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

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

PES

# 2019 Practice Examination 3

**SOLUTION**

**Question 1 (16 marks)**

1. 8 marks

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Inventory Item: Speedy Fix**  **Location: Upper Floor Cost Assignment Method: FIFO** | | | | | | | | | | |
| **Date**  **2019** | **Details** | **IN** | | | **OUT** | | | **BALANCE** | | |
| **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** | **Qty** | **Cost** | **Total** |
| Jun 22 | Balance |  |  |  |  |  |  | 15  40 | 40  42 | 2 280 |
| 23 | Invoice SD21 | 80 | 45 | 3 600 |  |  |  | 15  40  80 | 40  42  45 | 5 880 |
| 24 | Invoice TB521 |  |  |  | 15  11 | 40  42 | 600  462 | 29  80 | 42  45 | 4 818 |
| 26 | Credit Note B09 | 2 | 42 | 84 |  |  |  | 31  80 | 42  45 | 4 902 |
| 28 | Invoice TB530 |  |  |  | 20 | 42 | 840 | 11  80 | 42  45 | 4 062 |
| 29 | Credit Note JJ32 |  |  |  | 5 | 42 | 210 | 6  80 | 42  45 | 3 852 |
| 30 | Invoice  SD21 | 100 | 43 | 4 300 |  |  |  | 6  80  100 | 42  45  43 | 8 152 |
|  | Memo 20 |  |  |  | 2 | 42 | 84 | 4  80  100 | 42  45  43 | 8 068 |
|  | Memo 21 |  |  |  | 2 | 42 | 84 | 2  80  100 | 42  45  43 | 7 984 |

*Award 1 mark for each line of Inventory Card as shown*

*Award marks consequentially if errors made*

b. 5 marks

**Teri’s Byts**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| June 27 | Inventory | 600 |  | **[1]** |
|  | GST Clearing | 60 |  |
|  | Bank |  | 660 | **[1]** |
| June 30 | Drawings | 84 |  | **[1]** |
|  | Inventory |  | 84 | **[1]** |
|  | Inventory Loss | 84 |  | **[1]** |
|  | Inventory |  | 84 |

c. 2 marks

|  |
| --- |
| **Explanation** |
| The First In First Out method assigns cost price to inventory based on the assumption **[1]** that the first inventory purchased by the business (coming in) is the first inventory to be sold, lost, withdrawn (going out) **[1]**. |

d. 1 mark

|  |
| --- |
| **Reason** |
| Theft/Recording error in the inventory cards/Error in the physical count **[1]** |

**Question 2 (19 marks)**

a. 5 marks

**White Water World**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| July 7 | Accrued Commission Expense | 4 600 |  | **[1]** |
|  | Bank |  | 4 600 | **[1]** |
|  | Commission Expense | 5 300 |  | **[1]** |
|  | Accrued Commission Expense |  | 5 300 | **[1]** |
| Sept 30 | Wages | 1 900 |  | **[1]** |
|  | Accrued Wages |  | 1 900 |

b. 2 + 2 + 3 = 7 marks

**Wages**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| **Jul 31** | **Bank** | **7 300** | Sep 30 | Profit and Loss Summary | 22 800 |
| **Aug 31** | **Bank** | **7 700** |  |  |  |
| **Sep 30** | **Bank** | **5 900** |  |  |  |
|  | Accrued Wages | 1 900 |  |  |  |
|  |  | **22 800** |  |  | **22 800** |
|  |  |  |  |  |  |

*Award 1 mark for each entry in the account*

*Deduct 1 mark if both sides of account are not totalled*

**Commission Expense**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| Sep 30 | Accrued Commission Expense | 5 300 | Sep 30 | Profit and Loss Summary | 5 300 |
|  |  | **5 300** |  |  | **5 300** |

*Award 1 mark for each entry in the account*

*Deduct 1 mark if both sides of account are not totalled*

**Accrued Commission Expense**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| July 7 | Bank | 4 600 | **July 1** | **Balance** | **4 600** |
| Sep 30 | Balance | 5 300 | Sep 30 | Commission Expense | 5 300 |
|  |  | **9 900** |  |  | **9 900** |
|  |  |  | Oct 1 | Balance | 5 300 |

*Award 1 mark for each entry in the account*

*Deduct 1 mark if both sides of account are not totalled*

c. 4 marks

**White Water World**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| Oct 7 | Accrued Commission Expense | 5 300 |  | **[1]** |
|  | Bank |  | 5 300 | **[1]** |
|  | Accrued Wages | 1 900 |  | **[1]** |
|  | Wages | 1 300 |  |
|  | Bank |  | 3 200 | **[1]** |

d. 3 marks

|  |
| --- |
| **Explanation** |
| Accrued Commission expense is reported as a Current Liability in the Balance Sheet of the business **[1]** as it is a present obligation of the entity to transfer an economic resource as a result of past events – in this case, a payment will be made to employees **[1]** within the next reporting period **[1]**. |

