COMPAK

ACCOUNTING UNITS 3 AND 4

Accounting Units 3 and 4 practice exam 2021 and suggested solutions

SZUEN LIM | CAULFIELD GRAMMAR SCHOOL – CAULFIELD

The following VCE Accounting Units 3 and 4 practice exam consists of eight questions worth 100 marks. Students are required to answer all questions in the spaces provided in the answer book.

The command/task words in each question, the corresponding number of marks allocated, and the number of lines provided after each question, where appropriate, guide the appropriate length of responses. Suggested answers to this practice exam follow the answer book.

Please note that the following questions and solutions have no official status. Teachers are advised to preview and evaluate all practice exam material before distributing it to students.

ACCOUNTING UNITS 3 AND 4

Practice written examination 2021

Reading time: 15 minutes
Writing time: 2 hours

QUESTION BOOK

Structure of book

Number of questions	*Number of questions to be answered*	*Number of marks*
8	8	100

- 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 white-out liquid/tape.

Materials supplied

- Question book
- Answer book

Instructions

- Write your name and your teacher's name in the spaces provided on the front page of the answer book.
- Answer **all** questions in the answer book.
- All written responses must be in English.

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

QUESTION 1: EXCEL WITH E (13 MARKS)

Erin owns Excel with E, a business that sells exercise equipment and clothing. Financial reports are prepared monthly.

Erin has provided the following information and source documents relating to headbands for September 2021 that are **yet** to be recorded. The First-In, First-Out (FIFO) cost assignment method is used for these headbands.

The following information relates to headbands:

- 1 September Opening balance of 20 headbands at $1 each (plus GST)
- 13 September Purchased 100 headbands for $2 each (plus GST) (EFT 263)

Document A

Inv No E58 **Terms: 7/10, n/30**	**Excel with E** **ABN: 31 814 755 553**			**TAX INVOICE**
Charge to:	*Gymtastic*			
Date	**Details**	**Qty**	**Price per unit**	**$**
25 Sep 2021	Headbands	25	5	125.00
	GST (10%)			12.50
	Total			**137.50**

Document B

Credit Note 64	**Excel with E** **ABN: 31 814 755 553**			**TAX INVOICE**
Returned by:	*Gymtastic*			
Date	**Details**	**Qty**	**Price per unit**	**$**
27 Sep 2021	Headbands – damaged	4	5	20.00
	GST (10%)			2.00
	Total			**22.00**

Document C

TAX INVOICE ABN: 17 889 345 618	**Sweat It Out**			**Inv 876** **5/10; n/30**
Charge to	*Excel with E*			
Date	**Details**	**Qty**	**Unit Price**	**$**
29/9/2021	Headbands	200	3.00	600
	Plus GST			60

	Total (including GST)			**660**

Document D

Memo 83	**Date: 30 September 2021**
To: *Accounting Department*	
Details: *Physical count detected inventory gain of 5 headbands. Please update the Inventory Card accordingly.*	

a. Record the relevant information and source documents for September 2021 in the Inventory Card for headbands.

6 marks

Erin has been advised to switch from the FIFO method to the Identified Cost method when recording in the Inventory Card for headbands. However, she is worried about the impact that this could have on the Income Statement.

b. Referring to **two** qualitative characteristics, discuss whether Erin should accept the advice.

4 marks

On 5 October 2021, Excel with E donated 10 headbands at a cost price of $2.20 (including GST) each to the local primary school (Memo 90).

c. Record Memo 90 in the General Journal of Excel with E.

A narration **is** required.

3 marks

QUESTION 2: ZOOMING (14 MARKS)

Yuan is the owner and operator of Zooming, a small business that sells communication devices such as mobile phones and tablets.

Yuan provides the following estimates for the year ending 30 June 2021.

Item	Amount
Accounts Receivable as at 1 July 2020 (actual)	*$26 400*
Accounts Receivable as at 30 June 2021	*$17 600*
Bad debts expense	*$1 000*
Credit sales	*$30 000 (plus GST)*
Discount expense	*$320*
Discount revenue	*$190*
*Sales returns**	*$600 (plus GST)*
Purchase returns	*$400 (plus GST)*
Accounts Receivable written off as bad	*$2 200 (incl GST)*

*These were from credit sales.

a. Reconstruct the Accounts Receivable account in the General Ledger of Zooming to calculate budgeted Receipts from Accounts Receivable for the year ended 30 June 2021.

