



VCE ACCOUNTING UNIT 3 / 4

2022

CPAP Practice Examination No. 1

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

- Students are permitted to bring into the assessment task: pens, pencils, highlighters, erasers, sharpeners, rulers and one scientific calculator.
- Students are NOT permitted to use blank sheets of paper and/or white out liquid/tape.

Materials supplied

- Question book of 11 pages.
- Answer book of 14 pages.

Instructions

- Write your **full name (and teacher's name)** in the space 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 electronic devices in to the examination room.

Question 1 – Tracka (10 marks)

Tracka prepare their reports on a monthly basis and use the First In, First Out (FIFO) cost assignment method. The business sells GPS equipment and have provided the following information for the Supa Tracker inventory item.

Inventory Card

Item: Supa Tracker		Cost Assignment method: FIFO								
Supplier: Watch It										
Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost	Value	Qty	Unit Cost	Value	Qty	Unit Cost	Value
Jul. 1	Balance							3	210	630

Additional Information

- 5 July Tracka purchased 8 Supa Trackers for \$220 each (plus GST) (Inv 14)
- 7 July Sold 4 Supa Tracker's for \$400 each (plus GST) to AGC Athletics (Inv 45)
- 12 July 2 of the Supa Trackers were faulty and returned by AGC Athletics (Credit Note 45)
- 14 July Tracka returned 1 of the \$210 Supa Tracker watches and 1 of the \$220 Supa Tracka Watches that were faulty (Credit Note 49)
- 21 July Purchased 4 Supa Trackers for \$250 each (plus GST) (Inv 22)
- 22 July Paid for the delivery of the 4 Supa Trackers on 21 July. The cost was \$40 (plus GST) (EFT 19). No other items were delivered in this transaction)
- 31 July A stocktake found the business had 10 Supa Trackers on hand. (Memo 9)

a. **Record** the additional information in the Inventory Card provided.

7 marks

b. **Explain** the impact on the accounting reports of the transaction on 31 July 2022

3 marks

Question 2 – Shiny Cleaning Supplies (7 marks)

The following General Ledger account has been prepared by the owner of Shiny Cleaning Supplies. The business prepares its reports on a monthly basis.

General Ledger**Allowance for Doubtful Debts**

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount
18/2	Accounts Receivable	3 000	1/2	Balance	4 100
28/2	Balance	2 200			

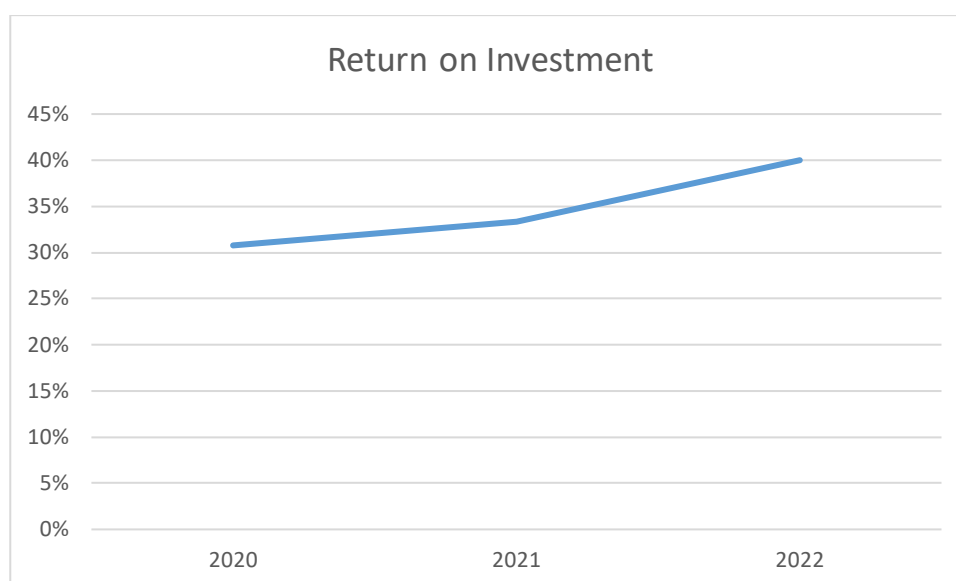
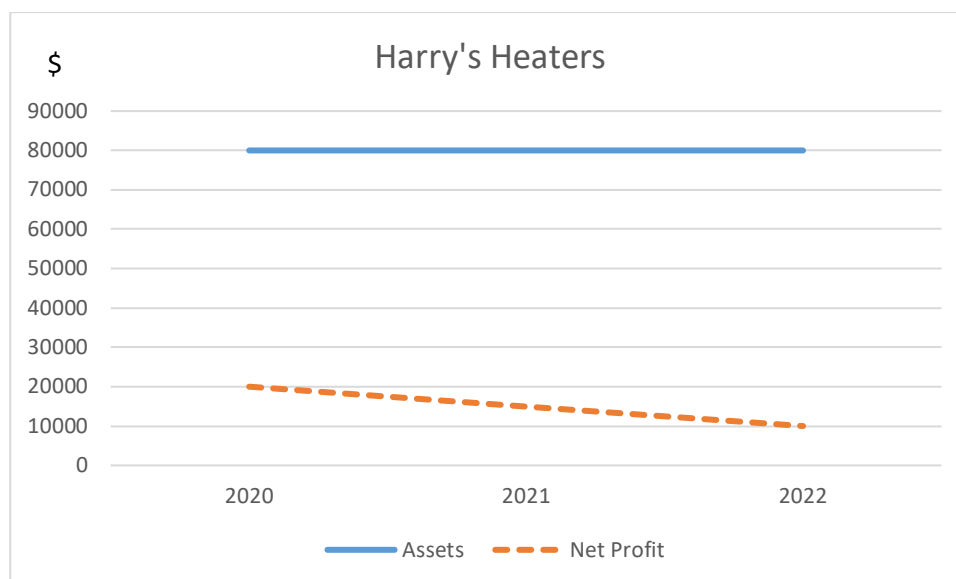
The balance of accounts receivable at 28 February 2022 was \$25 000 and the business always operates with a credit GST Clearing account.

