



VCE ACCOUNTING

Unit 3 & 4: Practice 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> |
|----------------------------|---|------------------------|
| 9 | 9 | 100 |

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

Materials

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

Instructions

- Write your name in the space provided on the front page of the answer book.
- Answer **ALL** questions in the space provided.
- All written responses should be in English.

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

Question 1 (22 marks)

Deb's Middle Eastern Bakery offers a range of bread and pastries.

The business prepares reports monthly and applies a fixed mark-up of 50%.

The following journals summarise the transactions for January 2016, up to and including 30 January 2016.

Purchases Journal (summary)

| Date | Creditor | Invoice Number | Stock Control | GST | Creditors Control |
|--------|----------------|----------------|---------------|-----|-------------------|
| 30 Jan | Totals to date | - | 9 000 | 900 | 9 900 |

Sales Journal (summary)

| Date | Debtor | Invoice Number | Cost of Sales | Sales | GST | Debtors Control |
|--------|----------------|----------------|---------------|--------|-------|-----------------|
| 30 Jan | Totals to date | - | 8 000 | 12 000 | 1 200 | 13 200 |

Cash Receipts Journal (summary)

| Date | Details | Rec. No. | Bank | Disc. Exp. | Debtors Control | Cost of Sales | Sales | Sundries | GST |
|--------|----------------|----------|--------|------------|-----------------|---------------|--------|----------|-------|
| 30 Jan | Totals to date | - | 38 300 | 100 | 5 300 | 14 000 | 21 000 | 10 000 | 2 100 |

Cash Payments Journal (summary)

| Date | Details | Chq. No. | Bank | Disc. Rev. | Creditors Control | Stock Control | Wages | Sundries | GST |
|--------|----------------|----------|--------|------------|-------------------|---------------|-------|----------|-----|
| 30 Jan | Totals to date | - | 26 600 | | 8 500 | 6 400 | 8 950 | 2 300 | 700 |

Question 1

- Calculate the total of the 'Discount Revenue' column in the Cash Receipts Journal as at 30 January 2016. 1 mark
- Referring to the definition of revenue, explain why discount revenue is classified as revenue. 3 marks

The following transactions occurred on 31 January 2016 and have not yet been recorded.

- A cash sale of \$231 including GST was made to Angelo Ho (receipt 908).
- A Debtor – Paste Rie has been declared bankrupt (memo 86) and only paid 20 cents of every dollar owed (receipt 909). Their balance owing was \$550.
- Stock purchased on 28 January 2016 on credit from Weavel City for \$900 plus GST was returned and a full credit was received (credit note 71).

c. Record the above transactions in the journals provided.

Narrations are **not** required.

You **are** required to total the Cash Receipts Journal.

7 marks

d. Show how the following accounts would appear in the General Ledger after posting the information above.

- Debtors Control
- Stock Control

You **are** required to balance the Stock Control account.

8 marks

e. Explain the benefit of having a control account system for debtors.

2 marks

f. State one disadvantage of having a control account system for debtors.

1 mark

Question 2 (9 marks)

Pete's Pictures provides you with details of three of their items of stock as at 31 March 2016.

| Stock Item | Quantity | Cost per Unit | Selling Price | Marketing Costs |
|-----------------|----------|---------------|---------------|-----------------|
| Portraits | 100 | \$1 000 | \$3 000 | \$500 |
| Modern Abstract | 130 | \$1 100 | \$2 000 | \$900 |
| Landscape | 85 | \$2 000 | \$10 000 | \$1 400 |

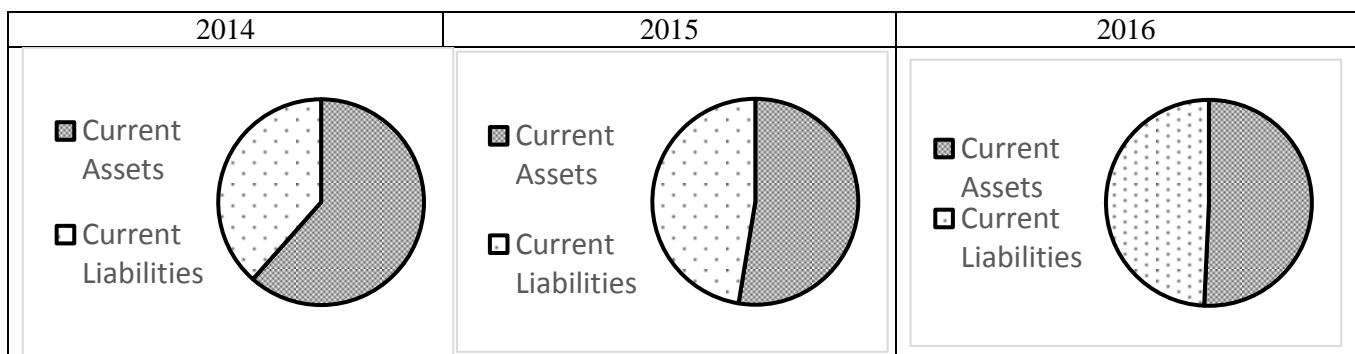
Additional information

10 Landscape pictures have been damaged and can only be sold for \$3 000 each plus GST (Memo 90).

- Calculate the value at which stock should be reported in the Balance Sheet as at 31 March 2016. 3 marks
- Prepare the General Journal entry required on 31 March 2016.
A narration **is** required. 3 marks
- Referring to one accounting principle, explain whether stock should be valued at the lower of cost and net realisable value. 3 marks

