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

**ACCOUNTING  
  
Units 3 & 4 – Written examination 2**

PES

# 2019 Practice Examination

## 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* |
| 7 | 7 | 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 11 pages.
* Answer book of 21 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** (17 marks)

The following information relates to Bundle of Joy – a small business selling baby clothes, furniture and accessories.

|  |  |  |  |
| --- | --- | --- | --- |
| **Grandmaster Sleep**  Date: 18/02/19 Invoice: GF04 | | | |
| Charge to: Bundle of Joy | | | |
| **Item** | **Qty** | **Unit Cost** | **$** |
| ‘Princess’ Bed Frame 15 $250 $3 750    ‘Fiona’ Bed Frame 15 $400 $6 000  $9 750  Mattresses 30 $80 $2 400  Mattress Protector / Plain Sheet 30 $15 $ 450  Cartage $ 460  $3 310  Plus: GST $ 1 306  Total Owing: $14 366  Terms 2/7, n/45 | | | |

1. Using product costing, calculate the cost price of one ‘Princess’ bedding set.

2 marks

1. In calculating the cost of the ‘Princess’ bedding set, explain your treatment of the

* cost of the mattress
* GST charged by Grandmaster Sleep

2 + 2 = 4 marks

**QUESTION 1** continued

At 19 February 2019 the Inventory Card for the Fiona bedding set contained the following information:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Stock Item: Fiona bedding set Supplier: Grandmaster Sleep**  **Location: Scoresby Cost Assignment Method: Identified Cost** | | | | | | | | | | |
| **Date**  **2019** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| 01/02 | Balance |  |  |  |  |  |  | 9 | 490 | 4 410 |
| 09/02 | Rec.842 |  |  |  | 3 | 490 | 1 470 | 6 | 490 | 2 940 |
| 18/02 | Inv.GF04 | 15 | 495 | 7 425 |  |  |  | 6  15 | 490  495 | 10 365 |

On 21 February 2019 the business sold two units of the ‘Fiona’ bedding set. The owner determined that these units were sourced from the purchase on 18 February 2019. The inventory was sold for $1,000 each plus GST for cash [Rec. 319].

1. Record the sale of inventory into the General Journal [A narration is required].

4 marks

1. Record the sale of inventory into the Inventory card.

1 mark

1. Explain the effect on profit if the business had used the First In, First Out cost assignment method to record inventory movements.

3 marks

1. Explain, with reference to a qualitative characteristic, the role of documents in the recording process.

3 marks

**Question 2 (20 marks)**

Adele Simpson owns and operates Simpson Traders – a small business selling household furniture. On 31 March 2019 the business purchased a new vehicle to deal with growing customer demand.

Details of the purchase were:

* Invoice price $44 000 plus GST
* Signwriting costing $1 100 including GST was paid for to add the business name and details to the vehicle.
* Annual registration and insurance costing $1 080 plus GST was paid.

The business paid an $8 000 deposit on the vehicle (Chq. 8741) and paid the registration and insurance in full (Chq. 8742).

A loan was taken out from Natwest Loans to pay the balance of the cost of the vehicle. The loan is repayable at a rate of $1 000 per month plus $100 interest, with the first payment required on 1 April 2019.

1. Record the transactions relating to the purchase of the vehicle into the General Journal [Narrations are not required].

5 marks

1. Record the first payment to Natwest Loans on 1 April 2019 into the General Journal

[Narrations are not required].

3 marks

The business prepares reports annually on 30 June each year and depreciates vehicles at a rate of 22% pa using the reducing balance method.

1. Record the adjustments necessary at 30 June 2019 in the General Journal

[Narrations are not required]

4 marks

Adele’s accountant depreciates all other non-current assets using the straight-line method. Adele believes it would be easier to use the same method for all non-current assets as it would comply with the qualitative characteristic of comparability.

1. Explain to Adele if she is correct.

3 marks

Overhearing this conversation, Adele’s friend stated that it didn’t matter which method was used as over the life of the asset depreciation expensed will be the same.

1. Discuss this statement indicating if you agree or disagree.

5 marks

**Question 3 (15 marks)**

The following information relating to the accounts receivable of Hansen’s Hobbies was available:

**Hansen’s Hobbies**

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

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **Current Assets** |  |  |
| Accounts Receivable | 32 000 |  |
| Less: Allowance for Doubtful Debts | (960) | 31 040 |

Information for the year ended 31 December 2019:

Credit Sales $428 000 plus GST

Sales Returns $13 400 plus GST

Receipts from Accounts Receivable $445 660

Discount Expense $5 520

Bad Debts $800

Allowance for doubtful debts to be 3% of the balance of Accounts Receivable at the end of the period

Credit terms 1/7,n30

**QUESTION 3** continued

1. Prepare the General Journal entry required to record the bad debts written off for the period [Narration is not required].

2 marks

1. Post the relevant information to the Accounts Receivable General Ledger account and complete the account.

6 marks

1. Calculate the allowance for doubtful debts to be reported at 31 December 2019 and complete the necessary Balance Sheet extract at 31 December 2019.

2 marks

1. Referring to the data provided, assess the performance of the business in managing its accounts receivable and provide one strategy the business could implement to improve management of this asset.

5 marks

**Question 4 (14 marks)**

Jason Cappocardo owns and operates Cappo’s Coffee Machines, a small business selling coffee machines and accessories to households and businesses. Credit is offered to businesses but all sales to households are on a cash basis.