**Question 3 (6 marks)**

a. 2 marks

|  |
| --- |
| **Explanation** |
| A business may choose to buy inventory from overseas as the inventory may be cheaper **[1]**, therefore reducing the cost of sale and increasing the profit of the business **[1]**.  **Other reasons exist such as better quality inventory** |

b. 4 marks

|  |
| --- |
| **Discussion** |
| Buying inventory from overseas is often a financial consideration – the lower costs can allow the business to reduce their selling price so they can compete with other businesses in the industry **[1]**. However, in buying from overseas local suppliers may lose business and hence profits **[1]**. The result may then be an increase in unemployment in the local area as suppliers can’t afford the same level of staffing as sales for them have decreased **[1]**. It is considered ethical to source inventory locally as local jobs and incomes are protected and our economy benefits **[1]**. |

**Question 4 (11 marks)**

a. 4 marks

**Carpet Universe**

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| June 30 | Customs Duty | 300 |  | **[1]** |
|  | GST Clearing | 30 |  |
|  | Drawings |  | 330 | **[1]** |
|  | Advertising | 1 200 |  | **[1]** |
|  | Inventory |  | 1 200 | **[1]** |

b. 5 marks

**Carpet Universe**

**Income Statement (extract) for the year ended 30 June 2019**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **$** | **$** |  |
| **Revenue** |  |  |  |
| Cash Sales | 9 300 |  | **[1]** |
| Credit Sales | 21 500 | 30 800 |
| Less Sales Returns |  | 4 200 | **[1]** |
| **Net Sales** |  | **26 600** |  |
| **Less Cost of Goods Sold** |  |  |  |
| Cost of Sales | 10 220 |  | **[1]** |
| Customs Duty | 3 500 | 13 720 |
| **Gross Profit** |  | **12 880** |  |
| **Add Other Revenue** |  |  |  |
| Discount Revenue | 140 | 13 020 | **[1]** |

*Award 5th mark for all headings and sub-totals correctly provide*

c. 2 marks

|  |
| --- |
| **Explanation** |
| A Trial Balance is a list of all general ledger accounts and their balances which is prepared at the end of a period to determine if the debit entries equal the credit entries **[1]**. If they balance then the business can begin the process of report preparation, if not, the business must find and correct errors **[1]**. |

**Question 5 (23 marks)**

a. 4 + 6 = 10 marks

**Accounts Payable**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| Feb 28 | Bank | 22 500 | **Feb 1** | **Balance** | **21 560** |
|  | Discount Revenue | 2 500 | Feb 28 | Inventory/GST Clearing | 22 660 |
|  | Inventory/GST Clearing | 440 |  |  |  |
|  | Balance | 18 780 |  |  |  |
|  |  | **44 220** |  |  | **44 220** |
|  |  |  | Mar 1 | Balance | 8 780 |

*Award 1 mark to entry on credit side of account*

*Award 1 mark to Bank/Discount Revenue*

*Award 1 mark to Inventory/GST Clearing*

*Award 1 mark for completing the account as shown*

**GST Clearing**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2019** | **Cross-reference** | **Amount** | **Date**  **2019** | **Cross-reference** | **Amount** |
| Feb 28 | Bank | 4 870 | **Feb 1** | **Balance** | **2 300** |
|  | Accounts Receivable | 80 | Feb 28 | Accounts Receivable | 4 600 |
|  | Accounts Payable | 2 060 |  | Bank | 3 800 |
|  | Balance | 3 730 |  | Accounts Payable | 40 |
|  |  | **10 740** |  |  | **10 740** |
|  |  |  | Mar 1 | Balance | 3 730 |

*Award 1 mark for Bank on debit side of account*

*Award 1 mark for Accounts Receivable (debit side) /Accounts Payable (credit side)*