Question 3 (4 marks)

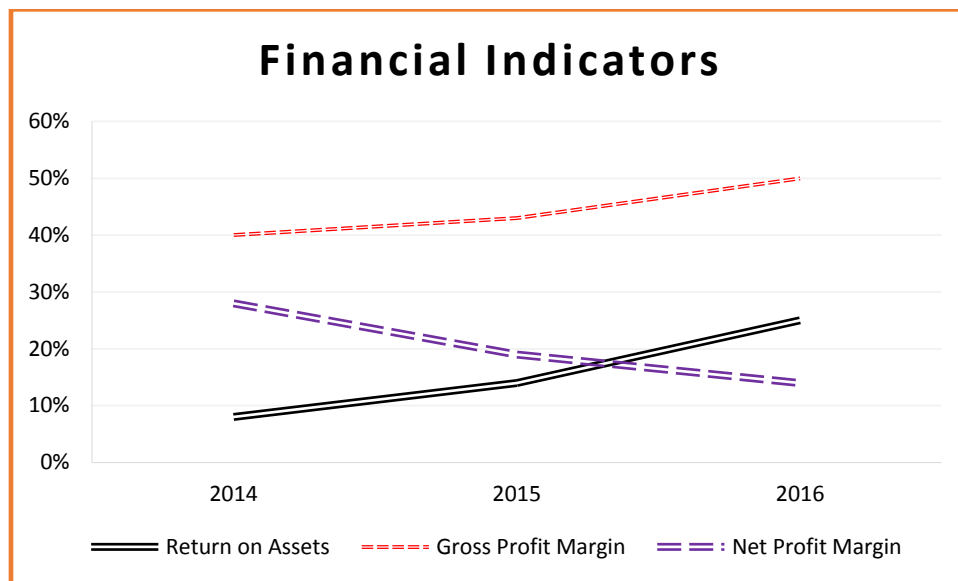
The accountant has provided you with the following information.



- Explain how the changes in the value of Current Assets and Current Liabilities in the charts presented above may impact the Working Capital Ratio of the business. 2 marks
- State one limitation of using the Working Capital Ratio as an indicator of liquidity. 1 mark
- State one other benchmark that could be used to assess the liquidity of the business. 1 mark

Question 4 (5 marks)

The accountant has provided you with the following information.



- a. Explain the difference between the terms ‘profit’ and ‘profitability’. 2 marks
- b. Explain how the Net Profit Margin can decline despite an improvement in the Gross Profit Margin. 2 marks
- c. State one non-financial indicator that can be used to assess the profitability of the business. 1 mark

Question 5 (9 marks)

Chris Crustacean owns and operates Deep Sea Devices, a small business selling a range of equipment for the seafood industry and prepares reports on a monthly basis.

Chris has been using a single entry recording system for the past few years and has decided to shift to an accrual based double entry recording system and applying the FIFO assumption for the recording of stock with control accounts for Debtors, Creditors and Stock.

Chris provides you with the following information on 1 May 2016.

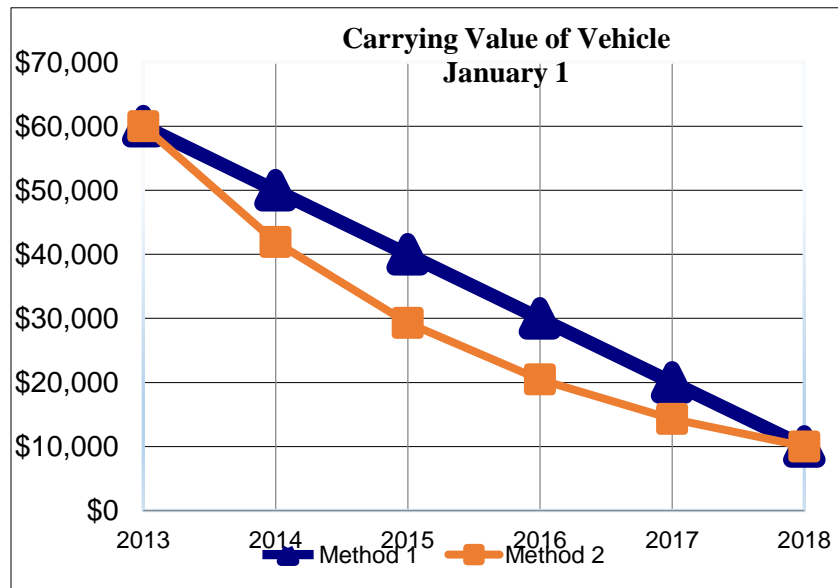
- Cash at Bank was \$2 000.
- GST summary from the April journals were:
 - GST paid \$1 080
 - GST collected \$150
 - GST charged \$1 200
 - GST incurred \$900
- Annual rent of \$24 000 plus GST was paid on 1 January 2016 for the 12 months ending 31 December 2016.
- The following customers owe Deep Sea Devices:
 - D.Dive \$4 900
 - S.Bob \$3 250
 - F.Fish \$3 320
- A physical stocktake revealed \$61 500 of stock on hand, however, the stock cards show \$62 000.
- Chris transferred his own Van to the business on 1 January 2016. Chris had originally purchased the Van for \$46 000 plus GST in 2013. Chris determined that the agreed value of the Van on the date it was transferred to the business to be \$25 000. The Van is to be depreciated using the straight line method based on a residual value of \$7 000 and an effective life of 3 years.

