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

**ACCOUNTING

Units 3 & 4 – Written examination**

PES

# 2019 Practice Examination 3

## Reading Time: 15 minutesWriting 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 11 pages.
* Answer book of 17 pages.

**Instructions**

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

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

Question 1 (16 marks)

Teri Adams owns a small business called ‘Teri’s Byts’, selling computers, printers and accessories. The business also sells a small range of computer games. In 2018 he began selling a printer – the ‘Speedy Fix’ – imported from overseas. The printer sells for $99 (including GST) and has become one of the businesses most popular models.

Teri provided the following Inventory Card for the Speedy Fix:

|  |
| --- |
| **Inventory Item: Speedy Fix Supplier: Aiki Industries****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 |  |  |  |  |  |  | 1540 | 4042 | 2 280 |
|  |  |  |  |  |  |  |  |  |  |  |

The following documents and information were provided for the period 23 – 30 June 2019:

 **Teri’s Byts**
**Invoice** TB521 **Date** 24/06/19
**Charge To:** St Hilda’s School
**Sale:** 26 Speedy Fix printers
**Amount** **GST Invoice**
$ 2340 $234 $2574
***Terms: n/30***

 Printer World

**Invoice** SD21 **Date** 23/06/19
**Charge To:** Teri’s Byts
**Sale:** 80 Speedy Fix printers
**Amount** **GST Invoice**
$3600 $360 $3960
***Terms: 2/14, n/30***

 **Teri’s Byts**
**Invoice** TB530 **Date** 28/06/19
**Charge To:** Hayden Hotels
**Sale:** 20 Speedy Fix printers
**Amount** **GST Invoice**
$ 2340 $234 $2574
***Terms: n/30***

 Teri’s Byts

**Credit Note** B09 **Date** 26/06/19
**Credit To:** St Hilda’s School
**Sale:** 2 damaged printers returned
**Amount** **GST Amount**
$180 $18 $198

**QUESTION 1** continued

 Microphone World

**Credit Note** JJ32 **Date** 29/06/19
**Credit To:** Teri’s Bytes
**Return:** 5 Speedy Fix printers

 **Teri’s Byts**
**Cheque:** 121
**Date:** 29/06/19
**Details:** Purchased 10 Avon modems

* Avon Ltd

**Total Amount:** $660 (Inc. GST)

 Printer World

**Invoice** SD21 **Date** 30/06/19
**Charge To:** Teri’s Byts
**Sale:** 100 Speedy Fix printers
**Amount** **GST Invoice**
$4300 $430 $4730
***Terms: 2/14, n/30***

 **Teri’s Byts**
 **Memo 20
Date:** 30/06/19
**Details** Took 2 Speedy Fix printers home.

 **Teri’s Byts**
 **Memo 21
Date:** 30/06/19
**Details:** A physical stocktake showed that there were 182 Speedy Fix printers on hand.

1. Complete the Inventory Card for Speedy Fix printers with all relevant transactions and information up to and including 30th June 2019.

8 marks

1. Prepare the General Journal entries to record the transactions in
* Chq. 121
* Memo 20
* Memo 21

Note: Narrations are not required

5 marks

1. Explain what is meant by the First In First Out cost assignment method.

2 marks

1. Besides an undersupply from a supplier or oversupply to a customer, state one reason for an inventory loss.

1 mark

**Question 2 (19 marks)**

Harold McDermott owns and operates White Water World, a small business selling equipment for water sports enthusiasts.

In addition to selling basic items such as life jackets, water skis and snorkels, the business also sells high end products such as canoes and kayaks as these items that have a high mark-up. To encourage sales of these items, Harold offers his staff a commission at a rate of 5% of the selling price of these items (excluding GST) on every sale of these items.

The business prepares reports quarterly on 31 March, 30 June, 30 September and 31 December each year. The commission owing to each employee is calculated and recorded at the end of each reporting period and the amount due is paid on the 7th of January, April, July and October each year.

