

NAME:

ACCOUNTING

Unit 3&4 Examination 1

Reading time: 15 minutes

Writing time: 120 minutes

QUESTION BOOK

Structure of book

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
8	8	100

- Students are to write in blue or black pen.
- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners, rulers and one scientific calculator.
- Students are NOT permitted to bring into the examination room: blank sheets of paper and/or correction fluid/tape.

Materials supplied

- Question book of 10 pages
- Answer book of 14 pages

Instructions

- Write your **name** in the space provided above on this page.
- All written responses must be in English.

At the end of the examination

- You may keep this question book

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

Question 1 [14 marks]

Tony commenced business on 1 July 2020 after registering the name 'Corner'. His business specialises in soccer equipment.

He provided the following information regarding the business.

On 1 July 2020 Tony contributed:

- \$20 000 cash
- Soccer balls that he purchased for \$10 000 but believes he will sell for \$30 000
- A delivery van that he purchased for \$50 000 (plus GST) on 1 April 2018. Tony paid registration of \$1 200 on 31 August 2019. The vehicle was valued at \$35 000 on 1 July 2020.
- Tony purchased the delivery van with a loan from *ABC Bank*. The business has agreed to repay the loan which has an outstanding amount of \$30 000 on 1 July 2020.
- The delivery van was serviced on 1 June 2020 for \$100 (plus GST)

a. Prepare the General Journal to record the information above on 1 July 2020.

(A narration is not required.)

5 marks

b. Referring to an accounting assumption, explain why Tony prepared the General Journal entry on 1 July 2020.

3 marks

c. Tony initially received a valuation of \$15 000 for the delivery van and continued to seek out more valuations. Eventually he found a valuer who provided a valuation of \$35 000 which allowed him to transfer the entire loan to the business.

Referring to qualitative characteristics and ethical considerations, discuss the decision to use the higher valuation.

6 marks

Question 2 [19 marks]

Steve is the owner of Tennis World, a small business that specialises in elite tennis rackets. All tennis rackets are sold for \$1 200 (plus GST) each. Customers are offered 2/10, n/30 credit terms.

Steve has provided you with the following inventory card that he has prepared up to the 12th of March 2020.

Product: Centre Court Racket					Supplier: Smashd					
Cost Assignment method: ?										
		IN			OUT			BALANCE		
Date March	Reference	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1	Balance							7	300	2 100
								4	400	1 600
5	Inv 90				3	400	1 200	7	300	2 100
								1	400	400
12	Inv 34	4	300	1 200				11	300	3 300
								1	400	400

The following transactions occurred during March:

- 18 Tennis World returned two of the Centre Court rackets purchased on 12 March to their supplier (CN 22)
- 21 Sold 4 Centre Court rackets that cost \$300 (plus GST) each to Volleyed (EFT 19)
- 24 Purchased 3 Junior Tennis Rackets for \$200 each (plus GST) (Inv 92)
- 25 Sold 1 Centre Court Racket that cost \$400 (plus GST) each to Served (Inv 91)
- 30 A stocktake found that Tennis World had 6 \$300 rackets on hand (Memo 21)
- 30 One of the Centre Court Rackets was damaged and advertised for sale for \$100 (plus GST) (Memo 22)

- a. Identify the cost assignment method that is being used by Tennis World. 1 mark
- b. Complete the inventory card for Centre Court Rackets for March 2020. 5 marks
- c. Record the transaction on the 12th of March in the General Journal.
A narration is not required. 3 marks
- d. Record the transaction on the 21st of March in the General Journal.
A narration is not required. 3 marks
- e. Explain the effect on the accounting equation of the transaction on the 5th of March. 3 marks
- f. Prepare an Income Statement for the month ended 31 March 2020 up to and including adjusted Gross Profit. 4 marks

Question 3 [8 marks]

Lucas operates an online business that sells cricket bats.

The business uses a 100% markup to determine the selling price of its inventory.

As at 31 July 2020, the business' records revealed the following inventory on hand:

	Quantity	Cost Price per bat (excl. GST)
Junior Bat	7	\$100
Youth Bat	15	\$200
Senior Bat	9	\$300

The bats are purchased from *Premium Cricket Suppliers* who charge \$10 delivery for each bat. All bats are delivered to customers within 24 hours for a delivery fee of \$20 per purchase paid by the customer.

