

ACCOUNTING

Units 3 & 4 – Written examination

TSSMTM
Creating VCE Success

(TSSM's 2017 trial exam updated for the current study design)

SOLUTIONS

Question 1

18 marks

a.

General Journal

Date	Details	General Ledger	
		Debit	Credit
2019			
1/9	Depreciation – Delivery Vehicle	1 800	
	Accumulated Depreciation – Delivery Vehicle		1 800
	Disposal of Delivery vehicle	25 000	
	Delivery Vehicle		25 000
	Accumulated Depreciation – Delivery Vehicle	13 200	
	Disposal of Delivery Vehicle		13 200
	Bank	5 000	
	Disposal of Delivery Vehicle		5 000
	Loss on Disposal of Delivery Vehicle	6 800	
	Disposal of Delivery Vehicle		6 800
	Delivery Vehicle	32 900	

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	Prepaid Registration	900	
	Roadside Assistance	200	
	GST Clearing	3 400	
	Bank		37 400

12 marks

- b.** Depreciation represents the allocation of the cost of a non-current asset over its useful life. The reporting period principle and accrual accounting require a business to match revenue earned against expenses incurred to ensure that an accurate profit is determined. As an asset contributes to revenue over its useful life, depreciation allocates the expense of the asset over its useful life - so some allocation occurs each reporting period.

3 marks

1 mark for allocation of the cost of a non-current asset over its useful life

1 mark for accrual accounting requiring a business to match revenue earned to expenses incurred

1 mark for calculate an accurate profit over the useful life of the asset

- c.** The reducing balance method allocates more depreciation at the start of a non-current assets life based on the assumption that the vehicle will provide less revenue earning capacity later in its life. This is based on wear and tear reducing its capacity to earn revenue. The straight line method is more appropriate for assets that contribute evenly to earning revenue over their life. When we are matching expenses incurred to revenue earned it is important that we have the method that most accurately represents the contribution to revenue by the asset.

3 marks

1 mark for matching depreciation expense to the revenue earning pattern of the non-current asset

1 mark for vehicle will contribute less to revenue earning as wear and tear impacts it over its life

1 mark for reducing balance which allocates greater cost at the start of the assets useful life as opposed to straight line which allocates the cost equally over its useful life

Question 2

14 marks

a.

Accounts Receivable

Date 2019	Cross-reference	\$	Date 2019	Cross-reference	\$
1/12	Balance	16 550	31/12	Sales Returns/GST Clearing	704
31/12	Sales/GST Clearing	35 200		Allowance for Doubtful Debts/GST Clearing	1 050
				Bank	16 550
				Balance	33 496
		51 750			51 750

4 marks

*1 mark for opening and closing balances**1 mark for Sales/GST Clearing**1 mark for Sales Returns/GST Clearing**1 mark for Allowance for Doubtful Debts/GST Clearing and Bank*

- b. Faithful representation requires a business to recognise the real world economic event that it claims to represent. Bad debts increase expenses and reduce profit which reduces owner's equity while the reduction in accounts receivable reduces non-current assets.

2 marks

*1 mark for faithful representation**1 mark for definition of faithful representation**Answer must refer to bad debts for 2 marks*

c.

Scooby's Scooters

Budgeted Income Statement for month ended 31 December 2019

Revenue	\$	\$
Cash Sales	48 000	
Credit Sales	32 000	80 000
Less Sales Returns	<u>640</u>	79 360
Less Cost of Goods Sold		
Cost of Sales		<u>39 680</u>
Gross Profit		39 680

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Less Inventory Loss		<u>1 000</u>
Adjusted Gross Profit		38 680
Plus Other Revenue		
Interest Revenue		<u>25</u>
		<u>38 705</u>
Less Other Expenses		
Bad Debts	960	
Wages	11 000	
Depreciation - Equipment	160	
Rent expense	1 000	13 120
Net Profit		<u>25 585</u>

8 marks

1 mark for Format

1 mark for Sales

1 mark for Cost of Sales

1 mark for Interest Revenue

1 mark for Bad Debts

1 mark for Wages

1 mark for Depreciation – Equipment

1 mark for Rent expense

Question 3

9 marks

a.

General Journal

Date	Details	General Ledger	
		Debit	Credit
2019			
1 July	Delivery Vehicle	15 000	
	Inventory	35 000	
	Shop Fittings	12 000	
			12 000
			50 000
			Capital

4 marks

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1 mark for Delivery Vehicle

1 mark for Inventory

1 mark for Shop Fittings

1 mark for Loan – Harvey Bank and Capital

- b.** The bank overdraft is not included in the accounts as it has no impact on the accounting equation. It is an allowance by the bank to have a negative bank balance but there is no cash movement.

2 marks

1 mark for not including it in the accounts as it has no impact on the accounting equation

1 mark for it being an allowance by the bank to have a negative bank balance

- c.** Accrual accounting refers to the accounting method by which revenue is recorded when earned and expenses when incurred to ensure that accurate profit is calculated.

3 marks

1 mark for revenue recorded when earned

1 mark for expenses recorded when incurred

1 mark for calculating an accurate profit

Question 4

8 marks

a.

General Journal

Date	Details	General Ledger	
		Debit	Credit
2019			
30 Sep	Accrued Interest Revenue	300	
	Interest Revenue		300

2 marks

1 mark for Accrued Interest Revenue - \$300

1 mark for Interest Revenue - \$300

b.