5 marks

Upon comparing the budgeted Receipts from Accounts Receivable with the actual Receipts from Accounts Receivable for the year ended 30 June 2021 ($25 000), the accountant advises Yuan that the variance is Unfavourable.

b. Explain **one** strategy that the business could adopt to address this Unfavourable variance.

2 marks

Yuan has provided the following extract from Zooming's General Ledger for the year ended 30 June 2021.

BANK

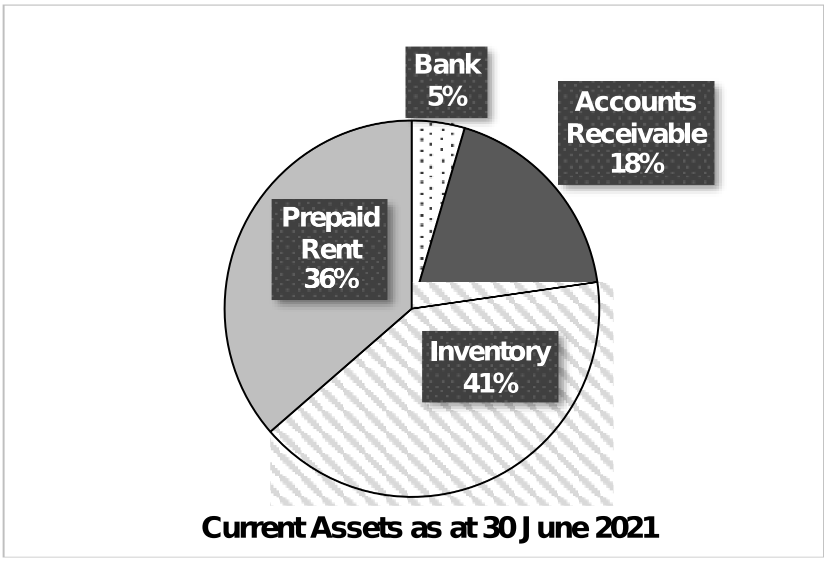
Date	Cross-reference	Amount	Date	Cross-reference	Amount
1 Jul 20 – 30 Jun 21	Balance	7 920	1 Jul 20 – 30 Jun 21	Wages	19 000
	Accounts Receivable	25 000		Interest Expense	150
	Sales/GST Clearing	13 200		Drawings	4 000
	Sales/GST Clearing	5 500		Prepaid Advertising/GST Clearing	6 050
	Unearned Sales Revenue	700		Inventory/GST Clearing	6 820
				Furniture/GST Clearing	8 800

c. Prepare the Operating section of the Cash Flow Statement for Zooming for the year ended 30 June 2021. A full Cash Flow Statement is **not** required.

7 marks

QUESTION 3: ATHENIAN DELIGHTS (7 MARKS)

Ari is the owner and operator of Athenian Delights, a small business that sells imported Greek food. The following information was provided:



a. Using the information provided, explain whether the quick asset ratio (QAR) for Athenian Delights will be lower, higher or similar to the working capital ratio (WCR), as at 30 June 2021.

2 marks

Ari discovers that 50 bottles of Premium Olive Oil have passed their 'best before' dates. As Ari is taking the bottles out to the bin, his assistant stops him and suggests that they sell the bottles to customers at a discounted price.

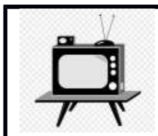
b. With reference to ethical and financial considerations, discuss whether Ari should continue selling the Premium Olive Oil at a discounted price or discard the Premium Olive Oil.

5 marks

QUESTION 4: ON-TIME OLLIE (13 MARKS)

Ollie is the owner and operator of On-Time Ollie, a small business that sells watches. On-Time Ollie prepares financial reports on 30 June each year. The following source documents relate to the purchase of a Smart TV on 1 January 2021. The Smart TV is used to show videos and photos of watches that are available for sale and to improve the customer experience at the store:

Document A



	DIGITAL SOLUTIONS LTD **ABN 28 309 930 203**	**Tax Invoice** *Original* **Rec 782**
Received from:	On-Time Ollie ABN: 13 557 259 111	

Date	**Details**	**Total $**
1 Jan 2021	Smart TV Model 521	5 000
	Warranty (12 months)	600
	GST	560
	Total	**6 160**

Document B

		1 January 2021
To:	*The Handy Installers*	
For:	*Installation of Smart TV*	
Balance c/fwd:		
Deposits		
This cheque	$	***110.00 (incl. GST)***
Balance	$	
Cheque No. 156		

a. Record the source documents in the General Journal of On-Time Ollie. A narration is **not** required.

4 marks

b. With reference to your answer in **part a.**, explain your treatment of the cost of Installation.

