

**‘2019 Examination Package’ -
Trial Examination 3 of 11**

STUDENT NUMBER

Figures

Words

										Letter

ACCOUNTING
Units 3&4 – Written examination

(TSSM’s 2010 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>
9	9	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 (15 marks)

Peter Lake has been operating a small business, Pete the Pirate, selling a range of children’s cubby houses and outdoor play equipment for a number of years.

He is about to commence using a double-entry accrual accounting system.

On 1 July 2019 the Assets and Liabilities of ‘Pete the Pirate’ were:

<u>Item</u>	<u>\$</u>
Cash at Bank	6 000 Cr
Account Payable - Hobby Houses Ltd	9 000 Cr
Account Payable – Jumberoo	10 000 Cr
Display Equipment	42 000 Dr
Loan – ABC Bank (repayable \$9 000 p.a.)	45 000 Cr
Inventory	85 000 Dr
GST Clearing	3 400 Dr
Prepaid Rent Expense	5 000 Dr

Note: Peter claims the Display Equipment would only be worth \$30 000 on 1 July 2019.

- a. **Prepare** the General Journal entry required to establish the double-entry accounting system.
A narration is **not** required. 6 marks

- b. **Define** Owners Equity. 2 marks

- c. **State** the value at which the Display Equipment will be reported in the accounts of Pete the Pirate. **Explain**, with reference to a Qualitative Characteristic and Accounting Assumption, your valuation. 1 + 1 + 2 = 4 marks

- d. **Prepare** an extract of the Balance Sheet as at 1 July 2019 to show Current Assets and Current Liabilities. 3 marks

Question 2 (16 marks)

Winter's Watches uses a double-entry accrual accounting system and reports are prepared on an annual basis.

At 30 June 2019 the following pre-adjusted Trial Balance was prepared:

Winter's Watches
Pre-adjusted Trial Balance at 30 June 2019

Account Name	Debit \$	Credit \$
Accumulated Depreciation – Motor Vehicle		8 500
Advertising	12 000	
Bank	6 080	
Capital		62 950
Cost of Sales	168 900	
Accounts Payable		35 700
Customs Duty	3 000	
Accounts Receivable	31 600	
Discount Expense	4 000	
Discount Revenue		3 700
Drawings	36 000	
Freight	11 500	
GST Clearing		6 430
Insurance	4 800	
Interest Expense	6 500	
Loan – Ezy Finance Co (Repayable \$2,000 per month)		34 000
Motor Vehicle	55 000	
Office Expense	7 100	
Prepaid Rent Expense	20 400	
Sales		337 800
Inventory	42 200	
Wages	80 000	
Totals	489 080	489 080

The following adjustments were required at 30 June 2019:

- Wages owing at 30 June: \$1 900
- The Motor Vehicle is to be depreciated at 10% per annum on cost.
- A receipt from an Account Receivable – M Green of \$2100 plus \$100 discount was incorrectly recorded as a Cash Sale of \$2 200 (inc GST) with a 100% markup

TURN OVER

ACCOUNTING EXAM

- a. Excluding posting to incorrect accounts, **identify two** reasons why a Trial Balance may balance yet be incorrect.

1 + 1 = 2 marks

- b. **Prepare** General Journal entries to record these adjustments at 30 June 2019.
Narrations are **not** required.

1 + 2 + 5 = 8 marks

- c. **Prepare** the General Journal entries to close the Revenue accounts.
A narration is **not** required.

2 marks

- d. **Explain** why it is necessary to close revenue and expense accounts each period.

2 marks

On 3 July 2019 the business paid \$4 100 for Wages (Chq. 87). This payment included the amount for Wages owing at 30 June 2019.

- e. **Record** the payment in the General Journal.
A narration is not required

2 marks

Question 3 (30 marks)

Janet's Jewellery uses a double-entry accrual accounting system and reports are prepared on a monthly basis.

At 30 June 2019 the accountant provided the following summary of transactions for the year ended 30 June 2019.

