**Student Name:**

**PES**

**2019 ACCOUNTING UNIT 3**

## Practice Examination

**QUESTION BOOK**

**Structure of book**

|  |  |  |
| --- | --- | --- |
| *Number of*  *Questions* | *Number of questions*  *to be answered* | *Number of*  *marks* |
| 8 | 8 | 100 |

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

**Materials supplied**

* Question Book of 11pages.
* Answer Book of 16 pages.

**Instructions**

* Write your name and your teacher’s name in the space provided on the front page of both this Question Book and the Answer Book.
* Answer all questions in the Answer Book.

**At the end of the task**

* Place this Question Book on top of the Answer Book and wait for both to be collected.

**Students are not permitted to bring mobile phones and/or any other unauthorised electronic devices into the SAC room.**

**Question 1 (11 marks)**

Danni Duplo owns and operates Terrific Toys a business selling toys on credit. At 30 April 2019, Danni provides you with the following transactions and documents that are yet to be recorded.

|  |  |  |  |
| --- | --- | --- | --- |
| **Terrific Toys**  Date: 9/04/2019 Invoice: L685 | | | |
| **Charge to:** Louis Bell | | | |
| **Item** | **Qty** | **Unit Cost** | **$** |
| Batman Lego Series 5 150 750  GST (10%) 75  Total **$** 825  Terms: 2/8, n35 | | | |

|  |
| --- |
| **Terrific Toys**  **Date** 1/04/2019  **Memo** 16  On the 28 March a payment made by Bell of $264 was incorrectly recorded as $624.  Please correct error |

|  |
| --- |
| **Terrific Toys**  **Date** 19/04/2019  **From** Louis Bell  **For** Payment on account and discount of $20    **Amount** $730 (including GST)  **Receipt.** 89 |

**QUESTION 1 continued**

Additional information

* Credit Sale to Louis Bell on the 27 April for 5 toys at $90 each plus GST [Inv. L712]. On the 28 April Louis Bell returned 1 of these toys [CN V06].

1. Complete the General Ledger account for Accounts Receivable – Louis Bell for the month of April 2019.

6 marks

Danni is concerned with the time it is taking her accounts receivable to settle their accounts. She provides terms of 4/10, n30, while she receives credit terms of 2/5, n25 from her accounts payable.

Her accountant provided the following information:

|  |  |  |
| --- | --- | --- |
| **Ratio** | **2018** | **2019** |
| Accounts Receivable Turnover | 37 days | 41 days |
| Accounts Payable Turnover | 25 days | 26 days |

1. Analyse the information above and provide advice to Danni on how she can improve the management of her accounts receivable.

4 marks

1. Identify one positive cause of the trend in Accounts Payable Turnover.

1 mark

**Question 2 (19 marks)**

Will’s Hair Supplies has been operating in Melbourne for the past 6 years. The business uses the perpetual inventory method of recording inventory and provides you with an inventory card and some transactions relating to the inventory item – Hair Shampoo.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Inventory Item:** Hair Shampoo **Supplier:** Advance Hair  **Location:** Melbourne Store Room 1 **Cost Assignment Method:** First In First Out | | | | | | | | | | |
| **Date**  **2019** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| May 1 | Balance |  |  |  |  |  |  | 50 | 50 | 2500 |
| 9 | Inv 189 | 20 | 55 | 1100 |  |  |  | 50  20 | 50  55 | 2 500  1 100 |

|  |  |
| --- | --- |
| May 12 | Will returned 5 units of hair shampoos to his supplier due to faulty lids. This inventory came from an earlier invoice, and had a cost price of $50 (CN 14) |
| 13 | Will withdrew 10 units of hair shampoos for personal use (Memo 99) |
| 15 | Cash sales of hair shampoo amounted to 40 units at a selling price of $132 each including GST (Rec 99) |
| 19 | Will donated 5 units of hair shampoos to a local charity (Memo 105) |
| 23 | Sold 5 hair brushes on credit to Queen Bee for a total of $400 plus GST (Invoice 51) |
| 28 | Will purchased 30 hair shampoos from a new supplier at a price of $40 each (Invoice 9001). These shampoos were labelled with the business’s name at a cost of $5 each (Cheque 227) |

1. Record the transactions for May into the inventory card provided.

6 marks

1. Record the following transactions in the General Journal:

* May 12
* May 13
* May 19

Note: Narrations are not required.