- a. **Complete** the Allowance for Doubtful Debts general ledger account at 28 February 2022 (you are not required to balance the account). **1 mark**
- b. **Explain** the effect on the accounting equation of the transaction on 18 February 2022. **3 marks**
- c. **Show** the extract of the current assets section of the Balance Sheet on 28 February 2022 relevant to Accounts Receivable. **3 marks**

Question 3 - Harry's Heaters (6 marks)

Harry's Heaters sell electric heaters to schools. The business prepares its reports on an annual basis.

The owner has provided you with the following charts.



- a. Referring to a qualitative characteristic, **explain** why the owner would use graphs to show the information provided.

3 marks

- b. **Outline** the relationship between the Return on Investment and Net Profit for Harry's Heaters.

3 marks

Question 4 – Cooked Kitchen (6 marks)

Cooked Kitchen supplies moved into new premises on 1 August 2022. It prepares its reports on a six-monthly basis. The business pays rent of \$1 000 (plus GST) each month with rent being paid on the 28th day of the previous month. The owner agreed to a 10% rent increase from 1 October 2022.

- a. **Calculate** the cash paid for rent for the period ended 31 December 2022. **2 marks**
- b. **Calculate** the Rent Expense for the year ended 31 December 2022. **2 marks**
- c. Referring to an accounting assumption, **explain** why the Rent Expense for the period is not the same as the amount paid for rent. **2 marks**

Question 5 – Splash Bath’s (13 marks)

Splash Bath’s prepare their financial reports on an annual basis.

The business has provided you with the following information:

Splash Kitchens
Balance Sheet (extract) as at :

	30 June 2022
Bank	10 000
Inventory	15 000
Equipment	40 000
Accumulated Depreciation of Equipment	(20 000)
Loan - ABC	40 000

Additional information:

- On 1 July 2022 the business traded in equipment that cost \$20 000 and had accumulated depreciation of \$15 000.
- Profit on disposal of the equipment was \$14 000

a. Show how the following accounts would appear in the General Ledger after the additional information provided above has been recorded.

- Equipment
- Accumulated Depreciation of Equipment
- Disposal of Equipment

9 marks

b. **Explain** how a business can incur a profit on disposal of a non-current asset.

2 marks

c. **Explain** how the inventory would be reported in the Balance Sheet as at 30 June 2022.

2 marks

Question 6 – Perfect Pitch (26 marks)

Perfect Pitch prepares budgeted accounting reports on a monthly basis.

The owner has provided you with the following information for the month ended 31 August 2022.

Budgeted Revenue and Expenses for August 2022

	\$
• Sales	180 000 (plus GST)
• Interest Revenue	450
• Discount Revenue	220
• Discount Expense	400
• Cost of Sales	89 500
• Profit on Disposal of Van	4 000
• Sales Returns	1 000 (plus GST)
• Delivery In	4 000 (plus GST)
• Delivery Out	2 000 (plus GST)
• Depreciation – Van	500
• Interest paid	2 100
• Rent	12 000
• Wages	60 000

Balance Sheet

Balance Sheet	Actual July 2022	Budgeted 31 August 2022
Current Assets		
Accounts Receivable	27 200	28 250
Bank	22 750	31 520
Prepaid Rent	8 000	10 000
Inventory	45 000	28 000
	102 950	97 770
Non- Current Assets		
Van	30 000	30 000
Less Accumulated Depreciation – Van	(12 000)	(500)
	18 000	29 500
Total Assets	120 950	127 270
Current Liabilities		
Accounts Payable	4 000	3 000
Accrued Wages	1 000	2 000
GST Clearing	2 000	7 650
Loan – GVF Bank	6 000	6 000
	13 000	18 650
Non-Current Liabilities		
Loan – GVF Bank	70 000	69 500
	70 000	69 500
Total Liabilities	83 000	88 150
Net Assets	37 950	39 120
Owners' Equity		
Capital	22 700	37 950
Net Profit	25 250	13 170
Drawings	(10 000)	(12 000)
Total Equities	37 950	39 120

