

**‘2019 Examination Package’ -
Trial Examination 2 of 11**

STUDENT NUMBER

Figures

Words

									Letter

ACCOUNTING
Units 3&4 – Written examination

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

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>
10	10	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 18 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 (24 marks)

Alan James has been operating his business for 3 weeks.

Alan provided a summary of the following transactions over the first three weeks of July.

Credit Purchases

Inventory	\$4 500
GST on purchases	\$ 450

Credit Sales

Sales	\$12 800
GST on sales	\$ 1 280
Cost of Sales	\$ 6 200

Cash Payments

Accounts Payable	\$ 5 050 (Discount yet to be applied)
Discount Revenue	\$ 250
Inventory	\$ 2 500
GST paid	\$ 330
Equipment	\$ 800
Wages	\$ 3 600

Cash Receipts

Accounts Receivable	\$12 550 (Discount yet to be applied)
Discount expense	\$ 440
Sales	\$ 5 200
Cost of Sales	\$ 2 600
GST Collected	\$ 520
GST Refund	\$ 750
Capital contribution	\$ 2 550

The following transactions occurred for the remainder of the month (22 July -31 July)

- 24-Jul: Purchased 8 Lazy Lights on credit from LiteWorld - \$250 each + \$25 GST (Inv 447)
- 27-Jul: Paid Account Payable -Ullumina \$720, after receiving \$80 discount for prompt payment (Chq 245)
- 29-Jul: Donated 1 Lazy Light to the Green Peace annual fundraiser (Memo 46)
- 30-Jul: Sold 5 Lazy Lights on credit to I.Nert @ \$500 + \$50 GST each (Inv 458)
- 31-Jul: Physical stocktake revealed 7 units on hand (Memo 47)

a. **Record** the relevant transactions into the Inventory Card for Lazy Lights

3 marks

b. **Record** the relevant transactions into the General Journal.
Narrations are **not** required

12 marks

- c. **Identify** three reasons for the credit sales exceeding the receipts from accounts receivable for the reporting period.

3 marks

- d. **Post** the journal information to the following General Ledger accounts as at 31 July 2019. (You are required to prepare the ledger accounts for the next reporting period)

- Sales
- GST Clearing

2 + 4 = 6 marks

Question 2 (2 marks)

Explain the role of the General Ledger in the recording process

2 marks

Question 3 (14 marks)

Steve Davis owns and operates a small business, Steve's Stationery selling a range of office stationery. At 1 March 2019 the business had a bank overdraft of \$500

A summary of entries for the month ended 31 March 2019 are shown below.

Credit Purchases \$6 600 + GST

Credit Sales \$15 000 + GST

Cash Receipts

- Accounts Receivable \$6 000 after a \$200 discount
- Cash Sales \$7 000 + GST
- Capital contribution \$1 000
- Interest Received \$250
- Loan Little Bank \$3000

Cash Payments

- Accounts Payable \$5 300
- Advertising \$700
- Drawings \$400
- Inventory \$3 600
- Wages \$2 100
- Accrued Wages \$1 600
- Fixtures and Fittings \$8 000
- GST Settlement \$865
- Loan repayment Little Bank \$900
- Furniture \$1200
- Prepaid Rent Expense \$2000

TURN OVER

a. **Show** how the following General Ledger accounts would appear after all journals have been posted for the month ended 31 March 2019

- Accounts Receivable
- Inventory
- GST Clearing
- Discount Expense

You **are** required to balance the GST Clearing ledger.

2 + 3 + 5 + 1 = 11 marks

b. **State** and **explain** how the GST Clearing account will be classified in the Balance Sheet as at 31 March 2019.

1 + 2 = 3 marks

Question 4 (6 marks)

An internal audit by the business owner discovered two recording errors during the month ending 30 November 2019:

- A payment for electricity for \$350 + \$35 GST, was incorrectly recorded as \$530 + \$53 GST.
- \$200 interest expense was incorrectly recorded as interest revenue.

a. **Discuss** the effect on the accounting equation of the error made in relation to the payment for electricity.

3 marks

b. **Record** the necessary correcting entry for the interest error in the General Journal at 30 November 2019 (**no** narration required)

3 marks

Question 5 (5 marks)

On 2 November 2019 it was discovered that the 5 units of inventory shown in the inventory Card below were damaged. The owner has decided the damaged inventory can be sold for \$90 + \$9 GST each after advertising of \$100 (+\$10 GST) has been paid.

