

Student Name: _____

ACCOUNTING

Unit 4 – Written examination 2



2009 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 9 pages.
- Answer book of 13 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**Jam & Spoon**

Jim Spoon owns Jam & Spoon, a small business which sells scone-making machines. His accounting system is based on the double-entry accrual system of recording and reporting and he maintains control accounts for debtors, creditors and stock. The business uses a perpetual inventory recording system with FIFO (First In, First Out) cost assignment method.

1.1 The following transactions occurred in the 2nd week of July 2009

- 8-July – Sold 6 scone-makers to C. Puff for \$150 each + \$15 GST (Inv SC25)
- 11-July – C. Puff returned 2 damaged scone-makers to Jam & Spoon due to damage. He has been issued credit of \$300 + \$30 GST (C.N 3)
- 12-July – Jam and Spoon returned the 2 damaged scone-makers to suppliers, F.B. Slim; valued at \$85 each + \$8.50 GST (C.N SM3)

Required

1.1.1 **Record** the above entries into the stock card.

3 marks

1.1.2 **Record** the above entries into the appropriate journals (Narrations are **not** required.)

2 + 5 + 3 = 10 marks

1.2 On 2 Nov 2009 it was discovered that 5 of the J & C Scone Makers were damaged during delivery to the Bayswater store. The business has decided to send the damaged stock to the Bulleen store at a total freight cost of \$100 (+\$10 GST). The damaged stock will be sold for \$90 + \$9 GST each from the Bulleen store.

Stock Item: J & C: Scone Maker

Date 2009	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Nov 1	Inv 246	15	90	1,350				5	85	425
								15	90	1,350

Required:

1.2.1 **Record** the necessary adjustment in the General Journal (Narrations are **not** required.)

3 marks

1.2.2 **Identify** the **Qualitative Characteristic** that supports the necessary adjustment to the accounting records (in question 1.2.1). **Justify** your response.

3 marks

1.3

30-June-2010, an extract of the pre-adjusted trial revealed the following:

Pre-adjusted trial balance as at 30-June-2010

Office Equipment	\$26,500
Acc Dep – Office Equipment	\$6,900

- The Office Equipment consisted of a Photocopier purchased 1 April 2009 for \$15,000 + \$1,500 GST, a Fax Machine purchased 1 July 2009 for \$770 (includes \$70 GST), a Safe purchased 1 October 2009 for \$2,000 + \$200 GST and Desk & Chairs purchased 1 January 2010 for \$8,800 + \$880 GST.
- All Office Equipment is depreciated at 10% per annum.
- 1 July 2010 the old safe was traded in for a new safe from Safe Crackers purchased for \$2,500 + \$250 GST (Inv SF22). The trade- in value of the old safe was \$1,500

Required

1.3.1 Calculate the depreciation of the Office Equipment for the year ending 30 June 2010
3 marks

1.3.2 Record the following in the General Journal at 1 July 2010 (Narrations are **not** required.)

- The disposal of the old safe
- The profit or loss on the disposal of the old safe
- The purchase of the new safe

4 + 2 + 2 = 8 marks

1.3.3 Show how the balance owing to Safe Crackers would be reported in the Balance Sheet as at 1 July 2010
1 mark

1.3.4 State two reasons for using a Disposal of Office Equipment account in Question 1.3.2
2 marks

TURN OVER

- 1.4** 15 Jul 2010: Dough Boys supplied Jam & Spoon with a new product, 'Muffin Machines' along with some additional Scone Makers. The following details were provided from Invoice 235.

20 x Muffin Machines	\$40 each	
20 x Scone Makers	\$90 each	
Delivery (total)	\$350	40 units x Packaging* \$4 each
+ GST (10%)	<u>\$356</u>	
Total due	3,916	
Credit terms 2/7, n30 days		

* In addition to the general delivery charge Jam & Spoon pay their supplier an additional \$4 + 10% GST packaging for every unit of stock supplied.

Required

- 1.4.1** Using product costing, record the items from Invoice 235 into the appropriate journals
2 + 3 = 5 marks
- 1.4.2** **Explain, using information from 1.4,** the reason for using period costing for one of the purchasing costs.
2 marks

- 1.5** The accountant has provided the following information in relation to profitability

Ratio	Formula	2010	2011
GPR Gross profit rate	$\frac{\text{Gross profit}}{\text{Sales}}$	45%	55%
NPR Net profit rate	$\frac{\text{Net profit}}{\text{Sales}}$	12%	8%

Required

- 1.5.1** **Explain** how the Gross Profit rate has improved, despite the decline in the Net Profit rate in 2011.
2 marks
- 1.5.2** **State** two suggestions for improving the Net Profit rate in 2012.
2 marks
- 1.5.3** Define Profitability
1 mark

Total 45 marks

Question 2**Laz's Lsippers**

Lazlo Czeh owns and operates **Laz's Lsippers**, a small business which sells cordless, Lasered Whipper Snippers. His accountant maintains a double-entry accrual accounting system with control accounts for Debtors, Creditors and Stock and subsidiary records. The business uses a perpetual inventory recording system with the FIFO (First In, First Out) cost assignment method and prepares its reports every half year.

