

COMMERCE PRESENTATIONS AND PUBLICATIONS



Figures								Letter
Words								

**VCE ACCOUNTING 3/4**  
**2019**

**CPAP Practice Examination No. 1**

Reading time: 15 minutes

Writing time: 2 hours

**QUESTION BOOK**

**Structure of book**

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of Marks</i>
8	8	100

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners, rulers, and a 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 11 pages.
- Answer book of 15 pages.

**Instructions**

- Answer all questions in the answer book.
- All written responses must be in English.

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

**Question 1 – Rashida’s Roller Skates (6 marks)**

Rashida Tlaib is the owner of Rashida’s Roller Skates, a business that prepares their reports on a half-yearly basis on 30 June and 31 December.

Rashida’s accountant has presented her with the following Balance Sheet as at 31 December 2019.

**Rashida’s Roller Skates  
Balance Sheet as at 31 December 2019**

	\$	\$		\$	\$
<b>Current Assets</b>			<b>Current Liabilities</b>		
Bank	15 140		Accrued Advertising	860	
Accounts Receivable	9 460		Accounts Payable	3 300	
Inventory	23 000		GST Payable	102	
Prepaid Rent Expense	1 800	49 400	Loan – MNC Bank	3 000	7 262
<b>Non-Current Assets</b>			<b>Non-Current Liabilities</b>		
Equipment	46 700		Loan – CCA Bank		10 500
Less: Accumulated Depreciation	16 400	30 300	<b>Owner’s Equity</b>		
			Capital	68 528	
			Less: Net Loss	4 090	
			Less: Drawings	2 500	61 938
<b>Total Assets</b>		79 700	<b>Total Equities</b>		79 700

- a. Referring to the definition of an asset, distinguish between the asset of inventory and equipment.  
2 marks
- b. Justify, with the use of one example, how the Balance Sheet satisfies the accrual basis assumption.  
2 marks
- c. From the information provided in the balance sheet, prepare the two transfer entries that would have been required in the General Journal on 31 December 2019.  
Narrations are **not** required.  
2 marks

**Question 2 – Foley’s Flags (9 marks)**

The following inventory card relates to the ‘Winx’ flag that Foley’s Flags sells for \$50 plus GST each.

<b>Item: ‘Winx’ Flag</b>		<b>Supplier: STC</b>								
<b>Location: Rosehill</b>		<b>Cost Assignment Method: FIFO</b>								
<b>Date 2019</b>	<b>Details</b>	<b>IN</b>			<b>OUT</b>			<b>BALANCE</b>		
		<b>Qty</b>	<b>Cost</b>	<b>Total</b>	<b>Qty</b>	<b>Cost</b>	<b>Total</b>	<b>Qty</b>	<b>Cost</b>	<b>Total</b>
01/01	Balance							6	15	90
02/01	Rec.638				2	15	30	4	15	60
09/01	Inv.992	15	18	270				4	15	60
								15	18	270
13/01	Inv.321				4	15	60			
					1	18	18	14	18	252
18/01	Memo 87				1	18	18	13	18	234
20/01	C/N.25	1	15	15				1	15	15
		2	18	36				15	18	270
23/01	C/N.76				3	18	54	1	15	15
								12	18	216
24/01	Inv.329				1	15	15			
					2	18	36	10	18	180
28/01	Inv.998	15	20	300				10	18	180
								15	20	300
31/01	Memo 90	1	20	20				10	18	180
								16	20	320
31/01	Memo 91				6	13	78	6	5	30
								4	18	72
								16	20	320

Memo 91 is the result of a net realisable value calculation.

- Define the term net realisable value and state one reason why the net realisable value of the 6 ‘Winx’ flags has fallen below their original cost price. 2 marks
- Calculate the Adjusted Gross Profit from the sale of the ‘Winx’ flag for January 2019. 5 marks
- Explain the benefit of reporting an Adjusted Gross Profit in an Income Statement. 2 marks

### Question 3 – Winona’s Warehouse (27 marks)

Winona Hopkins owns Winona’s Warehouse, a business that uses the Identified cost assignment method.

On 15 February 2019 Winona’s Warehouse’s bank statement showed a \$30 000 loan transfer from MNC Bank for the purchase of a forklift had been received.

On 16 February 2019 Winona’s Warehouse purchased a forklift from Forklifts R Us with cheque 419. The total cost of the forklift was \$29 700 including GST and included the delivery fee of \$500 and a 12-month service agreement of \$600.