Credit Sales

Sales	136 000
GST Clearing	13 600

Credit Purchases

Inventory	131 000
GST Clearing	13 100

Cash Receipts

Sales	172 000
GST Collected	17 200
Receipts from Accounts Receivable	100 000 (discount will reduce this)
Discount expense	3 000
GST Refund	3 400
Capital Contribution	30 000
Loan – ABC Bank	20 000

Cash Payments

Inventory	10 000
Wages	76 000
GST Paid	7 600
Payments to Accounts Payable	115 500 (discount will reduce this)
Discount revenue	3 500
Equipment	15 000
Interest paid	6 000
Customs Duty	4 000
Prepaid Rent Expense	36 000 (paid on 1 June 2018 for 12 month's Rent)
Drawings	40 000
Loan – ABC Bank	9 000
Other Cash Expenses	11 000

TURN OVER

General Journal

Date 2019	Particulars	General Ledger	
		Debit	Credit
30/06	Allowance for Doubtful Debts	750	
	GST Clearing	75	
	Accounts Receivable		825

Additional Information:

- The physical stocktake completed on 30 June 2019 revealed an Inventory Loss of \$520.
- Depreciation of Equipment amounted to \$1 200.
- The Balance of Prepaid Rent Expense as at 30 June 2018 was \$22 000.
- The balance of the bank at 1 July 18 was an overdraft of \$6 000.

- a. **Calculate** the cash receipts for the year ended 30 June 2019 1 mark
- b. **Explain** why an inventory loss is recognised as an Expense. 3 marks
- c. **Show** how the following accounts would appear after all relevant transactions had been posted:
- Accounts Receivable
 - GST Clearing
- You are required to balance the accounts. 3 + 5 = 8 marks
- d. **Prepare** an extract of the Cash Flow Statement for the year ended 30 June 2019 to show Net Cash Flows from Operations. 5 marks
- e. **Calculate** the balance of the Bank account at 30 June 2019. 1 mark
- f. **Identify** one Financing Activity Outflow from the information above. 1 mark
- g. **Explain** how the Going Concern assumption will affect the reporting of Office Equipment in the Balance Sheet at 30 June 2019. 2 marks
- h. **Prepare** the Income Statement for the year ended 30 June 2019. 6 marks
- i. Janet believes that Net Cash flows from Operations indicates whether the business has made a profit or loss. **Explain**, giving one example, why Janet is incorrect. 2 + 1 = 3 marks

Question 4 (10 marks)

At 31 December 2019 the following extract from the Income Statement was prepared:

William's Wines
Extract from Income Statement for year ended 31 December 2019

<u>Revenue</u>			
Cash Sales	200 000		
Credit Sales	<u>400 000</u>		
		600 000	
<i>Less</i> Sales Returns		<u>2 000</u>	<u>598 000</u>
 <u>Less Cost of Goods Sold</u>			
Cost of Sales		300 000	
Customs Duty		<u>4 000</u>	
			<u>304 000</u>
			294 000
 <u>Gross Profit</u>			
<i>Less</i> Inventory Loss		6 000	
<i>less</i> Inventory Write-down		<u>1 100</u>	
			<u>7 100</u>
			<u>286 900</u>
 <u>Adjusted Gross Profit</u>			

The following information for 2020 has been provided:

- Total Sales are expected to increase 15% plus GST
- The proportion of cash to credit sales is expected to be maintained
- Goods are sold at a 100% mark up
- Customs Duty is usually 1% of credit sales plus GST
- Sales Returns are budgeted to be \$2 500
- All Sales Returns are expected to be returned to the supplier
- Inventory Loss is expected to be 1% of total sales
- Drawings of inventory to be \$5 000
- Inventory Write Down expected to be \$2 000

- Balance of Inventory Account:

<u>31/12/2019</u>	<u>31/12/2020</u>
\$56 000	\$61 000

- All purchases of inventory are on credit

a. **Reconstruct** the Inventory Ledger account to determine the expected credit purchases of inventory for the budgeted period.

6 marks

b. **Prepare** an extract of the Budgeted Income Statement for the year ended 31 December 2020 to determine Adjusted Gross Profit.

