

**‘2019 Examination Package’ -
Trial Examination 4 of 11**

STUDENT NUMBER

Figures

Words

										Letter

ACCOUNTING
Units 3&4 – Written Examination

(TSSM’s 2011 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, 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 14 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 (7 marks)

Lou’s Linens is about to introduce a double-entry accrual accounting system.

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

Cash at Bank	\$ 3 810 CR
Account Payable – Theo’s Threads	\$ 6 600
Account Receivable – Freemantle’s Fabrics	\$ 8 800
Account Receivable– Vivian Tse	\$ 1 540
Account Receivable– Tara Hall	\$ 2 310
Furniture and Fittings	\$17 800
GST Clearing	\$ 5 300 CR
Loan – EZY Bank	\$15 000
Office Equipment	\$ 5 200
Inventory	\$32 890

Prepare the General Journal entry required to establish the double-entry accounting system of Lou’s Linens.

A narration **is not** required.

Question 2 (10 marks)

Sajini’s Sports sells a range of sporting goods. Sajini’s Sports uses the perpetual method of inventory recording and the First In First Out (FIFO) cost assignment method.

During January 2019 the following transactions occurred relating to a line of inventory - the Malvern Moon Helmet.

Jan 4	Sold 2 helmets to J. Liew for \$160 plus \$16 GST (Inv.410)
9	Purchased 8 helmets from Lew Industries for \$90 plus \$9 GST each (Inv.3145)
19	Sajini sent 4 helmets to the local primary school as raffle prizes (memo 86)
26	Sajini took 1 helmet for her nephew’s birthday present (memo 99)
31	A stocktake revealed an inventory loss of 1 helmet (memo 108)

- a. **Complete** the Inventory Card for the Malvern Moon Racer Helmet for January 2019. 5 marks
- b. **State** the effect on the accounting equation if the entry on 19 January was **not** completed. 2 marks
- c. **Explain**, with reference to an accounting assumption, why the transaction on 26 January 2019 is required to be recorded. 1 + 2 = 3 marks

Question 3 (11 marks)

George’s Garden Gates maintains a double-entry accrual accounting system and uses a perpetual inventory recording system with the FIFO cost assignment method

George provides you with the following two source documents:

Document A

GEORGE’S GARDEN GATES			
Date: 19/06/19		Credit Note: 76	
Credit to: Allan Murray			
Item	Qty	Unit Cost	\$
Klink Gate	1	150	150
<u>GST (10%)</u>			<u>15</u>
			Total 165

Document B

GLITZY GATES			
Date: 22/06/19		Credit Note: 67	
Credit to: George’s Garden Gates			
Item	Qty	Unit Cost	\$
Klink Gate	1	70	70
<u>GST (10%)</u>			<u>7</u>
			Total 77

- a. **Record** both documents in the Inventory Card of the Klink Gate. 2 marks

- b. **Record** both documents in the General Journal. Narrations are not required. 4 + 3 = 7 marks

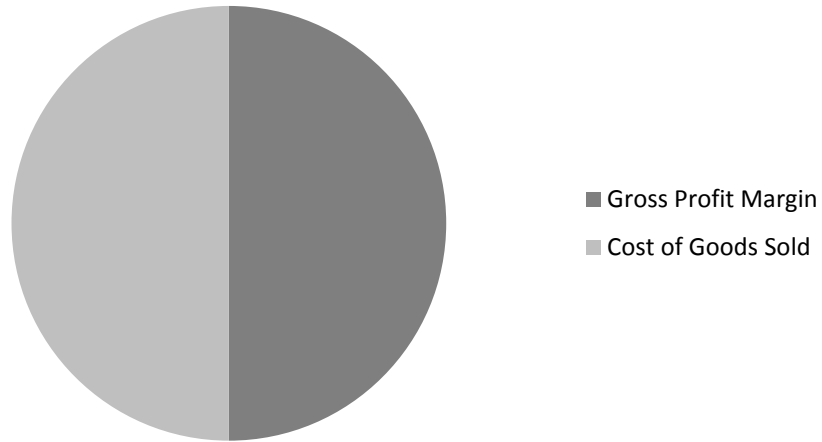
- c. **State** two changes George can make to his management of inventory to reduce sales returns. 1 + 1 = 2 marks