- a. Record the transactions from the 15 February and 16 February in the General Journal of Winona’s Warehouse.

Narrations are **not** required.

6 marks

- b. Referring to your answer in part a., explain your treatment of the 12-month service agreement in determining the cost price of the forklift.

2 marks

On 18 February 2019 one of Winona’s employees received an inquiry for 80 ‘Early Riser’ alarm clocks from the Harbour View Hotel.

The inventory card showed that there were only 20 ‘Early Riser’ alarm clocks on hand. Each of these 20 ‘Early Riser’ alarm clocks had a cost price of \$28.

- c. State one advantage and one disadvantage of Winona’s Warehouse a small amount of inventory on hand at any point in time.

2 marks

The employee told the Harbour View Hotel that she would order more of the ‘Early Riser’ alarm clocks and have them ready for collection within 7 business days.

The Harbour View Hotel agreed to this and paid a \$1 100 cash deposit at the warehouse and were issued with receipt 2387 on 18 February 2019.

- d. Record receipt 2387 in the General Journal of Winona’s Warehouse.

A narration is **not** required.

2 marks

- e. Explain how internal controls can be used to improve the accounting process of Winona’s Warehouse. Use a specific example in your response.

2 marks

**Question 3 – continued**

On 20 February 2019 Winona's Warehouse purchased 100 'Early Riser' alarm clocks for \$33 including GST each and 50 'Spotlight' torchers for \$44 including GST each on credit from Vandelay Industries and were issued invoice 1017.

- f. Record invoice 1017 in the General Journal of Winona's Warehouse.

A narration is not required

2 marks

- g. Explain why Winona's Warehouse would be better suited using the First In, First Out cost assignment method instead of the Identified cost assignment method.

2 marks

On 24 February 2019 Winona's Warehouse packed the 80 'Early Riser' alarm clocks, together with invoice 183 showing the \$4 180 amount owing, ready for collection.

The cost of the 80 'Early Riser' alarm clocks sold to Winona's Warehouse was \$2 380.

- h. Record invoice 183 in the General Journal of Winona's Warehouse.

A narration is not required

5 marks

- i. Explain why the value of the 'Early Riser' alarm clock reported in the Balance Sheet may be higher using the First In, First Out cost assignment method compared to the Identified cost assignment method.

2 marks

Winona is thinking of introducing self-service barcode checkouts in her warehouse.

- j. Explain one ethical issue Winona should consider before making her final decision.

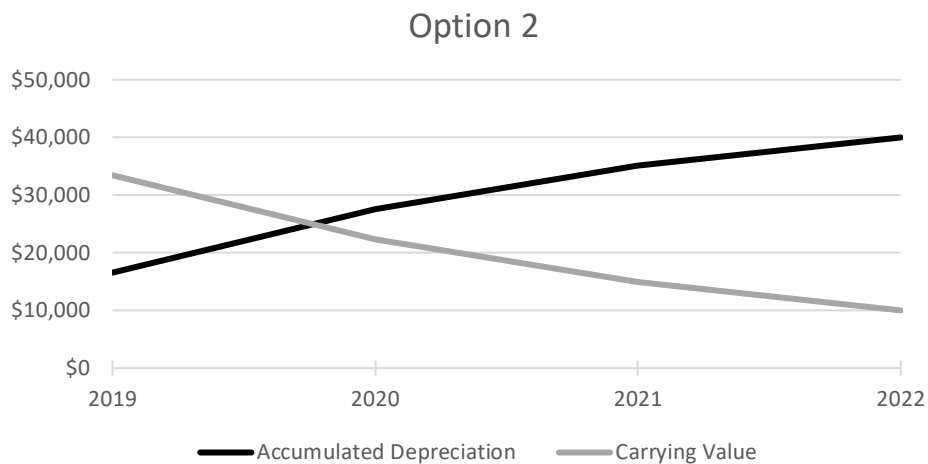
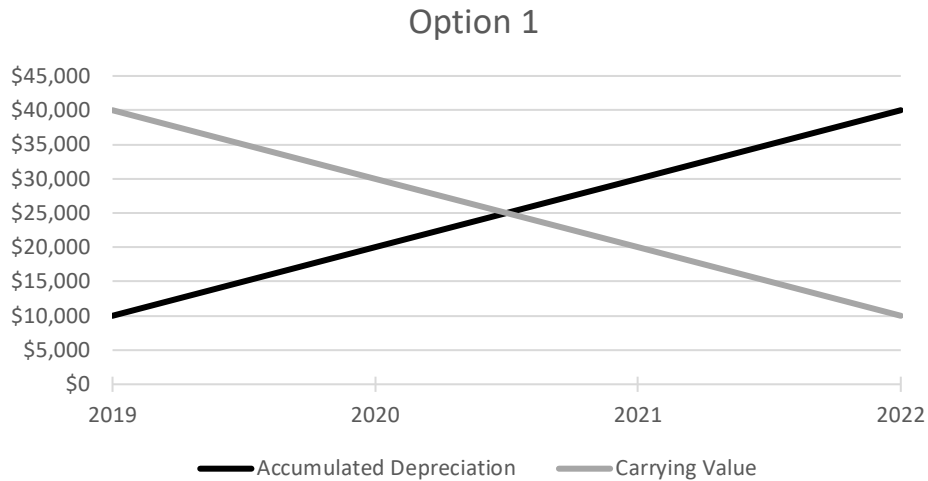
2 marks