2 marks

On 30 June 2023, On-Time Ollie traded in its Model 521 Smart TV for a newer model worth $4 500 (plus GST) from Digital Solutions (Chq 381). An amount of $1 420 was agreed upon for the trade-in.

Additional information

- On-Time Ollie calculates depreciation at a rate of 31% p.a. using the reducing balance method.

c. Calculate the Carrying Value of the original Smart TV (Model 521) as at 30 June 2023. You must show all your workings.

3 marks

d. Complete the Disposal of Smart TV account in the General Ledger of On-Time Ollie as at 30 June 2023.

4 marks

QUESTION 5: LITTLE LU (28 MARKS)

Lu is the owner and operator of Little Lu, a small business that sells children's toys. The business prepares reports quarterly on 31 March, 30 June, 30 September and 31 December each year. All sales are made on credit and the business applies a mark-up of 100% on inventory. Lu has provided the following information as at 30 September 2021:

LITTLE LU

Pre-adjustment Trial Balance (extract) as at 30 September 2021

Account	**Debit $**	**Credit $**
Accounts Receivable	12 750	
Accumulated Depreciation – Computer		1 125
Advertising	2 000	
Allowance for Doubtful Debts		700
Bank		320
Capital – Lu		33 155
Cost of Sales	20 000	
Computer	4 500	
Discount Revenue		510
Drawings	8 500	
GST Clearing		1 500
Inventory	14 000	
Loan – Micro Bank		24 000
Prepaid Insurance Expense	5 560	
Sales		42 000
Sales Returns	2 000	
Term Deposit (4 years)	30 000	
Unearned Sales Revenue		600
Wages	4 600	

Additional information

- Advertising of $1 000 was owing to Thriving Kids magazine as at 30 September 2021.
- The unearned sales revenue relates to a deposit made by Max on 18 July. On 30 September 2021, 50 Lego sets with a selling price of $35 (plus GST) each was delivered to Max (Inv 1076). Lu has not recorded Invoice 1076.
- The business's annual insurance policy was renewed on 1 September 2021 for $4 800 (plus GST).
- On 1 July 2020, the firm opened the term deposit, with interest earned at 5% per annum, to be received twice a year on 30 June and 31 December.
- The computer is depreciated at a rate of 20% p.a. using the straight-line method.
- There were no debts written off during the quarter ending 30 September 2021. The business estimates the allowance for doubtful debts to be 2% of net credit sales.
- As at 30 September 2021, a physical count revealed $14 500 worth of inventory on hand.

a. Show the General Journal entries to record the necessary adjustments and Inv 1076 on 30 September 2021. Narrations are **not** required.

14 marks

b Prepare the Other Expenses section of the Income Statement for Little Lu for the quarter ended 30 September 2021. A complete Income Statement is **not** required.

4 marks

c. Prepare the Current Assets section of the Balance Sheet for Little Lu as at 30 September 2021. A full Balance Sheet is **not** required.

4 marks

d. Explain why Little Lu should switch from the straight-line method to the reducing balance method when calculating depreciation for the computer.

2 marks

Net Profit for the quarter ending 30 September 2021 amounted to $14 015. On 20 August 2021, Lu contributed $5 000 in cash to the business.

e. Show how the Capital account would appear in the General Ledger of Little Lu as at 30 September 2021. You are required to balance the account.

4 marks

QUESTION 6: DYNAMIC DEAN (11 MARKS)

Dean is the owner and operator of Dynamic Dean, a small business that sells soccer equipment to primary and secondary schools.

The following information was provided for the month of July 2021:

DYNAMIC DEAN

Pre-adjustment Trial Balance (extract) as at 31 July 2021

Account	Debit $	Credit $
Accounts Receivable – East College	5 500	
Accounts Receivable – Bay College	9 900	
Allowance for Doubtful Debts		3 100
Cash Sales		17 000
Credit Sales		18 000
Sales Returns	500	

The following source documents have **not** been recorded:

Document A

	Dynamic Dean **ABN: 21 325 383 988**	**Receipt 103**
Received From:	East College	
Date	**Details**	**Amount**
31 July 2021	Settlement of account – payment received.	$1 100

Document B

Date: 31 July 2021 *Memo 93*

To: Accounting Department

Details: The remainder of the balance owed by East College has to be written off as irrecoverable.

Document C

Date: 31 July 2021 *Memo 94*

To: Accounting Department

Details: Please make a balance day adjustment to ensure that Allowance for Doubtful Debts is 7% of Net Credit Sales for the month of July.

a. Record the documents in the General Journal of Dynamic Dean on 31 July 2021.

