**Student Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**ACCOUNTING  
  
Units 3 & 4 – Written examination**

PES

# 2019 Practice Examination 1

## Reading Time: 15 minutes Writing Time: 2 hours

**SOLUTION**

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**Question 1 (10 marks)**

a. 6 marks

**Nick of Time**

**Balance Sheet as at 1 April 2019**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **$** | **$** |  | **$** | **$** |
| **Current Assets** |  |  | **Current Liabilities** |  |  |
| Bank | 28 580 |  | Loan – Bank of Tasman | 24 000 |  |
| Inventory | 60 000 |  | Loan Legends | 3 600 |  |
| GST Clearing | 10 220 |  | Accounts Payable – Watch Importers | 66 000 | 93 600 |
| Prepaid Rent Expense | 7 200 | 106 000 |  |  |  |
|  |  |  | **Non-Current Liabilities** |  |  |
| **Non-Current Assets** |  |  | Loan – Bank of Tasman | 31 000 |  |
| Computer | 800 |  | Loan Legends | 5 400 | 36 400 |
| Vehicle | 20 000 |  |  |  |  |
| Shop Fittings | 35 000 | 55 800 | **Owner’s Equity** |  |  |
|  |  |  | Capital |  | 31 800 |
|  |  |  |  |  |  |
| **Total Assets** |  | **161 800** | **Total Equities** |  | **161 800** |

*Award one mark for GST Clearing amount*

*Award 1 mark for Bank amount*

*Award 1 mark for all other Current Assets*

*Award 1 mark for Non-Current Assets, Current Liabilities and Non-Current Liabilities sections of the Balance Sheet*

*Report must be finished (calculation of Capital which can be a consequential amount) and totalled – deduct 1 mark if not totalled*

b. 4 marks

|  |
| --- |
| **Definition and Explanation** |
| Owner’s Equity is the residual interest in the assets of a business after liabilities are deducted **[1]**. It represents the owner’s investment in the business and shows the capital contributions and drawings of the owner **[1]**.  Under the Entity Assumption the owner’s personal information is kept separate from the business, with the owner keeping a separate set of reports for their personal assets and liabilities **[1]**. Only the transactions between the owner and the business are reported in the owner’s equity section, such as the contribution of the cash, and the computer **[1]**. |

**Question 2 (12 marks)**

a. 2 marks

**Morrison Motor Sports**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2019** | **Details** | **Debit** | **Credit** |
| June 30 | Cash Sales | 351 000 |  |
|  | Credit Sales | 125 000 |  |
|  | Sales Returns |  | 5 500 |
|  | Discount Revenue | 5 400 |  |
|  | Profit and Loss Summary |  | 475 900 |

*Award 1 mark for Cash Sales, Credit Sales and Discount Revenue*

*Award 1 mark for Sales Returns*

*Deduct one mark if Profit & Loss Summary entry is not provided*

*If Profit & Loss Summary amount is incorrect check for consequential errors*

b. 2 + 5 = 7 marks

**Profit and Loss Summary**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| 30/6 | Expenses | 418 550 | 30/6 | Revenues | 475 900 |
|  | Capital | 57 350 |  |  |  |
|  |  | **475 900** |  |  | **475 900** |

**Capital**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| 30/6 | Drawings | 40 600 | **Jul 1** | **Balance** | **95 600** |
|  | Balance | 127 350 | 30/6 | Bank | 10 000 |
|  |  |  |  | Equipment | 5 000 |
|  |  |  |  | Profit and Loss Summary | 57 350 |
|  |  | **167 950** |  |  | **167 950** |
|  |  |  | Jul 1 | Balance | 127 350 |

*Award 1 mark for Revenues entry in Profit & Loss Summary Account*

*Award 1 mark for Expenses entry in Profit & Loss Summary Account*

*Award 1 mark for Capital entry in Profit & Loss Summary Account AND Profit & Loss Summary entry in Capital Account*

