**Student Name:**

**PES**

**2019 ACCOUNTING UNIT 4**

## Outcome 1 – Set 1

## EXTENSION OF RECORDING AND REPORTING

**QUESTION BOOK**

**Structure of book**

|  |  |  |
| --- | --- | --- |
| *Number of*  *Questions* | *Number of questions*  *to be answered* | *Number of*  *marks* |
| 5 | 5 | 50 |

* 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 7 pages.
* Answer Book of 8 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** (7 marks)

Ed Dimmock owns and operates Dimmock's Book Supplies, a small business selling educational books to students, schools and universities. The business operates mainly on a cash basis but offers 14 day credit terms to larger customers.

At 31 December 2019, Ed provides you with the following details of Non-Current Assets prior to any adjustments.

|  |  |
| --- | --- |
| **Account** | **$** |
| Fittings | 12 000 |
| Accumulated Depreciation - Fittings | 500 |
| Vehicle | 30 000 |
| Accumulated Depreciation - Vehicle | 6 000 |

Depreciation details are as follows.

* + - The Fittings were purchased on 30 June 2018 for $12 000. They are expected to have a useful working life of 10 years and a residual value of $2 000. The Fittings are depreciated using the straight-line method.
    - The Vehicle was purchased on 1 July 2017 for $30 000. It is expected to have a useful working life of 5 years and a residual value of $10 000. Depreciation is 20% p.a. based on the reducing balance method.

1. **Calculate** the depreciation expense for Fittings for the year ended 31 December 2019.

1 mark

1. **Explain** why the straight-line method of depreciation may be an appropriate method of depreciation for Fittings, but not for the Vehicle.

2 marks

1. **Calculate** the depreciation expense for the Vehicle for the year ended 31 December 2019.

2 marks

1. **Complete** the table in the Answer Booklet showingthe effect on the amount of depreciation expense reported for the years ended 31 December 2019 and 31 December 2020, if the straight-line method of depreciation had been used for the Vehicle instead of the reducing balance method.

2 marks

**Question 2** (9 marks)

Basic Sports sold computer equipment privately to an employee on 1 October 2019 and on the same day, purchased a new computer from MAC Works costing $5 000 plus GST. The owner decided to finance the purchase with a loan from Community Finance, after paying a deposit of $1000.

The details relating to the computer equipment is provided:

The Computer Equipment was reported in the Balance Sheet as at 30 September 2019 as follows.

|  |  |  |
| --- | --- | --- |
| **Non-Current Asset** | $ | $ |
| Computer Equipment (at cost) | 3 000 |  |
| Less Accumulated Depreciation - Computer Equipment | 2 000 | 1 000 |

$ Proceeds from sale of existing computer 300

Cash deposit paid on purchase 1 000

Amount owing 4 500

1. **Prepare** the following general ledger account to show the disposal and purchase of the computers.

* Computer
* Disposal of Computer
* Loan ZNA Finance

You are **not** required to balance the ledgers

7 marks

1. **Explain** one advantage of financing the computer using the loan from Community Finance.

2 marks

**Question 3** (2 marks)

Distinguish between a Bad Debt and a Doubtful Debt.

**Question 4** (28 marks)

Howard Thyme is the manager of Precious Time, a small business that sells watches and timepieces via mail order and over the internet through online sales. All sales revenue received from online sales is recorded as unearned revenue at the time it is received. The GST on the sales is recorded on at this time. The business applies a 100% mark up on all sales and prepares reports every six months at 30 June and 31 December.

**Precious Time**

**Trial Balance as at 31 December 2019**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| Insurance Expense | 2 450 |  |
| Office Supplies Expense | 1 200 |  |
| Prepaid Rent Expense | 24 000 |  |
| Wages | 13 450 |  |
| Interest Expense | 890 |  |
| Electricity | 2 790 |  |
| Bad Debts | 130 |  |
| Allowance for Doubtful Debts |  | 180 |
| General Expenses | 4 398 |  |
| Unearned Sales Revenue |  | 105 900 |
| Discount Revenue |  | 320 |
| Accrued Commission Revenue | 3 400 |  |
| Profit on Disposal of Vehicle |  | 570 |
| Cash at Bank | 38 590 |  |
| Inventory | 44 800 |  |
| Accounts Receivable | 3 943 |  |
| Accounts Payable |  | 7 900 |
| Loan |  | 5 000 |
| Capital |  | 17 831 |
| GST Clearing |  | 2 340 |
| **TOTAL** | **140 041** | **140 041** |

**Question 4** continued

1. **Prepare** the General Journal entries required for the balance day adjustments at 31 December 2019:

* At stocktake the business had an inventory loss of $300
* The Prepaid Rent Expense was paid on 1 November 2019 for 12 months
* 90% of unearned sales revenue has now been earned
* The accrued commission revenue is paid by a wholesaler of a particular timepiece. At balance day $3 000 of this commission had been received
* $500 wages expense remained unpaid
* The bad debts are to be written off and the allowance for doubtful debts set at 3% of accounts receivable

12 marks

1. **Explain** what is meant by adopting the liability approach to unearned revenue.

2 marks

1. Howard is very happy as the Adjusted Trial Balance balances. Howard believes that this means the double entry recording is correct. To what extent do you agree? **Discuss**.

4 marks

1. **Prepare** an Income Statement for the six months ended 31 December 2019.

6 marks

1. **Prepare** the Balance Sheet (extract) to show Current Assets as at 31 December 2019.

4 marks

**Question 5** (4 marks)

The manager of a business receives a bonus on all sales revenue generated. In order to increase this commission he decides to record all the unearned sales revenue as now being earned.

**Discuss** the financial and ethical implications of the manager’s decision.

**END OF QUESTION BOOK**