

Student Name: _____

PES

2021 ACCOUNTING
Unit 3&4 Exam 2

SOLUTION BOOK

Question 1 (11 marks)

a. & b.

6 + 2 marks**Expo Products****General Journal**

Date 2021	Details	Debit	Credit
June 20	Sales Returns	120	
	GST Clearing	12	
	Accounts Receivable		132
	Inventory	60	
	Cost of Sales		60
	Accounts Payable	66	
	Inventory		60
	GST Clearing		6
June 30	Inventory	124	
	Inventory Gain		124

Question 1 CONTINUED

c.

3 marks

Justification: The inventory gain is recorded at the most recent purchase price as this value provides the most Faithful Representation (**1 mark**) of the inventory on hand as the most recent cost reflects what the business would be charged if they were to purchase these items at the time of the inventory count. (**1 mark**) This ensures the value is more likely to be more accurate and less subject to bias. (**1 mark**)

Question 2 (14 marks)

a.

5 marks

Accounts Receivable

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount
Jan 1	Balance	57 500	Dec 31	Sales Returns/GST Clearing	8 800
Dec 31	Sales/GST Clearing	440 000		Allowance for Doubtful Debts/GST Clearing	1 650
				Discount Expense	4 312
				Bank	387 738
				Balance	95 000
		497 500			497 500

b.

2 marks

Allowance for Doubtful Debts

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount
Dec 31	Accounts Receivable	1 500	Jan 1	Balance	525
	Balance	7 840	Dec 31	Bad Debts	8 815
		9 340			9 340

Question 2 CONTINUED

c.

2 marks

Sam's Skateboards

Budgeted Balance Sheet (extract) as at 31 December 2022

Current Assets	\$	\$
Accounts Receivable	95 000	
Less Allowance for Doubtful Debts	(7 840)	87 160

d.

3 marks

Explanation: It is necessary to estimate an amount of Doubtful Debts to ensure that financial reports provide a more faithful representation of the firms performance (Income Statement) and position ((Balance Sheet) **(1 mark)** so that the owner has a more complete picture and has all the relevant information that may affect decision making as it is unlikely that all Accounts Receivable will be collected in the future. **(1 mark)**
Providing for the allowance for doubtful debts ensures that the expense is recognised in the period of the credit sale even though it may not be confirmed until a later date. This ensures a more accurate representation of profit as revenue earned is matched against the expenses incurred in the current period.**(1 mark)**

e.

2 marks

Explanation: One concern about budgeting on an annual basis is that the budget period is too long, making it difficult for a business to prepare accurate budgets as there are some circumstances that may occur that the business may not be able to control (such as COVID) **(1 mark)**. Budgeting should be done more frequently in order to identify problems earlier so that corrective action can be taken in a more timely manner. **(1 mark)**

Question 3 (6 marks)

Evaluation: Overall the profitability of the business has worsened over the year as ROA has decreased unfavourably meaning the business is not using its assets productively to earn net profit.

This is probably due to a decline in the Asset Turnover due to the increase in Average Total Assets because of the upgrade to the premises and the installation of the security cameras.

The improvement in the Net Profit Margin is positive and may indicate an improvement in expense control and or an increase in sales indicated by the faster inventory turnover. However, the NPM has not improved by a higher enough percentage to improve the ROA.

The improvement in the ROI is most likely due to the increase in the Debt Ratio as the business relies more on external funds to finance the upgrade and less on the capital of the owner. Even if NP did not increase the lower reliance on owners' funds will still enable the ROI to improve and the owner to receive a better return on their investment.

However, the increase reliance on borrowed funds will increase interest expense and lower Net Profit. Furthermore, the slower Accounts Receivable Turnover is a cause for concern as customers are not meeting the credit terms which could further increase expenses as they may become bad debts.

Mark globally

Students should try to show links between the indicators and should comment on all indicators

Question 4 (3 marks)

a.

2 marks

(1) The Accrued wages incurred from the previous period being paid in the current period
(2) The wages owing not yet paid at the end of the current reporting period.

Students need to clearly explain the different reporting periods – previous, current, future

b.

1 mark

Accrued Wages

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
Aug 5	Bank (1)	1 200	Aug 1	Balance	1 200
31	Balance (3)	1 750	31	Wages (2)	1 750
		2 950			2 950
			Sept 1	Balance	1 750

c.

