

# ACCOUNTING

## Units 3 & 4 – Written examination

**TSSM**<sup>TM</sup>  
Creating VCE Success

*(TSSM's 2018 trial exam updated for the current study design)*

### SOLUTIONS

#### Question 1

11 marks

a.

Product: Superfast PC		Cost Assignment Method: FIFO								
Date	Details	IN			OUT			BALANCE		
2019		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
31	Balance							10	400	
								2	420	4 840
31	Memo 72				1	400	400	9	400	
								2	420	4 440
31	Memo 73							3	300	
								6	400	
					3	100	300	2	420	4 140

4 marks

b.

**General Journal**

Date 2019	Details	General Ledger	
		Debit	Credit
31/12	Inventory Loss	400	
	Inventory		400
	Inventory Write-down	300	
	Inventory		300

4 marks

c. The 3 superfast PC’s were reduced in cost price using an inventory write-down. Faithful Representation requires that reports faithfully represent the real world economic event that they represent. Valuing inventory at the lower of cost and net realisable value ensures that the inventory is faithfully represented in the financial reports.

3 marks

**Question 2**

**19 marks**

a. Superior Stationers could borrow to replace capital with debt. This would result in an improvement in the Return on Owners Investment if profit remains the same or increases.

They could review their inventory mix. Removing slow moving inventory items could allow them to reduce the amount of days that inventory remains in the business.

They could increase the amount of days that they take to pay accounts payable. They are paying well within credit terms. This should allow them to improve their cash flow without a negative impact on their relationship with their accounts payable.

6 marks

b. Net Profit is determined by subtracting expenses incurred from revenue earned. While this is an important measure for a business it doesn’t take into account factors such as the size of the business. Profitability refers to the ability of a business to earn profit compared to a base. As can be seen from the indicators provided, despite the profit of the business being greater than the industry average, the business needs to look at its ability to earn profit based on the contribution of the owner and the efficiency of its assets. Profitability allows the business to identify areas that can be improved relating to profit and allows the business to compare itself to other similar businesses.

4 marks

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- c. While Superior stationery has a greater profit figure than the industry average it has a lower return on investment. The business is less reliant on debt than the industry average with a debt ratio of 20% compared to the 51% of the industry the owner has made a greater contribution than the average owner of similar businesses and therefore needs a higher profit to earn a similar return.

3 marks

- d. While Superior Stationery operates a stationery business it is different to the average stationery store. Rather than focusing on low margin high turnover inventory it provides its customers with a unique experience. By concentrating on high quality inventory and excellent customer service it needs to maintain higher inventory levels. The inventory turnover days should be compared to past years or budgets and the inventory mix should be continually reviewed.

The industry average of 12%, while lower than industry average, should be compared to alternative investments. If the owner is unable to get a similar return elsewhere it could be considered a good result.

The business is also a new business and this may be another reason for not using industry averages as a benchmark.

This question is to be marked globally.

6 marks

### Question 3

6 marks

- (a) Easy Reading has operated in a previous period and has paid more GST than it has collected.
- (b) Easy Reading has paid \$3 000 GST on cash purchases
- (c) Easy Reading has purchased inventory on credit for \$15 000 + GST
- (d) Easy Reading has collected \$4 000 from cash sales.
- (e) Easy Reading has charged its customers \$2 200 of GST
- (f) Easy Reading has received the refund of GST from the previous period from the ATO

**Question 4**

**11 marks**

**a.**

**General Journal**

		<b>General Ledger</b>	
		<b>Debit</b>	<b>Credit</b>
<b>Date</b>	<b>Details</b>		
20/9	Accounts Payable	1 100	
	Inventory		1 000
	GST Clearing		100
	(Return of inventory that had deteriorated in transit – CrN 99)		

2 marks

**b.**

**Fresh Fruit World  
Accounts Payable Schedule as at 30 September 2019**

Micks Market	5 000
The Apple Expert	7 000
The Friendly Pair	2 500
The Happy Salad	13 200
Crispy Legends	9 900
<b>Balance as per Accounts Payable</b>	<b>37 600</b>

4 marks

**c.** The transaction will result in an increase in current asset with inventory increasing by \$12 000 while current liabilities will increase by \$12 000 due to an increase in accounts payable of \$13 200 and a reduction in GST Clearing of \$1 200. There is no impact on owner's equity.

3 marks

**d.** GST is not included in the cost price of inventory in the ledger account as it is not an asset. It results in a reduction in the GST Clearing account as it when it is paid to the account payable they are collecting it on behalf of the ATO.

2 marks

## Question 5

24 marks

a.

