

ACCOUNTING

Units 3&4 – Written examination



(TSSM's 2009 trial exam updated for the current study design)

SOLUTIONS

Question 1 (24 marks)

a.

Inventory Card: Lazy Lights

Date	Details	In			Out			Balance		
		Qty	Unit cost	Total cost	Qty	Unit cost	Total cost	Qty	Unit cost	Total cost
2019										
21-Jul	Bal							5	240	1 200
24-Jul	Inv 447	8	250	2,000				5	240	1 200
29-Jul	Memo 46				1	240	240	4	240	960
								8	250	2 000
30-Jul	Inv 458				4	240	960			
					1	250	250	7	250	1 750

3 marks

ACCOUNTING EXAM

b.

General Journal

Date	Particulars	General Ledger	
		Debit	Credit
2019		\$	\$
21/7	Inventory	4 500	
	GST Clearing	450	
	Accounts Payable		4 950
21/7	Accounts Receivable	14 080	
	Sales		12 800
	GST Clearing		1 280
	Cost of Sales	6 200	
	Inventory		6 200
	Wages	3 600	
21/7	Accounts Payable	5 050	
	Discount Revenue		250
	GST Clearing	330	
	Inventory	2 500	
	Equipment	800	
	Bank		12 030
21/7	Bank	21 130	
	Accounts Receivable		12 550
	Discount Expense	440	
	Sales		5 200
	GST Clearing		520
	GST Clearing		750
	Capital		2 550
24/7	Inventory	2 000	
	GST Clearing	200	
	Account Payable – Lazy Lights		2 200
27/7	Account Payable – Ullimina	720	
	Discount Revenue		80
	Bank		640
29/7	Advertising	250	
	Inventory		250
30/7	Bank	2 750	
	Sales		2 500
	GST Clearing		250
	Cost of Sales	1 250	
	Inventory		1 250

10 marks

ACCOUNTING EXAM

c.

1: Bad Debts
2: Discounts
3: Late sale in the month, receipt due in the following reporting period. Poor debt collection procedures Long credit terms (45+ days)

3 marks

d.

Sales

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount
31-Jul	P & L Summary	20 500	31-Jul	Bank	5 200
				Accounts Receivable	<u>15 300</u>
		<u>20 500</u>			<u>20 500</u>

GST clearing

Date 2019	Cross Reference	Amount	Date 2019	Cross reference	Amount
1-Jul	Balance	750	31-Jul	Bank	750
31-Jul	Bank	330		Bank	520
	Accounts Receivable	650		Accounts Receivable	<u>1 530</u>
31-Jul	Balance	<u>1 070</u>			
		<u>2 800</u>			<u>2 800</u>
			1-Aug	Balance	<u>810</u>

2 + 4 = 6 marks

Question 2 (2 marks)

The General Ledger consists of all ledger accounts and is used for double entry recording.
Transactions are posted to the General Ledger. Each ledger account is then totalled and then either closed off to the Profit and Loss Summary account (for revenue & expenses) or balanced and entered into the Balance Sheet at the end of each reporting period.

2 marks

Question 3 (14 marks)

a.

Accounts Receivable

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount
1/3	Balance	6 000	31/3	Sales/GST Clearing	16 500
31/3	Bank/Discount Revenue	6 000			

Inventory

Date 2019	Cross Reference	Amount	Date 2019	Cross reference	Amount
1/3	Balance	10 000	31/3	Cost of Sales	7 500
31/3	Accounts Payable	6000	31/3	Cost of Sales	3 500
31/3	Bank	3 600			

GST Clearing

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount
31/3	Accounts Payable	600	1/3	Balance	865
31/3	Bank	865	31/3	Accounts Receivable	1 500
31/3	Bank	800	31/3	Bank	700
31/3	Bank	120	31/1	Balance	580
31/3	Bank	200			
31/3	Bank	360			
31/3	Bank	70			
		3 015			3 015
1/4	Balance	580			

b.

The GST Clearing account will be classified as a current asset as it will represent a present economic resource controlled by an entity which will provide economic benefit in the next year.

1 + 2 = 3 marks

Question 4 (6 marks)

a.

Discuss: As the amount paid for Electricity was lower than the amount recorded, the amount shown in the Bank account would be lower than the actual amount. Hence the assets would be understated.
In addition to this, the expense would be reported as greater than actually incurred and so Profit would also be understated as expenses are overstated.
Liabilities are also understated as the amount recorded as paid is more than the amount actually incurred.

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b.

Date	Details	General Ledger	
		Debit	Credit
		\$	\$
Nov 30	Interest expense	200	
	Interest revenue	200	
	Bank		400

3 marks

Question 5

5a.

General Journal

Date 2019	Details	General Ledger	
		Debit \$	Credit \$
Nov 2	Inventory Write-down	75	
	Inventory		75

5 units x (Cost \$85 – NRV \$70) = 15 per unit

2 marks

5b.

Qualitative Characteristic: Relevance
The Accounting reports must contain information that is useful for the users of the reports.
This includes adjustments to the inventory that will be sold for less than cost, to prevent overstating the value of the assets (inventory) and net profit

2 + 1 = 3 marks

Question 6 (12 marks)

a.

Photocopier \$15,000 + Fax \$700 (<i>excluding GST</i>) = \$15,700 x 10% =	\$1 570
Safe \$2,000 @ 10% = \$200 p.a x 9/12 months =	\$150
Desk & Chairs @ \$8,800 x 10% = \$880 per annum x 6/12 months =	\$440
	\$2 160

2 marks

b.