### Question 4 – Gurveen’s Garments (15 marks)

Gurveen Brar is the owner of Gurveen’s Garments, a business that prepares their reports annually on 30 June.

On 1 July 2018 the business purchased a Van for \$55 000 including GST.

In determining the appropriate depreciation method for the Van, the accountant has provided the following estimates.



- a. Calculate the depreciable value of the Van.

1 mark

Gurveen has decided to select Option 1 to depreciate the Van.

- b. Justify why Gurveen should have chosen Option 2.

2 marks

On 30 June 2021 Gurveen sold the Van for \$25 000 cash.

- c. Prepare all the necessary General Journal entries required on 30 June 2021 in relation to the Van.

Closing entries and narrations are **not** required.

10 marks

- d. Referring to your answer in part c., explain why a profit or loss from the sale of the Van occurred.

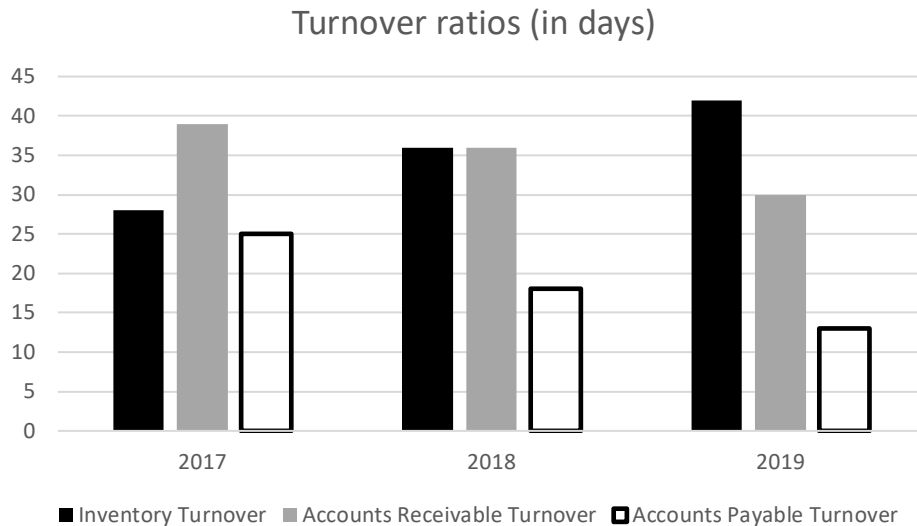
2 marks

### Question 5 – Bailey’s Books (7 marks)

Bailey Cohen owns Bailey’s Books, a small business that offers customers credit terms of 2/7, n/30.

Bailey has negotiated credit terms of 2/7, n/21 with his supplier.

Bailey has been presented with the following.



- a. State if the trend in the Inventory Turnover. 1 mark
  
- b. Discuss one strategy to improve the Accounts Receivable Turnover. 3 marks
  
- c. Explain the effect of the trend in the Accounts Payable Turnover on the liquidity of Bailey’s Books. 2 marks
  
- d. State one other benchmark Bailey could use to assess the liquidity of his business. 1 mark

**Question 6 – Kimberley’s Kettles (21 marks)**

Kimberley Chi owns Kimberley’s Kettles, a small business that prepares reports on an annual basis. Kimberley has employed you to complete the budgeting process for the year ended 30 June 2020. Her accountant has provided the following Balance Sheets.