*Award 1 mark each for Drawings, Bank and Equipment entries in Capital Account*

*Award 1 mark for both closing balance entries in Capital Account*

c. 3 marks

|  |
| --- |
| **Explanation** |
| Under the Period Assumption revenues earned and expenses incurred are recognised in the current period **[1]**. The expenses and revenues are closed so that the accounts can be reset to zero **[1]** in preparation for recording the information that is relevant to the next period **[1]**. |

**Question 3 (12 marks)**

a. 4 marks

|  |
| --- |
| **Analysis** |
| The owner is valuing inventory at its selling price. This is an unethical decision as not only does it overstate the value of the inventory, there is no guarantee the business will receive that price for it **[1]**. The business may sell the inventory at a lower price, or not at all, or at a higher price if there is an increase in demand **[1]**.  The selling price does not faithfully represent what the business purchased the inventory for **[1]**, nor does it take into account the business will make a profit on most of the inventory it sells **[1]**. |

b. 2 + 2 = 4 marks

**Bikes Haven**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2019** | **Details** | **Debit** | **Credit** |
| Mar 31 | Inventory Loss | 300 |  |
|  | Inventory |  | 300 |
|  | Inventory Write Down | 135 |  |
|  | Inventory |  | 135 |

*Award 1 mark for each line in General Journal as shown*

c. 4 marks

|  |
| --- |
| **Explanation** |
| Net Realisable Value is the selling price of the inventory less any costs associated in selling, marketing or distributing the inventory **[1]**. The lower of cost and net realisable value (NRV) is where the business adopts the lowest valuation between cost and NRV **[1]**.  By using this valuation method, the business is faithfully representing the value of the inventory **[1]**. It represents the real-world economic event of the inventory, that the NRV must be adopted to acknowledge the inventory is no longer worth the same value to the business due to obsolescence, damage, etc **[1]**. |

**Question 4 (22 marks)**

1. 10 marks

**BDF Trading**

**Budgeted Cash Flow Statement (extract) for the year ended 31 December 2020**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **$** | **$** |  |
| **Cash Flow from Operating Activities** |  |  |  |
| Cash Sales | 526 400 |  | **[1]** |
| GST Received | 52 640 |  |
| Receipts from Accounts Receivable\* | 406 340 **[1]** | 985 300 |  |
| Inventory purchases\* | (183 780) |  | **[1]** |
| Payments to Accounts Payable\* | (461 302) |  | **[1]** |
| Customs Duty | (24 150) |  | **[1]** |
| Wages | (109 200) |  | **[1]** |
| Prepaid Advertising | (24 000) |  | **[1]** |
| Prepaid Insurance Expense | (21 000) |  | **[1]** |
| Administrative Expenses | (55 200) |  | **[1]** |
| Interest Paid | (10 000) |  | **[1]** |
| GST Paid | (32 013) **[1]** | 920 645 |  |
| **Net Cash Flows from Operations** |  | **64 735** | **Deduct 1 mark if total not provided** |

|  |
| --- |
| **Workings:**  **GST Paid =** 18 378+2 415+2 100+2 400+5 520 + 1 200(Equipment) = 32 013  **Receipts from Accounts Receivable** = 32,200+382,000+38,200-11,460-6,600-28,000 = 406,340  **Payments to Accounts Payable** = 38,600 + 428,820 + 42,882 – 4,400 – 8,000 – 36,600 = 461,302  **Cash purchases of inventory**  = 612,600 x .3 = 183,780  **GST Paid** = 18,378 + 2,415 + 2,100 + 2,400 + 5,520 + 1,200 = 32,013 |

b. 7 marks

**BDF Trading**

**Budgeted Income Statement for the year ended 31 December 2020**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **$** | **$** |  |
| **Revenue** |  |  |  |
| Cash Sales | 526 400 |  | **[1]** |
| Credit Sales | 382 000 | 908 400 |
| Less Sales Returns |  | (6 000) | **[1]** |
| **Net Sales** |  | 902 400 |  |
| **Less Cost of Goods Sold** |  |  |  |
| Cost of Sales | 601 600 |  | **[1]** |
| Add Customs Duty | 24 150 | 625 750 | **[1]** |
| **Gross Profit** |  | 276 650 |  |
| Less Inventory Write Down |  | 6 000 | **[1]** |
| **Adjusted Gross Profit** |  | 270 650 |  |
| **Add Other Revenue** |  |  |  |
| Discount Revenue |  | 8 000 | **[1]** |
|  |  | **$278 650** | **Award 1 mark for all headings, sub-totals and totals of report** |

