

**‘2019 Examination Package’ -  
Trial Examination 7 of 11**

**STUDENT NUMBER**

Letter

Figures									
Words									

**ACCOUNTING**  
**Units 3 & 4 – Written examination**

*(TSSM’s 2014 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 and rulers
- Students are NOT permitted to bring into the examination room: blank sheets of paper and/or white out liquid/tape.
- Calculator is permitted in this examination.

**Materials supplied**

- Question book of 11 pages.
- Answer book of 13 pages.

**Instructions**

- Print your name in the space provided on the top of this page.
- All written responses must be in English.

**Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic communication devices into the examination room.**

## ACCOUNTING EXAM

### Question 1 (8 marks)

Billie's Beds sell mattresses on credit to boutique hotels. The following transactions relate to an order from Hilda's Hotel. The order was for 10 beds for a total sale price of \$4 000 (plus GST). The beds cost Billie's Beds \$2 000 (plus GST). Billie's Beds sells on credit terms of (3/7 n/30)

- 28 February 2019 – Deposit paid by Hilda's Hotels of \$1000 (Rec 34)
- 4 March 2019 – Beds delivered to Hilda's Hotels (Inv 324)
- 8 March 2019 – Hilda's Hotels paid the account in full (Rec 39)

- a.** Prepare the journal entries required.  
Narrations are not required

6 marks

- b.** Explain why discount expense is reported as an expense.

2 marks

## ACCOUNTING EXAM

### Question 2 (13 marks)

Joshua's Coffee Machines sells coffee machines to offices.

On 31 December 2019 they reported the following in their Balance Sheet.

#### Joshua's Coffee Machines

#### Balance Sheet (extract) as at 31 December 2019

Non-Current Assets	\$	\$
Motor Vehicles	40 000	
Less Accumulated Depreciation – Motor Vehicle	20 000	20 000

They depreciate all vehicles at 25% on cost.

On 1 March 2019 Joshua sold one his motor vehicles that was purchased for \$20 000 and had a written down value of \$8 000 on 1 January 2019. A payment of \$5 000 was received in consideration of the Motor Vehicle.

A new Motor Vehicle was purchased for \$25 000 + GST on 1 July 2019.

- a. Calculate the depreciation expense for the Motor Vehicles for the year ended 31 December 2019.

3 marks

- b. Prepare the entries for the following General Ledger accounts to record the disposal of the Motor Vehicle
- Motor Vehicle
  - Disposal of Motor Vehicle
  - Accumulated Depreciation – Motor Vehicle

8 marks

- c. Explain how a business can make a profit on disposal of an asset despite selling it for less than the business initially paid for the asset.

2 marks

**TURN OVER**

ACCOUNTING EXAM

**Question 3 (14 marks)**

On 30 June 2019 Peppa's Popsicles provided the following.

**Peppa's Popsicles**  
**Balance Sheet as at 30 June 2019 (extract)**

Current Assets	\$	Current Liabilities	\$
Accounts Receivable	9 000	Accounts Payable	14 000
Inventory	8 000	Loan	30 000
Cash at Bank	4 500		
	21 500		44 000

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

Item	2019 (Actual)	2020 (Budgeted)
Sales (exc GST)	400 000	Increase by 5%
Cash Sales (exc GST)	50% of Sales	25% of Sales
Cost of Sales	50% of Sales	No change in %
Inventory Purchases (Credit) (exc GST)	150 000	180 000
Inventory Purchases (Cash) (exc GST)	100 000	50 000
Loan repayments	30 000	30 000
Wages	60 000	80 000
Payments to Accounts Payable	147 000	165 000
Drawings of Inventory	20 000	18 000
Drawings – Cash	40 000	1 000
Accounts Receivable – end of month	9 000	19 000

Discount Expense is budgeted to be \$2 750

Inventory loss is budgeted to be \$675

## ACCOUNTING EXAM

a. Prepare the following accounts reconstruction:

- Budgeted closing balance of Cash at Bank for Year ended 30 June 2020
- Budgeted closing balance of Inventory for Year ended 30 June 2020
- Budgeted receipts from Accounts Receivable for Year ended 30 June 2020

12 marks

b. Explain why sales data is important to the budgeting process.