Question 5 (22 marks)

a.

12 marks

Inventory

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount
	Balance	36 800		Cost of Sales	42 000
	Cost of Sales	1 500		Advertising	350
	Accounts Payable	26 070		Accounts Payable	1 500
	Bank	17 380		Drawings	700
	Inventory Gain	300		Balance	37 500
		82 050			82 050

Dates are not required in reconstructions

Accounts Payable

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount
	Inventory/GST Clearing	1 650		Balance	21 300
	Discount Revenue	1 100		Inventory/GST Clearing	28 677
	Bank	28 827			
	Balance	18 400			
		49 977			49 977

GST Clearing

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount
	Accounts Receivable	300		Balance	2 510
	Bank	2 510		Bank	3 360
	Accounts Payable	2 607		Accounts Receivable	5 040
	Bank*	3 693		Accounts Payable	150
	Balance	1 950			
		11 060			11 060

*GST Calculated = Cash Purchases inventory 1 738 + Advertising 415 + Office Expenses 1 140 + Cartage In 400 = \$ 3 693

Question 5 CONTINUED

b.

5 marks

Future Savers**Budgeted Cash Flow Statement (extract) for 3 months ended 31 March 2022**

OPERATING ACTIVITIES	\$	\$	
Cash Sales	33 600		1
GST Received	3 360		
Accounts Receivable	48 640		1
Unearned Sales Revenue	1 500	87 100	
Accounts Payable	(28 827)		1
Inventory purchases	(17 380)		
GST Paid	(3 693)		1
GST Settlement	(2 510)		
Cartage In	(4 000)		1
Wages/Accrued Wages	(21 900)		
Advertising	(4 150)		
Interest paid	(600)		
Office Expenses	(11 400)	(94 460)	
Net Cash Outflows from Operating Activities		(7 360)	

Marks as allocated**-1 mark if titles not shown****Question 5 CONTINUED**

c.

5 marks

Future Savers**Budgeted Income Statement for 3 months ended 31 March 2022**

REVENUE	\$	\$	
Cash Sales	33 600		1
Credit Sales	50 400		
LESS Sales Returns	(3 000)	81 000	
Less Cost of Goods Sold			
Cost of Sales	40 500		1
Cartage In	4 000	44 500	
Gross Profit		36 500	
Add Inventory Gain		300	1
Adjusted Gross Profit		36 800	
Add Other Revenue			
Discount Revenue		1 100	
		37 900	
Less Other Expenses			
Discount Expense	1 400		2
Wages	21 650		
Advertising	4 500		
Rent Expense	3 000		
Depreciation Equipment	1 800		
Interest expense	600		
Office Expenses	11 400	44 350	
NET LOSS		(6 450)	

Marks as shown**-1 mark for formatting errors****1 mark for any 4 expenses (maximum 2 marks)**

Question 6 (5 marks)

Discussion: The change in location would mean that Sketch will have difficulty comparing the past results of the business as the change in location and move to online sales may have impacted the customer base and sales of the business. Furthermore, the previous period was severely impacted by COVID so comparisons to this may prove ineffective.

However, when comparing to his online competitors, he needs to take into consideration that they may have different operating procedures. Accessing inventory from different suppliers, as well as operating on a different mark-up would distort the figures of main competitors and make comparisons ineffective. Sketch could use these as a guide but must be aware of the different methods of depreciation and inventory valuation and cost assignment methods that are available to businesses which makes comparisons more difficult.

Sketch should also take into consideration the length of time these competitors have been operating for, when making an inter-firm comparison. Sketch would have incurred new start-up costs when changing locations. This would mean they may have some new assets that would affect alter their results to competitors/industry averages who are more established.

Overall, it is important to compare the results of the business to some sort of benchmark. However, they do not always provide a full indication of how the business has performed.

Students must consider both benchmarks – past performance and industry averages

Students must also consider both sides and make note of the change in business model to online sales, COVID and the change in asset base

Question 7 (15 marks)

a.

3 marks

Woolly Jumpers

General Journal

Date 2021	Details	Debit	Credit
Aug 31	Accounts Receivable - Lewis	660	
	Sales		600
	GST Clearing		60
	Cost of Sales	300	
	Inventory		300
	Accrued Interest Revenue	50	
	Interest Revenue		50

b.

