

ACCOUNTING

Units 3 & 4 – Written examination

TSSMTM
Creating VCE Success

(TSSM's 2013 trial exam updated for the current study design)

SOLUTIONS

Question 1 (19 marks)

a.

Date	Details	General Ledger	
		Debit	Credit
	Disposal of Delivery Van	28 000	
	Delivery Van		28 000
	Accumulated Depreciation – Delivery Van	18 000	
	Disposal of Delivery Van		18 000
	Delivery Van	5 000	
	Disposal of Delivery Van		5 000
	Loss on Disposal of Delivery Van	5 000	
	Disposal of Delivery Van		5 000
	Delivery Van	40 000	
	GST Clearing	4 500	
	Bank		44 500

6 marks

1 mark for each of first five entries
2 marks for final entry

b.

Delivery Van

Date	Cross-reference	Amount	Date	Cross-reference	Amount
	Balance	28 000	30 June	Disposal of Van	28 000
30 June	Disposal of Delivery Van	5 000			
	Bank	40 000			

Accumulated Depreciation – Delivery Van

Date	Cross-reference	Amount	Date	Cross-reference	Amount
30 June	Disposal of Delivery Van	18 000		Balance	18 000

Disposal of Delivery Van

Date	Cross-reference	Amounts	Date	Cross-reference	Amount
30 June	Delivery Van	28 000	30 June	Acc Depn Delivery Van	18 000
			30 June	Delivery Van	5 000
			30 June	Loss on Disposal of Delivery Van	5 000

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount
			30 June	Delivery Van/GST Clearing	44 500

Loss on Disposal of Delivery Van

Date	Cross-reference	Amount	Date	Cross-reference	Amount
30 June	Disposal of Delivery Van	5 000			

10 marks

- c. When a Non-Current Asset is sold, the profit or loss is determined by subtracting the written down value from the selling (or trade in) price. If the asset has been under depreciated its written down value would be overstated an adjustment needs to be made to take into account for the under depreciation. This will be due to the business either overestimating the useful life of the Non-Current Asset over the residual price of the Non-Current Asset.

3 marks

Question 2 (7 marks)

- a.
Statement of Account

1 mark

- b.
The transaction on June 10 is a credit sale by Beryl Sports to Ace Sports for a total of \$ 5 500 including GST.

2 marks

- c.

Accounts Receivable – Ace Sports

Date	Cross-reference	Amounts	Date	Cross-reference	Amount
1 June	Balance	1 000	15 June	Bank	1 500
10 June	Sales/GST Clearing	5 500	30 June	Bank	5 000
		6 500			6 500

4 marks

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Question 3 (13 marks)

a.

Calculate	
A Phone	- 50 * 200 = 10 000
Simsang	- 20 * 190 = 3 800
Pear	- 40 * 300 = 12 000
Total Cost	25 800

3 marks

b.

General Journal

Date	Details	General Ledger	
		Debit	Credit
30 June	Inventory Writedown	1 600	
	Inventory		1 600

2 marks

c.

The accrual basis assumption requires the business to match the revenue earned to the expense incurred during the period. As the NRV of the inventory has decreased below the cost price an inventory writedown needs to be recorded in the reporting period.

3 marks

d.

Calculate	
Cost of phone	130
Delivery	12
Cover	8
Total Cost	150

3 marks

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- e. Delivery is not included in the cost price of the phones as it can't be directly attributed to the cost of each item. Therefore it is a period cost.

2 marks

Question 4 (14 marks)

a.

**Archies Soccer Nets
Cash Flow Statement for the year ended 30 June 2019**

Cash Flows from Operating Activities		
Cash Sales	100 000	
GST Collected	10 000	110 000
Cleaning Expenses	(1 000)	
Stationery Expense	(450)	
Wages	(12 000)	
Prepaid Rent	(10 000)	
Payments to Accounts Payable	(60 000)	
GST paid to suppliers	(7 200)	
GST Settlement	(2 800)	(93 450)
Net Cash from Operating activities		16 550
Cash Flow from Investing Activities		
Computers	(6 000)	
Net Cash Flow from Investing Activities		(6 000)
Cash Flow from Financing Activities		
Loan received	150 000	150 000
Loan Repayments	(12 000)	
Drawings	(12 000)	(24 000)
Net Cash Flow from Financing Activities		126 000
Net Increase in Cash		136 550
Cash at Bank 1/7/18		0
Cash at Bank 30/6/19		136 550

12 marks

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b. Cash flows from operating activities refers to cash flows from the day to day activities of a trading business.