- a.** Prepare the Asset section of the Balance Sheet as at 1 May 2016. 7 marks
- b.** Explain how the preparation of a classified Balance Sheet satisfies the qualitative characteristic of understandability. 2 marks

Question 6 (18 marks)

On 1 January 2013 the owner of Murry Merchandise purchased a new Motor Vehicle for \$60 000 plus GST.

The accountant provided him with the chart below displaying the carrying value of the motor vehicle using two alternative depreciation methods.



- a. Identify the method of depreciation you would recommend for a Motor Vehicle.

Justify your choice.

3 marks

The owner decided to use the Straight Line Method to depreciate the Motor Vehicle.

On 1 January 2016 the owner decided the Motor Vehicle was not large enough so it was traded-in for a larger model.

The details of the trade-in are provided in the Invoice over the page

| | | | | | |
|---|---|---------------------|--|---|--|
| Invoice: B1010 | | Big Movers | | 222 Northern Highway East Gippsland 3837 | |
| Terms: 2/7, n/30 | | ABN: 10 000 909 459 | | Tax invoice | |
| Charge to: | Murry Merchandise 77 River Rise Murrayville | | | | |
| Date | Details | \$ | | | |
| 01/01/2016 | <i>Big Loader Motor Vehicle</i> | 72 500 | | | |
| | <i>Shelving</i> | 2 100 | | | |
| | <i>12 Month Service Contract</i> | 1 000 | | | |
| | <i>GST (10%)</i> | 7 560 | | | |
| | <i>Less Trade-In</i> | 34 760 | | | |
| | | Total | | | |
| | | \$48 400 | | | |
| <i>Please keep this document in a safe place it may be required for Taxation purposes</i> | | | | | |

- b.** Prepare the General Journal entries required to dispose of the old Motor Vehicle and the purchase of the new Motor Vehicle.
Narrations are **not** required. 9 marks
- c.** Explain why a profit or a loss on the trade-in of the Motor Vehicle occurred. 2 marks
- d.** Referring to your answer in **part b.**, explain your treatment of the shelving in recording the purchase of the new Motor Vehicle. 2 marks
- On 6 January 2016 cheque 842 was used to pay the amount owing to Big Movers.
- e.** Record cheque 842 in the Cash Payments Journal. 2 marks

Question 7 (18 marks)

Goosebumps is a business owned by J Black, selling horror movies. He sells on a credit basis, but insists that special orders are paid in advance. The business applies a fixed mark-up of 100%.

The following pre-adjustment Trial Balance for the six months ended 30 September 2016 was prepared by the accountant.

Goosebumps
Pre-adjustment Trial Balance as at 30 September 2016

| Ledger Account | Debit \$ | Credit \$ |
|---|----------------|----------------|
| Accumulated Depreciation – Display Fittings | | 4 500 |
| Advertising | 6 000 | |
| Bank | 3 200 | |
| Capital | | 18 565 |
| Cost of Sales | 44 065 | |
| Creditors Control | | 8 540 |
| Customs Duties | 1 280 | |
| Discount Expense | 240 | |
| Discount Revenue | | 160 |
| Drawings | 9 000 | |
| Electricity | 450 | |
| Freight Inwards | 850 | |
| Freight Outwards | 1 060 | |
| GST Clearing | | 1 250 |
| Interest Expense | 600 | |
| Loan – Bank of Loans | | 15 000 |
| Display Fittings | 45 000 | |
| Office Expenses | 900 | |
| Prepaid Commission Revenue | | 7 900 |
| Sales | | 90 000 |
| Sales Returns | 1 870 | |
| Stock Control | 9 400 | |
| Wages | 22 000 | |
| Totals | 145 915 | 145 915 |