Narrations are **not** required.

4 marks

b. Show how the Allowance for Doubtful Debts account would appear in the General Ledger of Dynamic Dean as at 31 July 2021, after all balancing entries have been completed.

3 marks

c. With reference to **one** accounting assumption and **one** qualitative characteristic, explain why a balance day adjustment for bad debts expense is necessary.

4 marks

QUESTION 7: JAMIE'S JAMS (7 MARKS)

Jamie owns and operates Jamie's Jams, a small business that sells gourmet fruit jams to hotels and restaurants. Inventory cards for all lines of inventory are maintained using the FIFO cost assignment method, and inventory is valued according to the lower of cost and net realisable value (NRV) rule.

As at 31 August 2021, the business's records revealed the following inventory on hand:

Inventory line	Quantity per inventory cards	Quantity per physical count	Supplier's invoice price per jar (excl. GST)	Freight In per jar (excl. GST)	Selling price per jar (excl. GST)
Blueberry Jam (2kg jar)	*10*	*11*	*$15*	*$2*	*$30*
Fig Jam (5kg jar)	*20*	*20*	*$58*	*$2*	*$80*
Strawberry Jam (2kg jar)	*8*	*8*	*$18*	*$2*	*$40*

Due to its unique taste and texture, the Fig Jam is less popular amongst customers. On 31 August 2021, Jamie reduced the selling price of Fig Jam to $55 (plus GST) per jar; as a further incentive, a packet of biscuits worth $5 (plus GST) was offered free with each jar of Fig Jam sold (Memo 112).

a. Calculate the value of the closing balance for each line of inventory as at 31 August 2021.

3 marks

b. With reference to **one** qualitative characteristic, explain why inventory should be valued according to the lower of cost and net realisable value (NRV) rule.

2 marks

c. Record Memo 112 in the General Journal of Jamie's Jams.

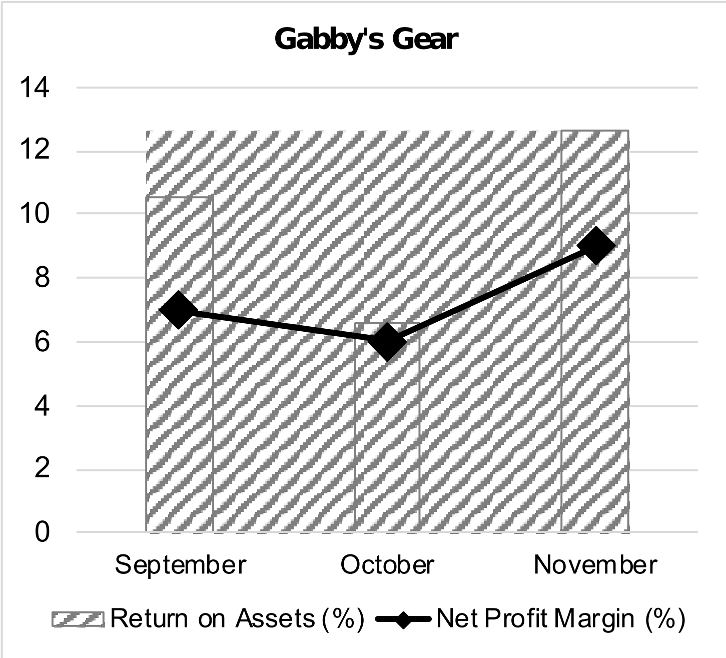
A narration is **not** required.

2 marks

QUESTION 8: GABBY'S GEAR (7 MARKS)

Gabby owns Gabby's Gear, a small business that sells climbing gear in Melbourne. Most of Gabby's customers are professional climbers who travel around Australia and overseas to pursue various mountain climbing adventures.

The following information was provided by Gabby for 2020:



Inventory Turnover (days)

September	*20 days*
October	*30 days*
November	*27 days*

Additional information

- Due to restrictions on overseas and interstate travel during September and October, Gabby's Gear experienced a decline in sales.
- Restrictions on interstate travel were lifted at the start of November.
- Gabby's Gear terminated its rental agreement in October, relocated its inventory to a storage facility and sold inventory online through its website and social media platforms.

a. Analyse the effects of these changes on the profitability of Gabby's Gear during the period from September to November 2020.

5 marks

b. Suggest **one** strategy that Gabby's Gear could adopt to improve the business' Inventory Turnover.

