

**‘2019 Examination Package’ -  
Trial Examination 5 of 11**

**STUDENT NUMBER**

Letter

Figures									
Words									

# ACCOUNTING

## Units 3&4 – Written Examination

*(TSSM’s 2012 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 10 pages.
- Answer book of 14 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 (12 marks)**

Eric Nunes owns and operates a small business, Eric's Electrics, selling a range of electrical educational equipment. The business uses a double-entry accrual accounting system.

The following transactions took place during the last week of February and have not yet been recorded:

25	Bought inventory worth \$4 840 including GST from Magner Inc with cheque 433.
26	Eric donated three units of his most popular product – The Wordsmith – to the local Primary School (memo 56). The Wordsmith costs the business \$40 plus \$4 GST each and sell for \$80 plus \$8 GST each.
27	Settled outstanding account of \$6600 with Trounce Corp taking advantage of the 2/10 credit terms (cheque 434).
28	Eric transferred his personal Van to the business to be used for deliveries. The Van cost Eric \$33 000 on 1 March 2016. The current fair value to be used is \$18 000 (memo 57).

**Required**

- a. **Record** the above transactions in the General Journal. Narrations are **not** required.

8 marks

- b. **Discuss** the conflict between the Qualitative Characteristics of Verifiability and Relevance if assets are valued at fair value.

4 marks

**Question 2 (18 marks)**

Elite Uniforms is preparing its budgets for 2020. They have provided the following to assist in the process:

**Balances as at 1 July 2019**

Inventory	10 000
Bank	20 000
Accounts Receivable	12 000
Accounts Payable	15 000

Actual amounts were also provided for 2019 and budgeted amounts for 2020.

<b>Item</b>	<b>2019 (Actual)</b>	<b>2020 (Budgeted)</b>
Sales (excluding GST)	300 000	Increase by 5%
Cash Sales (excluding GST)	40% of Sales	30% of Sales
Cost of Sales	40% of Sales	50% of Sales
Inventory Purchases (Credit) (excluding GST)		180 000
Inventory Purchases (Cash) (excluding GST)		50 000
Drawings of Inventory	8 000	12 000
Drawings – Cash	20 000	5 000
Accounts Receivable– end		30 000
Accounts Payable – end		45 000

Bad Debts written off - year ended 30 June 2020 -\$2 500 + GST

Discount revenue is budgeted to be \$1 200

Discount expense is budgeted to be \$1 200

Inventory loss is budgeted to be \$900

- a.** Prepare the following accounts reconstruction to determine:
- Budgeted receipts from Accounts Receivable for the Year ended 30 June 2019
  - Budgeted closing balance of Inventory for Year ended 30 June 2019
  - Budgeted payments to accounts payable for the year ended 30 June 2019

12 marks

**TURN OVER**

The owner is concerned that preparing budgeted figures is just simple guesswork and no matter how hard you try you will never get the figures right. *“Why bother producing accounts that you know will be wrong”*.

- b. Discuss his comments, with reference to appropriate accounting assumptions and qualitative characteristics.

6 marks

**Question 3 (11 marks)**

Cincotta’s Clippers maintains a double-entry accrual accounting system, using a perpetual inventory recording system with the FIFO cost assignment method. The following Inventory Card was available at 5 July 2019:

**Product: ‘Clean Skin Electric Razor’**

Date	Details	In			Out			Balance		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
2010										
01/07	Balance							4	28	112
02/07	Inv.4988	16	30	480				4	28	
								16	30	592
05/07	Inv.2395				4	28				
					2	30	172	14	30	420

The following two transactions occurred relating to the ‘Clean Skin Electric Razor’.

On 8 July 2019 Glenn Boys School returned 3 units purchased on 5 July 2019 due to them being faulty (Credit Note No.42). Each unit was sold for \$60 plus GST.

On 10 July 2019 Cincotta’s Clippers returned these faulty units to the supplier, Almeida’s Appliances (Credit Note No. 588). These were purchased on 2 July.

- a. **Record** these two transactions into the Inventory Card provided.

2 marks

- b. **Record** the transaction on 8 July 2019 into the General Journal.

A narration is **not** required.

5 marks

- c. **Referring** to one Qualitative Characteristic, **explain** the benefit of reporting Sales Returns separately in the Income Statement each reporting period.

1 + 3 = 4 marks

**Question 4 (15 marks)**

Clare Caldwell owns and operates a small business, Clare's Chairs, selling a range of ergonomically designed chairs. Clare uses a double-entry accrual accounting system and prepares reports on a monthly basis.