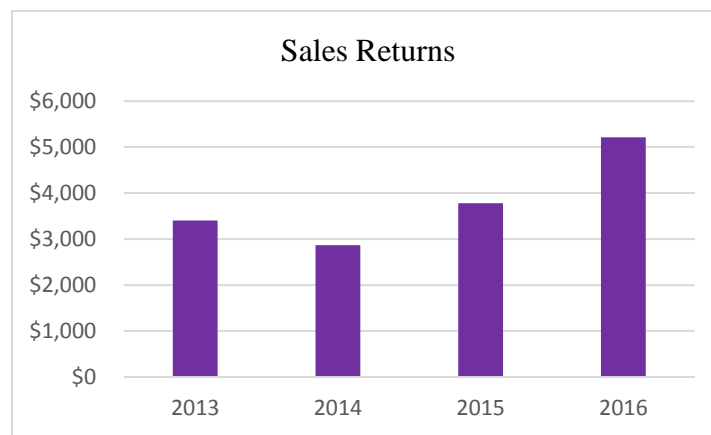
Additional information

- Wages owing as at 30 September 2016 were \$1 400.
- Depreciation of Motor Vehicle is charged at 10% per annum using the reducing balance method.
- As an incentive to encourage sales, J Black was given commission from his supplier of vintage horror movies. Of the amount received, Jack was yet to earn \$3 400.
- A physical stocktake determined stock on hand to be \$8 500.

- a.** Prepare the General Journal entries required as a result of the information above.
Narrations are **not** required. 7 marks
- b.** Referring to one accounting principle, explain the purpose of preparing balance day adjustments. 3 marks
- c.** Prepare the Income Statement extract up to, and including, Other Revenue for the six months ending 30 September 2016. 8 marks

Question 8 (3 marks)

The accountant has provided you with the following information.



- a.** Explain how the above trend may impact the profitability of a business. 2 marks
- b.** State one strategy the business could introduce to reverse the above trend. 1 mark

Question 9 (12 marks)

On 31 December 2016 the owner provided the following incomplete Budgeted Cash Flow Statement Variance Report (extract) for the year ended 31 December 2016.

**Budgeted Cash Flow Statement Variance Report (extract)
for the year ended 31 December 2016**

| | Budget | Actual | Variance | F / U |
|-----------------------|---------------|---------------|-----------------|--------------|
| Advertising | \$14 000 | \$32 000 | \$18 000 | |
| Interest Paid | \$6 000 | | \$1 500 | F |
| Capital | | \$4 000 | \$4 000 | F |
| Loan Repayments – NEB | \$12 000 | \$19 500 | | U |

- a.** Complete the Variance Report (extract) in the Answer Booklet. 4 marks
- b.** Explain a possible impact of the variance in Advertising on the Profit of the business. 2 marks
- c.** The Variance Report for the Income Statement showed a higher profit than expected, yet the actual Bank Balance at the end of the budget period was less than budgeted.
- Explain, with the use of one example, how this can occur. 3 marks
- d.** Explain how the preparation of Variance Reports can assist planning **and** decision making. 3 marks

END OF QUESTION BOOK



NAME: _____

VCE® ACCOUNTING
Unit 3 & 4: Practice Written Examination

Reading time: 15 minutes

Writing time: 2 hours

ANSWER BOOK

Instructions

- A question book is provided with this answer book.
- Answer all question in the spaces provided in this book.
- Write your **student name** in the space provided above on this page.
- Refer to Instructions on the front cover of the question book.

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

Question 1 (22 marks)

a.

1 mark

Cash Payments Journal (summary)

| Date | Details | Chq. No. | Bank | Disc. Rev. | Creditors Control | Stock Control | Wages | Sundries | GST |
|--------|----------------|----------|--------|------------|-------------------|---------------|-------|----------|-----|
| 30 Jan | Totals to date | - | 26 600 | | 8 500 | 6 400 | 8 950 | 2 300 | 700 |

b.

3 marks

| Explanation |
|-------------|
| |
| |
| |
| |
| |

c.

7 marks

Cash Receipts Journal (summary)

| Date | Details | Rec. No. | Bank | Disc. Exp. | Debtors Control | Cost of Sales | Sales | Sundries | GST |
|--------|----------------|----------|--------|------------|-----------------|---------------|--------|----------|-------|
| 30 Jan | Totals to date | - | 38 300 | 100 | 5 300 | 14 000 | 21 000 | 10 000 | 2 100 |
| | | | | | | | | | |
| | | | | | | | | | |

Question 1 – continued

General Journal

| Date 2016 | Details | General Ledger | | Subsidiary Ledger | |
|--------------|---------|----------------|--------|-------------------|--------|
| | | Debit | Credit | Debit | Credit |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

d.

8 marks

Debtors Control

| Date 2016 | Cross-reference | Amount | Date 2016 | Cross-reference | Amount |
|--------------|-----------------|--------|--------------|-----------------|--------|
| 01/01 | Balance | 2 900 | | | |
| | | | | | |
| | | | | | |

Stock Control

| Date 2016 | Cross-reference | Amount | Date 2016 | Cross-reference | Amount |
|--------------|-----------------|--------|--------------|-----------------|--------|
| 01/01 | Balance | 13 600 | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Question 1 – continued

e.