A summary of transactions for the month ended 31 March 2019 was extracted from the General Journal and is shown below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **$** | **Item** | **$** |
| Cash sales | 16 700 | Cash purchases of inventory | 6 000 |
| Credit sales | 4 200 | Credit purchases of inventory | 5 400 |
| GST settlement | 800 | Equipment purchases | 12 600 |
| Advertising | 550 | Interest Received | 50 |
| Payments to accounts payable | 5 200 | Prepaid Rent Expense | 6 000 |
| Wages | 4 900 | Discount Revenue | 150 |
| Accrued Wages | 470 | Discount Expense | 90 |
| Capital contribution | 8 000 | Receipts from accounts receivable | 3 980 |
| Loan repayment | 900 | Loan – GC Bank | 6 000 |
| Interest paid | 150 | Inventory Loss | 420 |
| Sales Returns | 320 | Freight In | 400 |

**Note:** Amounts shown do not include GST

**Note:** Amounts relating to Accounts Payable and Accounts Receivable have been adjusted for discounts

**Note:** Inventory is sold at a mark-up of 100% and all inventory returned by customers is returned to the supplier.

**a.** Showhow GST Clearing General Ledger account would appear after all information had been posted for the month ended 31 March 2019

You **are** required to balance the account.

6 marks

**b.** Complete the Cash Flows from Operating Activities section of the Cash Flow Statement for the month ended 31 March 2019.

6 marks

**c.** Explain what is meant by Net Cash Flows from Financing Activities.

2 marks

**Question 5** (19 marks)

Olivia Free owns and operates You Hear – a small business selling hearing aids and other health care items. At 31 March 2019 the following extract from the Income Statement was prepared:

**You Hear**

**Extract from Income Statement for quarter ended 31 March 2019**

**Revenue**

Cash Sales 10 000

Credit Sales 18 000

28 000

***Less*** Sales Returns 900 27 100

***Less* Cost of Goods Sold**

Cost of Sales 13 500

Import Duties 1 800

15 300

**Gross Profit** 11 800

***Less*** Inventory Loss 100

***less*** Inventory Write-down 200

300

**Adjusted Gross Profit** 11 500

The following information for the next quarter has been provided:

* Total Sales are expected to increase by 10%. $10 000 of total sales will be on credit.
* Goods are sold at a 100% mark-up
* Credit sales only involved imported inventory. This inventory attracts Import Duties of 10% paid on the cost price of this inventory.
* Sales Returns are budgeted to be 5% of credit sales exclusive of GST.
* All Sales Returns are expected to be returned to the supplier
* Inventory Loss is expected to be 1% of net sales
* Drawings of inventory to be $300
* Inventory Write Down expected to remain unchanged
* The balance of inventory at 30 June 2019 is expected to be $39 500
* All purchases of inventory are on credit

**a.** Reconstructthe Inventory Ledger account to determine the expected credit purchases of inventory for the budgeted period.

6 marks

**b.** Preparean extract of the Budgeted Income Statement for the quarter ended 30 June 2019 to determine Adjusted Gross Profit.

5 marks

**QUESTION 5** continued

At 30 June 2019 Olivia compared her actual Income Statement with the budgeted figures prepared earlier. Selected information is provided in the table below:

|  |  |
| --- | --- |
| **Item** | **Actual $** |
| Cash Sales | $22 000 |
| Sales Returns | $400 |
| Inventory Write-down | $350 |

**c.** Using the information provided in the table and the information contained in the budgeted Income Statement, prepare the extract of the Variance Report for the quarter ended 30 June 2019.

3 marks

**d.** Explain why it is important for a business to complete a Variance report.

3 marks

1. Provide one reason to explain the variance in Inventory Write-down.

2 marks

**Question 6 (10 marks)**

Jordan Skidmore owns and operates a small business that makes custom furniture. The business commenced 8 years ago making furniture for friends and family but the business has grown considerably in the last two years following a newspaper article which lead to the creation of a Facebook page and other social media promotions.

Jordan operates out of a large shed on his small farm located just outside Melbourne. He employs two apprentices but he is struggling to keep up with demand. All sales are on credit with customers required to pay a 30% deposit prior to Jordan commencing work. Despite this, he has suffered from an increase in bad debts recently and has commenced legal action against one of his largest customers whose $7 000 account is currently 120 days overdue.

Jordan is applying for a loan from the bank to facilitate the purchase of additional equipment, a long-term lease on a factory closer to Melbourne and the employment of two full-time employees and a third apprentice. The bank has asked for a copy of the businesses financial reports and Jordan is concerned that his financial data may not be positive enough for him to gain the loan he is seeking.

He is considering making the following adjustments to his reports:

* Removing the Allowance for Doubtful Debts of $3 000 from his Balance Sheet
* Including the value of his house as well as his shed in the Balance Sheet
* Including all current deposits as revenue in his Income Statement.

1. Discuss the ethical considerations involved in making these changes to the financial reports

6 marks

1. Explain how deposits from customers should be reported in the financial reports of the business.

4 marks

**Question 7 (5 marks)**

Angelique Crawshaw owns and operates a small business selling baby clothes, nursery furniture and accessories. She commenced operations in October 2017 and provides the following information for the year ended 31 December 2019:

Angelique is unhappy with her results and asks for your advice.

Evaluate the performance of the business with specific reference to the indicators shown in the graph and provide advice to Angelique as to how to improve performance.

**END OF QUESTION BOOK**