*Award 1 mark for all other entries (3 marks)*

*Award 1 mark for completing the account as shown*

b. 10 marks

**Jungle Jim**

**Cash Flow Statement for the month ended 28 February 2019**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **$** | **$** |  |
| **Cash Flow from Operating Activities** |  |  |  |
| Cash Sales | 38 000 |  | **[1[** |
| GST Received | 3 800 |  |
| Receipts From Accounts Receivable | 41 700 | 83 500 | **[1]** |
|  |  |  |
| Payments to Accounts Payable | (22 500) |  |
| Wages | (8 000) |  | **[1]** |
| Inventory purchases | (32 000) |  |
| GST Paid | (4 870) |  |
| Advertising | (2 000) |  | **[1]** |
| Prepaid Rent Expense | (9 000) |  |
| Office Expenses | (200) |  |
| Insurance | (1 200) |  | **[1]** |
| Interest on Loan | (500) |  |
| Customs Duty | (800) | (81 070) |
|  |  |  |  |
| **Net Cash Flows from Operations** |  | **2 430** |  |
| **Cash Flow from Investing Activities** |  |  |  |
| Proceeds Sale Equipment | 200 |  | **[1]** |
| Purchase of Equipment | (3 500) |  | **[1]** |
| **Net Cash Flows from Investing Activities** |  | **(3 300)** |  |
| **Cash Flow from Financing Activities** |  |  |  |
| Capital Contribution |  | 10 000 | **[1]** |
| Loan repayment | (2 000) |  | **[1]** |
| Drawings | (6 000) | (8 000) |
| **Net Cash Flows from Financing Activities** |  | **2 000** |  |
| **Net Increase / (Decrease) in Cash** |  | **1 130** | **[1]** |
| **Bank Balance at 1 February 2019** |  | **(6 320)** |
| **Bank Balance at 28 February 2019** |  | **(5 190)** |

*Deduct 1 mark if section totals are not included*

c. 3 marks

|  |
| --- |
| **Explanation** |
| Financial reports provide information to the owners of a business and other interested parties. This information needs to be able to be understood so it can be useful for future decision making **[1]**. Classifying reports makes it easier for parties with a non-accounting background to be able to understand the information in the report **[1]**.  This satisfies the qualitative characteristic of understandability **[1]**. |

Question 6 (14 marks)

a. 3 marks

|  |
| --- |
| **Explanation** |
| Deposits from customers should be reported as a Current Liability of the business **[1]** as they are deposits for inventory to be supplied at a future date so they represent a future outflow of economic benefit when the inventory is delivered **[1]** within the next 12 months **[1]**. |

b. 6 marks

**General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |  |
| Dec 19 | Bank | 2 000 |  | [1] |
|  | Unearned Revenue |  | 2 000 | [1] |
| Jan 7 | Unearned Revenue | 2 000 |  | [1] |
|  | Accounts Receivable – Atomic Dance Company | 7 130 |  | [1] |
|  | Sales |  | 8 300 | [1] |
|  | GST Clearing |  | 830 |
|  | Cost of Sales | 4 150 |  | [1] |
|  | Inventory |  | 4 150 |

c. 5 marks

|  |
| --- |
| **Analysis** |
| Recording the full value of the sale at the time the deposit received would distort the financial reports of the business. The period assumption requires that reports (particularly Income Statements) are prepared for a particular period of time, such as a month or a year, in order to obtain comparability of results. Therefore, profit determination requires recognising the revenue earned for a period and deducting the expenses incurred for that same period. If the full amount of the sale is reported in the period ended 31 December 2019 then the profit figure for the 2020 period will be understated.  This will also allow for the qualitative characteristic of relevance to be met. Information should be relevant to the making of decisions and so relevant information should be related to an economic decision. Information is relevant to a decision if it helps users to form predictions about the outcomes of past, present or future events, and/or confirms or changes their previous evaluations by providing suitable feedback.  If the revenue is recognised as earnt, when there is a possibility the customer won’t pay, then reports are further distorted and decision making can be compromised. |

*Mark responses globally*

Question 7 (6 marks)

|  |
| --- |
| **Explanation** |
| The graph depicts trends in the cash flows of the business over a three year period, identifying the classifications of those cash flows.  In 2017 the business had an overall positive cash flow and this improved in 2018. In both years this was due to a healthy surplus of cash flows from operating activities.  In 2019 however, the result was a negative cash flow for the period with a significant increase in outflows for financing activities, despite an increase in cash flows from operating activities.  This is likely due to higher than normal drawings by the owner and/or the repayment of loans. In 2017 the business appeared to purchase new assets and it is possible the business borrowed on a short term basis to fund those asset purchases – these loans seemed to have been repaid in 2019.  Overall, the business has suffered a deterioration in liquidity as the business has a negative cash flow. However, the previous surpluses may have left the business with a healthy cash balance and the deficit in 2019 has not harmed that situation.  The large deficit in financing activities suggests a decrease in liabilities and so the stability of the business is likely to have improved over the period shown.  Overall the owner should not be concerned yet but the situation needs to be monitored in 2020. |

*Mark response globally*

**Question 8 (5 marks)**

**Klarissa’s Cakes**

**Budgeted Balance Sheet (extract) as at 31 December 2020**

|  |  |  |
| --- | --- | --- |
|  | **$** |  |
| Current Assets | 44 000 | [1] |
| Non-Current Assets | 354 000 + 36 000 + 120 000 – 15 000 – 25 000 = 470 000 | [1] |
| Current Liabilities | 47 000 | [1] |
| Non-Current Liabilities | 182 000 + 100 000 – 40 000 = 242 000 | [1] |
| Owner’s Equity | 188 000 + 30 000 + 36 000 – 72 000 + 43 000 = 225 000 | [1] |

**END OF ANSWER BOOK**