

NAME:

ACCOUNTING

Unit 3&4 Examination 2

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 11 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 [20 marks]

Charlie is the owner of Bounce Sports. The business applies a 150% mark-up to all inventory and prepares its reports on an annual basis.

Charlie has provided the following Pre-Adjustment Trial Balance as at 30 June 2020.

Bounce Sports
Trial Balance as at 30 June 2020

| Account | Debit \$ | Credit \$ |
|---------------------------------------|----------------|----------------|
| Accounts Payable | | 64 500 |
| Accounts Receivable | 57 000 | |
| Accumulated Depreciation of Equipment | | 12 000 |
| Bank | | 18 200 |
| Capital | | 68 320 |
| Cost of Sales | 72 000 | |
| Delivery In | 120 | |
| Discount Expense | 450 | |
| Discount Revenue | | 900 |
| Drawings | 1 400 | |
| Equipment | | |
| GST Clearing | 1 850 | |
| Interest Revenue | | 1 400 |
| Inventory | 66 500 | |
| Loan - NAB | | 17 000 |
| Prepaid Rent Expense | 18 000 | |
| Sales | | 180 000 |
| Term Deposit | 100 000 | |
| Wages | 45 000 | |
| Total | 362 320 | 362 320 |

Additional information:

- Rent was paid on 15 May 2020. The payment of \$12 000 (plus GST) was for six months commencing on 1 June 2020.
- Charlie took home sports equipment that cost \$2 000 on 1 June 2020 that had not been recorded,
- A customer returned inventory that cost Bounce Sports \$1 500 (plus GST) on 15 June 2020 that had not been recorded.
- The business invested \$100 000 in a term deposit on 1 January 2020. Interest is receivable at 5% per annum, payable at the end of the twelve-month investment.

- A cash sale of \$5 000 (plus GST) was recorded as drawings of inventory at its cost price.
- A stocktake on 30 June 2020 found \$66 500 worth of inventory on hand.

a. Record the transactions required using the additional information provided in the General Journal of Bounce Sports.

Narrations are not required.

12 marks

b. Prepare the Income Statement (extract) excluding other expenses for Bounce Sports for the year ended 30 June 2020.

6 marks

c. Explain how Accounts Payable would be reported in the Balance Sheet of Bounce Sports as at 30 June 2020.

2 marks

Question 2 [6 marks]

Staple It is a stationery store based in Hawthorn that sells quality stationery to businesses throughout Melbourne.

The business launched a new line of inventory from an overseas supplier that has had a questionable reputation for payment of salaries. The owner named Sam made the decision to use the suppliers as his competitors were doing the same.

Sam has provided you with the following Income Statement Variance Report for the year ended 30 June 2020.

Staple It
Income Statement Variance Report for the Year ended 30 June 2020

| | Budget | Actual | Variance | F/U |
|------------------------------|---------------|--------------|----------|-----|
| Revenue | | | | |
| Sales | 190 000 | 200 000 | 10 000 | F |
| Less Sales Returns | 1 000 | 17 000 | 16 000 | U |
| | 189 000 | 183 000 | 6 000 | U |
| Less Cost of Goods Sold | | | | |
| Cost of Sales | 94 500 | 91 500 | 3 000 | F |
| Gross Profit | 94 500 | 91 500 | 3 000 | U |
| Inventory Loss | 300 | 1 700 | 1 400 | U |
| Inventory Writedown | 0 | 12 000 | 12 000 | U |
| Adjusted Gross Profit | 94 200 | 77 800 | 16 400 | U |
| Add Other Revenue | | | | |
| Discount Revenue | 500 | 2 400 | 1 900 | F |
| | 94 700 | 80 200 | 14 500 | U |
| Less Other Expenses | | | | |
| Advertising | 9 000 | 11 000 | 2 000 | U |
| Depreciation of Delivery Van | 5 000 | 5 000 | 0 | - |
| Discount Expense | 800 | 1 200 | 400 | U |
| Insurance | 1 000 | 1 000 | 0 | - |
| Rent | 18 000 | 18 000 | 0 | - |
| Wages | 30 000 | 36 000 | 6 000 | U |
| | 63 800 | 72 200 | 8 400 | U |
| Net Profit | 30 900 | 8 000 | 22 900 | U |
| | | | | |
| | | | | |

Referring to an ethical consideration, discuss the performance of Staple It.