2 marks

END OF QUESTION BOOK

Name: ______________________________ Teacher: ______________________________

ACCOUNTING UNITS 3 AND 4

Practice written examination 2021

Reading time: 15 minutes
Writing time: 2 hours

ANSWER BOOK

Instructions

- A question book is provided with this answer book.
- Answer all questions in the spaces provided in this book.
- Write your name and your teacher's name in the spaces provided above on this page.
- Refer to the **Instructions** on the front cover of the question book.

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

QUESTION 1: EXCEL WITH E (13 MARKS)

a. 6 marks

Stock item: Headbands **Cost method:** FIFO

Inventory code: HBand **Supplier:** Sweat It Out

Date 2021	Document	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total

b. 4 marks

Discussion

c. 3 marks

General Journal

Date 2021	Details	Debit	Credit

QUESTION 2: ZOOMING (14 MARKS)

a. 5 marks

ACCOUNTS RECEIVABLE

Date	Cross-reference	Amount	Date	Cross-reference	Amount

b. 2 marks

Explanation

c. 7 marks

ZOOMING

Cash Flow Statement (extract) for the year ended 30 June 2021

	$	**$**
Cash Flow from Operating Activities		

QUESTION 3: ATHENIAN DELIGHTS (7 MARKS)

a. 2 marks

Explanation

b. 5 marks

Discussion

QUESTION 4: ON-TIME OLLIE (13 MARKS)

a. 4 marks

General Journal

Date 2021	Details	Debit	Credit

b. 2 marks

Explanation

c. 3 marks

Calculation	
Carrying value:	

d. 4 marks

DISPOSAL OF SMART TV (MODEL 521)

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount

QUESTION 5: LITTLE LU (28 MARKS)

a. 14 marks

Calculation

General Journal

Date 2021	Details	Debit	Credit

b. 4 marks

LITTLE LU

Income Statement (extract) for the quarter ended 30 September 2021

	$	**$**
Other expenses		

c. 4 marks

LITTLE LU

Balance Sheet (extract) as at 30 September 2021

	$	**$**
Current Assets		

d. 2 marks

Explanation

e. 4 marks

CAPITAL – LU

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount

QUESTION 6: DYNAMIC DEAN (11 MARKS)

a. 4 marks

General Journal

Date 2021	Details	Debit	Credit

b. 3 marks

ALLOWANCE FOR DOUBTFUL DEBTS

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
			1 Jul	Balance	3 100

c. 4 marks

Explanation

QUESTION 7: JAMIE'S JAMS (7 MARKS)

a. 3 marks

Calculation	
Blueberry Jam	**$**
Fig Jam	**$**
Strawberry Jam	**$**

b. 2 marks

Explanation

c. 2 marks

General Journal

Date 2021	Details	Debit	Credit

QUESTION 8: GABBY'S GEAR (7 MARKS)

a. 5 marks

Analysis

b. 2 marks

Suggestion

END OF ANSWER BOOK

Suggested solutions

QUESTION 1: EXCEL WITH E (13 MARKS)

a. 6 marks

Stock item: Headbands **Cost method:** FIFO

Inventory code: HBand **Supplier:** Sweat It Out

Date 2021	Document	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Sep 1	Balance							20	1	20
13	EFT 263	100	2	200				20	1	20
								100	2	200
25	Inv. E58				20	1	20			
					5	2	10	95	2	190
27	CN 64	4	2	8				99	2	198
29	Inv. 876	200	3	600				99	2	198
								200	3	600
30	Memo 83	5	3	15				99	2	198
								205	3	615

***1 mark** for each transaction in the Inventory Card*

b. 4 marks

Discussion Switching to the Identified Cost method would enhance the accuracy of the Income Statement because the actual cost price of each headband that leaves the business is known. In contrast, FIFO is simply an assumption that is used to record the movement of inventory out of a business when it is impossible or impractical, or too costly to label each item; thus, FIFO does not represent the actual flow of inventory and undermines faithful representation **[1].**

With the increasing cost price of headbands, FIFO would assume that the newer, cheaper headbands are sold first, potentially understating Cost of Sales and overstating Gross Profit in the Income Statement **[1].** In this sense, Erin may wish to switch to the Identified Cost method.

However, a change of inventory cost assignment methods might reduce the ability of users to compare reports between periods, breaching comparability **[1].**

It might be difficult to understand whether changes in the business's Income Statement are due to actual change in business performance or simply due to a change from FIFO to the Identified Cost method **[1].**

As such, Erin might wish to continue recording using the FIFO method. If she chooses to switch to the Identified Cost method, this change should be disclosed in reports.

