

**‘2019 Examination Package’ -
Trial Examination 1 of 11**

STUDENT NUMBER

Figures

Words

										Letter

ACCOUNTING
Units 3&4 – Written examination

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

Reading Time: 15 minutes

Writing Time: 2 hours

QUESTION BOOK

Structure of book

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
12	12	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 12 pages.
- Answer book of 19 pages.

Instructions

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

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

Question 1 (6 marks)

Ian Cohen owns Cohen's Caps, a small business selling caps to national sporting clubs.

The business will use the perpetual method of inventory recording and the First In First Out (FIFO) method of cost assignment.

As at 1 January 2019 the business had the following Assets and Liabilities.

Cash at Bank	\$2 280 CR
Account Payable – Waverley Warriors	\$1 650
Account Receivable– Springvale Swans	\$440
Furniture and Fittings	\$7 600
GST Clearing	\$1 020 DR
Loan – EZY Bank	\$12 000
Office Equipment	\$3 760
Inventory	\$19 120

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

A narration is **not** required.

Question 2 (14 marks)

Southey's Sails uses a double-entry accrual accounting system.

A summary of transactions for the month ended 31 January 2019 is shown below:

Credit Sales

Credit Sales	\$7 000
GST Charged	\$ 700

Credit Purchases

Credit Purchases (Inventory)	\$4 100
GST Incurred	\$ 410

Receipts

Accounts Receivable	\$4 510 (Less discount)
Discount Expense	\$ 65
Sales	\$5 680
GST Received	\$ 568
Sundries	\$ 30

Payments

Accounts Payable	\$4730 (Less discount)
Discount Revenue	\$ 50
Inventory	\$3 800
GST Paid	\$ 603
Wages	\$1 930
GST Settlement	\$ 487

All inventory is sold using a 100% markup

a. Show how the following ledger accounts would appear after the Journals for January 2019 have been posted.

- Inventory
- Accounts Payable
- GST Clearing

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

3 + 2 + 4 = 9 marks

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

2 + 1 = 3 marks

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

2 marks

TURN OVER

Question 3 (10 marks)

As at 1 March 2019 Symons' Suppliers had a bank overdraft of \$12 970.

A summary of entries for the month ended 31 March 2019 is shown below:

Receipts

Accounts Receivable	\$ 36 800 (Less discount)
Discount Expense	\$ 1 600
Sales	\$ 48 230
GST Received	\$ 4 823
Capital	\$ 20 000
Loan – EZY Bank	\$ 30 000
Interest Received	\$ 1 500

Payments

Accounts Payable	\$ 51 600 (Less discount)
Discount Revenue	\$ 1 800
Inventory	\$ 21 600
GST Paid	\$ 6 080
Wages	\$ 9 200
Prepaid Advertising	\$ 8 000
Furniture and Fittings	\$ 28 800
Drawings	\$ 1 000
Loan – Ezy Bank	\$ 1 500
Prepaid Rent	\$ 2 400
Accrued Wages	\$ 1 600
GST Settlement	\$ 6 200

Cost of Sales \$24 115

- a. **Calculate** the total cash paid during the month ended 31 March 2019. 1 mark

- b. **Complete** the Net Cash from Operations section of the Cash Flow Statement for the month ended 31 March 2019. 5 marks

- c. **Explain** how a Negative Net Cash from Investing Activities can lead to a decrease in Net Profit. 2 marks

- d. **Calculate** the Bank Balance as at 31 March 2019. 2 marks

Question 4 (7 marks)

Templeton’s Tents uses a double-entry accrual accounting system and reports are prepared on a monthly basis.

After all transactions for the month were recorded, a Post-Adjustment Trial Balance was prepared as at 30 April 2019.

**Templeton’s Tents
Post-Adjustment Trial Balance (extract) as at 30 April 2019**

Account	Debit \$	Credit \$
Accrued Wages		900
Capital		20 885
Cash Sales		14 260
Credit Sales		15 640
Discount Revenue		130
Drawings	500	
Interest Revenue		120
Wages	2 200	
Totals	54 870	54 870

Additional Information

- There were no accrued expenses at 1 April 2019.
 - Inventory drawings during April were \$400. All other drawings were cash.
- a. Excluding posting to incorrect accounts, **state** two reasons why errors can still be present despite a Trial Balance balancing. 1 + 1 = 2 marks
- b. **Prepare** the General Journal entry to close the revenue accounts.
A narration is **not** required. 3 marks
- c. **State** two reasons why revenue and expense accounts are closed. 1 + 1 = 2 marks

TURN OVER

Question 5 (13 marks)

Julius Erving owns and operates a small trading business, Dr J's WT's, which sells water tanks. One water tank sold is the 'Deluxe WT' model for private homes. Julius maintains a perpetual inventory recording system and all inventory movements are recorded on inventory cards using the FIFO (First In First Out) method of cost assignment. His accounting system is based on the double-entry accrual system of recording and reporting.