Question 3 [25 marks]

Laura's Boutique is an online clothing store. The business has experienced a boom in sales and Laura has decided to upgrade her Delivery Van.

Laura uses the reducing balance method to depreciate her non-current assets which includes her delivery van and store shelving. The old delivery van was purchased for \$30 000 (plus GST) on 1 August 2018. It has a carrying value of \$19 600 on 30 June 2020.

The new delivery van was purchased on 30 June 2020 for \$46 200 (plus GST) which included \$1200 (plus GST) of annual insurance. She traded her old delivery van in for \$20 000. The balance owing will be paid with a loan from *ABC Finance*.

Laura's accountant has recommended that she changes to the straight-line depreciation method for the store shelving.

- a. Prepare the General Journal entries required to record the disposal and purchase of the delivery vans. 11 marks
- b. Complete the Delivery Van and Disposal of Delivery Van accounts. 5 marks
- c. Explain how a business can incur a loss on disposal of a non-current asset. 3 marks
- d. Discuss the accountant's suggestion regarding changing her depreciation method. 6 marks

Question 4 [7 marks]

Storage Queen operate a small business that specialises in storage products.

The owner has discovered an incomplete entry in the financial records of the business relating to their customer *Box World*.

The business uses a 100% mark-up.

- a. Complete the following General Journal entry

No narration is required

General Journal

| Date | Details | Debit | Credit |
|--------------|--------------|-------|--------|
| 2020 June | | | |
| 28 | Sales Return | 9 000 | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

4 marks

- b. Referring to an accounting assumption explain why Storage Queen would prepare the entry on 28 June 2020.

3 marks

Question 5 [11 marks]

Warren commenced the operations of his new business Watch It on 1 July 2020.

He has provided you with the following information relating to July 2020.

July

- 1 Warren contributed \$60 000 to the business (EFT 1)
- 1 Paid rent of \$12 000 (plus GST) for the six months ended 31 December 2020 (EFT 2)
- 1 Paid a \$3 000 rental bond to *ABC Real Estate*. The office lease of 3 years was signed (EFT 3)
- 7 Watch It borrowed \$20 000 from *Aus Bank*. The loan is repayable at \$1 000 a month commencing 1 August 2020.
- 12 A bank overdraft of \$30 000 was approved by *Aus Bank*
- 19 Warren contributed his Van Vehicle to Watch It. The van cost 30 000 on 30 June 2018. The van was valued at \$20 000 on 1 July 2020.
- 23 Watch It bought 5 Rolex watches for \$10 000 (plus GST) each from *Time On* (Inv 98)
- 28 Sold 3 Rolex Watches to *Clockwork* for \$15 000 each (plus GST) (Inv 001)
- 30 Watch It paid \$1 200 (plus GST) for twelve monthly advertisements in *Time Magazine* commencing 31 August 2020