The Junior bats have not been as popular as they thought and have been discounted to \$90 each (plus GST)

All purchases come with a free Duke Cricket Ball that cost \$15 (plus GST) each.

- a. Calculate the value of closing inventory of the inventory on hand on 31 July 2020 prior to applying the lower of cost and net realisable value. 3 marks

- b. Prepare the General Journal entry required on 31 July 2020.
(A narration is not required) 2 marks

- c. With reference to one accounting assumption, explain why inventory should be valued according to the Lower of Cost and Net Realisable Value rule. 3 marks

Question 4 [12 marks]

Sally is the owner of Everything Office, a small business that sells office supplies. The business prepares its financial reports on a quarterly basis and all Non-Current Assets are depreciated at 10% using the reducing balance method.

When purchased, the equipment was fitted with \$2 000 of safety guards to protect users.

The business has provided the following information as at 30 June 2020.

Everything Office
Balance Sheet (extract) as at 30 June 2020

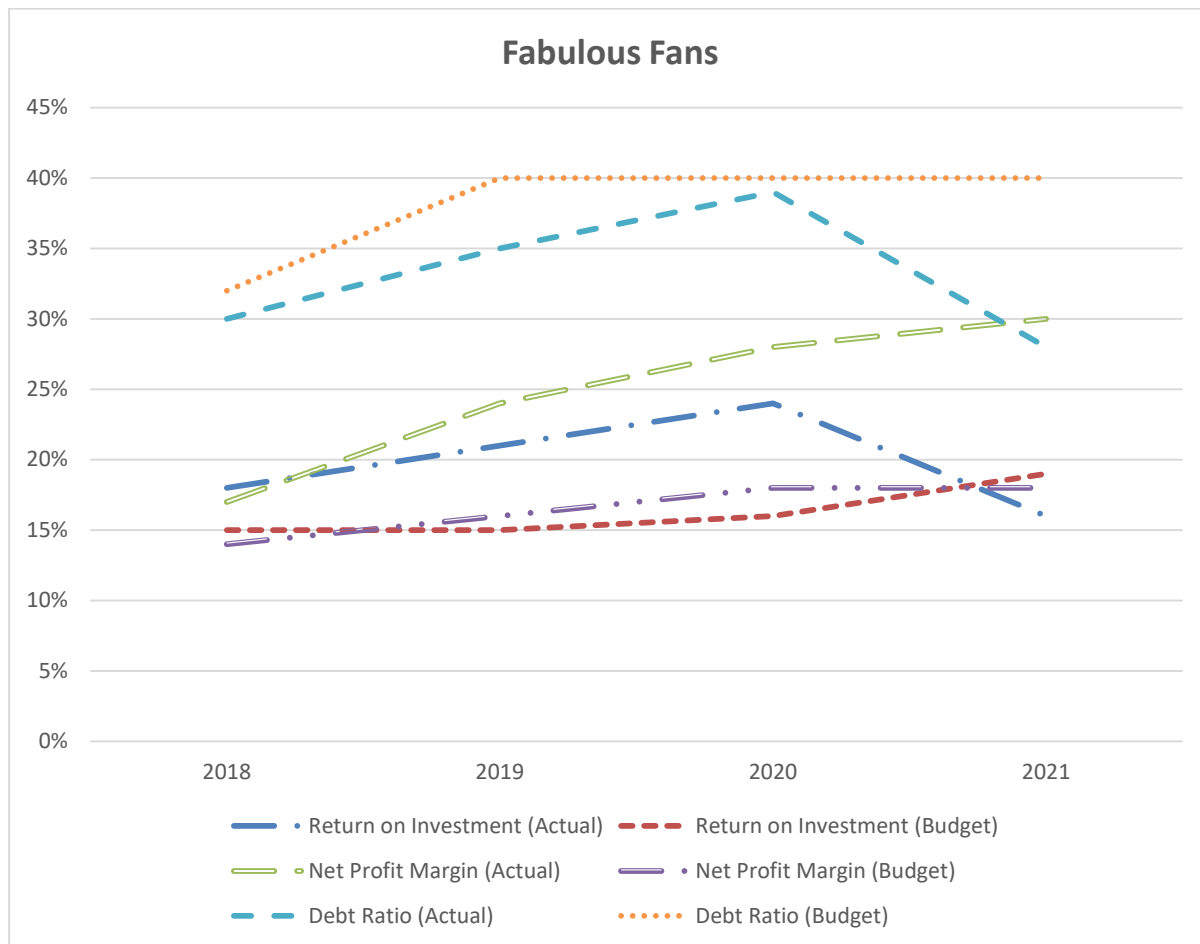
Non Current Assets		
Equipment	27 000 (a)	
Less Accumulated Depreciation	3 500(b)	23 500 (c)

