

Student Name: _____

ACCOUNTING

Unit 4 – Written examination 2



2008 Trial Examination

Reading Time: 15 minutes

Writing Time: 1 hour and 30 minutes

QUESTION BOOK

Structure of book

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
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 10 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 unauthorised electronic devices into the examination room.

Question 1**Dr J's WT's**

Julius Erving owns and operates a small trading business, Dr J's WT's, which sells water tanks Deluxe WT's model for private homes. Julius maintains a perpetual stock recording system and all stock movements are recorded on stock cards using the FIFO (First In First Out) method of cost assignment. His accounting system is based on the double-entry accrual system of recording and reporting. Julius maintains Control Accounts for Debtors, Creditors and Stock.

- Balance (1 May 2010) - 15 Units purchased during April @ \$90 each (plus 10% GST)
- 3-May – Purchased 10 units @ \$121 each (includes 10% GST) from Darryl Dawkins (Inv 91)
- 5-May – Sold 20 units to Lew Alcindor @ \$250 each (plus 10% GST) [Inv 86]
- 10-May – Purchased 15 units from Darryl Dawkins @ \$100 each (plus 10% GST) [Inv 98]
- 17-May – Julius withdrew 2 tanks for his holiday house in Rye (Memo 6)
- 25-May – Lew Alcindor returned 3 units due to leakage (sold 5-May) (Credit Note 33)
- 26-May – Julius returned 3 units to Darryl Dawkins (purchased 3-May) (Credit Note 45)
- 31-May – physical stocktake reveals 23 Deluxe WT's on hand (Memo 7)

Required

- | | | |
|--------------|----------------------------------------------------------------------------------------|---------|
| 1.1.1 | Record the above entries into the Stock Card | 4 marks |
| 1.1.2 | Record the entry from 25-May into the General Journal (a narration is required) | 5 marks |
| 1.1.3 | Describe the nature of the transaction on 26-May | 2 marks |
| 1.1.4 | State two possible reasons for a stock gain occurring | 2 marks |

Question 1 – continued

- 1.2** Julius decides to diversify by purchasing 100 water filtration units, The following details have been provided for the purchase 10-June-2010:

Supplier's invoice price	\$7,700 total (includes 10% GST)
Insurance on delivery to Dr J's WT's	\$500 total
Testing for leakage	\$4 per unit
Selling price per unit	\$170 per unit (+ \$17 GST)
Service fee*	\$10 per unit

* Service done 3 months after installation, for customers who request a service (approximately 50% of customers opt for the free service)

By June 30 there were 15 units on hand (no other units were purchased during the month).

Required

- 1.2.1** Calculate the cost price of each item purchased on 10 June. Show **all** workings.
2 marks
- 1.2.2** Using the information above **identify** a product cost and a period cost; **justify** your response for each example
4 marks
- 1.2.3** Calculate the Gross Profit for June (for the water filtration units sold in May)
2 marks
- 1.3** On August 15 2010, Ervin Johnson paid a \$500 deposit (Rec 456) for 10 water filtrations units, to be delivered September 1. (sale price \$140 each plus 10% GST, cost price \$80 each)

Required:

Record the August 15 Receipt in the Cash Receipts Journal
2 marks

- 1.4** On September 1, 6 units were delivered to Ervin Johnson (4 units were not yet produced). Johnson will be invoiced upon delivery of the last 4 units.

Required

- 1.4.1** Record the September 1 delivery in General Journal (a narration is **not** required)
5 marks
- 1.4.2** State the classification of Prepaid Revenue in the balance sheet, Justify your response.
2 marks

Question 1 – continued
TURN OVER

1.5 On October 1 2010, Julius purchased new manufacturing equipment from Larry Bird (Invoice 234). Details of the purchase are as follows (Note: All charges, represent amounts owing to Larry Bird)

- Purchase price \$17,000 plus GST \$1,700
- Modifications to Equipment \$1,500 plus \$150 GST
- Insurance on delivery \$200 plus \$20 GST
- Annual maintenance costs \$300 plus \$30 GST

Required

1.5.1 Record the purchase of the equipment in the General Journal (a narration is **not** required)

3 marks

1.6 On June 2 2012, the manufacturing equipment was traded in for a new model for \$30,000 plus \$3,000 GST (Inv 333) From George Gervin. The Old Model had an accumulated depreciation balance of \$5,450 and a trade in value of \$13,000.

Required

1.6.1 Record the disposal of the old manufacturing equipment and the profit/loss on disposal in the General Journal (**no** narration is required)

6 marks

1.7 On April 14 2011, an inspection revealed that 5 of the water tanks had leaks. Consequently they were repaired at a cost of \$10 each and were reduced in price from \$180 each to \$100 each (memo 468).

Stock Item: Deluxe WT's

Date	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
April 14	Balance							20	110	2,200

Required:

1.7.1 Record the necessary adjustment in the stockcard.

2 marks

1.7.2 State the effect on the accounting equation of the failure to record the necessary adjustment in 1.7.2

2 marks

Question 1 – continued

1.7.3 State two reasons for Dr J's WT's selling stock at less than the cost price

2 marks

Total 45 marks

TURN OVER

Question 2**Treana's Trivia**

Katrina owns and operates Treana's Trivia, a small business which sells trivia games. Her accountant maintains a double-entry accrual accounting system. The business uses a perpetual inventory recording system with the FIFO cost assignment method.