Relevance would also be an acceptable response.

c. 3 marks

General Journal

Date 2021	Details	Debit	Credit
Oct 5	Advertising	20	
	Inventory		20
	Donation of 10 headbands to the local primary		
	school (Memo 90)		

1 mark *for Advertising entry*

1 mark *for Inventory entry*

1 mark *for narration – should include quantity, type of inventory and source document*

QUESTION 2: ZOOMING (14 MARKS)

a. 5 marks

ACCOUNTS RECEIVABLE

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1 Jul 20	Balance	26 400	1 Jul 20– 30 Jun 21	Bank	38 620
	Sales/GST Clearing **[1]**	33 000		Discount Expense **[1]**	320
				Allowance for Doubtful Debts/GST Clearing **[1]**	2 200
				Sales Returns/GST Clearing **[1]**	660
			30 Jun 21	Balance	17 600
		59 400			59 400
1 Jul 21	Balance	17 600			

1 mark *for opening balance* ***and*** *closing balance*

Other marks indicated in the ledger

b. 2 marks

Explanation Issue reminder notices / issues invoices promptly / offer higher discount
Incentives etc. **[1]** This should encourage more customers (Accounts Receivable) to repay
on a timely basis, thus increasing receipts from Accounts Receivable **[1]**

c. 7 marks

ZOOMING
Cash Flow Statement (extract) for the year ended 30 June 2021

	$	$	Mark
Cash Flow from Operating Activities			
Cash Sales	17 000		1
GST Received	1 700		
Unearned Sales Revenue	700		1
Receipts from Accounts Receivable	25 000	44 400	1
Wages	(19 000)		1
Interest	(150)		
Prepaid Advertising	(5 500)		1
Purchase of Inventory	(6 200)		1
GST Paid	(1 970)	(32 820)	1
Net Cashflows from Operating Activities		11 580	1

QUESTION 3: ATHENIAN DELIGHTS (7 MARKS)

a. 2 marks

Explanation The quick asset ratio (QAR) should be lower given that 77% of the business's Current Assets is comprised of Prepaid Rent (36%) and Inventory (41%) **[1]**. When calculating the QAR, these items are excluded, thus leading to a lower figure than working capital ratio **[1]**.

b. 5 marks

Discussion Discarding the olive oil would lead to an inventory loss expense which decreases the business's profit. The business would miss out on any Sales revenue on these bottles.

From an environmental perspective, if olive oil has just passed its ‘best before’ date, it would be a waste to simply throw 50 bottles of olive oil into the bin.

However, discarding the olive oil may be more ethical if the quality has deteriorated to a point where customers would no longer enjoy the taste and health benefits of the olive oil.

Discounting the expired olive oil would lead to an inventory write-down expense (if selling
price is lower than cost price) or a lower gross profit per sale, i.e. GPM (if selling price
remains higher than cost price). This is a relatively smaller expense than an inventory loss;
thus this option is more favourable from a financial perspective.
Having said that, the business needs to behave ethically towards its customers by ensuring
that they are aware of the best before date. If this is not clearly disclosed to customers, there
could be negative implications for the business's reputation, which may decrease its sales in
the long-term. Ultimately, the decision of whether to discard or discount the olive oil might
depend on the quality of the olive oil. It is legal to continue selling products past their best
before dates, provided that the food is safe for human consumption.

Mark globally. Students should refer to ethical and financial considerations for both options.

QUESTION 4: ON-TIME OLLIE (13 MARKS)

a. 4 marks

General Journal

Date 2021	**Details**	**Debit**	**Credit**	Marks
Jan 1	Smart TV (Model 521)	5 100		**1**
	Prepaid Warranty	600		**1**
	GST Clearing	570		**1**
	Bank		6 270	**1**

b. 2 marks

Explanation The cost of installation is considered to be part of the cost of the Smart TV as
it was incurred to get the Smart TV into a condition ready for use **[1]** and will provide a
benefit for the life of the Smart TV **[1].**

c. 3 marks

Calculation

	1 Jan 21 – 30 Jun 21	1 Jul 21 – 30 Jun 22	1 Jul 22 – 30 Jun 23		
HC	5100	5100	5100		
- Acc Dep	790.5	2126.445	3048.24705		
CV	4309.5	2973.555	2051.75295		
Depreciation Expense	31% x 5100 x 6/12 = 790.5	31% x 4309.5 = 1335.95	31% x 2973.555 = 921.80	Total = $2051.75	
				Carrying Value	**$2 052**

If the final answer is incorrect, allocate marks according to the process shown or count the number of errors made, for example:

