

YEAR 12 *Trial Exam Paper*

2019

ACCOUNTING

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>
11	11	100

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

Materials supplied

- Question book of 15 pages
- Answer book of 19 pages

Instructions

- Write your **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.

At the end of the examination

- You may keep this question book.

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

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Question 1 (11 marks)

Billy Hughes is starting his own business, Hughes' Hardware, after years working as a manager for a large chain of hardware stores. The business is scheduled to open on 1 March 2020.

In preparation, he completed the following transactions:

- He contributed \$45 000 cash and his personal Vehicle and Computer Equipment. The Vehicle cost \$38 000 (plus GST) when purchased four years ago and Billy has accepted an independent valuation of \$22 000 for the Vehicle. He purchased the Computer Equipment for \$4 500 (plus GST) using his personal bank account the day prior to opening the business.
- He borrowed \$15 000 from OBE Bank and arranged an overdraft facility with them for a further \$15 000. The loan is repayable at a rate of \$500 per month.
- He paid \$18 000 (plus GST) for six months' rent of the premises from which the business will operate.
- He purchased inventory on credit for \$63 800 (including GST).

a. Using the information above, prepare a classified Balance Sheet as at 1 March 2020.

5 marks

b. In the prepared Balance Sheet, inventory is reported as an asset. It is also considered an expense for a business.

Explain how inventory can be considered both an asset and an expense.

4 marks

c. Referring to a qualitative characteristic, explain why Balance Sheets need to be classified.

2 marks

Question 2 (5 marks)

Nielyn Jiang owns and operates Game Over, a small business that sells game consoles, games and other related items. In April 2019, Nielyn began stocking a new line of inventory – Blue World, a life-simulation game. The new line of inventory was purchased in bulk from Indonesia as part of the April shipment of inventory. It was purchased in quantities of 80 at a cost of \$30 per unit (plus GST). Shipping of the item incurred a cost of \$2 per unit (plus GST) and Import Duties of \$4 per unit (plus GST) will apply.

Nielyn has a contract with Fastest Couriers to deliver the inventory from the warehouse to the Footscray store for a fee of \$300 per month (plus GST), regardless of quantities.

- a.** Calculate the cost of one unit of the Blue World game.

2 marks

- b.** Explain what is meant by product costing and why businesses adopt this approach to costing inventory.

3 marks

Question 3 (17 marks)

Leah McCormack owns and operates Lights Up, a small business selling lights, light fittings and other related items.

In August 2019, Leah made the decision to stock two new items of inventory:

- Desiree LED Lamp
- Korhuo LED Lamp

During August 2019, the following transactions occurred relating to the Korhuo LED lamp:

- 1 August – The business purchased 40 units at \$60 each (plus GST) from LED Palace (Inv. 739).
 - 3 August – The business sold 4 units for \$150 each (plus GST) (EFT).
 - 7 August – The business sold 25 units to Bargain Hotel Ltd for \$150 each (plus GST) (Inv. LU962).
 - 12 August – The business purchased 80 units at \$70 each (plus GST) from LED Palace (Inv. 798)
 - 14 August – The business sold 6 units for \$150 each (plus GST) (EFT). 4 units had a cost price of \$70 while the remainder had a cost price of \$60
 - 20 August – The business sold 20 units at \$160 each (plus GST) to Conference World (Inv. LU987). All 20 units had a cost of \$70 each
- a. Record the transactions above in the Inventory Card for Korhuo LED Lamps using the Identified Cost method of cost assignment.

6 marks

The following transactions were also found to have occurred during August:

- 22 August – Conference World returned two faulty units, which they purchased on 20 August, for a full credit (CN J09).
 - 24 August – Leah returned the faulty units to her supplier for a full credit (CN 241).
 - 31 August – A physical stocktake found 56 units on hand, each with a cost price of \$70 (Memo 21).
- b. Record these transactions in the General Journal.
Narrations are **not** required.

7 marks

- c. Explain the impact on the financial reports prior to the end-of-period adjustments if Lights Up had used the First In, First Out (FIFO) cost assignment method instead of Identified Cost.

4 marks

Question 4 (8 marks)

The following information was provided by the accountant of Stevens Silk Road, a small business selling clothes and fabrics imported from India.

Balance Sheet (extract) as at 1 May 2019

Current Assets	
Accounts Receivable	24 800
Allowance for Doubtful Debts	(496)
	24 304

- a. Referring to a qualitative characteristic, explain the need for an Allowance for Doubtful Debts.

3 marks

On 7 May 2019, one customer, Matt Hibberd, informed the business that he would be unable to pay any of his account. At the time, the balance of his account was \$1 100 (plus GST).

- b. Record this transaction in the General Journal.

A narration is **not** required.

2 marks

The Allowance for Doubtful Debts is calculated at 2% of Net Credit Sales for the accounting period. For the month of May 2019, the Net Credit Sales had increased to \$32 400. Given the result during the period (the business reports monthly), the owner of the business is considering raising the Allowance for Doubtful Debts to 5% of Net Credit Sales.

