ACCOUNTING

Units 3 & 4 – Written examination

(*TSSM's *2016 trial exam updated for the current study design)

<u>SOLUTIONS</u>

Question 1 (6 Marks)

When investing in a business there are a variety of factors to consider. Return on investment provides a good tool to compare against alternative investments. In this scenario the return on investment has been increasing over the period which is positive for the business. The manager needs to look beyond return on investment as it can be manipulated by increasing borrowings to reduce capital and therefore increase overall return on investment. The business has increased its debt ratio while improving working capital which indicates that the business has replaced capital with long term debt.
The manager should also look at accounts receivable turnover which has increased significantly indicating that the business is at risk of bad debts. This may result in the business overstating accounts receivable and therefore overstating their working capital indicator.

Students need to use all indicators and look at positive and negatives of each indicator in order to maximise their marks.

Question 2 (10 marks)

a.

Date	**Details**	**General Ledger**	
2019		**Debit**	**Credit**
31 July	Depreciation – Delivery Van	550	
	Accumulated Depreciation – Delivery Van		550
31 July	Disposal of Delivery Van	40 000	
	Delivery Van		40 000
31 July	Accumulated Depreciation – Delivery Van	26 400	
	Disposal of Delivery Van		26 400
31 July	Delivery Van	10 000	
	Disposal of Delivery Van		10 000
31 July	Loss on Disposal of Delivery Van	3 600	
	Disposal of Delivery Van		3 600
31 July	Delivery Van	25 000	
	GST Clearing	3 500	
	Bank		28 500

7 marks

b. A profit on sale is made when an asset has been over depreciated. This can occur when a business underestimates the useful life or the residual value of the asset. In the scenario the business has understated the useful life of the asset which has resulted in over depreciation.
The business has also underestimated the selling price of the asset which has contributed to the profit

3 marks

Question 3 (7 marks)

a.

Date	**Details**	**General Ledger**	
2019		**Debit**	**Credit**
1 October	Inventory	10 000	
	Motor Vehicle	18 000	
	Loan – Portsea Banking		5 000
	Cash at Bank	1 500	
	Furniture and Fittings	3 000	
	Capital - Clark		27 500

3 marks

b. The house is a personal asset and not a business asset. The entity assumption requires the business and the owner to maintain separate records. This creates an issue for Clark as there is business use of the house, however, the source documents would indicate it is a personal asset..

4 marks

Question 4 (10 marks)

a. 10 * 540 + 15 * 790 + 12 * 950 = 28 650

3 marks

b.

Date	**Details**	**General Ledger**	
2019		**Debit**	**Credit**
30 June	Inventory Write-down	5 400	
	Inventory		5 400

2 marks

c. The laptop bag is provided to increase sales of the 15” computers. In this scenario the laptop bag is subtracted from the selling price to determine the net realisable value. An adjustment is not against the inventory account to reduce the value of inventory held by the business as it is higher than the cost price.

2 marks

d. FIFO is a cost assignment method that will have no impact on the businesses ability to move inventory out of the business. Obsolescence of inventory relates to how quickly the business can turnover its inventory. Cost assignment methods are used to allow for more cost and time effective methods of managing inventory.

3 marks

Question 5 (17 marks)

a.

Accounts Receivable

Date	**Cross-reference**	**Amount**	**Date**	**Cross-reference**	**Amount**
1/7/19	Balance	12 000	30/6/20	Discount Expense	1 200
30/6/20	Sales/GST Clearing	242 550		**Bank**	**223 350**
				Balance	30 000
		254 550			254 550

5 marks

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/7/19	Balance	10 000	30/6/20	Drawings	12 000
30/6/20	Accounts Payable	180 000		Inventory Loss	900
	Bank	50 000		Cost of Sales	47 250
				Cost of Sales	110 250
				Balance	**69 600**
		240 000			240 000

3 marks

Accounts Payable

Date	Cross-reference	Amount	Date	Cross-reference	Amount
30/6/20	Discount Revenue	1 200	1/7/19	Balance	15 000
	Bank	**166 800**	30/6/20	Inventory/GST Clearing	198 000
	Balance	45 000			
		213 000			213 000

3 marks

b. Budget preparation relies on estimating figures. While the owner may identify this as a breach of reliability they must take into account the concept of relevance. Budgets are prepared to plan for the future and to be used as a control mechanism. Planning can involve staff rostering and purchasing decisions while the figures can be checked regularly against actual reports to determine whether the business has met its goals.
As budgets are prepared on a regular basis and the accuracy can be improved by identifying variances against actuals and amending future budgets.
Students are required to discuss the relationship between relevance and reliability as well as the reasons for preparing budgets in order to maximise their marks.