2 marks

Working Space

GST Paid = \$700

Inventory \$500

Advertising 75

Cartage In 90

Office Expenses 35

Question 7 CONTINUED

c.

2 marks

Explanation: Accounts Receivable are generated when sales are made on credit with the revenue earned at the point of sale and is verified by an invoice **(1 mark)**, whereas **Accrued Revenue** is generated from transactions other than sales where there is no point of sale to establish that revenue has been earned and is evidenced by a memo at balance day.**(1 mark)**

Question 7 CONTINUED

d.
Woolly Jumpers

8 marks

General Journal

Date 2021	Details	Debit	Credit	
Aug 31	Cash Sales	28 000		1
	Credit Sales (22 000+600)	22 600		
	Interest Revenue	50		
	Discount Revenue	1 500		
	Sales Returns		900	1
	P/L Summary		51 250	
	P/L Summary	32 470		1
	Wages (4 500 + 170)		4 670	1
	Advertising		750	2
	Cartage In		900	
	Office Expenses		350	
	Discount Expense		500	
	Cost of Sales (Sales-Sales Returns/2)		24 850	
	Depreciation Equipment		200	
	Inventory Loss		250	
	P/L Summary	18 780		1
	Capital		18 780	
	Capital	10 500		1
	Drawings		10 500	

Question 8 (5 marks)

Discussion: The ARTO of the business is slower indicating that it is taking customers longer to pay for credit sales and they are paying well outside their 30 day credit terms. At the same time the business is paying their Accounts Payable faster.

Suppliers have given the business 30-day credit terms and no discount so the business is gaining no benefit from their faster payment. It is however meaning that cash is leaving the business sooner than it needs to and is not available to meet other short-term debts when they fall due.

The business is experiencing a shortage of cash every month because the owner is paying their Accounts Payable before they have received the cash from their Accounts Receivable.

If the owner is constantly short of cash this would seem to indicate that the increasing WCR is misleading as it would appear that the current assets are tied up in Inventory and Accounts Receivable and the business has little if any Cash on hand. This is further supported by the declining QAR which indicates the business will struggle to meet their immediate debts without some form of cash injection by the owner.

Question 9 (4 marks)

Identify: Statement of Account (1 mark)

Explanation: Sheldon School will use the statement of account as an internal control mechanism to cross check the account against their own records (Accounts Payable Ledger for Jerry's Jeans or their General Journal entries) (1 mark) where the transactions have been recorded on a daily basis to ensure that the transactions have been correctly recorded and if any discrepancies are found they can then contact the supplier and rectify the problem.(1 mark)

Question 10 (15 marks)

a.

3 marks

Line A: Depreciation of Vehicle expense

Line B: Accumulated Depreciation of Vehicle

Line C: Carrying Value of the Vehicle

b.

6 marks

IT Gadgets

General Journal

Date 2021	Details	Debit	Credit
June 30	Disposal of Vehicle	30 000	
	Vehicle		30 000
	Accumulated Depreciation of Vehicle	25 000	
	Disposal of Vehicle		25 000
	Van	4 200	
	Disposal of Vehicle		4 200
	Loss on Disposal of Vehicle	800	
	Disposal of Vehicle		800

c.

4 marks

Justification: The Vehicle should have been depreciated based on its revenue earning pattern.

The Vehicle is most likely to be more productive in earning revenue when it is new and less productive as it ages and requires more maintenance. In this case the Reducing Balance would have been the more appropriate method of depreciation to use as the depreciation allocated will be higher when the Vehicle is most productive and less depreciation as the Vehicle ages.

It is highly unlikely the Vehicle will contribute evenly to earning revenue over its life as the business has chosen to use. Allocating the same expense to earning revenue when it is new as when it ages and becomes less productive.

Students should cover both methods explaining why one method is preferable to the other. Reference should be made to the revenue earning pattern of the method and how depreciation is allocated.

d.

2 marks

Explanation: A loss on disposal of NCA occurs when the asset's carrying value is overstated (greater than the proceeds from its disposal) **(1 mark)** which could be caused by under depreciation because the residual value and or useful life has been overstated. **(1 mark)**

END OF ANSWER BOOKLET