

2019 Trial Examination

STUDENT
NUMBER

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Letter

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ACCOUNTING

Units 3&4 – Written examination

Reading time: 15 minutes

Writing time: 2 hours

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
		Total 100

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners and rulers
- Students are NOT permitted to bring into the examination room: blank sheets of paper and/or white out liquid/tape.
- A non-programmable calculator is allowed on the examination.

Materials supplied

- Question book of 10 pages.
- Answer book of 18 pages.

Instructions

- Print your name in the space provided on the top of this page.

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

Question 1**21 marks**

Industry Sneakers have developed a market for young fashion conscious consumers. They sell their sneakers from their Clifton Hill boutique.

The following trial balance has been prepared for the year ended 31 December 2019.

Account	Debit	Credit
Prepaid Advertising	14 000	
Capital		22 170
Cash at Bank	14 250	
Cost of Sales	230 000	
Accounts Payable		19 250
Accounts Receivable	21 450	
Bad Debts Expense	2 000	
Delivery Expenses to customers	14 500	
Allowance for Doubtful Debts		2 000
Discount Expense	750	
Discount Revenue		1 200
Drawings	16 500	
Equipment	118 000	
GST Clearing		780
Prepaid Insurance	2 200	
Interest Expense	400	
Loan – ATM Bank	15 000	
Stationery	600	
Credit Sales		380 000
Accumulated Depreciation - Equipment		10 000
Cash Sales		80 000
Sales Returns	9 250	
Inventory	31 500	
Wages paid	25 000	
Totals	515 400	515 400

Additional information at 31 December 2019

- Equipment is depreciated at 20% using the reducing balance method.
- A \$600 plus GST purchase of Stationery was recorded as Wages paid.

2019 ACCOUNTING EXAM

- \$800 of wages were owing at 31 December 2019
- Sneakers that cost \$400 were donated to the Clifton Hill Primary fete on 31 December 2019 but were not recorded in the General Journal
- A stocktake found inventory on hand of \$32 500
- Insurance of \$200 was paid three months in advance on 30 November 2019
- E Sendon has been declared bankrupt. Her debt of \$1 100 including GST will not be paid.

a. Record the adjustments required in the General Journal.

Narrations are not required.

12 marks

b. Prepare the closing entries required for revenue accounts. (Memo 92)

3 marks

c. Referring to an accounting assumption and qualitative characteristic explain why Industry Sneakers records an adjustment to the prepaid insurance account.

4 marks

d. Explain how discount expense would be reported in the Income Statement of Industry Sneakers.

2 marks

TURN OVER

Question 2**14 marks**

Creative Cufflinks sell cufflinks using their online website. They have benchmarked their business against published industry averages. They have provided the following data for 2019.

	Creative Cufflinks	Industry Average
Return on Owner's Investment	7%	11%
Return on Assets	13.8%	11.6%
Inventory Turnover	11 days	34 days
Accounts Receivable Turnover	34 Days	20 Days
Accounts Payable Turnover	15 Days	30 Days
Working Capital Ratio	3:1	1.4:1
Quick Asset Ratio	2.9:1	1.2:1
Debt Ratio	21%	51%

- a. Describe the liquidity of Creative Cufflinks. 4 marks
- b. Explain why Creative Cufflinks would use benchmarks to determine its performance. 4 marks
- c. Explain why the Inventory Turnover of Creative Cufflinks may be significantly lower than the industry average. 3 marks
- d. Using the information above, suggest why the Return on Owner's Investment for Creative Cufflinks is lower than the industry average while the Return on Assets is higher than the industry average. 3 marks

Question 3

9 marks

Tower Blocks invested \$20 000 into a two year term deposit with Lego Bank on 31 October 2018. Interest will be paid quarterly at a rate of 6% p.a. The business prepares financial reports on 30 June each year.

- a. Calculate Accrued Interest Revenue as at 30 June 2019. 1 mark

- b. Record the General Journal entry required on 31 October 2020. No narration is required 2 marks

- c. Referring to accounting assumptions, explain why the General Journal entry was recorded on 30 June 2019 3 marks

- d. Explain the effect on the accounting equation if the transaction on the 31st of October 2020 was not recorded. 3 marks

TURN OVER

Question 4**10 marks**

Quick as a Flash Cameras offer a range of cameras to professional photographers. The owner, Kodak Jones has provided you with the following information for the year ended 31 December 2019.

Quick as a Flash Cameras (extract)
Cash Flow Statement Variance report for the Year ended 31 December 2019

	Budget	Actual	Variance	F/U
Cash Flow from Operating Activities				
Cash Sales	90 000		10 000	U
Receipts from Accounts Receivable	150 000	140 000	10 000	U
GST Collected	9 000	8 000	6 000	F
Payments to Accounts Payable	(150 000)		4 000	F
Telephone	(2 000)	(2 200)	200	U
Advertising	(5 000)	(5 000)	10 000	F
Rent	(2 000)	(2 000)	-	-
Interest	(500)	(450)		F
Website Expense	(2 000)	(2 000)	-	-
GST paid	(1 100)	(2 120)	1 020	U
Net Cash Flow from Operations				
Cash Flows from Investing Activities				
Purchase of Display Cabinets	(30 000)	(32 000)	2 000	
Purchase of Delivery Van	(25 000)	(15 000)	15 000	F
Net Cash Flow from Investing Activities				

- a. Calculate the missing amounts in the shaded boxes. 4 marks

- b. Explain why it would be preferable to prepare a monthly cash variance report rather than an annual cash variance report. 2 marks

- c. Explain why the interest variable was favourable for December. 2 marks

- d. Outline two ways that Kodak Jones could use the variance report to plan for future periods. 2 marks

Question 5

18 marks

Peter from Picture Perfect offer a range of picture frames from their online store. The business purchased a delivery van on 15th of July 2016 for \$38 500 including GST.