2 marks

| |
|--------------------|
| Explanation |
| |
| |
| |
| |
| |

f.

1 mark

| |
|---------------------|
| Disadvantage |
| |

Question 2 (9 marks)

a. 3 marks

| | |
|---|--|
| Value of Stock as at 31 March 2016 | |
|---|--|

b. 3 marks

General Journal

| Date 2016 | Details | General Ledger | | Subsidiary Ledger | |
|--------------|---------|----------------|--------|-------------------|--------|
| | | Debit | Credit | Debit | Credit |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

c. 3 marks

| |
|--------------------|
| Principle |
| Explanation |
| |
| |
| |
| |
| |

TURN OVER

Question 3 (4 marks)**a.**

2 marks

| |
|--------------------|
| Explanation |
| |
| |
| |
| |
| |

b.

1 mark

| |
|-------------------|
| Limitation |
| |

c.

1 mark

| |
|------------------|
| Benchmark |
| |

Question 4 (5 marks)**a.**

2 marks

| |
|--------------------|
| Explanation |
| |
| |
| |
| |
| |

b.

2 marks

| |
|--------------------|
| Explanation |
| |
| |
| |
| |
| |

c.

1 mark

| |
|--------------------------------|
| Non-Financial Indicator |
| |

TURN OVER

Question 5 (9 marks)

a.

7 marks

**Deep Sea Devices
Balance Sheet (extract)
as at 1 May 2016**

| | \$ | \$ |
|---------------------------|----|----|
| Current Assets | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| Non-current Assets | | |
| | | |
| | | |
| | | |
| | | |

b.

2 marks

| Explanation |
|--------------------|
| |
| |
| |
| |
| |

TURN OVER

c.

2 marks

| |
|--------------------|
| Explanation |
| |
| |
| |
| |
| |

d.

2 marks

| |
|--------------------|
| Explanation |
| |
| |
| |
| |
| |

e.

2 marks

Cash Payments Journal

| Date | Details | Chq. No. | Bank | Disc. Rev. | Creditors Control | Stock Control | Wages | Sundries | GST |
|-------------|----------------|---------------------|-------------|-----------------------|------------------------------|--------------------------|--------------|-----------------|------------|
| | | | | | | | | | |
| | | | | | | | | | |

TURN OVER

Question 9 (12 marks)

a.

4 marks

**Budgeted Cash Flow Statement Variance Report (extract)
for the year ended 31 December 2016**

| | Budget | Actual | Variance | F / U |
|-----------------------|---------------|---------------|-----------------|--------------|
| Advertising | \$14 000 | \$32 000 | \$18 000 | |
| Interest Paid | \$6 000 | | \$1 500 | F |
| Capital | | \$4 000 | \$4 000 | F |
| Loan Repayments – NEB | \$12 000 | \$19 500 | | U |

b.

2 marks

| Explanation |
|--------------------|
| |
| |
| |
| |
| |

c.

3 marks

| Explanation |
|--------------------|
| |
| |
| |
| |
| |
| |
| |
| |

Question 8 – continued

d.

3 marks

| Explanation |
|--------------------|
| |
| |
| |
| |
| |
| |
| |
| |
| |

END OF ANSWER BOOK

Solution Pathway

NOTE: This task is sold on condition that it is NOT placed on any school network or social media site (such as Facebook, Wikispaces etc.) at any time.

NOT FOR PRIVATE TUTOR USE.

Question 1 (22 marks)

a.

Cash Payments Journal (summary)

| Date | Details | Chq. No. | Bank | Disc. Rev. | Creditors Control | Stock Control | Wages | Sundries | GST |
|--------|----------------|----------|--------|------------|-------------------|---------------|-------|----------|-----|
| 30 Jan | Totals to date | - | 26 600 | 250 | 8 500 | 6 400 | 8 950 | 2 300 | 700 |

Total: 1 mark

b.

The discount revenue represents a reduction in outflow of economic benefit [1] that reduces liabilities [1] that leads to an increase in Owner's Equity through a higher profit. [1]

1 mark for each part indicated. Total: 3 marks

c.

Cash Receipts Journal (summary)

| Date | Details | Rec. No. | Bank | Disc. Exp. | Debtors Control | Cost of Sales | Sales | Sundries | GST |
|---------------|-------------------|------------|---------------|------------|-----------------|---------------|---------------|---------------|--------------|
| 30 Jan | Totals to date | - | 38 300 | 100 | 5 300 | 14 000 | 21 000 | 10 000 | 2 100 |
| 31 Jan | Cash Sales | 908 | 231 | | | 140 | 210 | | 21 |
| 31 Jan | Paste Rie | 909 | 110 | | 110 | | | | |
| | | | 38 641 | 100 | 5 410 | 14 140 | 21 210 | 10 000 | 2 121 |

