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2010 Trial Examination

STUDENT NUMBER

Figures										Letter
Words										

ACCOUNTING

Unit 4 – Written examination 2

Reading time: 15 minutes
Writing time: 1 hour and 30 minutes

QUESTION BOOK

Structure of book

Number of questions	*Number of questions to be answered*	*Number of marks*
2	2	90

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners, rulers, and a 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 of 9 pages.
- Answer book of 14 pages.

Instructions
- 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 electronic devices into the examination room.

Question 1 Ace Gym Equipment

Aaron Williams owns and operates a small business called Ace Gym Equipment. His accounting system is based on the double entry accrual system of recording and reporting. Aaron maintains a perpetual stock recording system and uses the FIFO (First In First Out) cost assignment method. The business uses Control Accounts and subsidiary records for Debtors, Creditors and Stock. He prepares reports annually on 31 December each year.

1.1 At 31 December 2009 the business prepared the following Trial Balance.

Ace Gym Equipment
Post-adjusted Trial Balance at 31 December 2009

	Debit $	Credit $
Accrued Wages		2,000
Accumulated Depreciation - Equipment		12,000
Accumulated Depreciation - Vehicle		3,000
Advertising Expense	8,500	
Bank	6,500	
Buildings	280,000	
Capital		118,400
Cost of Sales	345,000	
Creditors Control		32,900
Debtors Control	37,800	
Depreciation - Equipment	4,000	
Depreciation - Vehicle	3,000	
Discount Expense	1,500	
Drawings	65,600	
Equipment	40,000	
Interest Expense	9,600	
Investment Account	25,000	
Loan – Loanlease (repayable $2 000 per month)		27,000
Loss on Disposal of Vehicle	3,000	
Mortgage (repayable $1 000 per month)		157,000
Other Expenses	41,000	
Prepaid Rent Expense (3 months)	6,000	
Rent Expense	18,000	
Sales		705,000
Stock Control	47,800	
Sundry Creditor - King Motors		13,000
Vehicle	34,000	
Wages	94,000	
	$ 1,070,300	$ 1,070,300

The business purchased a new Vehicle during the year. It cost $34 000 (plus $3 400 GST). The business paid $14 400 in cash, traded-in the old Vehicle for $10 000 (Carrying Value $13 000) and agreed to pay King Motors the balance at $1 000 per month.

Question 1 - continued

1.1.1 **Explain** to Aaron how a Loss on Disposal of Asset occurs

2 marks

Aaron is concerned that the business made a loss on the sale of the asset. He is unsure why the business did not receive $13 000 for the asset (the carrying value).

1.1.2 **Explain** to Aaron what is meant by Carrying Value and the purpose of Depreciation.

2 + 2 = 4 marks

1.2 Upon closer inspection of his records, Aaron discovered two adjustments that had not been accounted for:

- The Investment Account was taken out on 1 November 2009. The business expects to keep this asset for 5 years. Interest is earned at 6% per annum and is payable twice a year on 30 April and 30 October.
- An item of stock – the Ace Treadmill – has been superseded by a new model. The new model will be in store on 4 February 2010. Information regarding this stock item is as follows:

Quantity	Unit cost	GST per unit	Selling Price	GST per unit	Realisable Value	Estimated Selling Costs per unit	GST per unit
12	$400	$40	$850	$85	$400	$20	$2

1.2.1 **Record** the adjustment required for interest on the Investment Account in the General Journal at 31 December 2009 [Memo 6].
(Note: A narration **is not** required)

2 marks

1.2.2 **Show** the entry of the interest received in the Cash Receipts Journal on 30 April 2010 [Rec.72].

2 marks

1.2.3 **Explain** what is meant by Net Realisable Value.

2 marks

1.2.4 **Record** the adjustment required for the stock item – the Ace Treadmill – in the General Journal at 31 December 2009 [Memo 7].
(Note: A narration **is** required)

3 marks

1.2.5 **Show** how the Stock Card would appear after the adjustment had been made.