- a. Prepare a fully classified Balance Sheet for Watch It as at 31 July 2020

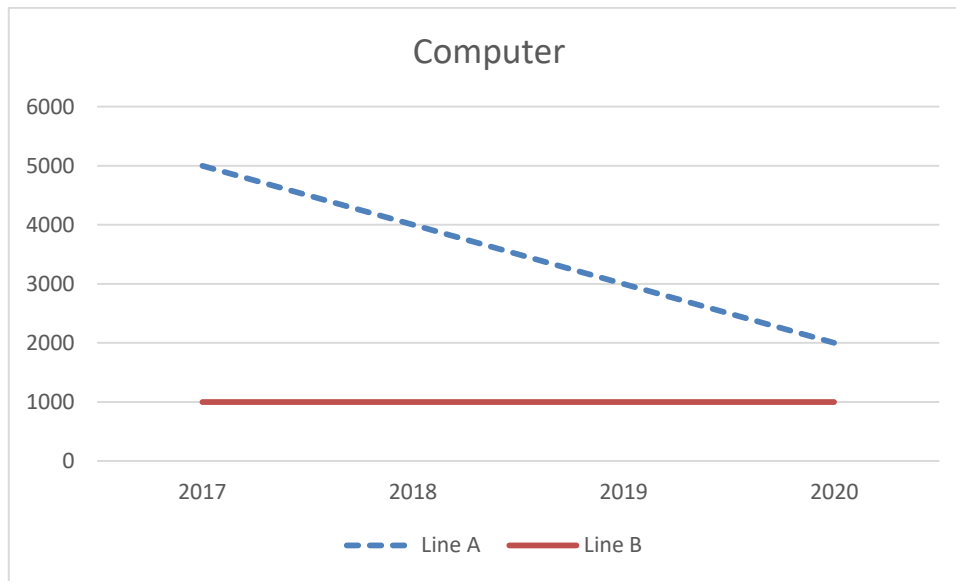
8 marks

- b. Referring to a qualitative characteristic, explain why Watch It would prepare a fully classified Balance Sheet.

3 marks

Question 6 [6 marks]

Ken's Convenience Store have provided you with the following graph.



a. Explain what Line A represents.

2 marks

b. Explain what Line B represents.

2 marks

c. Explain the depreciation method used by Ken's Convenience Store and the appropriateness of the method.

2 marks

Question 7 [11 marks]

Simone is the owner of Wakey Coffee Machines.

She has provided you with the following information relating to her inventory on hand on 30 June 2020.

| Item | Quantity Inventory Card | Quantity Physical stocktake | Purchase price (exc GST) | Delivery In | Delivery Out | Selling Price (exc GST) |
|-----------------|-------------------------|-----------------------------|--------------------------|-------------|--------------|-------------------------|
| Espresso Jnr | 20 | 18 | 50 | 10 | 10 | 100 |
| Espresso Home | 15 | 15 | 100 | 20 | 20 | 200 |
| Espresso Office | 10 | 10 | 200 | 25 | 25 | 300 |

The *Espresso Office* has experienced a decrease in popularity and was discounted to \$200 (plus GST) and free coffee beans that cost \$20 will be provided for free with each machine.

The customer pays for delivery to their site.

- a. Calculate the cost price of inventory that would be reported in the Balance Sheet on 30 June 2020. 3 marks

- b. Record the General Journal entries required by the information provided.
Narrations are not required. 4 marks