The following information is available for the quarter ended 30 September 2019:

**Wages**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date****2019** | **Cross-reference** | **Amount** | **Date****2019** | **Cross-reference** | **Amount** |
| Jul 31 | Bank | 7 300 |  |  |  |
| Aug 31 | Bank | 7 700 |  |  |  |
| Sep 30 | Bank | 5 900 |  |  |  |

Credit sales for the period were:

* July $40 000
* August $38 000
* September $28 000

Wages owing at 30 September 2019 were $1,900

1. Record the adjustments required on 7th July and 30 September 2019 in the General Journal

[Narrations are not required].

5 marks

1. Show how the following general ledger accounts would appear after all entries had been posted and the accounts completed at 30 September 2019:
* Wages
* Commission Expense
* Accrued Commission Expense

2 + 2 + 3 = 7 marks

**QUESTION 2** continued

On 7 October 2019 the business used Chq.738 to pay the Commission Expense owing and Chq. 739 to pay $3 200 for Wages, including the accrued wages from 30 September 2019.

1. Record these transactions into the General Journal

[Narrations are not required].

4 marks

1. Explain, with reference to an accounting element how Accrued Commission expense would be reported in the Balance Sheet as at 30 September 2019.

3 marks

**Question 3 (6 marks)**

Rivergum Furniture is a local manufacturer of furniture using uniquely Australian wood to build tables, chairs and other items of furniture for sale.

Janice Matthews, a customer, has recently taken to Facebook to complain about her service from the company – a table she ordered and paid for took 7 weeks longer than promised to be delivered and when it was delivered it was found to be defective and had to be returned. Rivergum Furniture agreed to replace the table at no charge but the replacement item would not be ready for a further 13 weeks. It was discovered that the delays were due to the table being manufactured in Asia.

The Facebook posts referred to Janice’s disappointment that uniquely Australian products were manufactured overseas and child-labour was used for some of the processes involved in the manufacturing. A campaign has since started that culminated with the business returning all manufacturing to Australia and spending considerable money building a school for the community from where the child labour was sourced.

**a.**      Explain why a business might choose to purchase products from overseas.

2 marks

**b.**     Discuss the ethical and financial considerations of the businesses response to the campaign started on Facebook.

4 marks

**Question 4 (11 marks)**

The accountant of Carpet Universe provided the following Trial Balance extract as at 30 June 2019.

**Carpet Universe**

**Trial Balance (extract) as at 30 June 2019**

|  |  |  |
| --- | --- | --- |
| **Account** | **Debit** | **Credit** |
| Capital |  | 50 650 |
| Cash at Bank |  | 3 480 |
| Cash Sales |  | 9 300 |
| Cost of Sales | 10 220 |  |
| Customs Duty | 3 200 |  |
| Sales Returns | 4 200 |  |
| Credit Sales |  | 21 500 |
| Accounts Payable |  | 10 200 |
| Accounts Receivable | 7 930 |  |
| Discount Expense | 165 |  |
| Discount Revenue |  | 140 |
| Drawings | 2 400 |  |
| GST Clearing |  | 894 |
| Inventory | 30 940 |  |

**Additional Information**

* Reports are prepared on a quarterly basis.
* A payment of $330 (including GST) for Customs Duty had incorrectly recorded as Drawings.
* On 19 June 2019 the owner donated carpet to the value of $1,200 to his son’s school. This transaction has not been recorded.

**QUESTION 4** continued

1. Prepare the General Journal entries required to record the additional information on

30 June 2019 [Narrations are not required].

4 marks

1. Prepare an extract of the Income Statement for the quarter ended 30 June 2019 to show the profit result up to and including Other Revenue.

5 marks

1. Explain the purpose of a Trial Balance.

2 marks

Question 5 (23 marks)

Chloe Assad operates a small business – ***Jungle Gym***. The business sells sports and backyard play equipment for young children. A summary of transaction for February 2019 are provided:

**Cash Payments:**

|  |  |  |  |
| --- | --- | --- | --- |
| Wages | $8 000 | Accounts Payable | $22 500 |
| Inventory | $38 000 | Insurance | $1 200 |
| GST Paid | $4 870 | Loan – GDE Finance | 2 000 |
| Drawings | $6 000 | Interest on Loan | $500 |
| Advertising | $2 000 | Customs Duty | $800 |
| Prepaid Rent Expense | $9 000 | Equipment | $3 500 |
| Office Expenses | $200 |  |  |