General Journal

Date	Details	General Ledger	
		Debit	Credit
2019			
1/12	Bank	100 900	
	Term Deposit		100 000

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	Accrued Interest Revenue		600
		Interest Revenue	300

3 marks

1 mark for Term Deposit – Bank \$100 900 and Sundries \$100 000

1 mark for Accrued interest Revenue – sundries \$600

1 mark for Interest Revenue – Other Revenue \$300

- c. The journal entry is required as Time Out Uniform Supplies has earned \$300 of interest revenue during the month that it has not received. The entry records that revenue earned which increases owner’s equity and the interest revenue owing which increases the current assets. If the transaction was not recorded it would result in revenue, assets and owner’s equity being understated.

3 marks

1 mark for \$300 of revenue that has been earned and not received

1 mark for the entry records revenue

1 mark for if the entry was not recorded it would result in revenue and owner’s equity being understated

Question 5

6 marks

The Inventory Turnover worsened over the period which seems unusual with the decreasing inventory write down over the same time. Inventory is taking longer to leave the shop which could be due to slower sales, a higher inventory holding or perhaps a change in inventory mix which has higher margin but slower moving inventory.

The chart indicates that while stock turnover was budgeted to improve from 2016 to 2017 there was a sharp increase which does not seem to have been planned for. This would probably indicate that this was not a planned change to the inventory mix. The business budgeted for continual increases in inventory turnover although there was actually a dip in 2016 and then an increase in 2019.

Mark this question globally

Question 6

9 marks

a.

General Journal

Date	Details	General Ledger	
		Debit	Credit
2019			
1/7	Bank	5000	
	Unearned Sales Revenue		5000
25/7	Unearned Sales Revenue	5000	
	Accounts Receivable	21 400	
	Sales Revenue		24 000
	GST Clearing		2 400
	Cost of Sales	12000	
	Inventory		12000
31/7	Bank	20 972	
	Discount Expense	428	
	Accounts Receivable		21 400

- 1 mark for Bank / Prepaid Sales*
- 1 mark for Unearned Sales / Bank*
- 1 mark for Accounts Receivable*
- 1 mark for Sales/GST Clearing*
- 1 mark for Cost of Sales/Inventory*
- 1 mark for Bank/Discount Expense*
- 1 mark for Accounts Receivable*

b. The quote is not included in the accounts as no transaction takes place. The business has no obligation and there is no impact on the accounting elements.

2 marks

- 1 mark for the transaction not being included in the accounts*
- 1 mark for no transaction taking place*

Question 7

14 marks

a.

SLR Cameras	30 * 455 =	13 650
Tripods	65 * 29 =	1 889
Flashes	25 * 129 =	3 225
		18 764

3 marks

1 mark for \$13650

1 mark for \$1889

1 mark for \$3225

b.

General Journal

Date	Details	General Ledger	
		Debit	Credit
2019			
30 Sept	Inventory Write-down	240	
	Inventory		240
	<i>Write down of 30 units of SLR cameras due to poor sales – Memo 7</i>		

3 marks

1 mark for Inventory Write Down

1 mark for Inventory

1 mark for narration

- c.** The SLR Cameras are written down to the lower of cost and net realisable value. In this scenario the reduced selling price has resulted in the net realisable value being lower than the cost price of the camera. A inventory write down is recognised to ensure that the asset, inventory, is not overstated and the inventory write down expense is not understated as this would result in net profit and owner’s equity being overstated.

4 marks

1 mark for lower of cost and NRV

1 mark for the reduced selling price resulting in the NRV being lower than the cost price of the camera

2 marks for ensures that inventory is not overstated and stock write down is not understated to ensure that owner’s equity is not overstated

- d. Individual inventory items are recorded in inventory cards. Each item has its own inventory card which allows the owner to identify fast and slow moving inventory items and whether inventory needs reordering. Inventory is valued using the first in first out method and the lower of cost and net realisable value. Inventory can be measured using FIFO or Identified Cost.

4 marks

Question 8

13 marks

a.

General Journal

Date	Details	General Ledger	
		Debit	Credit
2019			
30 June	Discount Revenue	1 950	
	Interest Revenue	950	
	Profit on Disposal of Delivery Van	750	
	Sales	85 250	
	Profit and Loss Summary		88 900
	Profit and Loss Summary	20 160	
	Capital		20 160
	Capital	25 000	
	Drawings		25 000

7 marks

3 marks for closing entry

2 marks for transferring Profit and Loss Summary to Capital

2 marks for Drawings entry

- b.** Modern Party Supplies would close its accounts to reset its accounts to zero and to calculate an accurate profit for the period. For example sales would need to start at zero at the start of next reporting period to ensure that the expenses earned are matched with revenue earned.

Closing accounts on a monthly basis is time-consuming and so can be considered an inefficient use of time and therefore staff. Closing accounts (after preparing balance day adjustments) involves recording in ledgers and journals which is the time element of the process.

Reporting on a quarterly basis may be a more efficient use of time as the process is similar and would give similar results. The information may be more useful if prepared on a quarterly basis as seasonal fluctuations can be identified.

6 marks

Mark this question globally

Question 9

9 marks

- a.** Suburban Furniture Outfitters could look at customer satisfaction surveys and number of sales returns to evaluate the performance of the business.

2 marks

1 mark for each non-financial indicator

- b.** The business could improve its Gross Profit Margin by increasing the selling price of their inventory or by seeking out cheaper suppliers.

2 marks

1 mark for increase selling price

1 mark for reducing cost price

- c.** The business has improved its net profit margin which is a positive. The fact that Gross Profit Margin has worsened indicates that the improvement in Net Profit Margin is either due to an increase in sales or a reduction in expenses. The return on owner's investment has remained constant which is an indication that the owner has had to contribute more capital as the net profit margin has improved. The owner should also look at other investments to determine whether the return on owner's investment is appropriate.

5 marks

Mark this question globally.