- c. Prepare the General Journal entry necessary to record this new Allowance for Doubtful Debts (Memo 34).

A narration is required.

3 marks

Question 5 (20 marks)

Olivia's Olives is preparing its budgets for 2020. They have provided the following information to assist in the process.

Olivia's Olives**Balance Sheet as at 31 December 2019**

Inventory	10 000
Bank	20 000
Accounts Receivable	12 000
Accounts Payable	15 000

Actual amounts were also provided for 2019 and budgeted amounts for 2020.

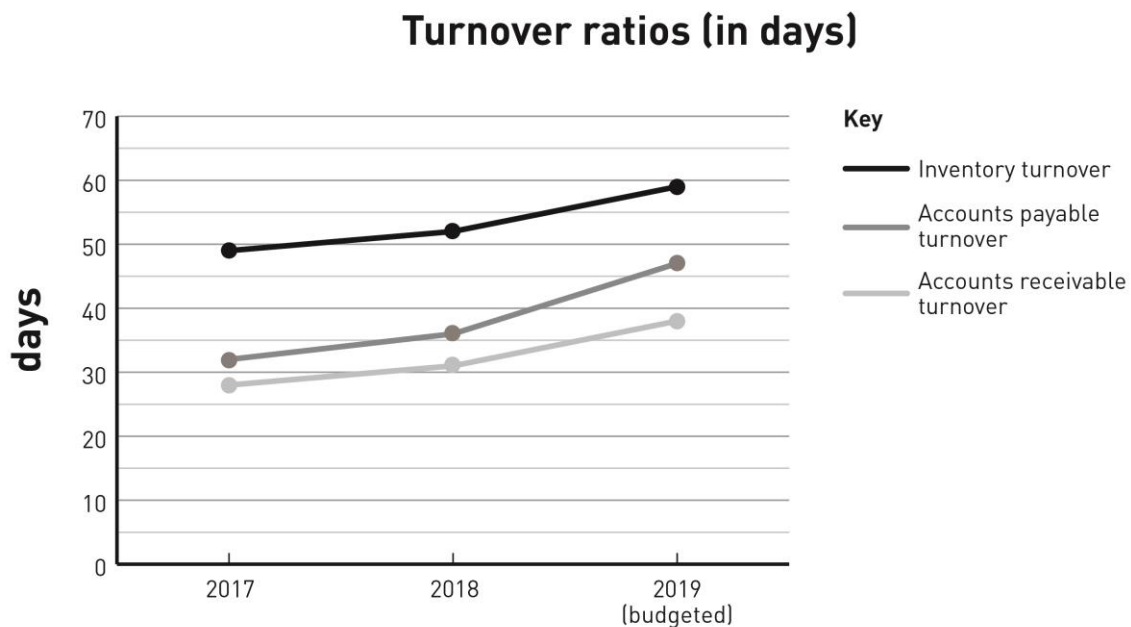
Item	2019 (Actual)	2020 (Budgeted)
Sales (excluding GST)	400 000	Increase by 5%
Cash Sales (excluding GST)	35% of Sales	30% of Sales
Sales Returns (excluding GST)	2 000	2 500
Cost of Sales	45% of Net Sales	50% of Net Sales
Inventory Purchases (Credit) (excluding GST)	160 000	180 000
Inventory Purchases (Cash) (excluding GST)	40 000	30 000
Drawings of Inventory	8 000	12 000
Drawings of Cash	20 000	5 000
Accounts Receivable – end		30 000
Accounts Payable – end		45 000
Cash expenses (excluding prepayments)	140 000	Increase by 15%
Depreciation expense	6 000	6 000
GST paid	24 400	21 620

Additional information

- Discount revenue is budgeted to be \$4 200.
- Discount expense is budgeted to be \$5 600.
- Inventory loss is budgeted to be \$900.
- Bad Debts – year ended 31 December 2020 – is expected to be \$2 500.
- All inventory returned by customers is returned to suppliers.
- Cash expenses includes Import Duties of \$5 000 in 2019, which is expected to increase by 15% in 2020.
- Rent is paid annually on 1 July each year. In 2019, the amount paid was \$24 000 (plus GST). This amount is expected to increase in 2020 to \$25 200 (plus GST).

- a. Prepare the operating section of the Budgeted Cash Flow Statement for the year ending 31 December 2020. 5 marks
- b. Prepare an extract of the Budgeted Income Statement to show Adjusted Gross Profit. 5 marks
- c. Olivia is confused as to why the Adjusted Gross Profit is so much higher than the Net Cash Flows from Operating Activities. 3 marks
- Explain how this occurred, referring to an example from the report extracts.

Olivia has been concerned in recent years about the cash flow and liquidity position of the business. She asked her accountant to provide data relating to cash flow and the following graph was provided.



- d. Describe how the trends in these indicators may impact the cash flow of the business. 4 marks
- e. Explain how the use of non-financial information helps the owner to improve business performance. 3 marks

Question 6 (7 marks)

Northern Traders is a small business selling household furniture items. The business prepares reports on an annual basis at 30 June each year.