<b>Kimberley’s Kettles Balance Sheet</b>	<b>Actual 30 June 2019</b>	<b>Budgeted 30 June 2020</b>
<b>Current Assets</b>		
Bank	38 650	8 160
Accounts Receivable	12 650	15 000
Inventory	13 000	25 000
Prepaid Rent Expense	12 000	13 200
	76 300	61 360
<b>Non-Current Assets</b>		
Equipment	18 000	38 000
Less: Accumulated Depreciation	(10 800)	(15 000)
Van	50 000	50 000
Less: Accumulated Depreciation	(25 500)	(32 850)
	31 700	40 150
<b>Total Assets</b>	<b>108 000</b>	<b>101 510</b>
<b>Current Liabilities</b>		
Accounts Payable	19 800	10 000
Accrued Wages	-	2 000
GST Clearing	910	1 250
Loan – MNC Bank	8 000	8 000
Unearned Sales Revenue	-	3 000
	28 710	24 250
<b>Non-Current Liabilities</b>		
Loan – MNC Bank	32 000	24 000
<b>Owner’s Equity</b>		
Capital	60 550	62 290
Plus: Net Profit	14 240	20 970
Less: Drawings	27 500	30 000
	47 290	53 260
<b>Total Equities</b>	<b>108 000</b>	<b>101 510</b>

**Question 6 – continued**



Kimberley has asked you to use the following information to complete the budgeting process for the year ended 30 June 2020.

- Total Sales \$300 000 plus GST
  - Credit Sales 70% of Total Sales
  - Sales Returns \$4 400 including GST
  - Mark-Up 100%
  - Inventory Purchases \$165 000 plus GST (all on credit)
  - Inventory Loss \$3 000
  - Discount Revenue \$5 000
  - Advertising Expense \$20 000 (includes \$2 000 of Inventory)
  - All non-current assets are purchased using cash
  - Depreciation Expense – Equipment \$4 200
  - Depreciation Expense – Van \$7 350
  - Quarterly Loan Repayments \$2 500 including \$500 interest
  - General Expenses \$25 000 plus GST
  - Rent Expense \$30 480
  - Wages Expense \$40 000
  - GST Paid \$9 468
  - GST Settlements \$3 292
  - All transactions between Kimberley and the business involve cash
- a. Reconstruct the Accounts Receivable ledger in order to calculate budgeted Receipts from Accounts Receivable for the year ended 30 June 2020. 3 marks
- b. Reconstruct the Accounts Payable ledger in order to calculate budgeted Payments to Accounts Payable for the year ended 30 June 2020. 3 marks
- c. Prepare the Budgeted Cash Flow Statement for the year ended 30 June 2020. 13 marks
- d. Referring to the timeliness qualitative characteristic, explain the limitation of Kimberley using a Cash Variance Report as a basis for decision-making. 2 marks

**Question 7 – Tania’s Tents (9 marks)**

Tania Sun is the owner of Tania’s Tents, a small business that prepares reports on a half-yearly basis on 30 June and 31 December.

Tania has provided the following Pre-Adjustment Trial Balance extract as at 31 December 2019.

**Tania’s Tents****Pre-Adjustment Trial Balance (extract) as at 31 December 2019**

<b>Account</b>	<b>Debit</b>	<b>Credit</b>
Accounts Receivable	16 500	
Accumulated Depreciation - Van		11 100
Allowance for Doubtful Debts		840
Cash Sales		47 500
Credit Sales		58 000
Sales Returns	3 500	
Van	40 000	

**Additional information**

- At 31 December 2019, Donna Buang’s outstanding debt of \$990 including GST needs to be written off.
  - Based on historical data, Tania has a policy to report 2% of Net Credit Sales as a doubtful debt for each period.
  - The Van was purchased on 1 July 2018. It has an effective life of 4 years and a residual value of \$10 000. The Van is depreciated using the reducing balance method at a rate of 30% per annum.
- a. Complete the Allowance for Doubtful Debts account in the General Ledger as at 31 December 2019.

4 marks

- b. Calculate and explain the effect on the accounting reports of Tania’s Tents as at 31 December 2019 if the Van was depreciated using the straight-line method instead of using the reducing balance method.

5 marks

**Question 8 – Eleni’s Electronics (6 marks)**

The accountant of Eleni’s Electronics has provided the following information.

<b>Indicator</b>	<b>2018</b>	<b>2019</b>
Asset Turnover	175%	250%
Cash Flow Cover	15 times	9 times
Debt Ratio	50%	70%
Return on Assets	17.5%	20%

Discuss the effects that the trend in the Debt Ratio has had on Eleni’s Electronics.

**100 marks**

**END OF QUESTION BOOKLET**