Inventory Item: Excel Microwaves

Date 2019	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Nov 1	Balance							5	85	425

- a. **Record** the necessary adjustment in the General Journal (Narrations are **not** required.) 2 marks

- b. **Identify** the Qualitative Characteristic that supports the adjustment to the accounting records prepared in Question a. **Justify** your response. 3 marks

Question 6 (12 marks)

At 30 June 2019, an extract of the Pre-adjustment Trial Balance revealed the following:

Pre-adjustment Trial Balance as at 30 June 2019

Office Equipment	\$25 700
Acc Dep – Office Equipment	\$2 920

- The Office Equipment consisted of a Photocopier purchased 1 July 2018 for \$15 000 + \$1 500 GST, a Fax Machine purchased 1 July 2018 for \$770 (includes \$70 GST), a Safe purchased 1 October 2018 for \$2,000 + \$200 GST and Desk & Chairs purchased 1 January 2019 for \$8,800 + \$880 GST.
 - All Office Equipment is depreciated at 10% per annum using the straight-line method.
 - 1 July 2019 the old safe was sold and a new safe purchased from Safe Crackers for \$2,500 + \$250 GST (Chq 998). The safe was sold for \$1 500.
- a. **Calculate** the depreciation of the Office Equipment for the year ending 30 June 2019 2 marks

TURN OVER

b. **Record** the following in the General Journal at 1 July 2019 (Narrations are **not** required.)

- The disposal of the old safe
- The profit or loss on the disposal of the old safe
- The purchase of the new safe

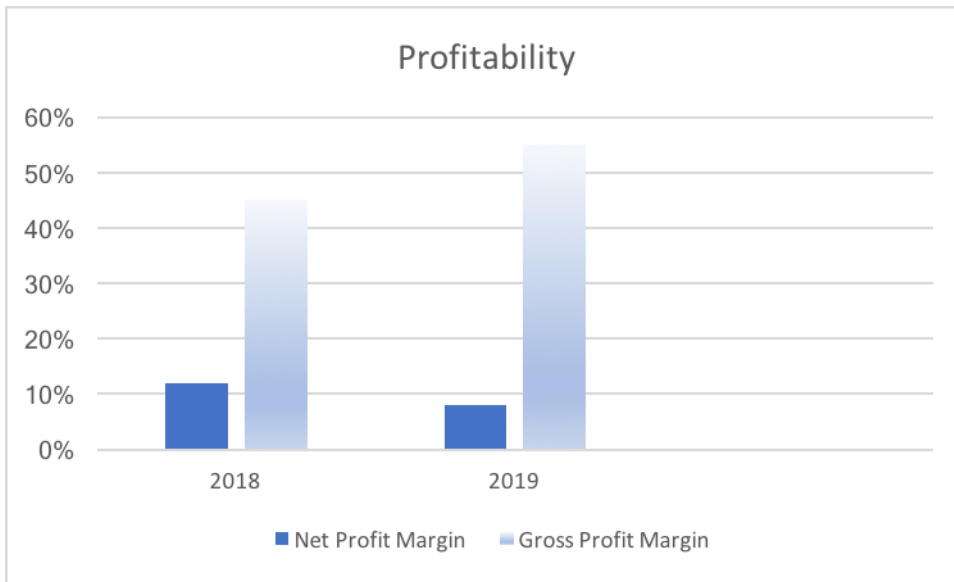
4 + 2 + 2 = 8 marks

c. **State** two reasons for using a Disposal of Office Equipment account in Question b.

2 marks

Question 7 (6 marks)

The accountant has provided the following information in relation to profitability:



a. **Explain** how the Gross Profit Rate has improved, despite the decline in the Net Profit Rate in 2019.

3 marks

b. **State** two suggestions for improving the Net Profit Rate in the future.

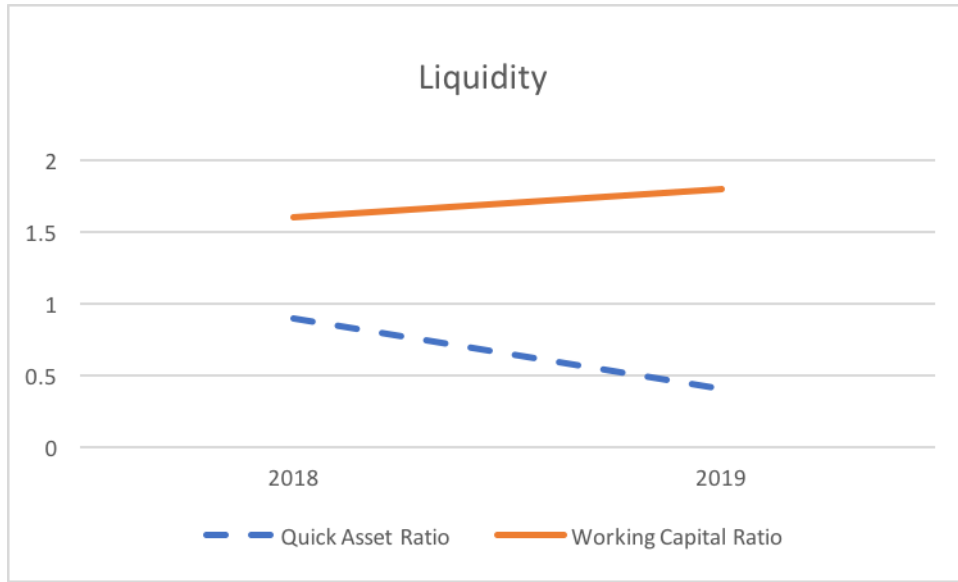
2 marks

c. Define Profitability

1 mark

Question 8 (6 marks)