General Journal

| Date 2016 | Details | General Ledger | | Subsidiary Ledger | |
|--------------|------------------------|----------------|--------|-------------------|--------|
| | | Debit | Credit | Debit | Credit |
| 31 Jan | Bad Debts | 440 | | | |
| | Debtors Control | | 440 | | |
| | Debtor - Paste Rie | | | | 440 |
| | Creditors Control | 990 | | | |
| | Creditor - Weavel City | | | 990 | |
| | Stock Control | | 900 | | |
| | GST Clearing | | 90 | | |

1 mark for receipt 908 in Cash Receipts Journal

1 mark for receipt 909 in Cash Receipts Journal

1 mark for totalling Cash Receipts Journal

1 mark for Bad Debts in General Journal

1 mark for both the Debtors Control and the subsidiary ledger

1 mark for Creditors Control and the subsidiary ledger

1 mark for Stock Control and GST Clearing

Total: 7 marks

d.

Debtors Control

| Date 2016 | Cross-reference | Amount | Date 2016 | Cross-reference | Amount |
|----------------------|------------------------|---------------|----------------------|-------------------------|---------------|
| 01/01 | Balance | 2 900 | 31/01 | Bank / Discount Expense | 5 410 |
| 31/01 | Sales / GST Clearing | 13 200 | | Bad Debts | 440 |

Stock Control

| Date 2016 | Cross-reference | Amount | Date 2016 | Cross-reference | Amount |
|----------------------|------------------------|---------------|----------------------|------------------------|---------------|
| 01/01 | Balance | 13 600 | 31/01 | Cost of Sales | 8 000 |
| 31/01 | Bank | 6 400 | | Cost of Sales | 14 140 |
| | Creditors Control | 9 000 | | Creditors Control | 900 |
| | | | | Balance | 5 960 |
| | | 29 000 | | | 29 000 |
| 01/02 | Balance | 5 960 | | | |

*1 mark for Sales / GST Clearing**1 mark for Bank / Discount Expense**1 mark for Bad Debts**1 mark for Bank in Stock Control**1 mark for Creditors Control on debit side of Stock Control**1 mark for both the Cost of Sales entries**1 mark for Creditors Control on credit side of Stock Control**1 mark for balancing Stock Control**Total: 8 marks*

e.

A control account system uses one account to summarise the information in the subsidiary ledger for debtors. It allows the business to have detailed information regarding debtors or creditors, while only using one figure in the general ledger and therefore the accounting reports. [1]

The business can split duties between staff, having one staff member responsible for the subsidiary ledger and following up any receipts from debtors, banking and issuing of invoices and statements and a schedule of debtors. Another staff member would check this information when it is compared to the control account, identifying errors and fraud. [1]

1 mark for each part indicated. Total: 2 marks

f.

Having a control account system for debtors can be a costly to adopt as the business needs to employ a staff member to look after the subsidiary ledger, increasing wages expense.

Total: 1 mark

Question 2 (9 marks)**a.**

| Stock Item | Quantity | Lower of Cost and NRV | Value |
|-------------------|----------|-----------------------|------------------|
| Portrait | 100 | \$1 000 | \$100 000 |
| Modern Abstract | 130 | \$1 100 | \$143 000 |
| Landscape | 75 | \$2 000 | \$150 000 |
| Landscape damaged | 10 | \$1 600 | \$16 000 |
| | | | \$409 000 |

*1 mark for Portrait and Modern Abstract values**1 mark for Landscape (75 units) values.**1 mark for damaged Landscape (10 units) values**Total: 3 marks***b.****General Journal**

| Date 2016 | Details | General Ledger | | Subsidiary Ledger | |
|--------------|---|----------------|--------|-------------------|--------|
| | | Debit | Credit | Debit | Credit |
| 31 Mar | Stock Write Down | 4 000 | | | |
| | Stock Control | | 4 000 | | |
| | 10 'Landscape' units of stock to be written down to lower of cost and net realisable value due to damage. (Memo 90) | | | | |

*1 mark for Stock Write Down**1 mark for Stock Control**1 mark for narration**Total: 3 marks*

c.

Conservatism [1]

Stock should be valued at the lower of cost and net realisable value as the conservatism principle requires that losses are to be recognised when they are likely or probable to occur so as to not overstate the value of assets. [1]

The loss has occurred as the owner has realised that he will not be able to sell the pictures for more than their cost price due to damage. [1]

1 mark for each part indicated. Total: 3 marks

Question 3 (4 marks)

a.

The trend shows an increase in Current Liabilities compared to Current Assets [1]
indicating a deterioration in the Working Capital Ratio. [1]

1 mark for each part indicated. Total: 2 marks

b.

The Working Capital Ratio is a static representation of current elements of the Balance Sheet. It is historical data and may no longer be relevant.

Total: 1 mark

c.

Budgeted figures

Competitors / Industry averages

Total: 1 mark

Question 4 (5 marks)**a.**

Profitability is a ratio of profit as compared to other important elements of the business, such as Total Assets, Total Sales or Owner's Equity. [1]

While profit is a dollar value calculated by deducting expenses incurred from revenues earned. [1]

1 mark for each part indicated. Total: 2 marks

b.

