

# ACCOUNTING

## Units 3&4 – Written examination



*(TSSM's 2010 trial exam updated for the current study design)*

### SOLUTIONS

**Question 1(15 marks)**

**a.**

**General Journal**

Date	Details	General Ledger	
		Debit	Credit
Jul 1	Inventory	85 000	
	Prepaid Rent Expense	5 000	
	GST Clearing	3 400	
	Display Equipment	42 000	
	Cash at Bank		6 000
	Accounts Payable		19 000
	Loan – ABC Bank		45 000
	Capital		65 400

6 marks

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**b.**

Owner’s Equity is the residual interest in the assets of the business after Liabilities have been deducted.

2 marks

**c.**

<b>Value:</b> \$42 000
<b>Qualitative Characteristic:</b> Verifiability and Accounting Entity
<b>Explanation:</b> The equipment would remain at \$42 000 as there has not been a change in ownership. The original cost of the equipment would remain in use as this is supported by a source document and a group of independent observers would conclude this was the value using the source document.

1 + 1 + 2 = 4 marks

**d.**

**Pete the Pirate  
Balance Sheet as at 1 July 2019**

	\$	\$		\$	\$
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
Inventory	85 000		Cash at Bank	6 000	
GST Clearing	3 400		Accounts Payable	19 000	
Prepaid Rent	<u>5 000</u>		Loan – ABC Bank	<u>9 000</u>	
		93 400			34 000

3 marks

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**Question 2 (16 marks)**

**a.**

- A transaction may have been omitted completely
- A transaction may have been recorded twice
- The debit and credit entries may have been transposed
- The wrong amount may have been used for both debit and credit entries

1 + 1 = 2 marks

**b.**

**General Journal**

Date	Details	General Ledger	
		Debit	Credit
30/6	Wages Expense	1 900	
	Accrued Wages Expense		1 900
	Depreciation – Motor Vehicle	5 500	
	Accumulated Depreciation – Motor Vehicle		5 500
	Sales	2 000	
	Cost of Sales		1 000
	Inventory	1 000	
	GST Clearing	200	
	Accounts Receivable		2 200
	Bank		100
	Discount Expense	100	

8 marks

**c.**

**General Journal**

Date	Details	General Ledger	
		Debit	Credit
30/06	Sales	335 800	
	Discount Revenue	3 700	
	Profit and Loss Summary		339 500

2 marks

**d.**

Revenue and expense accounts need to be closed to allow for profit to be calculated and for accounts to be zeroed off in preparation for the next reporting period.

2 marks

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e.

**General Journal**

Date	Details	General Ledger	
		Debit	Credit
3/7	Wages Expense	2 200	
	Accrued Wages Expense	1 900	
	Bank		4 100

2 marks

**Question 3 (30 marks)**

a.

$$= 100\,000 - 3\,000 + 172\,000 + 17\,200 + 3\,400 + 30\,000 + 20\,000 = \$339\,600$$

1 mark

b.

- an outflow economic benefits
- in the form of a reduction in assets
- that decreases owner's equity (reduced profit figure)

**1 mark** per dot point

c.

**Accounts Receivable**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
Jun 30	Sales/GST Clearing	149 600	Jun 30	Bank/Discount Expense	100 000
				Allowance for Doubtful Debts/GST Clearing	825
				Balance	<u>48 775</u>
		<u>149 600</u>			<u>149 600</u>
Jul 1	Balance	48 775			

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**GST Clearing**

<b>Date</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date</b>	<b>Cross-reference</b>	<b>Amount</b>
Jun 1	Balance	3 400	Jun 30	Bank	3 400
Jun 30	Accounts Payable	13 100		Bank	17 200
	Bank	7 600		Accounts Receivable	13 600
	Accounts Receivable	<u>75</u>			
	Balance	<u>10 025</u>			
		<u>34 200</u>			<u>34 200</u>
				Balance	10 025

3 + 5 = 8 marks

d.

**Janet's Jewellery  
Cash Flow Statement for year ending 30 June 2019 (extract)**

	\$	\$
<b>Cash Flow from Operating Activities</b>		
Cash Sales	172 000	
Receipts from Accounts Receivable	97 000	
GST Collected	17 200	
GST Clearing	<u>3 400</u>	<b>289 600</b>
Payments to Accounts Payable	(112 000)	
Inventory	(10 000)	
GST Paid	(7 600)	
Prepaid Rent Expense	(36 000)	
Interest Expense	(6 000)	
Wages	(76 000)	
Customs Duty	(4 000)	
Other Cash Expenses	<u>(11 000)</u>	<b>(262 600)</b>
<b>Net Cash flows from Operations</b>		<b>27 000</b>

5 marks

e.

Cash at Start \$6 000 Cr + Receipts \$339 600 = \$333 600 – Cash payments \$326 600

Bank at End = \$7 000

1 mark

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f.

Drawings  
Loan Repayments

1 mark

g.

Going Concern assumes the business will continue into future reporting periods.

As the asset Office Equipment will earn revenue over those future periods it must be depreciated each year that it remains with the business.

2 marks

h.