4 marks

TURN OVER

Question 5 (10 marks)

Lucy Maclean operates a small business, Greenfingers, selling a range of garden plants and furniture. Lucy's accountant maintains a double-entry accrual accounting system. Other features of Greenfingers' accounting system are as follows:

- i. The business adopts the perpetual method of inventory recording and the FIFO method of cost assignment.
- ii. Greenfingers has a 12-month reporting period ending 30 June each year.

The following information relating to an item of inventory – the Lovebird Garden Swing, sold exclusively by the business through a distributor in China, had not been recorded:

<u>2019</u>	<u>Transaction</u>	<u>Quantity & \$</u>	
1 May	Inventory on hand	15 units @\$200 35 units @\$210	
7 May	Credit Sale (Inv 65)	25 units	Xiping Traders
19 May	Credit Purchase (Inv B71)	40 units @\$220 GST \$22 per unit	Makin Furniture
8 June	Credit Sale (Inv 69)	30 units	Zhou Traders
25 June	Withdrew (Memo 8)	1 units	Own use
28 June	Credit Sale (Inv 74)	10 units	Shang Furniture
30 June	Physical Stocktake (Memo 9)	22 units	

All inventory is sold at 100% mark up, plus 10% GST.

- a. **Record** the above transactions in the Inventory Card for Lovebird Garden Swing. 6 marks
- b. **Record** the transaction on 25 June 2019 into the General Journal. Narration is **not** required. 2 marks
- c. **Explain** why the transaction on 25 June 2019 will have no effect on profit. 2 marks

Question 6 (7 marks)

The owner of Ragin' Records has been concerned about the performance of his business for a number of years. His accountant prepared the following information at 31 December 2019:

	<u>2018</u>	<u>2019</u>	<u>Industry Average</u>
Working Capital Ratio	2.5 : 1	1.9 : 1	2.1 : 1
Quick Asset Ratio	1.65 : 1	1.05 : 1	1.18 : 1
Net Profit Margin	12%	13%	10%
Gross Profit Margin	51%	50%	52%

- a. **State** whether liquidity for this business has improved or deteriorated. 1 mark
- b. **Discuss** why the owner should be concerned about the liquidity of his business. 4 marks
- c. **Explain** how the business can have a worsening Gross Profit Margin yet have an improving Net Profit Margin. 2 marks

TURN OVER

Question 7 (4 marks)

At 31 December 2019 the owner of Harley Haven discovered that the following information had not been considered:

The business had an Investment Account of \$25,000 that was taken out on 1 November 2019. The business expects to keep this asset for 5 years. Interest is earned at 6% per annum and is payable twice a year on 30 April and 30 October.

- a. **Record** the adjustment required for interest on the Investment Account in the General Journal at 31 December 2019 [Memo 6].
(**Note:** A narration **is not** required)

2 marks

- b. **Show** the entry of the interest received in the General Journal on 30 April 2020 [Rec.72].

2 marks

Question 8 (4 marks)

On 1 February 2019 the owners of Harry's Hardware signed a contract with an electrical repair service business to rent out a section of his shop. The agreement stated they would pay \$1 000 per month in rent, 3 months in advance.

- a. **Calculate** the amount of Rent Revenue to be reported at 31 December 2019.

2 marks

- b. **Show** the General Journal entry required on 31 December 2019.
(Narration is **not** required - Memo 47).

2 marks

Question 9 (4 marks)

At 31 December 2019 the owner of Erin’s Xercise World was informed that an item of inventory – the Ace Treadmill – had been superseded by a new model. The new model will be in store on 4 February 2020. Information regarding this inventory item is as follows:

Quantity	Unit cost	GST per unit	Selling Price	GST per unit	Realisable Value	Estimated Selling Costs per unit	GST per unit
12	\$400	\$40	\$850	\$85	\$400	\$20	\$2

- a. **Explain** what is meant by Net Realisable Value.

2 marks

- b. **Record** the adjustment required for the inventory item – the Ace Treadmill – in the General Journal at 31 December 2019 [Memo 7].
(**Note:** A narration **is not** required)

2 marks

100 marks

END OF QUESTION BOOK