

# ACCOUNTING

## Units 3&4 – Written examination 1



*(TSSM's 2008 trial exam updated for the current study design)*

### SOLUTIONS

#### Question 1 (6 marks)

Prepare the General Journal entry required to establish the double-entry accounting system of Cohen's Caps.

A narration is **not** required.

#### General Journal

Date	Details	General Ledger	
		Debit	Credit
01/01	Cash at Bank		2 280
	Accounts Receivable	2 090	
	Furniture and Fittings	7 600	
	GST Clearing	1 020	
	Loan – EZY Bank		12 000
	Office Equipment	3 760	
	Inventory	19 120	
	Capital		19 310

**1 mark** for Cash at Bank

**1 mark** for Accounts Payable

**1 mark** for Accounts Receivable

**1 mark** for GST Clearing

**1 mark** for Assets and Liabilities

**1 mark** for Capital

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**Question 2 (10 marks)**

a. **Show** how the following ledger accounts would appear after the Journals for January 2018 have been posted.

- Inventory
- Accounts Payable
- GST Clearing

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

3 + 2 + 4 = 9 marks

**Inventory**

<b>Date 2019</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2019</b>	<b>Cross-reference</b>	<b>Amount</b>
01/05	Balance	12 830	31/05	Cost of Sales	3 500
31/05	Accounts Payable	4 100		Cost of Sales	2 840
	Bank	<u>3 800</u>		Balance	<u>14 390</u>
		<u>20 730</u>			<u>20 730</u>
1/06	Balance	14 390			

**Accounts Payable**

<b>Date 2019</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2019</b>	<b>Cross-reference</b>	<b>Amount</b>
31/05	Bank / Discount Revenue	4 730	01/05	Balance	8 920
	Balance	<u>8 700</u>	31/05	Inventory / GST Clearing	<u>4 510</u>
		<u>13 430</u>			<u>13 430</u>
			01/06	Balance	8 700

**GST Clearing**

<b>Date 2019</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2019</b>	<b>Cross-reference</b>	<b>Amount</b>
31/05	Bank	487	01/05	Balance	487
	Bank	603	31/05	Bank	568
	Accounts Payable	410		Accounts Receivable	770
	Balance	<u>325</u>			
		<u>1 825</u>			<u>1 825</u>
			01/06	Balance	325

**1 mark** per completed entry  
 (Cost of Sales regarded as one entry)  
 Deduct 1 mark if accounts not balanced

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- b. Making reference to a specific example, **explain** how the GST Clearing account could have a closing debit balance.

The GST paid on expenses and assets, and the GST charged on credit purchases of inventory (**1 mark**) is greater than the GST collected on cash sales and GST charged on credit sales. (**1 mark**)

This may have been due to a purchase of inventory that remains unsold at the end of the reporting period or a purchase of a non-current asset. (**1 mark**)

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- c. **Explain** why GST collected from cash sales is not recognised as revenue.

2 marks

- is an inflow of economic benefits (GST on Cash Sales) in the form of an increase in assets (Bank)
- but does not increase owner's equity due to an increase in Profit or a Capital contribution, rather it increases the business' GST Liability

**1 mark** per dot point

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### Question 3 (10 marks)

- a. **Calculate** the total cash paid during the month ended 31 March 2019.

\$136 180

1 mark

- b. Complete** the Net Cash from Operations section of the Cash Flow Statement for the month ended 31 March 2019.

5 marks

**Symons' Suppliers**  
**Cash Flow Statement for month ended 31 March 2019**

	\$	\$
<b>Cash Flow from Operating Activities</b>		
Cash Sales	48 230	
GST Collected	4 823	
Receipts from Accounts Receivable	35 200	
Interest Received	1 500	89 753
Payments to Accounts Payable	(49 800)	
Inventory	(21 600)	
Wages	(9 200)	
GST Paid	(6 080)	
Accrued Wages	(1 600)	
GST Settlement	(6 200)	
Prepaid Rent	(2 400)	
Prepaid Advertising	(8 000)	(104 480)
<b>Net Cash flows from Operations</b>		<b>(14 727)</b>

**1 mark** – Cash Sales and GST Collected

**1 mark** – Receipts from Accounts Receivable and Payments to Accounts Payable

**1 mark** – per three Operating entries

- c. Explain** how a Negative Net Cash from Investing Activities can lead to a decrease in Net Profit.