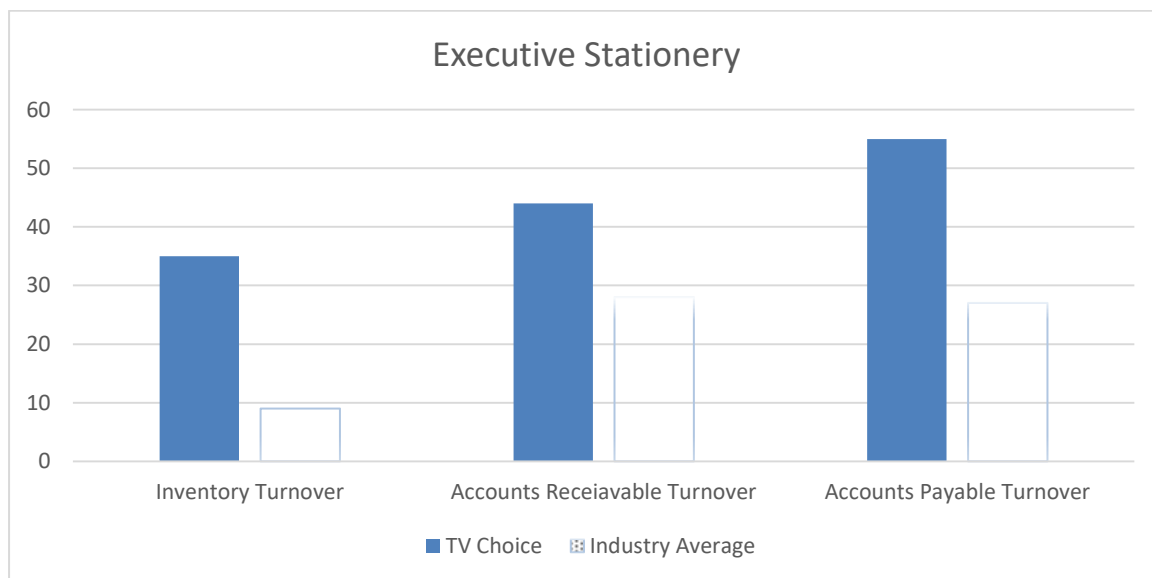
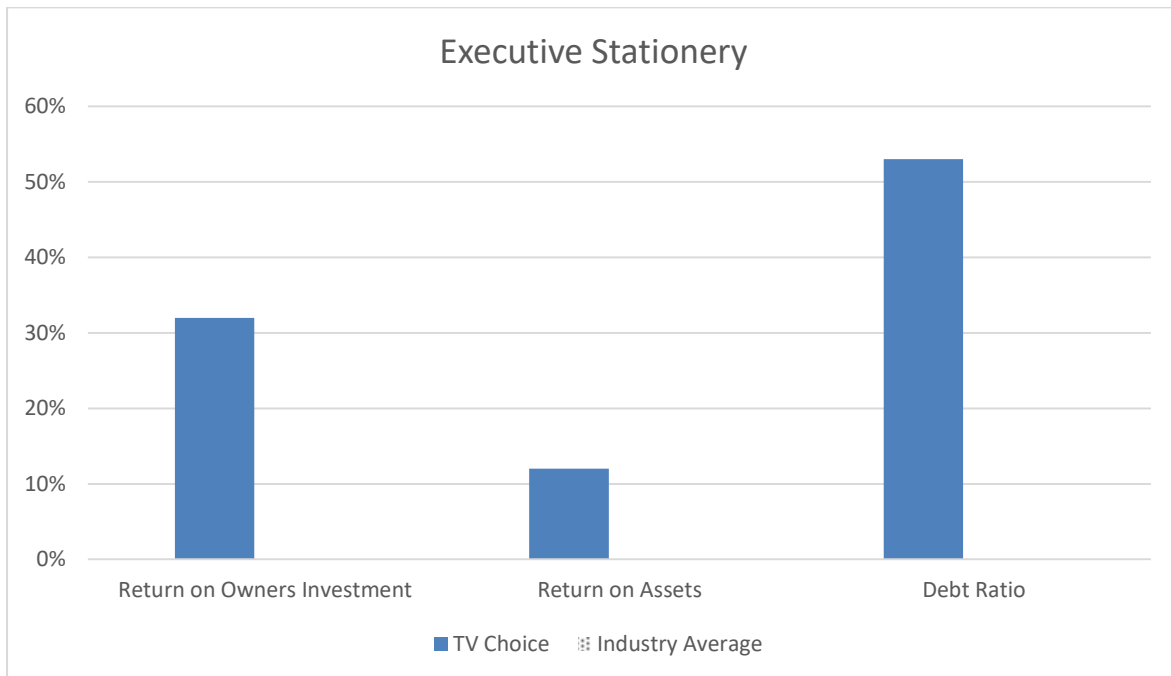
- c. Explain your treatment of the *delivery in* for the Espresso Jnr coffee machine. 2 marks

- d. Explain your valuation of the *Espresso Office* that would be reported in the Balance Sheet on 30 June 2020. 2 marks

Question 8 [14 marks]

Executive Stationery is a small stationery store in South Yarra that specialises in custom stationery for executives.

The owner Charles has provided you with the following information for the year ended 30 June 2020.



a. Discuss the profitability of Executive Stationery using the graphs provided.

6 marks

b. Outline two non-financial indicators that Charles could use to review the performance of Executive Stationery.

2 marks

c. Referring to the liquidity of Executive Stationery, explain the relationship between the accounts receivable turnover and the accounts payable turnover.

4 marks

d. Identify one positive and one negative aspect of a slow inventory turnover.

2 marks