

**‘2019 Examination Package’ -
Trial Examination 10 of 11**

STUDENT NUMBER

Letter

| | | | | | | | | | |
|---------|--|--|--|--|--|--|--|--|--|
| Figures | | | | | | | | | |
| Words | | | | | | | | | |

ACCOUNTING
Units 3 & 4– Written examination

(TSSM’s 2017 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> |
|----------------------------|---|------------------------|
| 9 | 9 | 100 |

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners and rulers
- Students are NOT permitted to bring into the examination room: blank sheets of paper and/or white out liquid/tape.
- Non programmable calculators are permitted in this examination.

Materials supplied

- Question book of 8 pages.
- Answer book of 16 pages.

Instructions

- Print your name in the space provided on the top of this page.
- All written responses must be in English.

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

Question 1**18 marks**

The Balance Sheet of Dibs Paints includes the following as at 31 December 2018

| | |
|---------------------------|-----------|
| Non-Current Assets | \$ |
| Delivery Vehicle | 45 500 |
| Accumulated Depreciation | 15 600 |
| | 29 900 |

Dibs Paints has two delivery vehicles.

| | Purchase Date | Historical Cost | Useful Life | Residual value |
|-----------|---------------|-----------------|-------------|----------------|
| Vehicle 1 | Nov 1 2015 | \$25 000 (+GST) | 5 years | \$7 000 |
| Vehicle 2 | Jan 1 2018 | \$26 000 (+GST) | 5 years | \$5 000 |

Dibs Paints plans to dispose of its vehicles after 5 years.

On 30 June 2019 the older delivery vehicle was sold by Bob's Vans for \$5 000.

A new delivery vehicle was purchased for \$32 000 plus GST including 12 month's Registration - \$900 plus GST, Signwriting - \$900 plus GST and a year of Roadside Assistance - \$200 plus GST. The estimated useful life of the delivery vehicle will be 5 years with an estimated residual value of \$5 000.

The business prepares reports on a six monthly basis.

- a.** Prepare the journal entries for the year ended 30 June 2019 to record the disposal and purchase of the delivery vehicles.

Note: Narrations are not required

12 marks

- b.** Explain why a business should account for depreciation of a non-current asset.

3 marks

- c.** The owner has heard that the reducing balance method of depreciation may be more appropriate for delivery vehicles than the straight-line method. Explain the appropriateness of using the reducing balance method rather than the straight-line method in this scenario.

3 marks

Question 2**14 marks**

Scooby's Scooters, a retailer of kid's scooters, have provided the following:

Account Balances as at 30 November 2019

| | | | |
|--------------------------------------|--------|------------------|----------|
| Prepaid Rent Expense | 1 000 | Accounts Payable | 14 000 |
| Bank | 14 000 | GST Clearing | 1 550 Cr |
| Accounts Receivable | 16 550 | | |
| Inventory | 19 400 | | |
| Equipment | 24 000 | | |
| Accumulated Depreciation – Equipment | 4 800 | | |
| | | | |

Other information

- Inventory is purchased on credit only.
- Inventory loss of \$1 000 occurred in November and the owner expects this to occur again.
- Wages paid in November were \$5 000 and there were no accrued wages at the end of October. The owner expects the amount paid for Wages (excluding any wages owing) to be \$9 000. The owner expects \$2 000 of wages to be owing at 31 December 2019.
- Total sales for the December are expected to be \$80 000 (40% are Credit Sales)
- Sales Returns are generally 2% of Credit Sales. This inventory is returned to the supplier.
- Bad Debts allowance is 3% of Credit Sales plus GST
- Rent of \$1 000 is paid in monthly in advance.
- The equipment is depreciated at 10% using the reducing balance method
- Inventory mark-up of 50% is used to determine selling price
- Interest income of \$25 was earned in December
- Accounts Receivable pay in the month following the sale

- a.** Calculate the budgeted closing balance of the Accounts Receivable account at 31 December 2019

4 marks

- b.** Identify and explain the key accounting assumption that requires the business to record bad debts.