c. 5 marks

|  |
| --- |
| **Evaluation** |
| In preparing annual budgets the business has the information contained in a budget on a yearly basis, which means the business would only have prepared 5 budgets so far. The problem is a lot can happen in a year, and this does not provide timely information so that the right decisions can be made about the business. A year is too long to allow the business owner to identify a problem and rectify it.  When budgets are prepared more frequently, the owner can identify problems earlier and make appropriate changes in a more timely manner. The owner would also have information regarding seasonal trends, changes in tastes and the impact this has on sales and trends.  However, preparing budgetes more frequently can take time away from actually operating the business.  Budgets alone do not provide sufficient information. Using Variance Reports allows the owner to determine how well the business is performing in relation to its budgets. Whether the owner and managers can stick to the budget, whether the budgeting process is accurate. These reports also allow the owner to establish trends in sales to guide future the preparation of future budgets. |

*Response is to be marked globally*

*Responses should refer to:*

* *Difficulty in preparing annual budgets*
* *Possibility of unpredictable events and/or changes*
* *Advantages of shorter budgeting periods*
* *Other aspects to the budgeting process that improve budgets*

Question 5 (7 marks)

a. 2 marks

**AutoWorld**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date**  **2019** | **Details** | **Debit** | **Credit** |  |
| Sept 1 | Bank | 3 960 |  | **[1]** |
|  | Unearned Rent Revenue |  | 3 600 | **[1]** |
|  | GST Clearing |  | 360 |

b. 2 marks

**AutoWorld**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date**  **2019** | **Details** | **Debit** | **Credit** |  |
| Dec 31 | Accrued Rent Revenue | 1 200 |  | **[1]** |
|  | Rent Revenue |  | 1 200 | **[1]** |

c. 3 marks

**Rent Revenue**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| Dec 31 | Profit and Loss Summary | 6 800 | Dec 31 | Unearned Rent Revenue | 5 600 |
|  |  |  |  | Accrued Rent Revenue | 1 200 |
|  |  | **6 800** |  |  | **6 800** |

*Award 1 mark for each entry in account*

**Question 6 (13 marks)**

a. 6 marks

|  |
| --- |
| **Discussion** |
| The business has outperformed the budgeted figures. This is a positive outcome for the business and represents the revenues earned were greater than expenses incurred. However, the Cash Flow information provides a different picture. Profit is not an indication of cash on hand.  The Net Cash Flows from Operating is negative. This shows that the business was unable to generate cash from day-to-day activities. This maybe a result of cash outlays on expenses including prepaid expenses, inventory purchases and GST payments being greater than cash receipts. The business maybe generating credit sales that are yet to be converted to cash. All of these possibilities have resulted in negative operating cash situation, while the business has made a profit.  As the business is new, there has been significant asset purchases that have been financed by financing activities. The positive net cash flows from financing activities is through the receipt of loans and capital contributions. This has exceeded the purchase of non-current assets and allowed the business to have some cash in the bank. However, it does not indicate the business is in a good cash position. It needs to generate cash through operations, as the loans will require future repayments including interest expense. |

*Mark responses globally.*

*Responses should reference:*

* *Comparison with budgeted figures*
* *Profit and cash are different and information shows two different results*
* *Explanation of differences between cash and profit*
* *Relevant examples*