TURN OVER

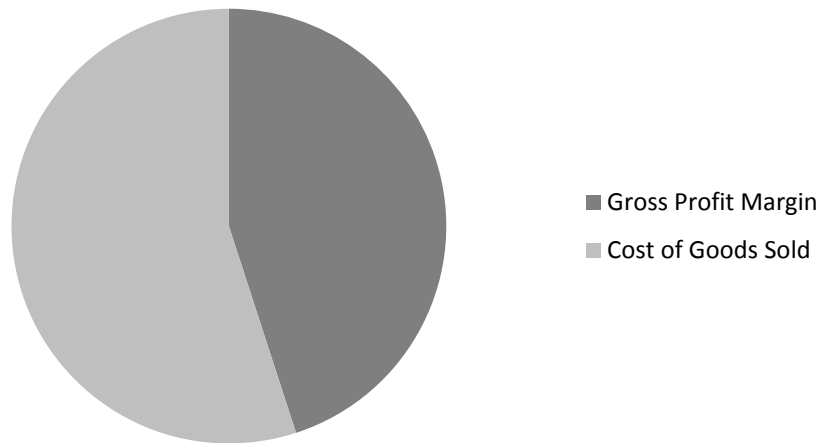
Question 4 (21 marks)

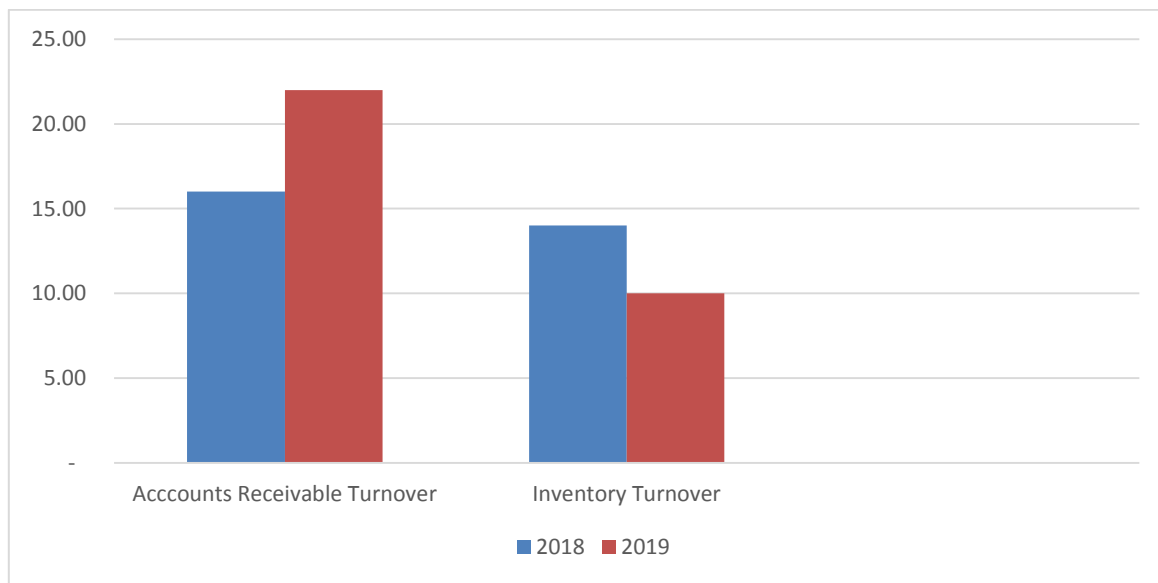
Harriett of Harriett's Horse Wares' has prepared the following visual analysis of her performance for the years ended 30 June 2018 and 30 June 2019.

2018 Sales Analysis



2019 Sales Analysis





a. **State** two reasons to explain how the Net Profit Margin improved yet the Gross Profit Margin declined.

1 + 1 = 2 marks

b. **Explain** to Harriett how it is possible for a business to have an increase in profitability even though there has been a decrease in profit.

2 marks

c. **Explain** why the Return on Owner’s Investment is a more important indicator of business performance than Return on Assets.

2 marks

Harriett of Harriett’s Horse Wares’ has performed the following calculations to be considered in your analysis of her business.

Indicator	2018	2019
Working Capital Ratio	1.5 : 1	4.5 : 1
Debt Ratio	65%	75%

d. **Explain** the difference between the concepts of ‘liquidity’ and ‘stability’.