- Balance (1 May 2019) - 15 Units purchased during April @ \$90 each (plus 10% GST)
 - 3-May – Purchased 10 units @ \$121 each (includes 10% GST) from Darryl Dawkins (Inv 91)
 - 5-May – Sold 20 units to Lew Alcindor @ \$250 each (plus 10% GST) [Inv 86]
 - 10-May – Purchased 15 units from Darryl Dawkins @ \$100 each (plus 10% GST) [Inv 98]
 - 17-May – Julius withdrew 2 tanks for his holiday house in Rye (Memo 6)
 - 25-May – Lew Alcindor returned 3 units due to leakage (sold 5-May) (Credit Note 33)
 - 26-May – Julius returned 3 units to Darryl Dawkins (purchased 3-May) (Credit Note 45)
 - 31-May – physical stocktake reveals 23 Deluxe WT's on hand (Memo 7)
- a. **Record** the above entries into the Inventory Card. 4 marks
- b. **Record** the entry from 25 May 2019 into the General Journal (A narration **is required**). 5 marks
- c. **Describe** the transaction that occurred on 26 May 2019. 2 marks
- d. **State** two possible reasons for an inventory gain occurring. 2 marks

Question 6 (8 marks)

The owner of Carl's Computers decides to diversify by purchasing 100 fax machines to make available for sale to business customers. The following details have been provided for the purchase 10 June 2019:

Supplier's invoice price	\$7 700 total (includes 10% GST)
Insurance on delivery in	\$500 total
Testing for connectivity	\$4 per unit
Selling price per unit	\$170 per unit (+ \$17 GST)
Service fee*	\$10 per unit

* Service completed 3 months after installation, for customers who request a service (approximately 50% of customers opt for the free service)
 By June 30 2019 there were 15 units on hand (no other units were purchased during the month).

- a. **Calculate** the cost price of each item purchased on 10 June 2019. Show **all** workings. 2 marks

- b. Using the information above **identify** a product cost and a cost to be expensed separately; **justify** your response for each example. 4 marks

- c. **Calculate** the Gross Profit for June 2019 (for the fax units sold). 2 marks

TURN OVER

Question 7 (6 marks)

On 21 September 2018 the business paid \$3 300 (including \$300 GST) to renew the annual insurance policy due to expire on 30 September 2019 (Chq. 538). The payment was correctly recorded in the Prepaid Insurance account. On 30 June 2019, before any adjusting entries, the balance in the Prepaid Insurance account was \$3 720.

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

2 marks

b. Prepare the necessary General Journal entries to record the

- balance day adjustment
- closing entry

relating to insurance for the year ending 30 June 2019.

Narrations are **not** required.

2 + 2 = 4 marks

Question 8 (5 marks)

On 1 May 2018, Julius invested \$10 000 into a 12 month government bond with interest payable at maturity of 9% (the bond and interest will be deposited into the business bank account 30 April 2019).

a. Record the necessary adjustment for interest earned as at 30 June 2018 in the General Journal (A narration is **not** required).

2 marks

b. State the effect on the Cash Flow Statement of the maturity of the bond on 31 May 2019.

3 marks

Question 9 (9 marks)

On 15 August 2019, Ervin Johnson paid a \$500 deposit (Rec 456) for 10 ‘Titanic Deck Chairs’, to be delivered in September 2019. (Sale price \$140 each plus 10% GST, cost price \$80 each). The business prepares reports monthly.

- a. **Record** the 15 August 2019 Receipt in the General Journal.
A narration is **not** required

2 marks

- b. **State** the classification of Unearned Revenue in the Balance Sheet at 31 August 2019. Justify your response.

2 marks

On 12 September 2019, all 10 units were delivered to Ervin Johnson (Inv 34).

- c. **Record** the 12 September 2019 delivery in the General Journal (A narration is required).