## General Journal

Date	Details	General Ledger	
		Debit	Credit
30/6	Wages	2 000	
	Accrued Wages		2 000
	Drawings	500	
	Inventory		500
	Accrued Interest Revenue	250	
	Interest Revenue		250
	Advertising	300	
	Prepaid Advertising		300
	Sales Return	400	
	GST Clearing	40	
	Accounts receivable		440
	inventory	200	
	Cost of Sales		200
	Inventory Loss	2 300	
	Inventory		2 300
	Rent Expense	6 000	
	Prepaid Rent Expense		6 000
	Office Expenses	400	
	Electricity Expense		400

18 marks

- b. The return of the cricket bat resulted in a decrease in current assets of \$240 due to inventory increasing by \$200 and the accounts receivable decreasing by \$440. Current liabilities decreased by \$40 as the business no longer owes the GST collected to the ATO. Owner's equity decreased by \$200 as the sales return reduces net sales by \$400 and the cost of sales is reduced by \$200 as there is no longer profit on the sale of the cricket bat.

3 marks

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- c. Balance day adjustments are prepared according to the accrual basis assumption to ensure that a business matches its revenue earned against its expenses incurred in order to determine an accurate net profit. The Period assumption requires a business to prepare balance day adjustments.

3 marks

### Question 6

14 marks

a.

#### Prepaid Advertising

Date 2019	Cross Reference	Amount \$	Date 2019	Cross Reference	Amount \$
1 Mar	Balance	5 000	31 Mar	Advertising Expense	4 000
31 Mar	Bank	3 000	31	Balance	4 000

4 marks

- b. Office expenses are an expense as the result of an outflow of economic benefit that decreased the current asset bank and decreased owner's equity.

Discount expense is an expense as it results in the reduction of inflow of economic benefit due to accounts receivable is paying less than expected as they paid back their debt early. It also results in a decrease in owner's equity.

4 marks

- c. Inventory write down indicates to the users of the reports that some inventory has been reduced to below its cost price. This could be an indication of poor buying processes or poor storage of inventory. Understandability ensures that users of financial reports who have a reasonable knowledge of business, economic activities and accounting and a willingness to study the information with reasonable diligence are able to make appropriate decisions.

3 marks

- d. The Income Statement allows the owner to determine net profit by matching revenue earned to expenses incurred during the reporting period. Accrual accounting requires the business to ensure that all revenues earned are matched against expenses incurred in order to calculate an accurate net profit.

3 marks

Question 7

10 marks

a.

**Accounts Receivable**

<b>Date 2019</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2019</b>	<b>Cross-reference</b>	<b>Amount</b>
1/7/18	Balance	50 000	30/6	Bad Debts	1 100
30/6	Sales/GST Clearing	440 000		Discount expense	8 000
				<b>Bank</b>	<b>409 900</b>
				Sales Returns/GST Clearing	11 000
			30/6	Balance	60 000
		490 000			490 000

**Accounts Payable**

<b>Date 2019</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2019</b>	<b>Cross-reference</b>	<b>Amount</b>
	Inventory/GST Clearing	5 500	1/7	Balance	25 000
	Bank	192 500		Inventory/GST Clearing	220 000
	Discount Revenue	12 000			
<b>30/6</b>	Balance	35 000			
		245 000			245 000

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**Inventory**

<b>Date 2019</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2019</b>	<b>Cross-reference</b>	<b>Amount</b>
1/7	Balance	50 000	30/6	Cost of Sales	200 000
30/6	Cost of Sales	5 000		Inventory Write-down	8 000
30/6	Inventory	200 000		Accounts Payable	5 000
				Balance	42 000
		255 000			255 000

8 marks

- b.** Variance reports are prepared on a monthly basis in order to allow the business to identify any issues and to take corrective action on a regular basis rather than waiting till the end of the year.

2 marks

**Question 8**

**5 marks**

- a.** Method A is the straight line method of depreciation. It assumes that the computer will contribute evenly to revenue over its useful life.

Method B is the reducing balance method. It assumes that the computer will contribute more to earning revenue in the earlier stages of its life.

As the non-current asset is a computer it can be assumed that the reducing balance method is more appropriate as it will contribute more to earning revenue earlier in its life and the business needs to find the best way to match revenue earned to expenses incurred in order to calculate an accurate net profit.

The computer has moving parts and is likely to become slower as it begins to age.

3 marks



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- b.** A profit on sale is not determined solely by the selling price but rather by how accurately it has been depreciated. If the business over depreciates the computer by understating the useful life or residual value it will result in a profit on disposal whereas if it under depreciates the non-current asset due to understating the useful life or residual value it will result in a loss on disposal.

2 marks