Cost of sales has decreased at a greater rate than the selling price of stock. The average mark up of the business increased during the year, possibly due to cost price decreases. The owner may have decided to increase selling prices which increased sales however, the cost price remained the same. [1]

Other expenses are out of control and increased at a greater rate than the selling price of stock. Large increases in Stock Loss and/or Stock Write Down may have caused net profit to fall. [1]

1 mark for each part indicated. Total: 2 marks

c.

Quality of the stock indicated by the number of sales returns.

Employee knowledge and relationship with customers indicated by the results of customer satisfaction surveys and or employee satisfaction surveys.

Total: 1 mark

Question 5 (9 marks)**a.****Deep Sea Devices
Balance Sheet (extract)
as at 1 May 2016**

| | \$ | \$ |
|--------------------------------|--------|--------|
| Current Assets | | |
| Cash at Bank | 2 000 | |
| GST Clearing | 630 | |
| Prepaid Rent Expense | 16 000 | |
| Debtors Control | 11 470 | |
| Stock Control | 61 500 | 91 600 |
| Non-current Assets | | |
| Van | 25 000 | |
| Less: Accumulated Depreciation | 2 000 | 27 000 |

*1 mark per item**Deduct 1 mark if report extract is not labelled and/or totalled Total: 7 marks***b.**

The qualitative characteristic of understandability requires reports to be prepared in such a manner so that users with little accounting information can understand their meaning. [1]

This is achieved in a classified Balance Sheet through the use of headings and sub-headings, totals and sub-totals. [1]

1 mark for each part indicated. Total: 2 marks

Question 6 (18 marks)**a.**

Method 2 - Reducing Balance [1]

Method B better matches the pattern of use of the asset with the depreciation expense [1] as more of the Motor Vehicle's value will be consumed or used up in the earlier years of its useful life when it is more effective in generating revenue. [1]

*1 mark for each part indicated. Total: 3 marks***b.****General Journal**

| Date 2016 | Details | General Ledger | | Subsidiary Ledger | |
|--------------|---------------------------------------|----------------|--------|-------------------|--------|
| | | Debit | Credit | Debit | Credit |
| 31 Mar | Disposal of Motor Vehicle | 60 000 | | | |
| | Motor Vehicle | | 60 000 | | |
| | Acc.Dep. – Motor Vehicle | 30 000 | | | |
| | Disposal of Motor Vehicle | | 30 000 | | |
| | Sundry Creditor – Big Movers | 34 760 | | | |
| | Disposal of Motor Vehicle | | 34 760 | | |
| | Disposal of Motor Vehicle | 4 760 | | | |
| | Profit on Disposal - Motor Vehicle | | 4 760 | | |
| | Motor Vehicle | 74 600 | | | |
| | Prepaid Service Agreement | 1 000 | | | |
| | GST Clearing | 7 560 | | | |
| | Sundry Creditor – Big Movers | | 83 160 | | |

1 mark for Disposal of Motor Vehicle / Motor Vehicle \$60 000 entry
1 mark for Accumulated Depreciation – Motor Vehicle \$30 000 debit entry
1 mark for Disposal of Motor Vehicle \$30 000 credit entry
1 mark for Sundry Creditor – Big Movers / Disposal of Motor Vehicle \$34 760 entry
1 mark for Disposal of Motor Vehicle \$4 760 debit entry
1 mark for Profit on Disposal – Motor Vehicle \$4 760 credit entry
1 mark for Motor Vehicle \$74 600 debit entry
1 mark for Prepaid Service Agreement \$1 000 debit credit
1 mark for GST Clearing and Sundry Creditor – Big Movers entries *Total:9 marks*

c.

A Profit on Disposal occurred as the trade-in allowance from Big Movers for the Motor Vehicle was more than its carrying value. [1]

This might be due to over depreciating the Motor Vehicle due to under estimating the Motor Vehicle's useful and/or residual value or the Motor Vehicle was in better condition than expected when it was traded-in. [1]

1 mark for each part indicated. Total: 2 marks

d.

As the shelving is a cost incurred in getting the Motor Vehicle into a condition ready for use to start earning revenue [1] and it is expected to provide future economic benefits to the business over the life of the Motor Vehicle [1] it has been included in the cost of the Motor Vehicle.

1 mark for each part indicated. Total: 2 marks

e.

Cash Payments Journal (summary)

| Date | Details | Chq. No. | Bank | Disc. Rev. | Creditors Control | Stock Control | Wages | Sundries | GST |
|-------|------------------------------|----------|--------|------------|-------------------|---------------|-------|----------|-----|
| 6 Jan | Sundry Creditor – Big Movers | 842 | 47 432 | 968 | | | | 48 400 | |

1 mark for Date / Details / Chq.No./Bank entries

1 mark for Discount Revenue and Sundries entries

Question 7 (18 marks)

a.