***1 mark** for calculating first 6 months of depreciation, up to 30 June 2021*

***1 mark** for updating Accumulated Depreciation correctly*

***1 mark** for applying 31% to Carrying Value*

d. 4 marks

DISPOSAL OF SMART TV (MODEL 521)

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
Jun 30	Smart TV **[1]**	5 100	Jun 30	Acc Dep – Smart TV **[1]**	3 048
				Loss on Disposal of Smart TV **[1]**	632
				Smart TV **[1]**	1 420
		5 100			5 100

QUESTION 5: LITTLE LU (28 MARKS)

a. 14 marks

Calculation for Bad Debts Expense

[2% x (42000+1750-2000)] = 835

835 – 700 = 135

Calculation for Inventory Gain

14500 – [14000-875] = 1375

General Journal

<table>
<tr><th>Date 2021</th><th>Details</th><th>Debit</th><th>Credit</th><th>Mark</th></tr>
<tr><td>Sep 30</td><td>Advertising Expense</td><td>1 000</td><td></td><td rowspan="2">1</td></tr>
<tr><td></td><td>Accrued Advertising Expense</td><td></td><td>1 000</td></tr>
<tr><td></td><td>Accounts Receivable – Max</td><td>1 325</td><td></td><td>1</td></tr>
<tr><td></td><td>Unearned Sales Revenue</td><td>600</td><td></td><td>1</td></tr>
<tr><td></td><td>Sales</td><td></td><td>1 750</td><td rowspan="2">1</td></tr>
<tr><td></td><td>GST Clearing</td><td></td><td>175</td></tr>
<tr><td></td><td>Cost of Sales</td><td>875</td><td></td><td rowspan="2">1</td></tr>
<tr><td></td><td>Inventory</td><td></td><td>875</td></tr>
<tr><td></td><td>Insurance Expense</td><td>1 160</td><td></td><td>1</td></tr>
<tr><td></td><td>Prepaid Insurance Expense</td><td></td><td>1 160</td><td>1</td></tr>
<tr><td></td><td>Accrued Interest Revenue</td><td>375</td><td></td><td>1</td></tr>
<tr><td></td><td>Interest Revenue</td><td></td><td>375</td><td>1</td></tr>
<tr><td></td><td>Depreciation – Computer</td><td>225</td><td></td><td>1</td></tr>
<tr><td></td><td>Acc Dep – Computer</td><td></td><td>225</td><td>1</td></tr>
<tr><td></td><td>Bad Debts Expense</td><td>135</td><td></td><td>1</td></tr>
<tr><td></td><td>Allowance for Doubtful Debts</td><td></td><td>135</td><td>1</td></tr>
<tr><td></td><td>Inventory</td><td>1 375</td><td></td><td rowspan="2">1</td></tr>
<tr><td></td><td>Inventory Gain</td><td></td><td>1 375</td></tr>
</table>

b. 4 marks

LITTLE LU

Income Statement (extract) for the quarter ended 30 September 2021

	$	$	Mark
Other expenses			
Advertising Expense [2 000 + 1 000]	3 000		1
Insurance Expense	1 160		1
Depreciation – Computer	225		
Bad Debts Expense	135		1
Wages	4 600	9 120	1

c. 4 marks

LITTLE LU

Balance Sheet (extract) as at 30 September 2021

	$	$	Mark
Current Assets			
Accounts Receivable [12 750 + 1 325]	14 075		1
Less Allowance for Doubtful Debts [700 + 135]	835	13 240	
Inventory	14 500		1
Prepaid Insurance Expense [5 560 – 1 160]	4 400		1
Accrued Interest Revenue	375	19 275	1
		32 515	

d. 2 marks

Explanation The reducing balance method better suits the revenue earning pattern of the computer. The computer contributes more to revenue at the start than at the end of its useful life because it becomes technologically obsolete over time **[1].**

The reducing balance method matches this by allocating more depreciation expense at the start and less towards the end of its useful life **[1].**

e. 4 marks

CAPITAL – LU

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount	
Sep 30	Drawings **[1]**	8 500	Jul 1	Balance	28 155	**[1]**
	Balance **[1]**	38 670	Aug 20	Bank	5 000	
			Sep 30	P & L Summary **[1]**	14 015	
		47 170			47 170	
			Oct 1	Balance	38 670	