3 + 2 = 5 marks

TURN OVER

Question 10 (14 marks)

Katrina owns and operates Treena's Trivia, a small business which sells trivia games. Her accountant maintains a double-entry accrual accounting system. The business uses a perpetual inventory recording system with the FIFO cost assignment method.

For the year ending 30 June 2019, the following balance sheet extract was provided

Balance Sheet extract as at 30 June 2019

Assets	\$	Liabilities	\$
Inventory	35 450	Bank Overdraft	770
Accounts Receivable	10 400	Accounts Payable	18 450
Prepaid Insurance	600	GST Clearing	1 540
		Loan-ANZ (repayable \$2 000 pa)	10 000

Below is the Budgeted Cash Flow Statement for the year ending 30 June 2020

Treena's Trivia
Budgeted Cash Flow Statement for the Year ended 30 June 2020

Cash flows from operations	\$	\$
Cash Sales	25 400	
GST Collected	2 540	
Receipts from Accounts Receivable	34 581	
Interest revenue	90	62 611
Purchases of Inventory	(17 500)	
Payment to Accounts Payable	(25 450)	
Wages	(15 450)	
GST Paid	(5 930)	
GST Settlement	(1 540)	
Interest	(110)	
Prepaid Insurance	(1 800)	(67 780)
Net Cash outflows from Operations		(5 169)
Cash Flows from Investing		
Proceeds on Disposal of Vehicle	5 000	
Purchase of Vehicle	(20 000)	(15 000)
Net Cash Outflows from Investing		
Cash Flows From Financing		
Capital	10 500	
Receipt of Loan-ANZ	10 000	
Loan repayment-ANZ	(2 000)	
Drawings	(3 500)	15 000
Cash Deficit		(5 169)
Bank Balance as at 1 July 2019		(770)
Bank Balance as at 30 June 2020		(5 939)

Additional information.

- Discounts revenue is expected to be \$900, discount expense \$770
 - Sales returns is expected to be 4% of opening balance of Accounts Receivable (\$250 cost price effect)
 - Inventory write-down is expected to be \$200.
 - Prepaid insurance balance is expected to be \$400 (at 30 June 2020)
 - Expected accrued wages \$800
 - Profit on disposal of vehicle is expected to be \$500
 - Expected credit purchases \$24,000
 - Expected balance for Accounts Receivable \$11 208, GST Clearing \$2 560 (Cr) and Inventory \$37,200 as at 30 June 2020)
 - Expected purchase returns 2% of credit purchases
 - Loan payable at \$2,000 per annum
- a. **Reconstruct** the Accounts Receivable account to calculate credit sales (for the budgeted period ending 30 Jun 2020). 4 marks
- b. **Reconstruct** the Inventory account to calculate cost of sales (for the budgeted period ending 30 June 2020). 3 marks
- c. **Reconstruct** the Accounts Payable account to calculate the final balance (for the budgeted period ending 30 June 2020). 3 marks
- d. **Prepare** the Budgeted Income Statement for the year ending 30 June 2020 to show Other Revenue. 4 marks

TURN OVER

Question 11 (5 marks)

The accountant has provided the following information in relation to profitability

Financial Indicator	Calculation	2018	2019
ATO Asset turnover	$\frac{\text{Sales}}{\text{Average Assets}}$	3.5 : 1	3.8 : 1
ROA Return on Assets	$\frac{\text{Net Profit}}{\text{Average Assets}}$	1.5 : 1	1.3 : 1

- a. **Explain** the meaning of ATO in 2019. **Discuss** the trend in your response 2 marks
- b. **Explain** how the ROA has declined, despite the increase in the ATO in 2019 2 marks
- c. **State** one non-financial indicator that could be used to evaluate the business performance in 2019 1 mark

Question 12 (3 marks)

The Accountant has provided the following information in relation to liquidity and the business accounts payable:

Financial Indicator	Calculation	2018	2019
CFI Cash Flow Cover	$\frac{\text{Net cash flow from Operating Activities}}{\text{Average Current Liabilities}}$	2.8 times	3.3 times

Financial Indicator	Calculation	2018	2019
Accounts Payable Turnover	$\frac{\text{Average Accounts Payable}}{\text{Credit Purchases} \times 365}$	36 days	15 days

- Additional information: Credit terms of suppliers: 5/14, n30

Using the information provided, **explain** the trend in the Accounts Payable Turnover.

3 marks

100 marks

END OF QUESTION BOOK