General Journal

| Date 2016 | Details | General Ledger | | Subsidiary Ledger | |
|-----------|-----------------------------|----------------|--------|-------------------|--------|
| | | Debit | Credit | Debit | Credit |
| 30 Sep | Wages | 1 400 | | | |
| | Accrued Wages | | 1 400 | | |
| | Depreciation – Display Fitt | 2 025 | | | |
| | Acc.Dep.–Display Fitt | | 2 025 | | |
| | Prepaid Commission Revenue | 4 500 | | | |
| | Commission Revenue | | 4 500 | | |
| | Stock Loss | 900 | | | |
| | Stock Control | | 900 | | |

1 mark for Wages / Accrued Wages entry

1 mark for Depreciation – Display Fittings \$2 025 debit entry

1 mark for Accumulated Depreciation – Motor Vehicle \$2 025 credit entry

1 mark for Prepaid Commission Revenue \$4 500 debit entry

1 mark for Commission Revenue \$4 500 credit entry

1 mark for Stock Loss \$900 debit entry

1 mark for Stock Control \$900 credit entry

Total: 7 marks

b.

Reporting Period [1]

The Reporting Period principle requires the life of the business to be divided into periods of time to allow for the accurate calculation of profit by matching expenses incurred against revenues earned. [1]

Balance day adjustments are required to ensure that the amount reported in the Income Statement reflects the expense incurred, not necessarily paid. [1]

1 mark for each part indicated. Total: 3 marks

c.

**Goosebumps
Income Statement
for the six months ending 30 September 2016**

| | | |
|--------------------------------|--------|--------|
| Revenue | | |
| Sales | 90 000 | |
| Less: Sales Returns | 1 870 | 88 130 |
| Less Cost of Goods Sold | | |
| Cost of Sales | 44 065 | |
| Customs Duties | 1 280 | |
| Freight Inwards | 850 | 46 195 |
| Gross Profit | | 41 935 |
| Less Stock Loss | | 900 |
| Adjusted Gross Profit | | 41 035 |
| Add Other Revenue | | |
| Commission Revenue | 4 500 | |
| Discount Revenue | 160 | 4 660 |
| | | 45 695 |

1 mark per line item

Deduct 1 mark if incorrect headings used or not totalled Total: 8 marks

Question 8 (3 marks)**a.**

The business is ultimately reducing its sales [1] while still incurring the costs associated with those sales, such as wages, the sales returns will decrease profit and decrease profitability. [1]

1 mark for each part indicated. Total: 2 marks

b.

Introduce a no returns policy, expect for faulty goods.
 Improve quality of products stocked by business by changing products or supplier.
 Improve sales staff training to be more responsive to customer's needs and improve checking mechanisms when orders are being completed.

Total: 1 mark

Question 9 (12 marks)**a.**

**Budgeted Cash Flow Statement Variance Report (extract)
 for the year ended 31 December 2016**

| | Budget | Actual | Variance | F / U |
|-----------------------|---------------|----------------|-----------------|--------------|
| Advertising | \$14 000 | \$32 000 | \$18 000 | U |
| Interest Paid | \$6 000 | \$4 500 | \$1 500 | F |
| Capital | \$0 | \$4 000 | \$4 000 | F |
| Loan Repayments – NEB | \$12 000 | \$19 500 | \$7 500 | U |

1 mark for each line. Total: 4 marks

b.

The advertising should increase sales possibly leading to an increase in Net Profit [1] and therefore profitability as this increase in sales should outweigh the increase in costs in advertising. [1]

1 mark for each part indicated. Total: 2 marks

c.

The higher profit than expected in the Income Statement Variance Report would have been due to a combination of actual revenues earned being greater than budgeted revenues and / or actual expenses being less than budgeted expenses. [1]

Whereas the actual Bank Balance at the end of the budget period was less than budgeted due to a combination of actual receipts being lower than budget receipts and / or actual payments being larger than budgeted payments. [1]

Example [1]

Capital contribution a cash inflow, which helps to Increase the cash position but is not a revenue and so, has no effect on Net Profit. Receipts from debtors is a cash inflow, which will increase Net Cash Flows from Operations may be more than credit sales revenue will increase net profit.

Cost of sales is an expense, which will may decrease Net Profit more than cash payments to creditors will decrease Net Cash Flows from Operations.

Stock Loss / Depreciation / Discount Expense are non-cash transactions which decrease profit but have no impact on cash.

1 mark for each part indicated.

1 mark for explanation of example. Total: 3 marks

d.

The preparation of Variance Reports allows the actual performance of the business to be compared to the budgeted performance. [1]

Budgets provide a plan for the future and guidance for the owner to follow. They predict the future performance of the business and can determine if there are any problems that should be rectified before they occur. [1]

The Variance Reports will allow the owner to identify problem areas and make decisions to take corrective action. These variances will allow changes to be made in future reporting periods and future budgets to improve the accuracy of information used as the basis for decision making. [1]

1 mark for each part indicated. Total: 3 marks

END OF SOLUTIONS