After all transactions for the month were recorded, a Post-Adjustment Trial Balance was prepared as at 31 August 2019.

**Clare's Chairs****Post-Adjustment Trial Balance as at 31 August 2019**

<b>Account</b>	<b>Debit \$</b>	<b>Credit \$</b>
Accrued Wages		2 300
Advertising	750	
Bad Debts	130	
Capital		20 885
Cartage Inwards	970	
Cartage Outwards	400	
Cash at Bank	12 940	
Cash Sales		4 260
Cost of Sales	4 950	
Credit Sales		5 640
Accounts Payable		5 890
Accounts Receivable	11 740	
Discount Expense	320	
Discount Revenue		130
Drawings	500	
GST Clearing		495
Interest Expense	300	
Interest Revenue		120
Loan – ANZ		15 000
Office Supplies	420	
Rent Expenses	1 900	
Inventory	16 350	
Inventory Gain		150
Wages	3 200	
<b>Totals</b>	<b>54 870</b>	<b>54 870</b>

**Additional Information**

- There were no accrued expenses at 1 August 2019.
- Inventory drawings during August were \$400. All other drawings were cash.
- Clare contributed \$12 000 cash on 15 August 2019.

**TURN OVER**

- a. Excluding posting to incorrect accounts, **state** two reasons why errors can still be present despite a Trial Balance balancing. 1 + 1 = 2 marks
- b. **Prepare** the Income Statement for the month ended 31 August 2019. 6 marks
- c. Referring to your Income Statement prepared in **4c**, **explain** how you have classified Cartage Inwards and Cartage Outwards in your Income Statement for the month ended 31 August 2019. 2 marks
- d. **Complete** the Drawings and Capital General ledger accounts after all transfer entries have been recorded and posted as at 31 August 2019. 2 + 3 = 5 marks

**Question 5 (4 marks)**

The following calculations for Dalzotto’s Drapes were prepared.

Indicator	2018	2019
Sales	\$486 000	\$567 000
Gross Profit Margin	53%	46%
Net Profit Margin	5%	6%

- a. **Explain** how an increase in Sales could actually lead to a decrease in the Gross Profit Margin. 2 marks
- b. **State** two reasons that explain how the Net Profit Margin improved yet the Gross Profit Margin declined. 1 + 1 = 2 marks

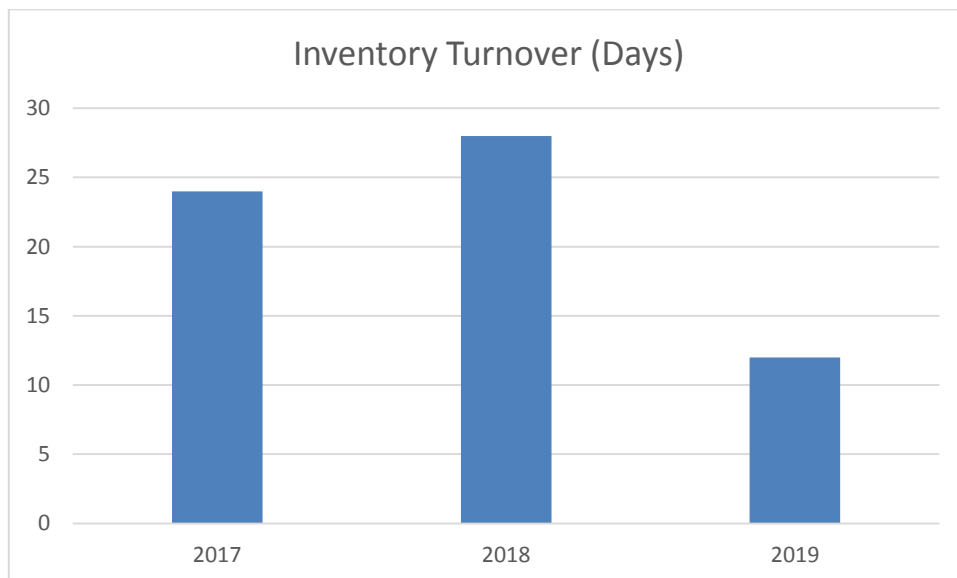
**Question 6 (10 marks)**

Jason Lee of Lee’s Lights has performed the following calculations to be considered in your analysis of his business.

