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

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

PES

# 2019 Practice Examination 1

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

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

**Materials supplied**

* Question book of 10 pages.
* Answer book of 17 pages.

**Instructions**

* Answer all questions in the answer book.
* All written responses must be in English.

S

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

Question 1 (10 marks)

On 1 April 2019 Nick Fernando decided to open his own business – Nick Of Time, selling watches. Prior to the opening of his store, Nick undertook the following transactions:

* Nick contributed $20,000 of his own money
* Nick borrowed $55,000 from Bank of Tasman. This loan is repayable quarterly at $6,000 per quarter plus $2,000 interest.
* Nick contributed his personal laptop, which he purchased for $1430 (GST inclusive) on 15 January 2017. It has a current value of $800.
* Nick also contributed his own Vehicle which he purchased for $38,000 in 2015. It has an agreed value of $20,000
* Nick arranged for the business to take over the personal loan he took out from Loan Legends to purchase the vehicle. The current balance of that loan is $9,000 with the loan being repaid at a rate of $300 per month plus $80 interest.
* Nick purchased inventory with a cost price of $60,000 (plus GST) on credit from Watch Importers
* Shop Fittings were purchased for $35,000 plus GST using cash
* The Shop Fittings were needed as Nick has rented business premises at a cost of $2400 plus GST every month. Rent for the first quarter has been paid.

1. Prepare the fully classified Balance Sheet as at 1 April 2019.

6 marks

1. Define Owner’s Equity and with reference to an accounting assumption explain why a Balance Sheet contains an Owner’s Equity section.

4 marks

**Question 2 (12 marks)**

The following information was drawn from the records of Morrison Motorsports for the year ended 30 June 2019:

|  |  |  |  |
| --- | --- | --- | --- |
|  | $ |  | $ |
| Cash Sales | 351 000 | Drawings – Cash | 37 000 |
| Credit Sales | 125 000 | Drawings – Inventory | 3 600 |
| Sales Returns | 5 500 | Cost of Sales | 235 250 |
| Import Duties | 12 300 | Capital Contribution – Cash | 10 000 |
| Discount Expense | 7 600 | Capital Contribution – Equipment | 5 000 |
| Discount Revenue | 5 400 | Loss on Disposal Equipment | 900 |
| Other Cash Expenses | 147 800 | Depreciation – Equipment | 8 000 |
| Inventory Loss | 6 700 |  |  |

1. Prepare the General Journal entry necessary to close the revenue accounts at 30 June 2019.

[A narration is not required].

2 marks

1. Using the information above, complete the Profit and Loss Summary and the Capital General Ledger accounts at 30 June 2019.

2 + 5 = 7 marks

1. Explain with reference to an accounting assumption why it is necessary to close revenue accounts.

3 marks

**Question 3 (12 marks)**

Phoebe Williams owns and operates Bike Haven, a small business selling exercise bikes.

Inventory cards and a physical stocktake reveal the following information regarding her inventory at 31 March 2019:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Quantity on Inventory Card** | **Quantity from Physical stocktake** | **Cost**  **$** | **Total**  **$** | **Selling Price**  **$** | **Total**  **$** |
| Excel Express bike | 30 | 30 | 150 | 4 500 | 300 | 9 000 |
| Excel Elite bike | 3 | 3 | 195 | 585 | 150 | 450 |
| 22 | 22 | 200 | 4 400 | 400 | 8 800 |
| Extender Essential bike | 20 | 19 | 300 | 5 700 | 600 | 11 400 |
| Deluxe Emperor bike | 30 | 30 | 450 | 13 500 | 1000 | 30 000 |
| Bike helmets | 100 | 100 | 50 | 5 000 | 100 | 10 000 |
|  |  |  |  | **33 685** |  | **69 650** |

Phoebe is looking to expand her business and is about to apply for a mortgage to buy a shop near her current business location, which she is currently renting. The bank has asked for a copy of her most recent Balance Sheet so they can see the financial position of the business.

Phoebe is drafting her Balance Sheet and is hoping to use $69 650 as the value she will report for her inventory.

1. Analyse the ethical implication of Phoebe’s planned valuation of her inventory.

4 marks

1. Record the General Journal entries required by the information provided

[Narrations are not required].

2 + 2 = 4 marks

1. Explain what is meant by the lower of cost and net realisable value principle and, with reference to a qualitative characteristic, explain why it is important for a business to adopt this principle.

4 marks

Question 4 (22 marks)

BDF Trading is a small business that has been operating for 5 years. The owner provided the following information:

**BDF Trading**

**Cash Flow Statement for the year ended 31 December 2019**

|  |  |  |
| --- | --- | --- |
| **Cash Flow from Operating Activities** | **$** | **$** |
| Cash Sales | 470 000 |  |
| GST Received | 47 000 |  |
| Receipts from Accounts Receivable | 358 400 | **875 400** |
| Payments to Accounts Payable | (312 600) |  |
| GST Paid | (31 400) |  |
| Wages | (104 000) |  |
| GST Settlement | (8 500) |  |
| Customs Duty | (23 000) |  |
| Purchases of Inventory | (135 000) |  |
| Prepaid Insurance Expense | (18 000) |  |
| Rent Expense | (36 000) |  |
| Vehicle Expenses | (26 000) |  |
| Interest Expense | (8 000) |  |
| Administration Expenses | (46 000) | **748 500** |
| **NET CASH FROM OPERATING ACTIVITIES** |  | **126 900** |

For the next reporting period ending 31 December 2020 the accountant expects the following to occur:

* Cash sales expected to increase by 12%
* Credit sales to be $382,000. Inventory is sold at a mark-up of 50% on cost
* Inventory purchased is expected to cost $612,600 with 30% purchased for cash and the remainder purchased on credit.

