

## 2020 Trial Examination

STUDENT  
NUMBER

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# ACCOUNTING

## Units 3&4– Written examination

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
		Total 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.
- A non-programmable calculator is allowed on the examination.

#### Materials supplied

- Question book of 12 pages.
- Answer book of 19 pages

#### Instructions

- Print your name in the space provided on the top of this page.

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

**Question 1** (28 marks)

Elite Stationery sells office stationery from its Fitzroy store. The business has been operating since 2015 and reports on an annual basis. All inventory is sold using a 100% markup.

They have provided you with the following information

**Elite Stationery**  
**Pre-adjusted Trial Balance as at 30 June 2020**

	Debit	Credit
Cash at Bank	29 000	
GST Clearing	14 500	
Accounts Payable		24 500
Accounts Receivable	29 250	
Sales Revenue		190 500
Freight In	2 300	
Wages	28 000	
Equipment	60 000	
Accumulated Depreciation - Equipment		6 000
Delivery Van	30 000	
Prepaid Advertising	14 000	
Inventory	30 000	
Cost of Sales	94 000	
Sales Returns	2 500	
Capital		112 550
	333 550	333 550

**Additional information**

- Advertising of \$14 000 was paid on 31 May 2020 for 7 monthly advertisements starting on 31 May 2020.
- The equipment is depreciated using Reducing Balance at 10% per annum. No equipment was purchased during the year.
- Wages are paid on the 28<sup>th</sup> of each month. Wages owing at 30 June are \$1 200.
- The delivery van was contributed by the owner on 16 June 2020. It will have a useful life of 4 years and a residual value of \$6 000. The delivery van originally cost \$50 000 in June 2016 and will need to be depreciated.
- Stationery that cost \$3 000 (plus GST) was returned by AJ Accountants on 28 June 2020 but was not recorded in the business records.
- A stocktake on 30 June 2020 provided a balance of \$26 000 of inventory on hand.

**Question 1 - continued**

2020 ACCOUNTING EXAM

- a.** Prepare the General Journal entries required on 30 June 2020 to record the additional information.

Narrations are **not** required

12 marks

- b.** Referring to an accounting assumption justify how the owner would have determined the cost price of the delivery van that was contributed to the business.

3 marks

- c.** Referring to an accounting assumption, explain why the reducing balance method would have been used to determine the depreciation on the equipment.

3 marks

- d.** Prepare the Income Statement for the month ended 30 June 2020.

5 marks

- e.** Prepare the Assets section of the Balance Sheet as at 30 June 2020

5 marks

**TURN OVER**

**Question 2** (9 marks)

Clarks Christmas Lights operate on online store. They have provided you with the following information relating to their inventory as at 31 December 2020.

<b>Inventory Item</b>	<b>Quantity inventory card</b>	<b>Quantity as per Stocktake</b>	<b>Purchase Price (\$ each) (plus GST)</b>	<b>Freight Costs from supplier (\$ each) (plus GST)</b>	<b>Selling Price (\$ each) (plus GST)</b>
Rudolph Lights	25	24	50	4	100
Santa Lights	30	30	70	4	140
Christmas Star Lights	20	20	40	4	80

**Additional information:**

- The business is including free delivery on all lights that usually costs \$5 for each light.
- The Christmas Star lights have been discounted to \$20 (plus GST) each as of 31 December 2020.

**a.** Calculate the value of closing inventory that would be reported in the Balance Sheet as at 31 December 2020.

3 marks

**b.** Prepare the General Ledger entries required on 31 December 2020.

4 marks

**c.** Justify your treatment of the freight costs.

2 marks

**Question 3** (13 marks)

Klopp's Sports supply club uniforms to local sporting clubs around Melbourne. All sales are on a credit basis and customers are offered credit terms of 2/7, n 30.

Klopp's Sports prepares its financial reports on an annual basis.

The business has not recorded an allowance for doubtful debts previously, and after a conversation between yourself and Joe Klopp the following source document was prepared.

<p>Memo 90</p> <p>30 June 2020</p> <p>Joe Klopp has determined that an allowance of \$3 000 should be recorded for the year ended 30 June 2020.</p> <p style="text-align: right;">Joe Klopp</p>
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- a. Prepare the General Journal entry to record Memo 90.  
A narration is not required.