6 marks

Question 6
a.

General Journal

Date	**Details**	**General Ledger**	
2019		**Debit**	**Credit**
7/7	Bank	2 000	
	Unearned Revenue		2 000
15/7	Unearned Revenue	2 000	
	Account Receivable – Hite Hotels	2 750	
	Sales		4 500
	GST Clearing		250
	Cost of Sales	1 250	
	Inventory		1 250
21/7	Account Receivable – Hite Hotels	2750	
	Sales		2 500
	GST Clearing		250
	Cost of Sales	1 250	
	Inventory		1 250

6 marks

b. The order is not included in the accounts as there has been no physical exchange of goods.
1 mark

c. Accrual accounting refers to a method in which revenue is recognised when earned and expenses when incurred. In this scenario the goods are ordered on 1 July 2019 but the revenue is not recognised as earned until goods are supplied by the business.
The order is partly complete on 15 July 2019 and at this point the cash that was originally received on 7 July 2019 is recognised as a sale.
The remaining amount is recognised as a sale when the goods are supplied on 21 July 2019 when the order is complete and an invoice supplied.

4 marks

Question 7 (18 marks)

a.

Inventory Item: Snuggly Singles

Date 2019	**Details**	**IN**			**OUT**			**BALANCE**		
		Qty	**Unit cost**	**Value $**	**Qty**	**Unit cost**	**Value $**	**Qty**	**Unit cost**	**Value $**
1 Aug	Balance							2	250	500
3 Aug	Inv 48	5	280	1 400				2 5	250 280	1 900
4 Aug	Rec 39				2 1	250 280	500 280	4	280	1 120
12 Aug	Ch 389	18	300	5 400				4 18	280 300	6 520
14 Aug	Memo 20				1	280	280	3 18	280 300	6 240
16 Aug	Memo 21				3	180	540	3 18	100 300	5 700
17 Aug	Rec 40				2	100	200	1 18	100 300	5 500
26 Aug	Memo 22				1 1	100 300	400	17	300	5 100
31 Aug	Memo 23				2	300	600	15	300	4 500

6 marks

b. 780 + 200 = 980

2 marks

c. At the end of the reporting period a physical stocktake takes place. The balance of the physical stocktake is compared against the inventory cards using an inventory sheet. The variance between the two is recorded as an inventory loss or gain.

3 marks

d. **16 August:** The transaction on 16 August is treated as an inventory write-down. The balance of inventory will be reduced as the selling price (NRV) is now lower than the original cost price.
31 August: The transaction on 31 August represents an inventory loss by the business. A stocktake has taken place and there is less physical inventory on hand than has been recorded in the inventory card

4 marks

e. Inventory write-down is recorded to ensure that assets (inventory) are not overstated and owner’s equity (inventory write-down) has not been overstated.

3 marks

Question 8 (7 marks)

a. Budgeted sales are produced each year based on actual sales. In 2017 budgeted sales were $100 000 which represented an increase from $70 000 in 2016. Students may approach this question by claiming that the business budgeted for sales to remain the same as they follow the budgeted sales line on the chart. This pattern will continue over the next two years. In 2018 they have predicted that sales will remain the same, however, they increased by $10 000. The budget for 2019 was fairly accurate as it estimated a decline in sales which occurred.

5 marks

b. Gross Profit - $100 000 - $40 000 = $60 000

2 marks

Question 9 (11 marks)

a.

	Actual	**Budgeted**	**Variance**	**U/F**
Sales	250 000	200 000	**50 000**	**F**
Cost of Sales	**125 000**	100 000	25 000	U
Wages	50 000	25 000	**25 000**	U
Advertising	3 000	**0**	3 000	U

4 marks

b. The business has increased its advertising during the period. They have incurred $3000 more than was budgeted. This has resulted in an increase in sales and cost of sales as the business has sold more inventory. The additional sales have required more staff and therefore wages were greater than budgeted.

4 marks

c. Unfavorable variances can be due to a number of factors. If sales are greater than budgeted the business may have negative variances in expenses that create the expenses. Overall this could be a positive for the business. The same can occur with drawings, loans and asset purchases.

3marks

Question 10 (3 marks)

When a business depreciates and asset they are allocating the cost of the asset over its useful life. Depreciation is an expense that represents the consumption of the non-current asset which will reduce owner's equity and is not drawings.

Accumulated depreciation is a negative non-current asset that reduces the non-current asset and represents the consumption of the non-current asset over its life.

3 marks