At 30 June 2019, the following Adjusted Trial Balance was prepared.

Northern Traders
Adjusted Trial Balance as at 30 June 2019

Account Name	Debit	Credit
Accumulated Depreciation – Vehicle		8 500
Advertising	12 000	
Bank	6 080	
Capital		62 950
Cost of Sales	168 900	
Accounts Payable		35 700
Customs Duty	3 000	
Accounts Receivable	31 600	
Discount Expense	4 000	
Discount Revenue		3 700
Drawings	36 000	
Freight	11 500	
GST Clearing		6 430
Insurance	4 800	
Interest Expense	6 500	
Loan – Ezy Finance Co (Repayable \$2 000 per month)		34 000
Office Expense	7 100	
Prepaid Rent Expense	20 400	
Sales		337 800
Inventory	42 200	
Vehicle	55 000	
Wages	80 000	
Total	489 080	489 080

The following adjustments were required at 30 June 2019:

- The amount for wages owing at 30 June is \$1 900.
- The Prepaid Rent Expense amount includes a payment of \$18 000 (plus GST) made on 1 September 2018 for the 12 months ending 31 August 2019.
- The vehicle is depreciated at a rate of 20% per annum on the reducing balance method.

- a.** Prepare the General Journal entries required to record these adjustments at 30 June 2019.

Narrations are **not** required.

5 marks

On 3 July 2019, the business paid \$4 100 for wages (Chq. 87). This payment included the amount for wages owing at 30 June 2019.

- b.** Record the payment in the General Journal.

A narration is **not** required.

2 marks

Question 7 (10 marks)

On 1 March 2019, Callinane Cupboards purchased new machinery for \$33 000 (including GST). The business paid a \$5 000 cash deposit and financed the balance of the cost through a loan from MU Bank.

- a.** Record the information above in the General Journal.

A narration is **not** required.

3 marks

Phillip Callinane is considering using the straight line method of depreciation on this asset, but his accountant has suggested the reducing balance method may be more appropriate.

- b.** Calculate the depreciation expense for the period ended 31 December 2019 using:

- straight line method at 10% per annum on cost
- reducing balance method at 25% per annum on reduced balance.

2 marks

- c.** Explain the effect on profit of using the reducing balance method rather than the straight line method of depreciation during the year ending 31 December 2019 and over the life of the asset.

3 marks

- d.** Explain why it is necessary to depreciate non-current assets.

2 marks

Question 8 (7 marks)

Adnoid Industries sells high-end desks for corporate offices and businesses. They use the perpetual inventory system and First In, First Out (FIFO) cost assignment method for recording inventory. A summary of inventory transactions for the month of April 2019 was extracted from the General Journal and is provided below.

Transaction	\$
Cash Sales	35 000
Credit Sales	12 600
Sales Returns	700
Inventory sold at a mark-up of 100%	
Inventory used for store display	1 200
Cash Purchases	6 000
Credit Purchases	18 000
Inventory returned to suppliers	350
Drawings of Inventory	500
Inventory Loss	650

Record the information above in the Inventory General Ledger account at 30 April 2019 and balance the account.

Question 9 (6 marks)

Collin's Carpets provides an extract of its Balance Sheet as at 30 June 2019.

Collin's Carpets**Balance Sheet (extract) as at 30 June 2019**

<u>Non-Current Assets</u>	
Equipment	9 000
Accumulated Depreciation	(3 600)

On 1 July 2019, the business disposed of some of this equipment. The equipment had a historical cost of \$4 000 and a carrying value of \$2 100 at the time it was sold for \$900 cash.

- a.** Complete the Disposal of Equipment account after all entries have been recorded.

4 marks

- b.** Explain the effect of this transaction on the Income Statement and the Cash Flow Statement of the business.

2 marks

Question 10 (4 marks)

Dainty Dogs is a pet clothing store selling coats, leads and other pet-related items.

The following information has been provided for June 2019:

- Accounts Receivable \$31 000
- Discount Revenue \$3 700
- Loss on Disposal of Equipment \$1 200
- Sales \$337 000
- Sales Returns \$800
- Inventory Loss \$500
- Wages \$50 000

a. Prepare the General Journal entries required to close the revenue accounts.

A narration is **not** required.

2 marks

b. Explain why it is necessary to close revenue and expense accounts each period.

2 marks

Question 11 (5 marks)

Kerrin Andrews runs a small lighting business. Part of her inventory includes light globes. Kerrin has always been concerned about the environment and she attempts to make decisions that are socially responsible. In September, Kerrin made the decision to no longer carry items of inventory that use the traditional non-LED light bulbs.

LED light bulbs are more efficient, use less power and last longer, and they also reduce the need for resources that are used in the manufacture of the non-LED light bulbs.

Kerrin's accountant is concerned that this could cost her customers as LED light bulbs are more expensive and last much longer, reducing future sales.

Discuss the issues for Kerrin in making this decision.

END OF QUESTION BOOK

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