2 marks

Question 5 (9 marks)

a.

The Working Capital Ratio compares current assets to current liabilities. Based on the information given, the business is experiencing declining credit sales while debtors are taking longer to pay back the amounts owing. The Working Capital Ratio may be inflated by an overstated accounts receivable balance. Once these accounts receivable have been removed it may have actually declined over the period.

3 marks

b.

- Sending reminder letters
- Engaging debt collectors
- Invoicing more regularly

2 marks

c. The inventory turnover days are decreasing. The owner would be satisfied as he is reducing the amount of days that he holds the inventory and therefore has to both pay for the inventory and the storage of the inventory.

2 marks

d. If the inventory turnover continues to improve the problem may be that they are unable to supply their customers. Customers may go elsewhere to buy goods and this could result in lost sales.

2 marks

Question 6 (7 marks)

a. Discount revenue is a revenue item as it is reduction in liabilities (accounts payable) decreases owners equity and is not a contribution by the owner.

2 marks

b. A loan is a liability as it is a present obligation that will result in an outflow of economic benefit and is result of a past event. The \$20 000 is a current liability as the outflow is likely to occur in the next 12 months while the 100 000 is a Non-Current Liability as the outflow is likely to occur in than 12 months.

3 marks

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- c. GST is collected on behalf of the government. It is a present obligation that will result in an outflow of economic benefit and therefore it fits the definition of a liability and not expense.

2 marks

Question 7 (5 marks)

- a. **Explain** the transactions that took place in the GST Clearing Ledger above

1. The business is paying the ATO the opening balance of GST
2. The business has been charged 10 000 GST on the purchase of stock
3. The opening balance of GST owed to the ATO
4. The GST charged on credit sales
5. GST collected on cash sales

5 marks

Question 8 (11 marks)

- a.

Accounts Receivable

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/1/19	Balance	50 000	30/6/19	Bank	82 145
30/6/19	Sales/GST Clearing	59 400	30/6/19	Sales Returns/GST Clearing	880
				Allowance for Doubtful Debts	1 375
				Balance	25 000
		109 400			109 400

6 marks

b.

Accounts Payable

Date	Cross-reference	Amount	Date	Cross-reference	Amount
30/6/19	Bank	16 300	1/1/19	Balance	20 000
	Discount Revenue	1 700	30/6/19	Inventory/GST Clearing	30 000
	Balance	32 000			
		50 000			50 000

5 marks

Question 9 (6 marks)

The Statement of Cash Flows classifies the cash flows of the business into operating, investing and financing. Cash flows from operating activities refer to cash flows from day to day trading activities. The chart shows that while the overall cash flow of the business has been positive against budgeted figures this has come from investing activities which involve cash flows from the sale and purchase of Non-Current Assets and financing activities which are cash flows that change the financial structure of the business and are generally loans or capital contributions.

The business has improved its cash position against its initial budgets although this has not occurred from the day to day trading activities. The overall picture may hide the fact that the business has actually performed poorly from its day to day trading activities.

The qualitative characteristic of understandability states that reports would be presented in a manner that is simple to understand. If the business only produces a statement of receipts and payments it would be very difficult for a user of those accounts to identify the issues that the business has with cash flows from operating activities that are identified in the cash flow statement.

6 marks

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Question 10 (9 marks)

a.

General Journal

Date	Details	General Ledger	
		Debit	Credit
3 September	Bank	500	
	Unearned Sales Revenue		500

2 marks

b.

General Journal

Date	Details	General Ledger	
		Debit	Credit
3 Sep	Unearned Sales Revenue	500	
	Accounts Receivable – Middleton Tech	2800	
	Sales		3 000
	GST Clearing		300

5 marks

c.

Accounts receivable are created when a sale is made by a business. The business receives and invoice as a source document to record the sale. Accrued revenues however are created when the business has earned revenue other than sales and are required to record the revenue in the period that it is earned under accrual accounting. The source document used to record accrued revenue is a memo.

2 marks