Indicator	2018	2019
Working Capital Ratio	1.3 : 1	3.1 : 1
Quick Asset Ratio	1.1 : 1	1.5 : 1

- a. **State** one limitation of using the Working Capital Ratio as an indicator of business liquidity. 1 mark
  
- b. **State** a specific item and **explain** why that specific item is excluded from the calculation of the Quick Asset Ratio compared to the Working Capital Ratio. 1 + 1 = 2 marks
  
- c. **State** one other key indicator that could be used when assessing business liquidity. 1 mark
  
- d. **Discuss** how high levels of debt can affect both the liquidity and profitability of a business. 4 marks

The Inventory Turnover of Lee’s Lights has been presented below:



- e. **State** two potential negative effects of improving the business’s Inventory Turnover. 1 + 1 = 2 marks
- TURN OVER**

**Question 7 (19 marks)**

Claire Lin of Claire's Chinaware has employed you to assist in finalising the budgeting process for the year ended 30 June 2020.

Her previous accountant has prepared the following budgeted Reports.

**Claire's Chinaware  
Balance Sheet**

	<b>Actual as at 30/06/19</b>	<b>Budgeted as at 30/06/20</b>
<b>Current Assets</b>		
Cash at Bank	8 660	10 000
Accounts Receivable	40 640	45 000
Inventory	32 690	35 000
Prepaid Insurance	1 200	1 500
	<b>83 190</b>	<b>91 500</b>
<b>Current Liabilities</b>		
Accounts Payable	28 210	30 000
GST Clearing	2 060	2 700
Loan – EZY Bank	4 800	4 800
Accrued Wages	0	1 300
	<b>35 070</b>	<b>38 800</b>

**Claire's Chinaware  
Budgeted Income Statement for the year ended 30 June 2020**

	\$	\$
<b>Revenues</b>		
Sales		535 000
<b>less: Cost of Goods Sold</b>		
Cost of Sales		267 500
<b>Gross Profit</b>		267 500
less: Inventory Loss		6 000
<b>Adjusted Gross Profit</b>		261 500
<b>less: Other Expenses</b>		
Advertising	25 000	
Bad Debts	7 500	
Depreciation – Shelving	3 000	
Depreciation – Office Equipment	1 500	
Discount Expense	10 000	
Interest Expense	2 400	
Insurance Expense	3 000	
Other Expenses	80 000	
Wages	64 400	196 800
<b>Net Profit</b>		64 700



**Additional Information**

- sales of inventory and purchases of inventory involve only credit
  - drawings are expected to be \$30 000 (90% cash and 10% inventory)
  - GST Paid is expected to be \$12 830
  - GST Settlement payments are expected to be 50% of total GST charged on Sales
  - Loan repayments are to remain constant at \$1 200 per quarter
- a. **Reconstruct** the Accounts Receivable Account to calculate budgeted Receipts from Accounts Receivable. 4 marks
- b. **Reconstruct** the Inventory Account and Accounts Payable Account to calculate budgeted Payments to Accounts Payable. 7 marks
- c. Prepare the Budgeted Cash Flows from Operations extract from the Budgeted Cash Flow Statement for the year ending 30 June 2019. 6 marks
- d. **Explain** how the Budgeted Cash Flow Statement can be used to facilitate control during the budget period. 2 marks

**Question 8 (5 marks)**

On 15 October 2019 Cathy’s Catering purchased a new Delivery Van for cash from Tout’s Trucks. The following Receipt relates to the purchase:

<b>TOUT’S TRUCKS</b>			
Date: 15/10/2019			Rec 958
<b>Charge to:</b> Cathy’s Catering			
Item	Qty	Unit Cost	\$
M.M. Mover	1	\$40 450	40 450
Shelving and Racks			800
Insurance and Registration (6 months)			<u>750</u>
			42 000
		GST	<u>4 200</u>
		Total	<u>46 200</u>

On 15 October 2019 Cathy's Catering paid \$800 plus \$80 GST (cheque 488) to Larry's Lifts for modifications (electronic lift) to the Truck.

**Prepare** the necessary Journal entries on 15 October 2019 in relation to the purchase of the new Delivery Van.

A narration is **not** required.

**Question 9 (6 marks)**

On 31 October 2019 Ian's Industries sold one of their Delivery Vans for \$4 800 cash.

This Delivery Van had originally cost Ian's Industries \$34 890 and had a carrying value of \$7 200 on the date of sale.

**a.** **State** how the \$4 800 received would be classified in the Cash Flow Statement of Ian's Industries.

1 mark

**b.** **Show** how the Disposal of Delivery Van ledger account would appear on 31 October 2018 after the Journal entries relating to the sale of the Delivery Van have been posted.

3 marks

**c.** **Explain** why a profit or a loss on the Disposal of the Delivery Van occurred.

2 marks

**100 marks**

**END OF QUESTION BOOK**