1 mark

1.2.6 **State** the effect on Net Profit if the above two adjustments had not been made.

1 mark

Question 1 - continued
TURN OVER

1.3 On 1 January 2010, under direction from his accountant, Aaron produced the following estimates for the coming year:

- Sales to increase by $40 000
- Sales are 50% cash
- Debtors at end of December 2010 are expected to be $42 000
- Purchases of stock expected to be $420 000. All purchases are on credit and it is expected that Creditors at end will be 5% more than Creditors at start.
- Cost of sales to increase by $19 000
- The business expects to make the following payments:
  - Drawings $70 000
  - Loan repayments $24 000
  - Mortgage $12 000
  - Sundry Creditor $12 000
  - Wages $100 000 (including $2 000 for Accrued Wages at 1 January 2010)
  - Prepaid Rent $24 000
  - Advertising $10 000
  - Interest Expense $10 000
  - Other Expenses $45 000
- The business expects to purchase Equipment worth $5 000 for cash in April 2010.
- There are expected to be no Accrued Expenses at 31 December 2010.

1.3.1 **Prepare** a classified Budgeted Cash Flow Statement for the year ended 31 December 2010.

8 marks

1.3.2 **Prepare** the Current Assets and Current Liabilities section of the Budgeted Balance Sheet at 31 December 2010.

5 marks

1.3.3 **Explain** one benefit of preparing budgeted reports.

2 marks

1.4 At 31 December 2010 Variance reports were prepared. Selected incomplete data is below:

Item	**Budget $**	**Actual $**	**Variance $**	**F/U**
Sales	745 000	780 000		
Cost of Sales	364 000		26 000	U
Depreciation - Equipment		4 375	375	U

1.4.1 **Complete** the extract from the Variance Report.

3 marks

Question 1 - continued

1.4.2 **Explain** a reason for the variances in:
* Depreciation – Equipment
* Cost of Sales

2 + 2 = 4 marks

1.4.3 **Explain** the effect on profitability of the variance in Depreciation - Equipment

2 marks

1.4.4 **Calculate** and **explain** the effect on Gross Profit due to the Actual figures as compared to the Budgeted figures.

2 marks

1.4.5 **Explain** one benefit to the business of preparing Variance reports.

2 marks

Total 45 marks

END OF QUESTION 1

TURN OVER

Question 2 Walters Whitegoods
Allen Walters owns and operates a small business called Walters Whitegoods – selling a range of kitchen and laundry appliances. His accounting system is based on the double entry accrual system of recording and reporting. Allen maintains a perpetual stock recording system and uses the FIFO (First In First Out) cost assignment method. The business uses Control Accounts and subsidiary records for Debtors, Creditors and Stock.

He prepares reports annually on 31 December each year.

2.1 During November 2010 the following transactions occurred relating to an item of stock – the LZ Dishwasher:

1 November – 14 units on hand @$350 per unit

4 November – sold 6 units to Budget Motels on credit for $700 per unit plus $70 GST [Inv. 61]

7 November – donated 1 unit to local school for raffle [Memo 12]

10 November – purchased 10 units @$370 each (plus $37 GST each) on credit from LZ Limited [Inv LZ 354]

12 November – Budget Motels returned 2 faulty dishwashers for a full credit [CN32]

16 November – Allen returned the 2 faulty dishwashers to LZ Limited for a full credit [CN 8]

24 November – Cash sale of 1 unit - $690 plus $69 GST [Rec 79]

2.1.1 **Record** the above transactions in the journals of Walters Whitegoods.
(You are **not** required to total the journals)
(Narrations are **not** required)

2 + 1 + 4 + 2 + 1 + 1 = 11 marks

2.1.2 **Show** how the Stock Card would appear after all transactions had been recorded.

6 marks

Question 2 - continued

2.2 In December the business purchased a new item of stock – the LZ Microwave. The first delivery of this item occurred on 4 December 2010 as part of a delivery of stock from LZ Limited. The Invoice for this delivery is below.