- a. Explain what the amount labelled (a) represents. 2 marks
- b. Explain what the amount labelled (b) represents. 2 marks
- c. Explain what the amount labelled (c) represents. 2 marks
- d. Sally has been using the straight-line method of depreciation for the Delivery Van. Her accountant has suggested that she changes to the reducing balance method on 1 July 2020.

Referring to accounting assumptions and qualitative characteristics, discuss the proposal. 6 marks

Question 5 [9 marks]

The following chart has been prepared for Phil from Fabulous Fans.



Phil commented that he can't see how the information can be accurate. "In 2020 our net profit increased but the return on investment has dropped significantly".

- a. Referring to a qualitative characteristic, explain why a chart would be prepared for Phil. 3 marks
- b. Discuss the performance of Fabulous Fans over the period provided taking into consideration Phil's concerns. 6 marks

Question 6 [15 marks]

Shelley owns a shoe store, Classic Footwear, which sells shoes from its online store. All shoes are sold at a 200% markup with terms of n30.

The following transactions occurred during October 2020:

On 12 October 2020 Shelley received an order for 25 pairs of shoes from *Shoes on Chapel* for \$150 each (plus GST). *Shoes on Chapel* paid a \$600 deposit (EFT 11)

On 14 October 2020 Classic Footwear delivered 15 pairs to Shoes on Chapel (Inv 91)

On 21 October 2020 Classic Footwear delivered the remaining pairs of shoes. (Inv 98)

On 28 October 2020 *Shoes on Chapel* paid the amounts owing. (EFT 104)

- a. Prepare the General Journal entries for the above transactions.
(Narrations are not required) 10 marks

- b. Explain the accounting element that is used to classify the account Unearned Sales Revenue. 2 marks

- c. Explain the impact on the accounting equation of the transaction on 14 October 2020. 3 marks

Question 7 [15 marks]

Zootopia Sanitiser have purchased a larger Delivery Van to handle the recent demand for their products.

The new van was purchased on 30 September 2020 for \$30 000 (plus GST) from *Custom Vans*. An additional \$1 200 (plus GST) was paid for annual insurance and \$4 400 (including GST) of modifications were required to have it ready to delivery their products.

The old delivery van had a carrying value of \$12 000 on 30 September 2020 and was initially purchased for \$28 000 (plus GST). It was traded in for \$5 000. The balance owing was paid with a loan from South Bank.

- a. Prepare the General Journal entries required on 30 September 2020.
(Narrations are not required) 8 marks
- b. Complete the following General Ledger Accounts for September 2020:
Disposal of Delivery Van
Delivery Van 4 marks
- c. Explain how a loss on disposal could be incurred by a business. 3 marks

Question 8 [8 marks]

Home Highlights is a lighting store that sells interior lighting from its Hawthorn store. The owner has provided you with the following information regarding rent paid for the store.

Date of Payment	Amount Paid	Period Covered
15 June 2020	\$1500 (plus GST)	Quarter ended 30 September 2020
15 September 2020	\$2 200 (plus GST)	Four months ending 31 January 2021

Home Highlights reports six monthly with the most recent reports being prepared on 30 June 2020.

- a. Complete the Prepaid Rent General ledger account in the General Ledger of Home Highlights as at 31 December 2020. 4 marks

- b. Referring to two accounting assumptions explain your treatment of the rent incurred during the six months ended 31 December 2020. 4 marks