2 marks

<p>Memo 98</p> <p>19 July 2020</p> <p>Northern Stars declared bankrupt.</p> <p>Outstanding balance of \$2 200 will not be collected.</p> <p style="text-align: right;">Joe Klopp</p>
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- b. Prepare the General Journal entry to record Memo 98.  
A narration is not required

3 marks

**Question 3** - continued

2020 ACCOUNTING EXAM

After preparing the Income Statement for the year ended 30 June 2021 Klopp's Sports has reported credit sales of \$180 000 (plus GST) and Sales Returns of \$5 000 (plus GST)

Memo 125

30 June 2021

Joe Klopp has determined that an allowance of 3% of net credit sales should be recorded for the year ended 30 June 2021.

Joe Klopp

- c. Prepare the General Journal entry to record Memo 125.

2 marks

Joe Klopp is still not convinced about the decision to report an allowance for doubtful debts. He has asked you prepare a second Income Statement and Balance Sheet that he can use when applying for a loan from the bank.

- d. Referring to ethical considerations and qualitative characteristics, discuss the potential consequences of Joe's decision to prepare two sets of financial reports.

6 marks

**Question 4** (6 marks)

Precision Projectors has grown rapidly in the past two years with sales increasing by 150% each year. All projectors are sold on the basis of n30 credit terms.

The business has provided bonuses to sales staff who meet targets which has increased their customer base, although they have been known to sell to customers with the knowledge that the customers were unlikely to be able to afford the repayments. Sales staff are told the cost price of inventory and are allowed to negotiate to make sure they get the sale over the line.

The owner, Pete, is concerned that while sales are booming, profits are declining.

He has also noted that customers are regularly being written off as bad debts.

Pete has discussed his concerns at his regular Small Business Owner's meeting and has provided the following options as to how he can improve his business

**Option 1**

- Increase bonuses by 10% but only pay bonuses to sales staff after customers have paid
- Provide set sale prices for sales staff (no more negotiated prices)
- Reduce sales staff by one member and hire a debt collector.

**Option 2**

- Implement improved credit checks prior to sale
- Eliminate bonuses for employees but raise base salary for sales staff
- Continue to allow sales staff to negotiate the best price
- Offer a bonus for sales staff who bring in new customers

**Option 3**

- Continue trading as usual

Analyse the suggestions made by the owner and make a recommendation. Provide reasons for your recommendation.

**TURN OVER**

**Question 5** (10 marks)

Harry's Hardware is a small hardware store that has operated along High St, Essendon for the past thirty years. Harry has a loyal customer base and is famous for his knowledge of hardware and his excellent advice. Customers are offered terms of 2/7, n14.

Suppliers offer terms of n30

Harry has provided you with the following indicators:

<b>Indicator</b>	<b>2019 (Actual)</b>	<b>2020 (Actual)</b>	<b>2021 (Budgeted)</b>
Inventory Turnover	45 days	49 days	50 days
Quick Asset Ratio	0.8:1	0.6:1	0.5.:1
Net Profit Margin	12%	11%	10%
Working Capital Ratio	1:1	1.4:1	1.7:1
Gross Profit Margin	51%	45%	53%
Accounts Receivable Turnover	24 days	31 days	29 days
Accounts Payable Turnover	14 Days	14 Days	14 Days

- a. Explain how the Quick Asset ratio has declined while the working capital ratio has increased. 3 marks
- b. Explain how net profit margin has been declining while gross profit margin has improved. 2 marks
- c. Discuss the liquidity of the business based on the information provided by Harry. 5 marks



**Question 6** (6 marks)

Refresh Soft Drinks have decided to upgrade their store refrigerator.

The original refrigerator was purchased on 30 September 2018 for \$25 000 (plus GST) with a useful life of 5 years. On 30 April 2020, the refrigerator had a carrying value of \$15 000 and was traded in to Coolit Refrigeration for \$10 000 and was replaced with the latest model A1 Fridge for \$30 000 (plus GST).

Refresh Soft Drinks have organized for a loan from Dollar Bank to finance the new refrigerator.