**Cash Receipts:**

|  |  |  |  |
| --- | --- | --- | --- |
| Sales | $38 000 | Accounts receivable | $41 700 |
| GST Collected | $3 800 | Proceeds from sale of Equipment | $200 |
| Capital Contribution | $10 000 |  |  |

**Other information:**

|  |  |  |  |
| --- | --- | --- | --- |
| Credit Sales | $46 000 | Credit Purchases of Inventory | $20 600 |
| GST charged | $4 600 | GST incurred | $2 060 |
| Sales Returns | $800 | Cost of Sales | 50% of selling price |
| GST on Sales Returns | $80 | Returns to Suppliers | $400 |
| GST on returns to suppliers | $40 |  |  |
| Discount Expense | $1 850 | Discount Revenue | $2 500 |

**QUESTION 5 continued**

* + - * 1. Using the information provided above, post the relevant information to the
* Accounts Payable account and
* GST Clearing account

Note: You are required to complete the accounts.

4 + 6 = 10 marks

* + - * 1. Using the information above, prepare a classified Cash Flow Statement for the month ended 28 February 2019.
1. marks
	* + - 1. Explain with reference to a qualitative characteristic why it is necessary to classify financial reports.

3 marks

Question 6 (14 marks)

Kenji Clothing is a small business selling streetwear and also creates unique clothing items for teams and clubs. All inventory items are sold on credit after a deposit has been paid to secure the order and pay for the materials used to manufacture the special items.

The business received a deposit of $2 000 from atomic Dance Academy on 19 December 2019 for an order for $8 300 plus GST for T-shirts and pants for a local cheerleading club. The inventory is scheduled to be delivered on 7 January 2020.

On 7 January 2020 the inventory was delivered and invoice KC834 was raised for the amount outstanding. The cost price of the inventory delivered was $4 150. Credit terms are 2/14,n30

* 1. Explainwith reference to an accounting element how the deposit paid on 19 December would have been reported in the Balance Sheet at 31 December 2019.

3 marks

* 1. Recordthe transactions on 19 December 2019 and 7 January 2020 into the General Journal [Narrations are not required].

6 marks

The owner queried the extra recording needed for this transaction stating *‘I know this customer – they have bought from me before. I am not sure why I didn’t just record the full sale value in December when the deposit was received’.*

* 1. Analyse the owner’s statement.

5 marks

Question 7 (6 marks)

The owner of Stephens Cycles has become concerned about the cash flow of the business and has asked for your advice.

He provides the following data for you to consider:

Explain what is shown by the graph with reference to the businesses cash flow and stability.

**Question 8 (5 marks)**

Klarissa Rowan owns and operates Klarissa’s Cakes – a small business selling speciality cakes for weddings, birthdays and other occasions.

The following totals were extracted from her Balance Sheet as at 31 December 2019:

**Klarissa’s Cakes**

**Balance Sheet as at 31 December 2019**

|  |  |
| --- | --- |
| Current Assets | $ 45 000 |
| Non-Current Assets | $354 000 |
| Current Liabilities | $ 29 000 |
| Non-Current Liabilities | $182 000 |
| Owners’ Equity | $188 000 |

Klarissa is looking to expand her business by opening a second store and offer a delivery service and she has made the following estimations for the next year:

* Klarissa will contribute $30 000 cash to the business and transfer ownership of her personal car to the business. She purchased the car in 2017 for $48 000 plus GST. She has had the car valued at $36 000.
* New Equipment will be purchased at a total cost of $120 000. Some old Equipment with a carrying value of $15 000 will be disposed of for $10 000 cash.
* Non-current assets will be depreciated by $25 000.
* Klarissa will take out a Loan of $100 000 to finance the Equipment purchase with $40 000 paid of this loan and existing loans during the year
* Current Liabilities are expected to rise by $18 000 (this includes all net changes to the GST Clearing account)
* Klarissa usually withdraws $6 000 per month in Drawings and she expects this to continue.
* She is hoping that all the changes and the expansion will result in a Net Profit of $43 000.

Complete the table in the Answer Book showing the totals for each section as it would appear in the Budgeted Balance Sheet as at 31 December 2020.

**END OF QUESTION BOOK**