2 marks

A Negative Net Cash from Investing Activities would result from a purchase of a Non-Current Asset. **(1 mark)**

The purchase of a Non-Current Asset would lead to an increase in Depreciation Expense that would decrease Net Profit. **(1 mark)**

- d. Calculate** the Bank Balance as at 31 March 2019.

2 marks

Change in Cash:  $\$139\,753 - \$136\,180 = \$3\,573$  **(1 mark)**

Opening Balance	(\$12 970)
Add: Surplus for March	\$3 573
Closing Balance	(\$9 397) <b>(1 mark)</b>

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## Question 4 (7 marks)

- a. Excluding posting to incorrect accounts, **state** two reasons why errors can still be present despite a Trial Balance balancing.

1 + 1 = 2 marks

- entering an incorrect amount for both the debit and credit
- entering a debit or credit in the wrong account
- the debit and credit entries are reversed
- omitting a transaction completely

**1 mark** per reason

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- b. **Prepare** the General Journal entry to close the revenue accounts.

A narration is **not** required.

3 marks

### General Journal

Date	Details	General Ledger	
		Debit	Credit
30/04	Cash Sales	14 260	
	Credit Sales	15 640	
	Discount Revenue	130	
	Interest Revenue	120	
	Profit and Loss Summary		30 150

**1 mark** – Cash Sales and Credit Sales

**1 mark** – Discount Revenue and Interest Revenue

**1 mark** – Profit and Loss Summary

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- c. **State** two reasons why revenue and expense accounts are closed.

1 + 1 = 2 marks

- returning account balances to zero for the beginning of the next reporting period (**1 mark**)
  - only transactions for the current reporting period are included in the reporting process and calculation of profit (**1 mark**)
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**Question 5 (13 marks)**

**a.**

**Inventory Item: Deluxe WT's**

Date 2019	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
May 1	Balance							15	90	1 350
3	Inv. 91	10	110	1,110				15 10	90 110	1 350 1 110
5	Inv. 86				15 5	90 110	1,350 550	5	110	550
10	Inv. 98	15	100	1,500				5 15	110 100	550 1 500
17	Memo. 6				2	110	220	3 15	110 100	330 1 500
25	C.N. 33	3	110	330				6 15	110 100	660 1 500
26	C.N. 45				3	110	330	3 15	110 100	330 1 500
31	Memo	5	100	500				3 20	110 100	330 2 000

4 marks

**b.**

**General Journal**

Date 2019	Details	General Ledger	
		Debit \$	Credit \$
May 25	Sales Returns	750	
	GST Clearing	75	
	Accounts Receivable		825
	Inventory	330	
	Cost of Sales		330

5 marks

**c.**

The entry on 26 May is a purchase return. These units were purchased earlier in the month and were subsequently sold to the customer who discovered the damage. The 3 units were returned to Dr J's who then returned them back to the original supplier for a credit.
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2 marks

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d.

1: oversupply from supplier
2: undersupply to customer
3: recording error in inventory card

2 marks

**Question 6 (8 marks)**

a.

Suppliers invoice	\$70	per unit
Insurance on delivery	\$5	per unit
Testing for connectivity	<u>\$4</u>	per unit
	<b>\$79</b>	<b>per unit</b>

2 marks

b.

<b>Product cost: Insurance on delivery:</b> is a direct cost incurred in getting inventory ready for sale.
<b>Non trading expense: Service fee,</b> is not incurred in getting the inventory ready for sale, it is an ongoing expense that is contingent upon customer request, therefore can not be reliably measured, prior to sale and therefore expensed separately

4 marks

c.

<b>Sales</b>	\$170 each
Less Cost of Sales	\$79 each
Gross Profit per unit	\$91 per unit
85 units sold x \$91 G.P per unit	
<b>Total Gross Profit</b>	<b>= \$7 735</b>

2 marks

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**Question 7 (6 marks)**

a. **Explain** why it was correct to record the payment as prepaid insurance.

2 marks

The Prepaid Insurance will provide a future benefits to the business (**1 mark**) in the next reporting period (**1 mark**).

b. **Prepare** the necessary General Journal entries to record the

- balance day adjustment
- closing entry

relating to insurance for the year ending 30 June 2018.