2 marks

- c.** Prepare the Budgeted Income Statement for the month ended 31 December 2019

8 marks

TURN OVER

Question 3

9 marks

Eastside Bedding has commenced operations on 1 July 2019.

The owner contributed the following:

- \$10 000 cash
- Delivery Vehicle purchased for \$30 000 in 2018. Fair value at 1 July 2019 of \$15 000. The business will also take on the balance of the loan to Harvey Bank used to purchase the Delivery Vehicle. The current balance is \$12 000 and it is payable at \$500 per month
- \$35 000 of inventory
- \$12 000 of Shop Fittings
- A bank overdraft of \$8 000 has been organised for the business

- a.** Prepare the General Journal Entry to record the establishment of the double entry accounting system.

Note: A narration is not required

4 marks

- b.** Explain your treatment of the bank overdraft.

2 marks

- c.** Explain the term accrual accounting

3 marks

Question 4

8 marks

Time Out Uniform Supplies prepares its reports on a monthly basis. They invested \$100 000 in a one year Term Deposit on 1 December 2018. The interest rate on offer was 3.6% per annum payable quarterly.

- a.** Record the General Journal entry necessary on 30 September 2019.

Note: A narration is not required

2 marks

- b.** Record the entry in the General Journal required on 1 December 2019

3 marks

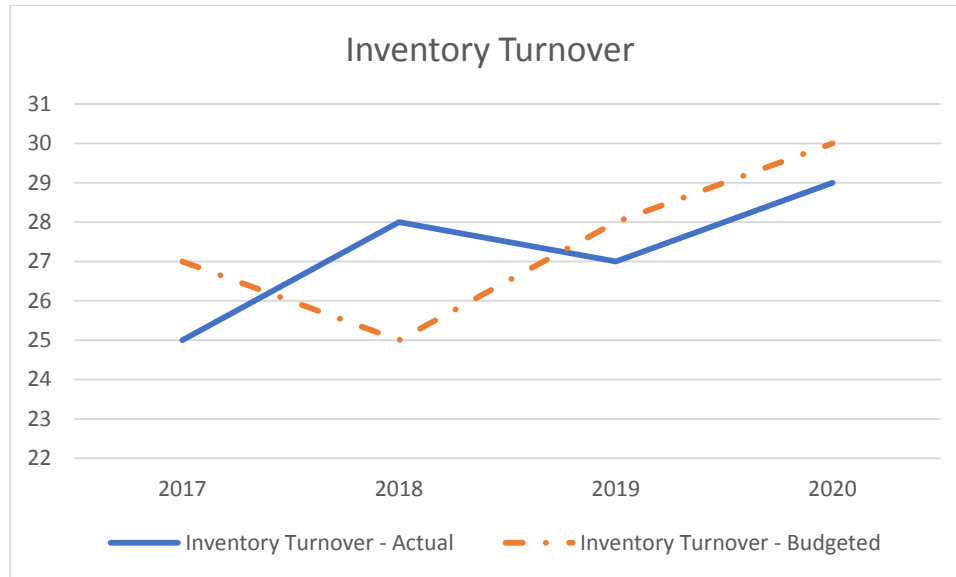
- c.** Explain why the journal entry on 30 September 2019 is recorded.

3 marks

Question 5

6 marks

You have prepared the following chart for Lucy’s Lighting Store. Lucy is concerned about her inventory management and finds the results of the chart confusing.



| | 2017 (\$) | 2018 (\$) | 2019 (\$) | 2020 (\$) |
|----------------------|--------------|--------------|--------------|--------------|
| Inventory Write-down | 1 150 | 1 090 | 950 | 380 |

Explain the trends in the chart. Discuss the relationship between Inventory Turnover and Inventory Write-down based on the chart provided.

Question 6

9 marks

Custom Couches provided a quote for the sale of 12 couches to City Hotels on 21 June 2019. On 1 July 2019 City Hotels paid a \$5 000 deposit to Custom Couches for 12 couches (Rec 99). Custom Couches sell the couches for \$2 000 plus GST each based on a 100% mark up. The 12 couches were delivered to City Hotel on 25 July. (Inv. 1234).

