ACCOUNTING

Units 3 & 4 – Written examination

(*TSSM's *2015 trial exam updated for the current study design)

SOLUTIONS

Question 1

This question should be marked globally. Students should be rewarded for their entire answer not marking each individual dot point.

The reducing balance method attempts to match the expense incurred to revenue earned by recording more depreciation at the start of the assets useful life than the end. The logic behind this is that although the delivery van will be used to deliver pizzas every year it is likely to be more effective earlier in its life. As it ages it is more likely to be off the road for repairs and therefore used for less days and earn less revenue.
The accrual basis assumption deals with accrual accounting and matching the revenue earned against expense incurred during the assets useful life.

Determining an accurate profit would assist users of accounts with decision making. Relevance and verifiability conflict when it comes to depreciation. Students could refer to the assumptions used to determine residual value and useful life. The different methods would arrive with different net profit amounts and therefore impact on decision making

6 marks

Question 2

a.

General Journal

Date	**Details**	**Debit**	**Credit**
12/5	Bank	1 000	
	Unearned Sales Revenue		1 000
17/5	Unearned Sales Revenue	1 000	
	Sales Revenue		2 700
	GST Collected		270
	Account Receivable – Sally's Emporium	1 970	
	Cost of Sales	1 350	
	Inventory		1 350
	Sales Revenue		2 700
	GST Collected		270
	Account Receivable – Sally's Emporium	2 970	
	Cost of Sales	1 350	
	Inventory		1 350
	Bank	4 940	
	Accounts Receivable – Sally's Emporium		4 940

8 marks

b. Unearned sales revenue is classified as a current liability. It is a present obligation that will result in an outflow of economic benefit when the goods are delivered and invoiced. The transaction which results in the creation of the unearned sales revenue current liability is the receipt of a deposit without the outflow of goods.

3 marks

c. 15 Pairs of shoes are delivered to the customer. This results in a reduction of inventory of $1 350 which reduces assets and owners' equity. Sales of $2 700 result in an increase in owners' equity with a resulting increase in the current asset of accounts receivable of $1 970 and reduction of $1 000 of the current liability prepaid sales revenue. The overall effect is assets increase by $620, liabilities decrease by $730 and owners' equity increases by $1 350.

4 marks

Question 3

a.

Neville's Gnomes

Balance Sheet as at 1 July 2019

	$	**$**		**$**	**$**
Current Assets			**Current Liabilities**		
Bank	38 400		Loan - ANCOM	3 600	
Inventory	7 000		Accounts Payable	8 800	
GST Clearing	1 200		Loan - Brother	10 000	22400
Prepaid Advertising Expense	2 000		**Non-Current Liabilities**		
Accounts Receivable	2 200		Loan – ANCOM		6 400
Prepaid Stationary	500	51300	**Owner's Equity**		
Non-Current Assets			Capital		41 500
Computer	2 500				
Delivery Van	16 500	19000			
TOTAL ASSETS		70 300	**TOTAL EQUITIES**		70 300

9 marks

b. The equities section of the balance sheet is made up of liabilities and owner's equity.

Liabilities are a present obligation that will result in the future outflow of economic resources from the entity.

Owner's equity is the residual interest in all assets after deducting liabilities.

4 marks

Question 4

a.

Date 2019	**Product: Gyrocopters**					**Cost Assignment Method: FIFO**				
	Details	**IN**			**OUT**			**BALANCE**		
		Qty	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
Nov 1	Balance							30 95	15 20	450 1 900
2	C/N 1				2	15	30	28 95	15 20	420 1 900
3	Memo 1				2	15	30	26 95	15 20	390 1 900
20	Rec 273				1	15	15	25 95	15 20	375 1 900
28	Memo 2				25 95	5 10	125 950	120	10	1200

8 marks

b.

Cost assignment methods are used to determine that value of inventory on hand and cost of sales for a business.

First in first out (FIFO) is used by businesses that do not specifically identify each piece of inventory on hand. Inventory is valued in order of its entry into the business. When an item is sold, rather than identify the actual amount that the business purchased it for, that cost of sales is determined by the order in which the inventory came into the business.