Narrations are **not** required.

2 + 2 = 4 marks

**General Journal**

Date	Details	General Ledger	
		Debit	Credit
30/06	Insurance Expense	2 670	
	Prepaid Insurance Expense		2 670
	Profit and Loss Summary	2 670	
	Insurance Expense		2 670

**1 mark** per entry (amount is consequential)

**Question 8 (5 marks)**

a.

**General Journal**

Date 2019	Details	General Ledger	
		Debit \$	Credit \$
30-Jun	Accrued Interest Revenue	150	
	Interest Revenue		150

2 marks



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b.

**Effect on Cash Flow Statement**

Name of account	Classification	Amount
Accrued Interest Revenue	Operating Inflow	\$150
Interest Revenue	Operating Inflow	\$750
Government Bond	Investing Inflow	\$10,000

3 marks

**Question 9 (9 marks)**

a.

Date	Details	General Ledger	
		Debit	Credit
15/8	Bank	500	
	Unearned Sales Revenue		500

2 marks

b.

<b>Classification:</b> Current liability
<b>Explanation:</b> The prepayment results in a future sacrifice of an economic benefits that is due within 12 months. In this case there is the obligation to provide the 10 units to the customer.

2 marks

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c.  
General Journal

Date 2019	Details	General Ledger	
		Debit \$	Credit \$
Sep 12	Unearned Sales Revenue	500	
	Accounts Receivable	1 040	
	Sales Revenue		1 400
	GST Clearing		140
	Cost of Sales	800	
	Inventory		800

3 + 2 = 5 marks

Question 10 (14 marks)

a.

Accounts Receivable

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/7/18	Balance	10 400	30/6/19	Sales Returns	416
30/6	<b>Credit Sales</b>	<b>33 250</b>		Bank	34 581
	GST Clearing	3 325		Discount Expense	770
				Balance	<u>11 208</u>
		4,975			46,975

4 marks

b.

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
01-07-18	Balance	35 450	30-6-19	Accounts Payable	480
30-06-19	Accounts Payable	24 000		Inventory Write-down	200
	Cost of Sales	250		<b>Cost of Sales</b>	<b>21 820</b>
				Balance	<u>37 200</u>
		59 700			59,00

3 marks

c.

Accounts Payable

Date	Cross-reference	Amount	Date	Cross-reference	Amount
30-6-19	Bank	25,450	01-07-18	Balance	18,450
	Discount Revenue	900	30-06-19	Inventory/GST Clearing	26,400
	Inventory/GST Clearing	528			
	Balance	<b>17 972</b>			
		44 850			44 850

3 marks

d.

**Budgeted Income Statement for the year ending 30 June 2020**

<b>Revenue</b>	<b>\$</b>	<b>\$</b>
Cash Sales	25,400	
Credit Sales	33,250	
Less Sales Returns	<u>416</u>	
Net Sales		58,234
<u>Less Cost of Goods Sold</u>		
Cost of Sales		21,570
Gross Profit		36,664
Less Inventory Write Down		200
Adjusted Gross Profit		36,464
<u>Add Other revenue</u>		
Interest Revenue	90	
Profit on disposal of Vehicle	500	
Discount Revenue	<u>900</u>	<u>1,490</u>
		37,954

4 marks

**Question 11 (5 marks)**

a.

For every \$1 of the total assets, the firm has generated \$3.80 in sales, this is a favourable trend
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2 marks

b.

Given both formula's have the same denominator (average assets) then the discrepancy could be explained by an increase in sales, whilst assets held constant, hence ATO increased.
If expenses increased more proportionally than the increase in sales, then there could have been a drop in the net profit, causing a decrease in ROA.

2 marks

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c.

Any of the following responses
1: Number of website hits, 2: customer satisfaction surveys, 3: sales dollar earned per hour worked by sales staff, 4: percentage of sales returns.

1 mark

**Question 12 (3 marks)**

The significant decrease in APTO (in days) means that the business is paying its Accounts Payable quicker than the previous period. This suggests that the business has decided to take advantage of the generous credit terms offered by the suppliers, i.e the APTO (16 days) is similar to the discount terms offered (14 days). The business seems to be endeavouring to pay off its debts within 2 weeks to receive the 5% discount offered.
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3 marks

**Total 100 marks**