7 marks

1. Explain the effect of the transaction on the 15 May on the profit of the business.

2 marks

1. Explain your treatment of the labelling costs.

2 marks

1. Will finds that the shop is particularly busy on the weekends and he is concerned about the security of his inventory. Over the past 3 years, the inventory loss has increased from $100 per month to $500 per month.

Describe one strategy the business could introduce to safeguard the inventory to avoid inventory losses in the next month.

2 marks

**Question 3 (11 marks)**

Beau Ng sells a variety of packaged vintage, modern and classical model aeroplanes on both a cash and credit basis and uses the Identified Cost method of cost assignment.

The inventory of ‘Vintage Royale’ appears in the inventory card as follows:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Inventory Item:** Vintage Royale **Supplier:** Royale AirForce  **Location:** Windsor  **Cost Assignment Method:** Identified Cost | | | | | | | | | | |
| **Date**  **2019** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| 30/06 | Balance |  |  |  |  |  |  | 15  25 | 300  350 | 13 250 |

On 30 June 2019, Beau decided that The Vintage Royale line of inventory was not selling well and he reduced the selling price from $500 plus GST to $300 plus GST (memo 87).

As an incentive for his staff, Beau has offered his staff $50 commission on the sale of each ‘Vintage Royale’.

1. Calculatethe net realisable value of one unit of ‘Vintage Royale’ Aeroplane

1 mark

1. Update the inventory card and record the General Journal entry required on 30 June 2019.

Note: A narration **is** required.

2 + 3 =5 marks

1. Explain the difference between the First In First Out and Identified Cost methods of recording transactions into inventory cards.

2 marks

1. With reference to an appropriate qualitative characteristic, explain the business’s decision to apply the lower of cost and net realisable value rule.

3 marks

**Question 4 (16 marks)**

Meghan Sparkle commenced ‘Princess Dresses’ a clothing business that sells a range of dresses for all occasions.

Meghan commenced business on the 1 June 2019 at which time she organised an overdraft of $10 000 with the Bank of Sussex as well as a personal credit card that she used to pay for the rent of her home costing $1 000 for the month of June.

The following items were also organised by Meghan on 1 June 2019:

* She contributed $20 000 to the business (Receipt 001) and used this money to purchase the fixtures and fittings from Kate which had cost $13 200 including GST.
* Inventory was purchased on credit from accounts payable – Fashion By Will for $8 800 (including GST).
* She contributed her vehicle to the business that had been purchased in 2015 for $66 000 including GST, which currently has a fair value of $45 000. Meghan also transferred the loan used to purchase the vehicle, which had an outstanding balance of $32 000. The Loan is repayable at $1 000 per month.

1. Prepare a classified Balance Sheet as at 1 June 2019.

7 marks

1. With reference to the definition of a non-current asset, explain how the fixtures and fittings should be classified.

2 marks

1. Explain the purpose of a Balance Sheet.

2 marks

1. Discuss with reference to two qualitative characteristics your valuation of the vehicle contributed by Meghan.

5 marks

**Question 5 (15 marks)**

Fred Zeng sells kitchen electrical items. His accountant has provided a summary of the cash movements of the business for the month of April 2019.

|  |  |  |  |
| --- | --- | --- | --- |
|  | $ |  | $ |
| Cash Sales | 70 000 | Inventory purchases | 25 000 |
| Receipts from Accounts Receivable | 35 000 | Loan – repayments (includes interest of $600) | 1 000 |
| Electricity | 2 300 | Drawings | 5 600 |
| Rent | 20 000 | Equipment | 18 000 |
| Wages | 25 000 | GST Received | 7 000 |
| GST paid | 8 530 | Accounts Payable payments | 27 000 |
|  |  | Capital | 8 000 |

**Additional Information:**

* Credit sales were $40 000
* The business operates on a mark-up of 60%
* Credit purchases of inventory were $38 500 plus GST
* The business received a discount from its suppliers of $400
* A physical stock take revealed an inventory gain of $250
* Fred withdrew $800 of inventory for personal use.