2 marks

### Question 4 (8 marks)

Linda's Lollies is a sweet shop in Essendon. On 1 March 2019 they invested \$8 000 in a 6-month term deposit. The term deposit has an interest rate of 3% per annum that is payable at the end of the 6 month term. Reports are prepared quarterly on 31 March, 30 June, 30 September and 31 December each year.

The most recent Memo was Memo 27.

a. Prepare the general journal entry on 31 March 2019 to record the interest revenue earned.

3 marks

b. Prepare the accrued interest revenue account on 30 June 2019.

3 marks

c. Prepare the necessary entry in the General Journal on 31 August 2019.

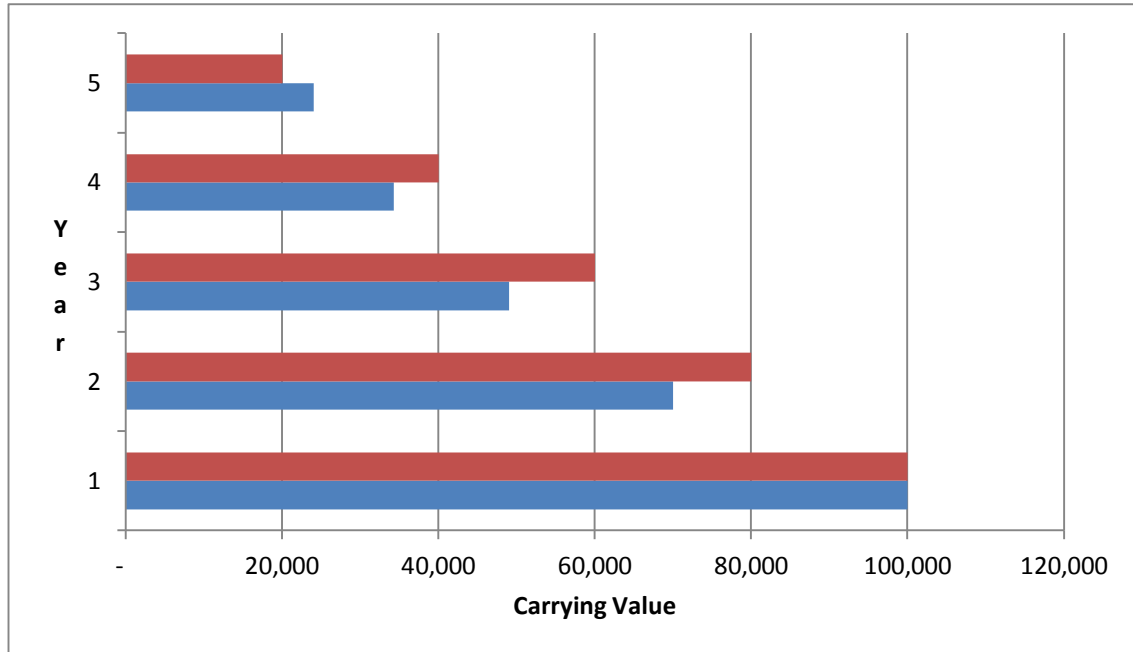
Narration is **not** required.

2 marks

**TURN OVER**

**Question 5 (11 marks)**

Gary's Gifts have provided the following chart displaying the depreciation of their non-current assets over a five year period.



The upper bar is motor vehicles

The lower bar is buildings

- a. Identify and explain the depreciation methods used for the Motor Vehicle and the Buildings. 4 marks
  
- b. Explain whether you agree with the methods used by Gary's Gifts. 4 marks
  
- c. Gary would like to change the depreciation method used for motor vehicles in Year 3. Explain how this impacts on Comparability. 2 marks
  
- d. Calculate the accumulated depreciation of Motor Vehicles after year 4. 1 mark

ACCOUNTING EXAM

**Question 6 (10 marks)**

Micks Mobiles sell mobile phones online. They have provided the following inventory details.