For the six months ending 31 December 2009, the following balance sheet extract was provided:

Balance Sheet extract as at 1 July 2009

Assets	\$	Liabilities	\$
Stock Control	6,730	Creditors control	4,660
Debtors Control	4,450		
Vehicle	30,000		
Less Acc dep	22,500		

Below is the Budgeted Profit and Loss Statement for the 6 months ending 31-December-2009

Laz's Lsippers**Budgeted Profit & Loss Statement for the 6 months ending 31 December 2009**

Revenue	\$	\$
Cash sales	17,450	
Credit Sales	65,660	
Less Sales Returns	<u>880</u>	
Net Sales		82,230
<u>Less Cost of Goods Sold</u>		
Cost of Sales	45,555	
Freight in	<u>1,090</u>	<u>46,645</u>
GROSS PROFIT		35,585
Less Stock write-down		<u>440</u>
ADJUSTED GROSS PROFIT		35,145
<u>Add Other revenue</u>		
Discount Revenue	1,100	
Profit on disposal of Vehicle	<u>500</u>	<u>1,600</u>
		36,745
Less Expenses		
Advertising	3,500	
Bad Debts	450	

Depreciation-Vehicle	1,600	
Discount expense	1,650	
Freight out	980	
Insurance	900	
Wages	16,550	25,630
NET PROFIT/(LOSS)		11,115

Additional information.

- Insurance \$1,800 was paid 12 months in advance on 1-October-2009.
- The old vehicle was sold for \$8,000 (Rec 234), with a new vehicle purchased for \$45,000 (Chq 246)
- Drawings of \$1,100 included Drawings of \$200 stock.
- Advertising included \$300 worth of stock donated to the World Vision fundraiser.
- All stock was purchased on credit.

The budgeted balances at 31 December 2009 the following were

Debtors control	\$4,650
Creditors control	\$3,550
Stock control	\$4,660

Required

- 2.1.1 Reconstruct** the Stock Control account to calculate the credit purchases of stock (for the budgeted period ending 31 Dec 2009). 4 marks
- 2.1.2 Reconstruct** the Creditors Control account to calculate payments to creditors (for the budgeted period ending 31 Dec 2009). 2 marks
- 2.1.3 Reconstruct** the Debtors Control account to calculate the receipts from debtor (for the budgeted period ending 31 Dec 2009). 4 marks
- 2.1.4 Prepare** the Operating Activities section of the Budgeted Cash Flow Statement for the period ending 31 Dec 2009. 4 marks
- On 1 November 2010, Lazlo invested \$6,000 of business funds into a 12 month term deposit (expiration date 30-October 2011) earning 8% interest, with interest payable quarterly (1 February, 1 May, 1 August, 1 November). Note: Lazlo prepares his reports every 6 months.

Required

2.2.1 State how the term deposit will be classified in the balance sheet as at 30 June 2011.
Justify your response.

1 + 2 = 3 marks

2.2.2 Show how the interest received will be recorded in the Cash Flow Statement for the 6 months ending 30 June 2011

3 marks

2.2.3 Record the receipt of the term deposit and interest (Rec 654) on 30 Oct 2011.

3 marks

2.3

On 13 Nov 2011 Greta Grass placed an order for 7 Lasered Whipper Snippers from **Laz's Lsippers** at \$3,500 total + \$350 GST. (Total cost price \$2,100 + \$210 GST). Greta paid a \$1,000 deposit to secure the order (Rec 555).

On 3 Jan 2012, 5 Lasered Whipper Snippers were delivered to Greta Grass (Inv 689).

Required

2.3.1 Lazlo thinks that as a consequence of this firm sale he should revalue the stock in the balance sheet at its selling price. Referring to an **Accounting principle** explain why he should not revalue the stock.

1 + 2 = 3 marks

2.3.2 Record Rec 555 on 13 November 2011 in the Cash Receipts Journal.

2 marks

2.3.3 Record the transaction on 3 January 2012 and the necessary balance day adjustment in the appropriate journals (Narrations are **not** required.)

5 marks

2.3.4 Justify the recognition of revenue earned on 3-January-2012.

2 marks

TURN OVER

2.4

Towards the end of 2012 Lazlo expanded the variety of stock for sale, by offering lasered lawn mowers and hedge clippers.

The Accountant has provided the following information in relation to liquidity

Ratio	2011	2012
Quick Asset ratio <u>Current Assets –(Stock + Prepayments)</u> Current Liabilities- (Bank Overdraft)	0.9:1	0.4:1
Working Capital Ratio <u>Current Assets</u> Current liabilities	1.6:1	1.8:1
Stock Turnover <u>Average stock x 365</u> Cost of Goods Sold	65 days	97 days

Required

2.4.1 Explain the reason for the exclusion of the prepayments, stock and bank overdraft from the Quick Asset Ratio formula. 2 marks

2.4.2 Explain the reason for the improvement in Working Capital Ratio, despite the decline in the Quick Asset Ratio. 2 marks

2.4.3 Explain how the trend in Stock Turnover has affected liquidity. 2 marks

2.5 31 December 2012, Lazlo provided the following extract from the Profit and Loss Variance Report

Laz’s Lsippers

Extract of Variance report for the year ending 31 December 2012

	Actual \$	Budget \$	Variance \$	F/U
<u>Add Other revenue</u>				
Profit on Disposal of Vehicle	200	0		
Discount revenue	440		50	F
Interest on Term deposit		600	0	

Required

2.5.1 Complete the extract of the variance report.

1 mark

2.5.2 Explain a reason for the variance of the profit on disposal of vehicle estimation.

2 marks

2.5.3 Explain a reason for the accuracy of the interest on the term deposit.

1 mark

Total 45 marks

END OF QUESTION BOOK