Additional Information

- The owner is planning to take \$2 000 of inventory home in August. Any remaining drawings will be made on a cash basis.
- Inventory is sold using a 100% markup
- The GST Clearing from July will be settled in August.
- All sales and purchases are made on a credit basis.
- All inventory returned by customers will be returned to suppliers immediately.
- The loan is repayable on a monthly basis.
- A Van that cost \$30 000 will be sold for \$22 000

a. **Reconstruct** the following budgeted General Ledger Accounts for August 2022:

- Accounts Receivable to find cash paid from accounts receivable
- Accounts Payable to find payment to accounts payable

12 marks

b. **Prepare** a Budgeted Cash Flow Statement for the month ending 31 August 2022.

12 marks

c. **Explain** why the owner would prepare a monthly Cash Flow Statement.

2 marks

Question 7 – Surf’s Up (21 marks)

Surf’s Up sell the latest in Surf Fashion. The business prepares its reports on an annual basis and uses the first in first out cost assignment method. Inventory is sold using a 300% markup which is possible as Surf’s Up is famous for being first with the latest in fashion trends.

Surf’s Up
Trial Balance as at 30 June 2022

Account	Debit	Credit
Accounts Payable		16 200
Accounts Receivable	25 000	
Allowance for Doubtful Debts		2 000
Accumulated Depreciation – Fixtures and Fittings		10 000
Bank Overdraft		7 000
Capital		31 450
Cost of Sales	30 000	
Delivery In	600	
Delivery Out	350	
Discount Revenue		200
Drawings	500	
Electricity Expense	900	
Fixtures and Fittings	40 000	
GST Clearing		1 200
Interest Expense	700	
Inventory	62 000	
Loan – ABC Bank		50 000
Prepaid Advertising Expense	3 000	
Prepaid Rent Expense	10 000	
Sales		93 000
Sales Returns	3 000	
Wages	35 000	
Totals	211 050	211 050

Additional information

- Fixtures and Fittings are depreciated at 20% using the reducing balance method. No Fixtures and Fittings were purchased during the year.
- A payment of \$3 000 (plus GST) was made on 21 May 2022 for six advertisements that will appear monthly in Surf The Planet magazine. The first advertisement appeared in May 2022.
- Wages owing of \$1 500 at 30 June 2022 were not recorded.
- Rent is paid on a quarterly basis. The most recent rent payment was made on 15 April 2022. The payment of \$3 300 (including GST) was made to City Rentals for the period ended 31 July 2022.
- A cash sale of \$6 000 (plus GST) was recorded as a cash drawing.
- A review of inventory found that the net realisable value of inventory was \$2 500 lower than the cost price of the inventory on 30 June 2022.
- A physical stocktake found inventory on hand at 30 June 2022 to be \$61 000

a. **Record** the General Journal entries required on 30 June 2022.

12 marks

b. Referring to an accounting assumption, **explain** why prepayments would be reported in the Balance Sheet of Surfs Up as at 30 June 2022.

2 marks

- c. **Outline** two reasons why the net realisable value of the inventory held by Surf's Up may have fallen below its historical cost.

2 marks

Surf Up's accountant has suggested that they change depreciation methods to the straight-line method as this is more appropriate for depreciating fixtures and fittings.

- d. Referring to accounting assumptions and qualitative characteristics, **discuss** the accountants comment.

5 marks

Question 8 – Sip It (11 marks)

Sip It sells coffee beans to cafes and has developed its reputation as a premium supplier of fair trade beans.

The business sells 2 000 bags of premium beans each month for \$20 (plus GST) for each one kilo bag.

The bags are purchased from an overseas supplier for \$10 (plus GST) each. Recently the supplier contacted Sip It and advised that the cost of fair trade accreditation had increased to \$4 (plus GST) per bag and this would be added to the cost of the bags for Sip it. The beans would be sourced from fair trade producers but there will not be an accreditation label on each bag.

While researching his options, the owner of Sip It has found a supplier who can provide non fair trade beans of a similar quality for \$5 (plus GST) per one kilo bag. There were a couple of internet articles that mentioned unpaid wages and poor land use by this business but the owner could not find any direct evidence to prove these accusations. The owner claims the articles were written by a competitor.

After discussions with cafes the owner of Sip It is considering the following options.

Option 1: Pay the \$4 (plus GST) per bag and retain the current customers

Option 2: Continue with current supplier and not pay the \$4 (plus GST) per bag. This will result in 30% of customers using another supplier.

Option 3: Use the new supplier and pay \$5 (plus GST) per bag. This will result in 40% of customers using another supplier.

a. **Complete** the table provided to determine the gross profit earned from each of the options.

6 marks

b. **Discuss** the ethical and financial considerations relating to the decision required to be made by the owner of Sip It.

5 marks

END OF QUESTION BOOKLET