The delivery van was sold on 30 September 2019 for \$10 500 plus GST when its carrying value using reducing balance depreciation was \$20 500 (Rec 991).

On 1 October 2019 a new delivery van was purchased for \$45 000 plus GST which was borrowed from Super Bank. The cost included \$1 000 plus GST for a shelving and \$800 + GST for registration.

Peter mentions to you that it makes no sense that he can make a profit on the disposal of his motor vehicle while selling it for less than he paid for it.

- a. Prepare the General Journal entries required to record the disposal and purchase of the delivery vans. Narrations are not required.

13 marks

- b. Discuss Peter's comments about the profit on the disposal of motor vehicles.

5 marks

TURN OVER

Question 6

16 marks

Screen Me Up commenced operations on 1 September 2019. They specialise in high end projectors.

The following took place during September 2019:

Sep

- 1 The owner, Isabelle Pad, contributed \$30 000 to commence the business
- 2 Isabel borrowed \$10 000 from NGI Bank which she immediately contributed to Screen Me Up on 1 July 2019 repayable at \$1 000 a month from 1 October 2019.
- 5 Rent of \$6 000 plus GST was paid to City Real Estate. The rent was paid for the period from 1 September 2019 to 28 February 2019.
- 7 A bank overdraft of \$30 000 was approved by Uni Bank
- 12 Isabel contributed her Vehicle to Screen Me Up. It cost \$48 000 on 30 June 2019. The vehicle was valued at \$32 000 on 18 September 2019.
- 18 Screen Me Up purchased 12, 90 inch screens for \$36 000 plus GST from Techsperts (Inv AA98)
- 24 Sold 4 screens to City High School for \$6 000 each plus GST (Inv 001)
- 30 Borrowed \$24 000 from State Bank. Loan is repayable at \$1 000 a month with the first payment being due on 1 January 2020.
- 30 Display Cabinets were purchased from Master Craftsman for \$14 000 plus GST (EFT01)

- a.** Prepare the Balance Sheet for Screen Me Up as at 30 September 2019

8 marks

- b.** Explain the impact on the accounting equation if the transaction on 24 September 2019 was not recorded.

3 marks

Isabelle has requested that you use the original value of the vehicle when you transfer it across to the business.

- c.** Discuss the ethical implications of agreeing to use this value.

5 marks

Question 7

7 marks

The accountant for Scented Soaps has recently left the business and has left the General Journal incomplete. The business uses a 100% mark-up for its sales. The only customer that they provide credit sales for are Gorgeous Gifts.

a.

Complete the following General Journal entry

No narration is required

General Journal

Date 2019 June	Details	Debit	Credit
30	Sales Return	5 000	

4 marks

b. Referring to a qualitative characteristic explain why a business classifies Sales Returns separately in the Income Statement.

3 marks

TURN OVER

Question 8

5 marks

Custom Coffee Cups sell reusable coffee cups to Cafes around Melbourne. They recently purchased a delivery van which would allow them to grow their customer base. The delivery van was purchased on 1 July 2019 at a cost of \$30 000 plus GST and will have a residual value of \$10 000 after 5 years.

Custom Coffee Cups prepare their reports on a quarterly basis.

Custom Coffee Cups uses the reducing balance method of depreciation at 25% per annum.

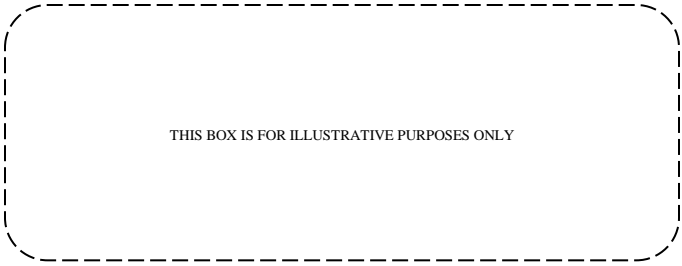
- a. Calculate depreciation of the delivery van for the quarter ended 31 December 2019

3 marks

- b. Explain why the business would not depreciate the residual value of the delivery van

2 marks

END OF QUESTION BOOK



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ANSWER BOOK

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4 marks

d.

2 marks

b.

General Journal

Date	Details	Debit	Credit
2020			

2 marks

c.

3 marks

d.

3 marks

Question 4

10 marks

a.

Quick as a Flash Cameras (extract)
Cash Flow Statement Variance report for the Year ended 31 December 2019

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Cash Flows from Investing Activities				
Purchase of Display Cabinets	(30 000)	(32 000)	2 000	
Purchase of Delivery Van	(25 000)	(15 000)	15 000	F
Net Cash Flow from Investing Activities				

4 marks

b.

2 marks

c.

2 marks

d.

2 marks

Question 8

5 marks

a.

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3 marks

b.

2 marks

END OF ANSWER BOOK