**QUESTION 4 continued**

* Accounts Receivable at 31 December 2019 were $32,200. It is normal business practice for:
* Discount expense to be 3% of credit sales excluding GST
* Sales Returns will be $6,000
* The owner would like to reduce the amount owing by accounts receivable at 31 December 2020 to $28,000.
* Customs Duty is expected to increase by 5%
* Accounts Payable at 31 December 2019 were $38,600. The owner would like to reduce the balance of accounts payable by $2,000 per year for the next 6 years to get better control of the businesses debts. It is expected that discounts received will total $8,000 and all inventory returned to the business is returned to the supplier for a full credit.
* The owner would like to reduce the amount of inventory held by $10,000. Inventory at 31 December 2019 was $58,000. It is normal business practice for the owner to donate inventory to the value of $5,000 to local clubs and schools, and to write down slow moving lines of inventory to the value of $6,000 each year.
* Wages paid is expected to increase by 5%.
* Prepaid Insurance Expense is expected to increase by $3,000.
* The business is planning on conducting an advertising campaign to boost sales. It will commence in March 2020 and run for 6 months at a cost of $4,000 per month
* Administration expenses are expected to increase 20%.
* Interest Expense to increase to $10,000
* Depreciation – Motor Vehicle is expected to total $8,500 and Depreciation – Equipment to be $7,400
* Loan repayments will remain at $2,000 per month
* Drawings are expected to be – Cash $100,000 and Inventory $6,000
* Equipment with a cost of $12,000 is expected to be purchased during the year. This will replace some old equipment which will be sold for $300 cash and result in a loss on disposal of $900.

1. Prepare a budgeted Cash Flow Statement to show Net Cash Flow from Operating Activities

10 marks

1. Prepare an extract of a budgeted Income Statement for the year ended 31 December 2020 up to and including Other Revenue.

7 marks

1. *Annual budgets by themselves do little to aid decision-making. A business needs more frequent budgets and better analysis of the information provided.*

Evaluate this statement.

5 marks

Question 5 (7 marks)

Nick Stephens has been operating Autoworld for 5 years. He owns the premises and recently signed a contract with another business – GT Finance - to lease out the upper floor of the building.

The agreement stated GT Finance would pay Nick $1,000 per month plus GST three months in advance.

After 6 months Nick re-negotiated the contract increasing rent to $1,200 per month plus GST. The business paid the rent for the next quarter on 1 September 2019.

The instalment due on 1 December was not made, with the tenant requesting they be allowed to pay the amount due in February 2020.

Autoworld prepares reports every 6 months on 30 June and 31 December each year.

* + - * 1. Record the receipt of Rent Revenue on 1 September 2019 in the General Journal.

[A narration is not required].

2 marks

* + - * 1. Prepare the General Journal entry required on 31 December 2019.

[A narration is not required].

2 marks

1. Show how the Rent Revenue ledger account would appear for the 6 months ended 31 December 2019 after all relevant entries had been posted and the account closed.

3 marks

**Question 6 (13 marks)**

The following information was prepared by the accountant of Delaney’s Auto Parts:

Adele Delaney, the owner, is pleased with the results achieved during her first seven months of operating her business. Her net profit for the period was $17 500 which was $3 200 more than she budgeted for when she developed her business plan.

* + - * 1. Discuss Adele’s statement as to the success of her business. In your response, refer to the difference between cash and profit.

6 marks

* + - * 1. Explain two non-financial indicators Adele could use to provide additional information as to the success of her business.

4 marks

* + - * 1. Explain why Adele’s budgeted net profit figures did not match her actual profit figures.

3 marks

**Question 7 (14 marks)**

On 1 May 2019 Katrina Edisale purchased a second Van for her business – Kat’s Karpets. The Van cost $46 000 plus GST and Katrina paid $4 000 plus GST to have the Van fitted with shelves and signwritten with the business name and details on the side. Katrina paid an additional $2 000 for a 2 year service agreement for the Van.

Katrina paid a $12 000 deposit on the Van and took out a business loan from Bank East for the balance.

Calculate the historical cost of the Van to be reported in the Balance |Sheet of the business and explain your valuation.

4 marks

Record the transaction above in the General Journal of the business.

[Narrations are not required].

4 marks

Katrina depreciates all her Non-Currents Assets using the straight-line method of depreciation. Her accountant has advised her that with the purchase of the new Van she should take the opportunity to change her depreciation method on this new Van (and her current Van)

Katrina commented that she thought there was some law against doing this.

Discuss the comments above, referring to any appropriate qualitative characteristics and accounting assumptions.

6 marks

**Question 8 (10 marks)**

Book Emporium sells custom made diaries to schools. On 20 January 2019 the business raised Invoice M372 to record the sale of 500 school diaries to Gateway College at $10 each plus GST. The diaries were sold for $10 each plus GST. The diaries sold included 400, which had a cost price of $5 and the remainder, which had a cost price of $6.

On 23 January 2019 the owner of Book Emporium presented the accountant with the following document:

**Book Emporium Date:** 23/01/2019

Gateway Plaza

Jaloor, 3998 **Credit Note:** J12

**Credit to:** Gateway College

Parker Drive

Gladstone

**Item Qty Sale Price GST Total**

College Diaries 34 $10 $1 $374

**Total $374**

**Details:** Return of inventory sold [Inv M372]

Note: Cost price of inventory returned - $5 per unit plus GST

1. Record the transactions above into the General Journal of Book Emporium

[Narrations are not required].

8 marks

1. Record the information contained above into the Inventory Card.

2 marks

**END OF QUESTION BOOK**