<b>Inventory Item</b>	<b>Quantity</b>	<b>Cost per unit</b>	<b>Est Selling price per unit</b>	<b>Delivery Costs to customer per unit (Paid by Mick's Mobiles)</b>
X Phones	10	75	90	10
Y Phones	15	90	80	8
Z Phones	25	150	151	15

**a.** Calculate the value of inventory on hand after adjusting for lower of cost and Net Realisable Value.

3 marks

**b.** Prepare the General Journal entry at 30 June 2019 to record the application of the lower of cost and NRV.

2 marks

**c.** Identify and explain the qualitative characteristic that requires a business to use the lower of cost and NRV.

3 marks

**d.** Explain whether GST is included in the cost price of inventory.

2 marks

**TURN OVER**

ACCOUNTING EXAM

**Question 7 (9 marks)**

Harriets HiFi have provided you with the following information

	<b>2018</b>	<b>2019</b>
Working Capital Ratio	2.8:1	4.2:1
Quick Asset Ratio	1.1:1	1.2:1

**a.** Explain one reason for the variance in Working Capital Ratio and Quick Asset Ratio between 2018 and 2019.

2 marks

**b.** Explain one issue with having a high working capital ratio.

2 marks

Harriet has also provided the following information

	<b>2017</b>	<b>2018</b>	<b>2019</b>
Bank balance	10 500	11 000	17 000
Cash flow cover	2 times	3 times	3.5 times
Accounts Payable turnover (Terms 30 days)	28 days	34 days	37 days

**c.** Ignoring the information in the first table discuss why the following statement by Harriet. “I am very happy with the liquidity of my business, it is improving every year”, may be incorrect.

5 marks



ACCOUNTING EXAM

**Question 8 (20 marks)**

**Jeff's Jackets**

**Post-adjustment Trial Balance as at 30 June 2019**

<b>Account Name</b>	<b>Debit \$</b>	<b>Credit</b>
Accrued Interest Revenue	925	
Accumulated Depreciation – Office Equipment		8 000
Accumulated Depreciation –Delivery Van		4 000
Advertising	4 250	
Bad Debts	300	
Bank	4 100	
Capital		148 376
Cost of Sales	150 000	
Accounts Payable		32 800
Customs Duty	4 400	
Accounts Receivable	21 000	
Depreciation – Office Equipment	1 400	
Depreciation – Delivery Van	1 000	
Delivery Van	64 000	
Discount Expense	3 200	
Discount Revenue		1 400
Drawings	63 000	
GST Clearing		21 250
Insurance Expense	16 250	
Interest Expense	3 250	
Interest Revenue		620
Loan – Eastpac		50 000
Profit on Disposal of Office Equipment		1 051
Office Expense	14 250	
Office Equipment	32 250	
Prepaid Insurance Expense	9 000	
Sales		428 000
Sales Returns	8 000	
Inventory	57 290	
Inventory Loss	680	
Inventory Write-down	200	
Wages	75 000	
<b>Totals</b>	<b>551 121</b>	<b>551 121</b>

**TURN OVER**

## ACCOUNTING EXAM

### Other information

1. Advertising includes \$400 of donations to a kindergarten
2. Loans - Eastpac is repaid at \$500 each month
3. Drawings include \$3 000 that the owner has taken

#### Cash Received

Reduction in Accounts Receivable	\$195 000
Discount Expense	\$ 3 200
Sales	\$130 000
GST Collected	\$ 13 000
Interest received	\$ 620
Proceeds from sale of equipment	\$ 5 000

#### Cash Paid

Reduction in Accounts Payable	\$164 000
Discount Revenue	\$ 1 400
Inventory	\$ 34 000
Wages	\$ 90 000
GST Paid	\$ 5 710
Drawings	\$ 60 000
Office Expenses	\$ 14 250
Prepaid Insurance	\$ 5 000
Interest Paid	\$ 3 250
Loan – Eastpac	\$ 6 000
GST Settlement	\$ 7 220
Advertising	\$ 3 850
Accrued Wages	\$ 675

**a.**

Use the information above to prepare the Cash Flow Statement for the Year ended 30 June 2019.

10 marks

**b.**

Use the information above to prepare the Income Statement for the Year ended 30 June 2019.

10 marks

## ACCOUNTING EXAM

### Question 9 (7 marks)

- a. Identify and explain the accounting assumption that best explains why a business prepares balance day adjustments. 3 marks
  
- b. Define 'Operating Activities'. 2 marks
  
- c. Define the term accrual accounting. 2 marks

**END OF QUESTION BOOK**