1 mark for how it helps with posting to the general ledger accounts

**d.**

<b>Explanation</b> <i>The general journal narration provides the details of the source document</i>
<i>enabling an audit trail to be followed from the items in the reports to the ledgers, journals then</i>
<i>back to the source document.</i>

**2 marks**

1 mark for the narration

1 mark for reference to tracing back to source document or audit trail

e.

**GST CLEARING**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
Jun30	Bank	440	Jun 1	Balance	2 500
	Creditors Control	890	30	Bank	947
	Balance			Debtors Control	1 245
		<u>4 692</u>			<u>4 692</u>
			July1	Balance	

**Debtors Control**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
Jun 1	Balance	1 600	Jun30	Bank / Disc Expense	8 920
30	Sales / GST Clearing	13 695		Bad Debts	65
				Balance	6 310
		<u>15 295</u>			<u>15 295</u>
July 1	Balance	6 310			

**5 marks**

- 1 mark for the Debit entries in the GST Clearing account
- 1 mark for the Credit entries in the GST Clearing account
- 1 mark for the Debit entry in the Debtors Control account
- 1 mark for the Credit entry in the Debtors Control account
- 1 mark for correctly balancing both accounts

f.

<b>Description</b>	<i>The GST Clearing show a credit balance meaning it is a current liability</i>
	<i>It represents a present obligation to the ATO expected to result in an outflow of economic benefits when the business settles its GST debt within the next 12 months</i>

**2 marks**

- 1 mark for current liability
- 1 marks for present obligation to the ATO

**Question 3**

**a. FOOTBALLS**

Date 2012	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
June 1	Balance							12	50	600
9	Inv 22				10	50	500	2	50	100
15	Inv 4812	20	51	1 020				2	50	100
								20	51	1 020
19	Memo 2				1	50	50	1	50	50
								20	51	1 020
29	Inv 24				1	50	50			
					14	51	714	6	51	306
30	Memo 4	1	51	51				7	51	357

**6 marks**

1 mark per entry

Maximum minus 1 per repeated error e.g. adding GST or incorrect details

**b.**

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
June 19	Advertising	50			
	Stock Control		50		
	Donated 1 football to local club (Memo 2)				

**3 marks**

1 mark per line

Narration must include source document, stock item and quantity

**c.**

**Simkiss Sports**

**Income Statement (extract) for the year ended 30 June 2012**

Revenue	\$	\$
Sales		2 740
Less Cost of Goods Sold		
Cost of Sales	1 384	
Freight In	100	1 484
Gross Profit		1 256
Plus Stock Gain		21
Adjusted Gross Profit		1 235

**5 marks**

**Question 4**

**a.**

<b>Discussion</b>	<i>The vehicle should be recorded in the books of Keenan Kites at \$40,000 as this is relevant to the entity and is based on an independent experts valuation.</i>
	<i>The original cost to the other company, although reliable as it would be verifiable with source documents, is not relevant to this entity</i>

**4 marks**

1 mark for identifying \$40,000

1 mark for relevance with the student 'going further' by way of discussion

1 mark for exploring reliability

**b.**

<b>Explanation</b>	<i>Assets(Accumulated depreciation) would be overstated in the balance sheet as would the Net profit under owners equity.</i>
	<i>Depreciation expense would be understated therefore overstating Net Profit.</i>
	<i>There would be no affect on Cash flow</i>

**3 marks**

1 mark each for affect on Assets, Owners Equity and Net Profit.

**c.**

<b>Calculation</b>	
<i>40 000 – 25 000=</i>	
<i>15 000/5=</i>	
<b>Annual Depreciation</b>	<b>\$ 3 000</b>

**1 mark**

**d.**

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
<i>June 19</i>	<i>Depreciation - Vehicle</i>	<i>1 500</i>			
	<i>Accumulated Depreciation - Vehicle</i>		<i>1 500</i>		

**3 marks**

1 mark for each account

1 mark for amount (recognizing that it is half a year)



**Question 5**

**a.**

<b>Discussion</b>	<i>A discount will encourage debtors to pay faster.</i>
	<i>The business will therefore have the cash earlier enabling it to use that money elsewhere perhaps to pay off interest bearing debts of purchase more stock.</i>
	<i>It also reduces the chances of bad debts with the time debtors are outstanding being reduced.</i>
	<i>However, less cash will be received by the business than would have otherwise been received.</i>
	<i>Discounts to debtors are an expense thereby decreasing net profit when given.</i>
	<i>If a business can use the cash profitably or sees a risk of bad debts it should offer discounts for prompt payment.</i>

**5 marks**

**1 mark for each valid point made. Students must look at both reasons for and against.**

**b.**

**Debtor – J Graham**

<b>Date</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date</b>	<b>Cross-reference</b>	<b>Amount</b>
<i>Jun 1</i>	<i>Balance</i>	<i>7 400</i>	<i>Jun11</i>	<i>Bank</i>	<i>2 000</i>
<i>4</i>	<i>Sales / GST Clearing</i>	<i>2 200</i>	<i>18</i>	<i>Bank / Disc Expense</i>	<i>5 400</i>

**4 marks**

1 mark per entry

**Question 6**

**a.**

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
June 30	Insurance Expense	440			
	Prepaid Insurance		440		
	Interest Expense	100			
	Accrued Interest		100		
	Depreciation - Vehicle	15 500			
	Accumulated Depreciation - Vehicle		15 500		

**6 marks**

1 mark for each entry

**b.**

<b>Reason</b> <i>Of the prepaid insurance not all has been incurred as an expense.</i>
<i>OR The purchasing of vehicles decreased cash more than the depreciation expense.</i>

**1 mark**

**c.**

<b>Evaluation:</b> <i>Balance day adjustments enable a business to better match revenue earned with expenses incurred in a reporting period. This allows comparability over time to enhance decision making in regards to the performance of the business.</i>
<i>However, balance day adjustments could be seen as unreliable as they are not easily verified with source documents. They also take more record keeping thereby imposing more costs on the business. Overall the benefits of an accrual accounting system should outweigh the costs.</i>

**4 marks**

1 mark for each point made. Students must address both a positive and negative aspect as well as making an overall statement in order to obtain full marks.

**Question 7**

a.

**Profit and Loss Summary**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
Jun30	Total Expenses	90 800	Jun30	Total Revenue	133 100
	Capital	42 300			
		133 100			133 100

**4 marks**

1 mark for expenses amount

1 mark for revenue amount

1 mark for these entries being made correctly

1 mark for capital entry

-1 for not totaling the account

b.

**Faull Fish and Chips**

**Cash flow Statement (extract) for the year ended 30 June 2012**

<i>Operating activities</i>	\$	\$
<i>Inflows – Cash Sales</i>	130 000	
<i>Receipts from debtors</i>	3 000	
<i>GST received from customers</i>	13 000	146 000
<i>Outflows – Cash purchase of stock</i>	74 000	
<i>Payment to creditors</i>	16 400	
<i>Wages paid</i>	9 000	
<i>Advertising paid</i>	600	
<i>GST paid to suppliers</i>	7 460	
<i>GST Settlement with ATO</i>	4 200	111 660
<i>Net Cash Flows from Operating Activities</i>		34 340

**4 marks**

1 mark for any 3 items times 3

1 mark for Net cash line