LZ Limited **Date:** 4/12/2010
7 Albert Road
Broadfield **Invoice:** LZ365
ABN: 85 298 317 456

Credit to: Walters Whitegoods
27 Summer Street
Williamville

Item	Qty	Unit Price	GST	Total
LZ Dishwashers	10	$370	$37	$4070
LZ Refridgerators	10	$400	$40	$4400
LZ Toasters	25	$20	$2	$550
LZ Microwaves	20	$80	$8	$1760
Freight	65	$2	$0.20	$143
Insurance	1	$150	$15	$165
Invoice Total				**$11088**

2.2.1 **Calculate** the cost price of 1 LZ Microwave

1 mark

2.2.2 **Explain,** using examples from the Invoice, the difference between product and period costs.

2 + 2 = 4 marks

2.2.3 **Explain** the effect on Net Profit if Freight and Insurance were both treated as period costs (Assume not all stock sold).

2 marks

In previous reporting periods Walter had been treating all such expenses as product costs.

2.2.4 **Explain,** using a Qualitative Characteristic, why such treatment is not appropriate.

2 marks

2.3 On 1 February 2010 Walter signed a contract with an electrical repair service business to rent out a section of his shop. The agreement stated they would pay $1 000 per month in rent, 3 months in advance.

2.3.1 **Calculate** the amount of Rent Revenue to be reported at 31 December 2010.

2 marks

Question 2 - continued
TURN OVER

2.3.2 **Show** the General Journal entry required on 31 December 2010. (Narration is **not** required - Memo 47).

2 marks

2.4 Walter has been concerned about the performance of his business for a number of years. His accountant prepared the following information at 31 December 2010:

		2009	2010	Industry Average
Working Capital Ratio	Current Assets / Current Liabilities	2.5 : 1	1.9 : 1	2.1 : 1
Quick Asset Ratio	Current Assets - Stock + Prepayments / Current Liabilities - Bank Overdraft	1.65 : 1	1.05 : 1	1.18 : 1
Net Profit Rate	Net Profit / Sales	12%	13%	10%
Gross Profit Rate	Gross Profit / Sales	51%	50%	52%

2.4.1 **State** whether Liquidity for this business has improved or deteriorated.

1 mark

2.4.2 **Explain** why Walter should be concerned about the Liquidity of his business.

2 marks

2.4.3 **Explain** how the business can have a worsening Gross Profit Rate yet have an increasing Net Profit Rate.

2 marks

Question 2 - continued

2.5 At 31 December 2010 the following extract from the Profit & Loss Statement was prepared:

Walters Whitegoods
Extract from Profit & Loss Statement for year ended 31 December 2010

Revenue			
Cash Sales	200 000		
Credit Sales	400 000		
		600 000	
Less Sales Returns		(2 000)	
Net Sales			598 000
***Less* Cost of Goods Sold**			
Cost of Sales		300 000	
Add Customs Duty		4 000	
			304 000
Gross Profit			294 000
Less Stock Loss		6 000	
+ Stock Writedown		1 100	
			7 100
Adjusted Gross Profit			286 900

The following information for 2011 has been provided:

- Total Sales are expected to increase 15%
- The proportion of cash to credit sales is expected to be maintained
- Goods are sold at a 100% mark up
- Customs Duty is usually 1% of credit sales
- Sales Returns are budgeted to be $2 500
- All Sales Returns are expected to be returned to the supplier
- Stock Loss is expected to be 1% of total sales
- Drawings of stock to be $5 000
- Stock Writedown expected to be $2 000

- Balance of Stock Control Account:

	31/12/2010	31/12/2011
	$56 000	$61 000

- All purchases of stock are on credit

2.5.1 **Reconstruct** the Stock Control ledger account to determine the expected credit purchases of stock for the budgeted period.

6 marks

2.5.2 **Prepare** an extract of the Budgeted Profit and Loss Statement for the year ended 31 December 2011 to determine Adjusted Gross Profit.

4 marks
Total 45 marks

END OF QUESTION BOOK