City Hotels paid the balance of their account on 31 July 2019.

Custom Couches Terms are 2/7 n 30

- a. Record the information above into the General Journal
Narrations are not required.

7 marks

TURN OVER

- b. Explain the treatment of the quote on 1 June 2019 in the accounts of Custom Couches.

2 marks

Question 7

14 marks

You have been provided with the following inventory records for Fred’s Camera Store at 30 September 2019.

| Inventory Item | Qty | Cost Price (\$) | Selling Price (\$) | Freight in (\$) | Sales Commission (\$) | Freight out (\$) |
|----------------|-----|-----------------|--------------------|-----------------|-----------------------|------------------|
| SLR Cameras | 30 | 450 | 900 | 5 | 3 | 4 |
| Tripods | 65 | 25 | 50 | 4 | 3 | 4 |
| Flashes | 25 | 125 | 250 | 4 | 4 | 4 |

The SLR cameras have been selling poorly and the owner has decided to reduce their selling price to \$450 each in an effort to dispose of them [Memo 7].

- a. Calculate the value of inventory on hand at 30 September 2019 prior to applying lower of cost and net realisable value

3 marks

- b. Prepare the General Journal entry required after applying the lower of cost and net realisable value.

Note: A narration is required

3 marks

- c. Explain your treatment of the SLR Cameras.

4 marks

- d. Identify and explain where individual inventory items are recorded and explain the method at which they are valued.

4 marks

Question 8

13 marks

Modern Party Supplies
Post-adjusted Trial Balance as at 30 June 2019

| Account Name | Debit \$ | Credit \$ |
|---|----------------|----------------|
| Accrued Interest Revenue | 550 | |
| Accumulated Depreciation – Delivery Van | | 7 500 |
| Advertising | 2 700 | |
| Bad Debts | 600 | |
| Bank | 16 500 | |
| Capital | | 166 015 |
| Cost of Sales | 42 265 | |
| Accounts Payable | | 43 520 |
| Accounts Receivable | 16 000 | |
| Depreciation – Delivery Van | 2 000 | |
| Delivery Van | 45 000 | |
| Discount Expense | 1 400 | |
| Discount Revenue | | 1 950 |
| Drawings | 25 000 | |
| GST Clearing | | 5 350 |
| Insurance Expense | 8 250 | |
| Interest Expense | 2 500 | |
| Interest Revenue | | 950 |
| Loan – Worldbank | | 45 500 |
| Profit on Disposal of Delivery Van | | 750 |
| Office Expenses | 7 800 | |
| Prepaid Insurance Expense | 8 400 | |
| Sales | | 85 250 |
| Sales Returns | 2 750 | |
| Inventory | 38 550 | |
| Inventory Loss | 950 | |
| Inventory Write Down | 385 | |
| Wages | 27 450 | |
| Totals | 356 785 | 356 785 |

- a. Prepare the general journal entries required to:
- Close the revenue accounts
 - Transfer Net Profit to the Capital account
Note: Net Profit was calculated at \$20 160
 - Transfer Drawings to the Capital account
Note: Narrations are not required

3 + 2 + 2 = 7 marks

TURN OVER

ACCOUNTING EXAM

- b. Discuss, referring to accounting assumptions and qualitative characteristics, why Modern Party Supplies would close its accounts at 30 June 2019.

6 marks

Question 9

9 marks

Suburban Furniture Outfitters have prepared the following indicators. The owner is happy with the performance of the business because all he cares about is his return on investment. He isn't interested in making any changes.

| | 2018 | 2019 |
|------------------------------------|------|------|
| Net Profit Margin | 15% | 17% |
| Return on Assets | 9% | 8% |
| Return on Owners Investment | 7% | 7% |
| Gross Profit Margin | 12% | 10% |

- a. Identify two non-financial indicators that the owner could use to evaluate the performance of the business.
- 2 marks
- b. Explain how the business could improve its Gross Profit Margin.
- 2 marks
- c. Discuss the owners comment that there is no need to make any changes to the business.
- 5 marks

END OF QUESTION BOOK