Towards the end of 2018 the owner of ‘Barry’s Bikes’ – a small business selling bicycles, decided to expand the variety of stock for sale by offering scooters and roller skates. The accountant has provided the following information in relation to liquidity:



Financial Indicator	2018	2019
Inventory Turnover	65 days	97 days
$\frac{\text{Average Inventory} \times 365}{\text{Cost of Goods Sold}}$		

- a. **Explain** the reason for the exclusion of the prepayments and inventory from the Quick Asset Ratio formula. 2 marks

- b. **Explain** the reason for the improvement in Working Capital Ratio, despite the decline in the Quick Asset Ratio. 2 marks

- c. **Explain** how the trend in Inventory Turnover has affected liquidity. 2 marks

TURN OVER

Question 9 (6 marks)

At 31 December 2019, the accountant for the business Mega Mart provided the following extract from the Budgeted Income Statement Variance Report

Mega Mart

Extract of Variance Report for the year ending 31 December 2019

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

- a. **Complete** the extract of the variance report. 1 mark

- b. **Explain** a reason for the variance of the profit on disposal of vehicle estimation. 2 marks

- c. **Provide** a reason for the accuracy of the interest on the term deposit. 1 mark

- d. Explain one benefit of preparing Variance reports. 2 marks

Question 10 (15 marks)

Lazlo Czeh owns and operates **Laz's Lsippers**, a small business which sells cordless, Lasered Whipper Snippers.

For the six months ending 31 December 2019, the following information was provided:

Balance Sheet extract as at 1 July 2019

Assets	\$	Liabilities	\$
Inventory	6 730	Accounts Payable	4, 660
Accounts Receivable	4 450		
Vehicle	30 000		
Less Acc dep	22 500		

Budgeted Income Statement for the 6 months ending 31 December 2019:

Laz's Lsippers**Budgeted Income Statement for the 6 months ending 31 December 2019**

Revenue	\$	\$
Cash sales	17 450	
Credit Sales	65 660	
Less Sales Returns	<u>880</u>	
Net Sales		82 230
<u>Less Cost of Goods Sold</u>		
Cost of Sales	45 500	
Freight in	<u>1 090</u>	<u>46 590</u>
GROSS PROFIT		35 640
Less Inventory write-down		<u>440</u>
ADJUSTED GROSS PROFIT		35 200
<u>Add Other revenue</u>		
Discount Revenue	1 100	
Profit on Disposal of Vehicle	<u>500</u>	<u>1 600</u>
		36 800
Less Expenses		
Advertising	3 500	
Bad Debts	450	
Depreciation-Vehicle	1 600	
Discount expense	1 650	
Freight out	980	
Insurance	900	
Wages	<u>16 550</u>	<u>25 630</u>
NET PROFIT/(LOSS)		11 170

Additional information.

- Insurance \$1,800 was paid 12 months in advance on 1 October 2019.
- The old vehicle was sold for \$8,000 (Rec 234), with a new vehicle purchased for \$45 000 (Chq 246)
- Drawings of \$1 100 included Drawings of \$200 inventory.
- Advertising included \$300 worth of stock donated to the World Vision fundraiser.
- All inventory \$44 370 plus GST was purchased on credit.
- A bad debt provision of \$450 + GST will be recorded during the six months ended 31 December 2019.

The budgeted balances at 31 December 2019 for the following were expected to be:

Accounts Receivable	\$4 650
Accounts Payable	\$3 550
inventory	\$4 660

- a. **Reconstruct** the Inventory account to calculate the credit purchases of inventory (for the budgeted period ending 31 December 2019). 4 marks
- b. **Reconstruct** the Accounts Payable account to calculate payments to accounts payable (for the budgeted period ending 31 December 2019). 3 marks
- c. **Reconstruct** the Accounts Receivable account to calculate the receipts from accounts receivable (for the budgeted period ending 31 December 2019). 4 marks
- d. **Prepare** the Operating Activities section of the Budgeted Cash Flow Statement for the period ending 31 December 2019. 4 marks

Question 11 (4 marks)

Ezybooks is a bookkeeping business that provides services to Australian businesses. They have recently set up an office based in India and are able to offer bookkeeping services at 40% less than local bookkeepers.

- a. Identify two stakeholders who would be impacted by the decision to move their business to India.

2 marks

- b. Explain the potential risks to stakeholders of moving their business operations to India

2 marks

100 marks

END OF QUESTION BOOK