For the year ending 30 June 2008, the following balance sheet extract was provided

Balance Sheet extract as at 30 June 2008

Assets	\$	Liabilities	\$
Stock Control	35,460	Bank Overdraft	770
Debtors Control	10,400	Creditors Control	18,450
Prepaid Insurance	600	Loan-ANZ	10,000

Below is the Budgeted Cash Flow Statement for the year ending 30-June-2009

Treana's Trivia
Budgeted Cash flow Statement
for the Year ended 30 June 2009

Cash flows from operations	\$	\$
Cash Sales	25,400	
Receipts from Debtors	34,550	
Interest revenue	90	60,040
Stock	-17,500	
Payment to creditors	-25,450	
Wages	-15,450	
Interest	-110	
Prepaid Insurance	-1,800	-60,310
Net Cash outflows from Operations		-270
Cash Flows from Investing		
Proceeds on disposal of Vehicle	5,000	
Purchase of new Vehicle	-20,000	-15,000
Net Cash Outflows from Investing		
Cash Flows From Financing		
Capital	10,500	
Loan-ANZ	-2,000	
Drawings	-3,500	5,000
Cash Deficit		-10,270
Bank Balance as at 1 July 2008		5,450
Bank Balance as at 30 June 2009		-4,820

Question 2 – continued

Additional information.

- Discounts received is expected to be \$900, discount allowed \$770
- Bad debts expected to be 2% of opening balance of Debtors Control
- Sales returns is expected to be 4% of opening balance of Debtors Control
- Stock write down is expected to be \$200.
- Prepaid insurance balance is expected to be \$400 (at 30-June-2009)
- Expected accrued wages \$800
- Profit on disposal of vehicle is expected to be \$500
- Expected credit purchases \$24,000 (all stock is purchased on credit)
- Expected balance for Debtors Control \$11,000 and Stock Control \$37,200 as at 30-Jun-2009)
- Expected purchase returns 2% of credit purchases
- Loan payable at \$2,000 per annum

Required

- 2.1.1** **Reconstruct** the Debtors Control account to calculate credit sales (for the budgeted period ending 30-Jun-2009) 4 marks
- 2.1.2** **Reconstruct** the Stock Control account to calculate cost of sales (for the budgeted period ending 30-Jun-2009) 3 marks
- 2.1.3** **Reconstruct** the Creditors Control account to calculate the final balance (for the budgeted period ending 30-Jun-2009) 3 marks
- 2.1.4** **Reconstruct** the Prepaid Insurance account to calculate the insurance expense for the budgeted period ending 30-June-2009 2 marks
- 2.1.5** **Prepare** the Budgeted Profit and Loss Statement for the year ending 30-June-2009 8 marks
- 2.1.6** **Prepare** an extract of the Balance Sheet for current liabilities as at 30-Jun-2009 2 marks

Question 2 – continued
TURN OVER

- 2.2** The Accountant has prepared an extract of the Profit and Loss Variance report shown below for the month ending 31 July 2009

	Actual	Budget	Variance	F/U
Gross profit	\$1,250	\$1,070	\$180	
Stock gain	\$0	\$80		
Stock write down	\$50	\$20		
Adjusted gross profit				

Required

- 2.2.1** Complete the extract of the variance report.

1 mark

- 2.2.2** State the purpose of preparing a profit and loss variance report

2 marks

- 2.2.3** State one reason why there was a stockgain despite the decline in gross profit.

1 mark

- 2.3** The Accountant has provided the following information in relation to profitability

Ratio	Formula	2009	2010
ATO Asset turnover	$\frac{\text{Sales}}{\text{Average Assets}}$	3.5 : 1	3.8 : 1
ROA Return on Assets	$\frac{\text{Net Profit}}{\text{Average Assets}}$	1.5 : 1	1.3 : 1

Required

- 2.3.1** Explain the meaning of ROA in 2010. Discuss the trend in your response

2 marks

- 2.3.2** Explain how the ROA has declined, despite the increase in the ATO in 2009

2 marks

- 2.3.3** Discuss one non-financial indicators that could be used to evaluate Trenea's Trivia success for 2009

1 mark

Question 2 – continued

- 2.4 On May 1-2010, Julius invested \$10,000 into a 13 month government bond with interest payable at maturity of 9% (the bond and interest will be deposited into the business bank account 31-May-2011)

Required:

- 2.4.1 **Record** the necessary adjustment for interest earned as at 30-June-2010 in the General Journal (a narration is **not** required)

2 marks

- 2.4.2 **State** the effect on the Cash Flow Statement of the maturity of the bond on 31-May-2011

3 marks

- 2.5 The Accountant has provided the following information in relation to their creditors

Ratio	Formula	2009	2010
Creditors Turnover	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times 365$	36 days	15 days

Credit terms of suppliers: 5/14, n30

Required

- 2.5.1 Using the information provided, **Explain** the trend in the Creditors Turnover in 2010

2 marks

- 2.5.2 **Explain** how the trend in Creditors Turnover may affect liquidity

2 marks

- 2.6 The Accountant has provided the following information in relation to liquidity

Ratio	Formula	2009	2010
IC Interest Coverage	$\frac{\text{Net cash flow from Operating Activities (before interest)}}{\text{Interest}}$	3.1 times	1.9 times
CFI Cash Flow Indicator	$\frac{\text{Net cash flow from Operating Activities}}{\text{Average Current Liabilities}}$	2.8 times	3.3 times

Required

- 2.6.1 **State** the meaning of the Cash Flow Indicator in 2010. **Discuss** the trend in your response

2 marks

Question 2 – continued
TURN OVER

2.6.2 Explain, how the Cash Flow Indicator can increase, despite the decrease in interest coverage

2 marks

2.6.3 Provide one suggestion for improving the interest coverage.

1 mark

Total 45 marks

END OF QUESTION BOOK