The business reports annually on the 30 June.

Prepare the General Ledger Accounts provided as at 30 April 2020.

**TURN OVER**

**Question 7** (10 marks)

Tracey Tracks is the owner of Hobby World. The business reports on annual basis.

On 31 May 2020 Hobby World invested \$24 000 in to a 12-month Term Deposit which earns 3% per annum.

The interest is payable on a 6-monthly basis. The most recent financial reports were prepared on 31 December 2019.

- a. Prepare the General Journal entry required on 31 December 2020.  
No narration is required. 2 marks
  
- b. Explain how the Term Deposit would be reported in the Balance Sheet on 31 December 2020. 2 marks
  
- c. Prepare the General Journal entry required on 31 May 2021.  
No narration is required 3 marks
  
- d. Explain the effect on the Income Statement and Balance Sheet of the transaction on the 31<sup>st</sup> of May 2021. 3 marks

**Question 8** (10 marks)

XY Music sells musical instruments to schools. The business prepares its reports on a monthly basis and sells all inventory using a 50% mark-up.

On 19 September 2020, Southern High ordered 15 guitars. The selling price of the guitars is \$150 each (plus GST). Southern High paid a deposit of \$750. (Rec 766)

The guitars were delivered to Southern High on 5 October 2020. (Inv 291)

- a. Explain how the \$750 paid by Southern High would be reported in the financial reports of XY Music.

3 marks
  
- b. Prepare the General Journal entries for required for XY Music on 19 September 2020 and 5 October 2020.  
Narrations are not required.

4 marks
  
- c. Explain the effect on the accounting equation of the transaction on 5 October 2020.

3 marks

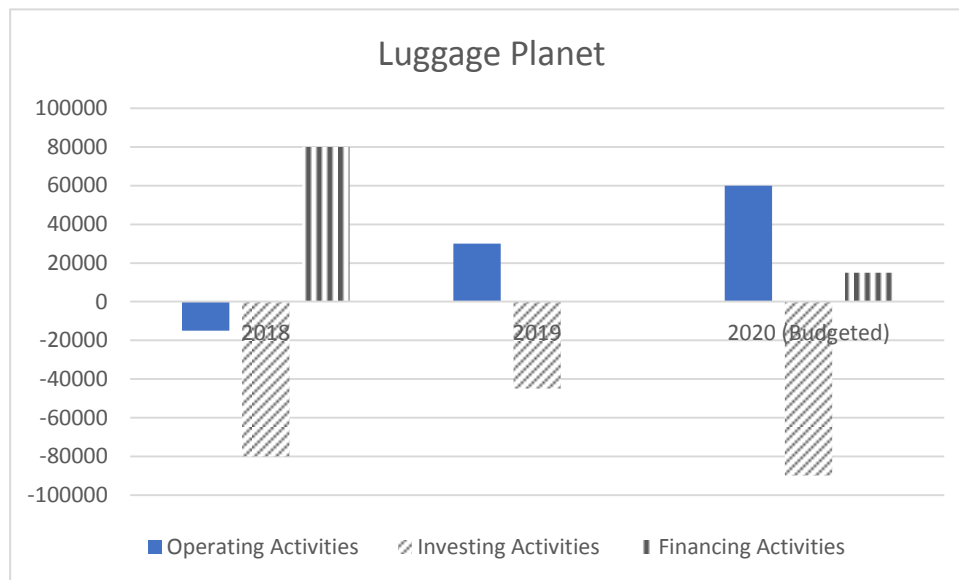
**TURN OVER**

**Question 9** (8 marks)

Luggage Planet opened its store at Melbourne Airport in 2018. The store expanded in 2019 and is planning to continue to grow in 2020.

The owner is excited by the growth of the business although she is concerned that the business is operating using a bank overdraft.

She has reviewed your projections and is concerned that you have projected a net profit of \$85 000 while providing the following graph.



Net Profit 2018           \$45 000

Net Profit 2019           \$70 000

- a. Explain, using two examples, how Luggage Planet could have negative cash flows from operating activities and a net profit in 2018 4 marks
  
- b. Analyse the performance of Luggage Planet 4 marks

**END OF QUESTION BOOK**