1. Prepare the General Journal entry required to close the expense accounts for the month of April 2019.

3 marks

1. Complete the following ledger accounts as at 30 April 2019.

* Profit and Loss Summary Account
* Capital Account
* Inventory Account

3 + 3 + 4 = 10 marks

1. With reference to the period assumption, explain why expenses and revenues accounts must be closed.

2 marks

**Question 6 (4 marks)**

Candice Lawrence has been operating a florist in Essendon for the last 5 years and employs a staff of 10 people. Floral arrangements and bunches of flowers are sold to customers with delivery free of charge. The employees often receive tips from customers due to the high quality of the flowers and free delivery service, along with Candice’s willingness to support local schools and community centres by providing free flowers. Her employees often work extra hours and deliver the flowers to customers and community centres in their own time. All tips are expected to be registered by the employees and these are recorded in a book and put into the business’s bank account.

Discuss the ethical considerations of her decision to bank employee’s tips in the business bank account.

**Question 7 (17 marks)**

Harry’s Hardware operates in High Street Glen Waverley. The business uses the identified cost assignment method for recording inventory.

The following report was provided:

**Harry’s Hardware**

**Balance Sheet (extract) as at 1 July 2019**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **ASSETS** | **$** | **$** | **LIABILITIES** | **$** | **$** |
| **Current Assets** |  |  | **Current Liabilities** |  |  |
| Cash at Bank | 7 620 |  | Accounts Payable | 11 300 |  |
| Accounts Receivable | 9 900 |  | GST Clearing | 1 240 |  |
| Inventory | 30 900 | 48 420 | Loan – ZNA Bank | 6 000 | 18 540 |
|  |  |  | **Non-Current Liabilities** |  |  |
| **Non-Current Assets** |  |  | Loan – ZNA Bank |  | 15 000 |
| Delivery Van |  | 37 400 |  |  |  |
|  |  |  |  |  |  |

**QUESTION 7 continued**

The following information is a summary of the financial information for the quarter ended 30 September 2019.

* Total Sales $350 000 plus GST
* Credit Sales 40%
* Sales Returns 1% of Total Sales
* Cost of Sales 50% of Net Sales
* Inventory purchases $170 000 (60% on credit)
* Inventory Loss 2% of Total Sales
* Discount Expense $3 800
* Drawings $15 000 (10% inventory and 90% cash)
* Wages expense $10 000 per month
* Interest Paid $600 per quarter
* Accounts receivable received $135 000
* Payments to accounts payable $80 000
* Discount provided by suppliers $2 000
* Loan repayments are expected to remain constant.
* Non-Current Assets are purchased using cash.
* Other Expenses $45 000 (including Depreciation $2 400)
* Delivery in $2 500
* Delivery out $4 000
* GST Paid is expected to be $9 800
* GST is to be settled in September from the previous quarter

1. Preparean Income Statement for the quarter ended 30 September 2019.

9 marks

1. Preparea Cash Flow Statement for Operating Activities for the quarter ended 30 September2019.

6 marks

1. Explain the term ‘’Net Cash Flows from Investing Activities’’.

2 marks

**Question 8 (7 marks)**

George’s Model Cars has been in operation for 2 years. The business uses the identified cost assignment method for recording inventory and the accrual method of profit determination. The accountant has provided the following information relating to the profitability of the business.

**QUESTION 8 continued**

**Other Information:**

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2019** |
| Sales | $120 000 | $145 000 |
| Inventory Turnover | 39 days | 35 days |

|  |  |
| --- | --- |
| **Ratio** | **Industry Average** |
| Gross Profit Margin | 50% |
| Net Profit Margin | 22% |

1. Using the information above, discuss the profitability of the business.

4 marks

1. Identify and explain how George could use one piece of non-financial information to assess the inventory turnover of the business.

2 marks

1. Identify one benchmark George could use to assess the profitability of the business.

1 mark

**END OF QUESTION BOOKLET**