2 marks

Question 5

a.

Accounts Payable

Date 2019	**Cross-Reference**	**Amount**	**Date 2019**	**Cross-Reference**	**Amount**
Jun 30	Bank	82 100	Jul 1	Balance	30 000
	Balance	37 000	Jun 30	Inventory	81 000
				GST Clearing	8 100
		119 100			119 100

Accounts Receivable

Date 2019	**Cross-Reference**	**Amount**	**Date 2019**	**Cross-Reference**	**Amount**
Jul 1	Balance	50 000	Jun 30	Discount Expense	4 500
Jun 30	Sales	150 000		Bank	138 500
	GST Clearing	15 000		Balance	72 000
		215 000			215 000

Inventory

Date 2019	**Cross-Reference**	**Amount**	**Date 2019**	**Cross-Reference**	**Amount**
Jul 1	Balance	20 000	Jun 30	Cost of Sales	75 000
Jun 30	Accounts Payable	81 000		Inventory Write-down	1 000
				Balance	25 000
		101 000			101 000

12 marks

b.

The benefit of preparing budgets on a regular basis are that they allow for the business to plan for future events and to control their operations. They allow for management to make future decision such as staffing requirements based on reliable data.

3 marks

Question 6

a.

Inventory turnover provides an indication of the speed in which inventory enters and leaves the business. The chart provided indicates that inventory turnover has improved and will continue to improve of the period given.

The chart shows that the business had budgeted for inventory turnover to get worse from 2018 to 2019 and from 2019 to 2020. The actual chart indicates that inventory turnover has actually improved each year.

4 marks

b.

A fast inventory turnover can lead to shortages in inventory. For example a business that provides spare parts for harvesters might have a problem if inventory is turned over too quickly and farmers miss out on harvesting while waiting for spare parts.

If a customer arrives at a store that has no inventory they may choose to go elsewhere.

Businesses selling goods that have a shelf life such as Richies Fruit Store would rely on a fast inventory turnover in order to ensure they are selling fresh produce to their customers.

3 marks

c.

One limitation of using financial indicators is that are based on historical data which may not necessarily be an indication of future performance. Another limitation is that it is also not always possible to find similar businesses to compare to, as size, age and location can cause bias in comparisons.

2 marks

Question 7

a.

1. GST Settlement from previous month paid to the ATO
2. GST paid on the purchase of inventory or payment of other expenses
3. GST collected on credit sales

3 marks

b.

GST Clearing can have a debit balance if GST paid or charged by suppliers is greater than GST collected from or charged to customers.

2 marks

Question 8

a.

Cash Received - $198 600

Cash Paid - $183 679

2 marks

b.

Steph's Coils
Income Statement for the Quarter ended 30 June 2019

Revenue	**$**	
Sales	150 000	
Less Cost of Goods Sold		
Cost of Sales	75 000	75 000
Gross Profit		75 000
Add Inventory Gain	250	
Less Inventory Write-down	(900)	(750)
Adjusted Gross Profit		74 250
Add Other Revenue		
Discount Revenue	2 420	
Profit on Sale of Computer	200	2 620
		76 870
Less other expenses		
Rent	2 100	
Bad Debts	700	
Depreciation – Computer	200	
Wages	27 750	
Discount Expense	900	
Telephone	1 000	32 650
Net Profit		44 220

11 marks

Question 9

a.

100*25 + 120 * 40 + 180 * 10 = $9 100

3 marks

b.

110 * 25 + 40 * 90 + 10 * 140 = $7 750

3 marks

c.

Faithful Representation. The valuation of inventory will provide a faithful representation of the real world economic event that it represents. .

3 marks

d.

Product costs refer to costs incurred to bring inventory into a condition ready for sale that can be allocated to individual inventory items on a logical basis whereas period costs are costs incurred to bring inventory into a condition ready for sale that can be logically allocated to individual items.
Period costs are entered directly into the income statement as a cost of sale while product costs become part of the inventory account in the balance sheet .When the individual items that that they are attached to are sold they become part of the income statement as a cost of sale.

5 marks