General Journal

Date 2019	Details	General Ledger	
		Debit \$	Credit \$
1-July	Disposal of Office Equipment	2 000	
	Office Equipment		2 000
	Acc Dep – Office Equipment	150	
	Disposal of Office Equip		150
	Bank	1 500	
	Disposal of Office Equip		1 500
	Loss on Disposal	350	
	Disposal of Office Equip		350
	Office Equipment	2 500	
	GST clearing	250	
	Bank		2 750

4 + 2 + 2 = 8 marks

c.

The disposal account is a temporary account used to (a) close off the NCA Office Equipment and Accumulated Depreciation
accounts and (b) calculate the profit or loss on disposal, which is reported in the
Income Statement

2 marks

Question 7 (6 marks)

a.

The favourable increase in GPR is a result of an increased mark-up, due to either (or both)
of an increased sale price or reduced cost price of inventory.
An increased sale price could lead to a reduction in revenue if some of the customers have
opted for cheaper alternatives. If expenses have remained relatively constant, then
this would explain a drop in the NPR.
Alternatively, expenses have increased more significantly than revenue leading to a ↓ in NPR

3 marks

ACCOUNTING EXAM

b.

Suggestion 1: increase sales revenue via a promotion (providing revenue increases more proportionally than expenses.

Suggestion 2: reduce expenses (e.g. reduce wages by limiting the hours of casuals during off peak periods)

2 marks

c.

The comparison of net profit to a base figure such as Assets (ROA) or Sales (NPR).

1 mark

Question 8 (6 marks)

a.

The prepayments are excluded from the QAR formula, because it is difficult to convert to cash. Inventory is excluded because it is not always easily and quickly converted into sales – i.e. it may be obsolete or become damaged.

2 marks

b.

The purchase of additional inventory due to a strategic decision to diversify the inventory mix has increased inventory on hand & current assets, consequentially increasing the WCR.

The QAR may have declined due to a reduction in the bank balance (to pay for additional inventory) thus causing a decline in the quick assets and consequentially the QAR.

2 marks

c.

The slower ITO has adversely affected the liquidity as highlighted by the decline in QAR.

The additional inventory purchased has resulted in more cash outflows, which hasn't been paired with a corresponding increase in sales and a proportional increase in operating inflows in the form of cash sales/ receipts from accounts receivable. Thus the slower ITO (extra 32 days) is putting additional pressure on cash resources in the short terms.

2 marks

Question 9 (6 marks)

a.

Mega mart

Extract of Variance report for the year ending 31 December 2019

	Budget \$	Actual \$	Variance \$	F/U
<u>Other revenue</u>				
Profit on Disposal of Vehicle	0	200	200	F
Discount Revenue	390	440	50	F
Interest on Term Deposit	600	600	0	-

1 mark

b.

The Vehicle has been over depreciated due to the under estimation of either/both of the useful life or residual value. Non-current Assets such as Vehicles are not purchased with the intention of selling them for a profit. Thus Laz has not budgeted for a profit on the disposal as he would have assumed an accurate allocation of the cost of the Vehicle over its useful life.

2 marks

c.

Interest on a term deposit is fixed in advance, thus accurately budgeted for.

1 mark

d.

One benefit of preparing a variance Report is it allows the owner of the business to identify where the business may have deviated from the budget and provide possible solutions to ensure such deviations don't occur in the future.

2 marks

Question 10 (15 marks)

a.

Inventory

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount
Jul 1	Balance	6 730	Dec 31	Inventory Write-down	440
Dec 31	Accounts Payable	44 370		Cost of Sales	45 500
				Advertising	300
				Drawings	200
				Balance	4 660
		<u>51 100</u>			<u>51,100</u>
Jan 1	Balance	4,660			

4 marks

Explanation

1 mark for opening and closing balance

2 marks for the 4 other credit entries

1 mark for the calculation of credit purchases

b.

Accounts Payable

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount
Dec 31	Bank	48 817	Jul 1	Balance	4 660
	Discount Revenue	1 100	Dec 31	Inventory	44 370
	Balance	<u>3 550</u>		GST Clearing	<u>4 437</u>
		<u>53 467</u>			<u>53 467</u>
			Jan 1	Balance	3 550

3 marks

Explanation

1 mark for the opening and closing balances

1 mark for discount & credit purchases/GST entries

1 mark for calculation of payments

c.

Accounts Receivable

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount
Jul 1	Balance	4 450	Dec 31	Bad Debts	495
Dec 31	Credit Sales	65 660		Sales Returns/GST Clearing	968
	GST Clearing	6 566		Bank	68 913
				Discount Expense	1 650
				Balance	<u>4 650</u>
		<u>76 676</u>			<u>76 676</u>
Jan 1	Balance	4 650			

4 marks

ACCOUNTING EXAM

Explanation

1 mark for opening and closing balance

2 marks for the 4 other credit entries

1 mark for the calculation of credit sales and GST

d.

Extract of Budgeted Cash Flow Statement for 6 months ending 31 December 2019

Cash Flow from Operating Activities	\$	\$
Cash Sales	17 450	
GST Collected	1 745	
Receipts from Accounts Receivable	<u>68 913</u>	88 108
Advertising	(3 200)	
Freight in	(1 090)	
Freight out	(980)	
Payments to Accounts Payable	(48 817)	
Prepaid Insurance	(1 800)	
Wages	(16 550)	
GST paid	(737)	<u>73 474</u>
<i>Net Cash Flow from Operations</i>		<u>14 634</u>

4 marks

Explanation

1 mark for 2 inflows

3 marks for 6 outflows

Question 11 (4 marks)

a. Clients, employees

2 marks

b. The time difference could create issues for clients who may not be able to contact the bookkeepers during business hours.

The employees may find it difficult to find employment if the work is outsourced to countries with a lower cost of living.

2 marks

100 marks