1. 4 marks

|  |
| --- |
| **Explanation** |
| The state of the economy provides Adele with information regarding the current economic environment and if consumers are willing and able to spend **[1]**. This provides the owner with information helping the owner predict future sales and inventory levels required to meet them **[1]**. |
| The firm’s relationship with its customers is important information to help assess sales levels **[1]**. The number of repeat customers, the advice they are given from employees, along with customer complaints and sales returns, not only helps with predicting sales levels, but also inventory suitability and quality **[1]**. |

c. 3 marks

|  |
| --- |
| **Explanation** |
| Budgets are estimates for the future based on past results and estimated changes to business activity **[1]**. As the business has only been operating for 7 months it would have been difficult for Adele to accurately prepare a budget given she had no past results to base her estimates on **[1]**.  Unpredictable events would also have had an impact on her estimates and so there is a chance the budget would have been inaccurate **[1]**.  Finally, seven months is a long budget period and many things can change which Adele would not have catered for. |

**Question 7 (14 marks)**

a. 4 marks

|  |  |  |
| --- | --- | --- |
| **Calculation** | $46 000 **[1] +** 4 000 **[1]** |  |
|  | **Cost Price of Van** | $50 000 |
| **Explanation** | | |
| The price of the van includes all costs associated in getting the asset into a condition ready to earn revenue **[1]**. Therefore it includes the shelving and signage that are required to have the asset in a suitable working condition **[1]**. | | |

b. 4 marks

**Kats Karpets**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date**  **2019** | **Details** | **Debit** | **Credit** |  |
| May 1 | Van | 50 000 |  | **[1]** |
|  | Prepaid Service Agreement | 2 000 |  |
|  | GST Clearing | 5 200 |  | **[1]** |
|  | Bank |  | 12 000 | **[1]** |
|  | Loan – Bank East |  | 45 200 | **[1]** |

c. 6 marks

|  |
| --- |
| **Discussion** |
| Non-Current assets should be depreciated based on their revenue earning pattern.  The straight-line method of depreciation allocates the same amount of depreciation for each period of time. This would be an appropriate method of depreciation for assets that are used the same way each period. Provided the van is used in the same manner for each year, this method would be suitable.  However, if the use of the van changes, and is used more in the early years and less as it ages, the reducing balance method would be more appropriate. This is because the reducing balance method allocates more depreciation expense in the earlier years and less as the asset gets older. This is due to the wear and tear that takes place on the asset and the likelihood that it will breakdown as it gets older. This method would faithfully represent the use of the asset to earn revenue.  In changing depreciation methods to the reducing balance method, the business may calculate a more accurate profit by matching the revenue earned by the asset with the expense incurred. (Accrual Accounting Assumption)  However, the change in depreciation methods does not follow the comparability qualitative characteristic. The change would distort figures and make the comparison between periods difficult to make if accounting methods are changing. |

*Response is to be marked globally*

*Response should refer to:*

* *Pattern of use*
* *Each methods allocation pattern*
* *Reference to a qualitative characteristic*
* *Reference to an accounting assumption*

**Question 8 (10 marks)**

a. 8 marks

**Book Emporium**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date**  **2019** | **Details** | **Debit** | **Credit** |  |
| Jan 20 | Accounts Receivable – Gateway College | 5 500 |  | **[1]** |
|  | Sales |  | 5 000 | **[1]** |
|  | GST Clearing |  | 500 |
|  | Cost of Sales | 2 600 |  | **[1]** |
|  | Inventory |  | 2 600 | **[1]** |
| Jan 23 | Sales Returns | 340 |  | **[1]** |
|  | GST Clearing | 34 |  | **[1]** |
|  | Accounts Receivable – Gateway College |  | 374 | **[1]** |
|  | Inventory | 170 |  | **[1]** |
|  | Cost of Sales |  | 170 |

b. 2 marks

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Inventory Item: College Diaries**  **Cost Assignment Method: Identified Cost** | | | | | | | | | | |
| **Date**  **2019** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| Jan 20 | Balance |  |  |  |  |  |  | 409  250 | 5  6 | 3 545 |
| 20 | Inv M372 |  |  |  | 400  100 | 5  6 | 2 600 | 9  150 | 5  6 | 945 |
| 23 | CN J12 | 34 | 5 | 170 |  |  |  | 43  150 | 5  6 | 1 115 |

*Award 1 mark per line of Inventory card as shown*