**Janet's Jewellery**  
**Income Statement for the year ended 30 June 2019**

	\$	\$
<b>Revenue</b>		
Cash Sales	172 000	
Credit Sales	136 000	308 000
<b>Less: Cost of Goods Sold</b>		
Cost of Sales	154 000	
Customs Duty	4 000	158 000
<b>Gross Profit</b>		150 000
<i>Less: Inventory Loss</i>		520
<b>Adjusted Gross Profit</b>		149 480
<b>Plus: Other Revenue</b>		
Discount Revenue		3 500
		152 980
<b>Less: Other Expenses</b>		
Depreciation - Equipment	1 200	
Discount Expense	3 000	
Interest Expense	6 000	
Other Expenses	11 000	
Rent Expense	34 000	
Wages	76 000	131 700
<b>Net Profit</b>		21 280

6 marks

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i.

Only cash inflows and outflows related to day to day trading activities are included in the calculation of the Net Cash from Operating Activities figure, whereas the business profit is the result of subtracting expenses incurred from revenues earned.

Cash flows from operating activities and net profit measure different information:

- Accounts Receivable receipts versus credit Sales
- Expenses paid versus expenses incurred
- Payments to Accounts Payable versus Cost of Sales

2 + 1 = 3 marks

**Question 4 (10 marks)**

a.

**Inventory**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
Jan 1	Balance	56 000	Jan - Dec	Cost of Sales	345 000
Jan - Dec	Cost of Sales	1 250		Accounts Payable	1 250
	<b>Accounts Payable</b>	<b>363 900</b>		Inventory Loss	6 900
				Drawings	5 000
				Inventory Write Down	2 000
				Balance	61 000
		<b>421 150</b>			<b>421 150</b>

6 marks



b.

**William's Wines**  
**Budgeted Income Statement for year ended 31 December 2020**

	\$	\$
<b>Revenue</b>		
Cash Sales	230 000	
Credit Sales	460 000	690 000
<i>Less</i> Sales Returns		2 500
		687 500
<b>Less Cost of Goods Sold</b>		
Cost of Sales	343750	
Customs Duty	4 600	
<b>Gross Profit</b>		348 350
<i>Less</i> Inventory Loss	6 900	
<i>Plus Inventory</i> Write Down	2 000	<u>8 900</u>
<b>Adjusted Gross Profit</b>		<b>339 790</b>

4 marks

**Question 5 (10 marks)**

**a.**

**Inventory Card: Lovebird Garden Swing**

Date	Details	In			Out			Balance		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
2019										
May 1	Balance							15 35	200 210	10 350
7	Inv 65				15 10	200 210	5 100	25	210	5 250
19	Inv B71	40	220	8 800				25 40	210 220	14 050
Jun 8	Inv 69				25 5	210 220	6 350	35	220	7 700
25	Memo 8				1	220	220	34	220	7 480
28	Inv 74				10	220	2 200	24	220	5 280
30	Memo				2	220	440	22	220	4 840

6 marks

**b.**

**General Journal**

Date	Details	General Ledger	
		Debit	Credit
Jun 25	Drawings	220	
	Inventory		220

2 marks

**c.**

The owner has withdrawn inventory from the business. As this is a transaction between the owner and the business it is recorded separately and as such it will have no effect on the profit of the business.

2 marks

**Question 6 (7 marks)**

**a.**

**State:** Deteriorated

1 mark

**b.**

**Discussion:** The owner should be concerned. While the numbers are positive there has been a decline in liquidity over the two years . He is also not performing as well as the industry average although we only have one figure here so we don't know if the industry has suffered a downturn as well.

Poor liquidity means the business will have difficulty paying debts. This could result in the business going into overdraft or having to borrow – leading to an increase in interest payments and lowering profit.

Secondly, an inability to repay debts may mean suppliers refuse to supply any further inventory on credit and may require cash purchases only – further placing pressure on liquidity.

4 marks

**c.**

**Explanation:** GP rate has probably declined due to a higher cost of inventory. Recognising this, the business has cut expenses. The cut in expenses more than offset the increase in cost price of inventory.

2 marks

**Question 7 (4 marks)**

**a.**

**GENERAL JOURNAL**

Date 2019	Details	General Ledger	
		Debit \$	Credit \$
Dec 31	Accrued Interest Revenue	250	
	Interest Revenue		250

2 marks

ACCOUNTING EXAM

b.

**GENERAL JOURNAL**

Date 2019	Details	General Ledger	
		Debit \$	Credit \$
30/4	Bank	750	
	Accrued Interest Revenue		250
	Interest Revenue		500

2 marks

**Question 8 (4 marks)**

a.

<b>Working space</b>	
\$1 000 per month [1] x 11 months [1] = \$11 000	
	Rent Revenue \$11 000

2 marks

b.

**GENERAL JOURNAL**

Date 2019	Details	General Ledger	
		Debit \$	Credit \$
Dec 31	Prepaid Rent Revenue	2 000	
	Rent Revenue		2 000

2 marks

*1 mark for each line of entry*

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**Question 9 (4 marks)**

**a.**

**Explanation:** Net Realisable Value is the expected selling price of inventory less any expected costs associated with selling that inventory.

**2 marks**

*1 mark for each point identified*

**b.**

**GENERAL JOURNAL**

Date 2019	Details	General Ledger	
		Debit \$	Credit \$
Dec 31	Inventory Write Down	240	
	Inventory		240

**2 marks**

**100 marks**