QUESTION 6: DYNAMIC DEAN (11 MARKS)

a. 4 marks

General Journal

Date 2021	Details	Debit	Credit	Mark
Jul 31	Bank	1 100		**1**
	Accounts Receivable – East College		1 100	
	Allowance for Doubtful Debts	4 000		**1**
	GST Clearing	400		
	Accounts Receivable – East College		4 400	**1**
	Bad Debts Expense	2 125		**1**
	Allowance for Doubtful Debts		2 125	

b. 3 marks

ALLOWANCE FOR DOUBTFUL DEBTS

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
Jul 31	Accounts Receivable – East College **[1]**	4 000	**Jul 1**	**Balance**	**3 100**
	Balance **[1]**	1 225	Jul 31	Bad Debts Expense **[1]**	2 125
		5 225			5 225
			Aug 1	Balance	1 225

c. 4 marks

Explanation Given that the accrual basis assumption states that revenues earned should
be matched against expenses incurred in each reporting period to calculate an accurate Net
Profit **[1]**, a trading firm would estimate a portion of its Net Credit Sales, which it may not be
able to collect in the future and recognise this as an expense on Balance Day **[1]**.
It is relevant information that is capable of making a difference to decisions **[1]**, e.g. it
allows the business to predict future outcomes, such as how much cash it can expect to
collect **[1]**
OR
Even though it is based on an estimate, it provides a faithful representation **[1]** of a real
world economic event as not all debt can be collected **[1]**, and the estimate should be derived
after careful consideration of the business's historical data to minimise bias and to ensure
that information is as neutral and complete as possible.

QUESTION 7: JAMIE'S JAMS (7 MARKS)

a. 3 marks

Calculation

Blueberry: 11 x (15 + 2) = 187 **[1]**

Fig: 20 x (55 – 5) = 1 000 **[1]**

Strawberry: 8 x (18 + 2) = 160 **[1]**

Blueberry Jam	**$187**
Fig Jam	**$1 000**
Strawberry Jam	**$160**

b. 2 marks

Explanation When the net realisable value (NRV) of inventory falls below the cost price, a
write-down is necessary. This provides a faithful representation of the real world
economic value of the inventory and ensures that users have access to information that is
complete, neutral and free from material error **[1].** The inventory write-down ensures
that assets (inventory) and Net Profit are not overstated in reports **[1].**

c. 2 marks

General Journal

Date 2021	Details	Debit	Credit	Mark
Aug 31	Inventory Write–down	200		**1**
	Inventory		200	**1**

QUESTION 8: GABBY'S GEAR (7 MARKS)

a. 5 marks

Evaluation Compared to September, Gabby's Gear's return on assets (ROA) decreased in October; this points towards a decline in profitability and indicates that the business became less effective in using its assets to earn a profit. Net profit margin (NPM) also decreased, suggesting that expense control worsened during this time. This could be due to an increase in expenses relative to Net Sales as a result of the unexpected process of relocating inventory from its shop to a storage facility; expenses, such as wages, inventory loss and inventory write-down, could have increased during this time.

ROA is dependent on asset turnover (ATO) and NPM; given that ROA decreased significantly despite only a slight decrease in NPM, ATO must have also become slower during this time. This is not surprising given the decline in Net Sales, as a result of lower demand for climbing gear. The slower ATO indicates that the business became less efficient in using its assets to generate Net Sales.

The slower inventory turnover (ITO) in October also supports this, as it shows that, on average, it was taking Gabby's Gear 10 days longer to convert inventory into sales.

Despite the negative trend in profitability in October, there are improvements in November, which are reflected in a higher ROA and NPM, and a faster ITO.

The expense control could have improved due to the absence of rent expense and lower operational expenses such as wages and electricity.

The improvement in the business's profitability is also reflected in a faster ITO; however, it should be noted that the ITO is still slower than September's ITO. In addition to higher Sales during the period, which would contribute towards a faster ATO, another reason for a faster ITO could be the adoption of the Just-In-Time approach. As it is now, an online business with limited storage capacity, Gabby's Gear may have had to reduce its inventory levels.

Thus, while Gabby's Gear's profitability was negatively impacted by the changes in

September and October, the decision to shift to an online business has helped the business
to improve its ROA, NPM, ATO and ITO.

Mark globally. The response shown above is a guide only. Stronger answers should refer to:
Relationship between indicators, for example, ROA, ATO and NPM

Both positive and negative implications for profitability

Why profitability improved or worsened, with reference to the additional information

b. 2 marks

Explanation Gabby's Gear could offer discounts **or** commence advertising **or** promote
the sale of complementary items **or** improve its inventory mix **or** order just-in-time **[1].**
by encouraging customers to purchase from the business and/or reducing inventory
levels **[1],** the business's ITO should become faster.