2 marks

e. **State** two negative consequences of the trend in working capital.

2 marks

f. **State** one limitation of using the Working Capital Ratio as an indicator of business liquidity.

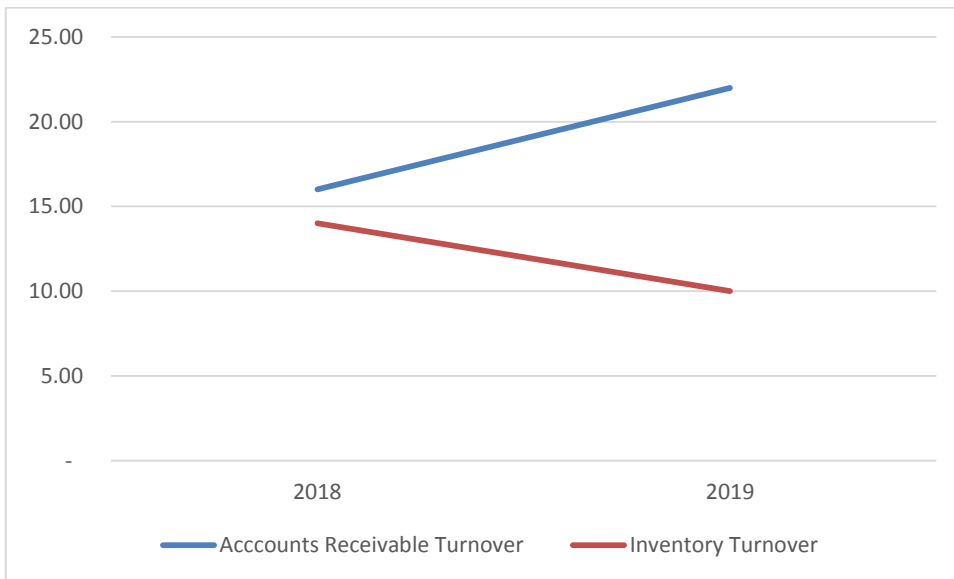
1 mark

TURN OVER

g. State one other key indicator that could be used when assessing business liquidity. 1 mark

h. State one advantage and one disadvantage of being the owner of a business with a high Debt Ratio. 1 + 1 = 2 marks

Harriett of Harriett’s Horse Wares’ has prepared the following visual analysis of her business’ efficiency to be considered in your analysis of her business.



Harriet’s accounts receivable are required to pay their outstanding accounts within 14 days from date of invoice. The accounts receivable are given a discount of 2% if they pay within 5 days.

i. State two strategies Harriet might introduce to improve the trend in the accounts receivable turnover. 1 + 1 = 2 marks

j. Discuss how the trend in Accounts Receivable Turnover could have a negative effect on both the liquidity and profitability of the business. 4 marks

k. State one limitation of ratio analysis. 1 mark

Question 5 (21 marks)

Abby's Appliances 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 28 February 2019.

Abby's Appliances
Post-Adjustment Trial Balance as at 28 February 2019

Account	Debit	Credit
Accrued Wages		1 800
Accumulated Depreciation – Furniture and Fittings		150
Accumulated Depreciation – Office Equipment		130
Advertising	760	
Bad Debts	440	
Buying Expenses	280	
Capital		49 160
Cartage Inwards	960	
Cartage Outwards	340	
Cash at Bank	6 040	
Cash Sales		8 600
Cost of Sales	10 900	
Credit Sales		13 200
Accounts Payable		12 480
Accounts Receivable	7 910	
Depreciation – Furniture and Fittings	75	
Depreciation – Office Equipment	65	
Discount Expense	190	
Discount Revenue		120
Drawings	500	
Furniture and Fittings	17 800	
GST Clearing		7 080
Insurance Expense	100	
Interest Expense	260	
Interest Revenue		20
Loan – EZY Bank		26 000
Office Equipment	5 200	
Prepaid Insurance Expense	1 000	
Rent Expense	2 500	
Inventory	29 110	
Inventory Loss	210	
Van	28 000	
Wages	6 100	
Totals	118 740	118 740

TURN OVER

- a. **Prepare** the General Journal entries to close the Revenue accounts.
A narration is **not** required. 3 marks
- b. **State** two reasons why Revenue and Expense accounts are closed. 1 + 1 = 2 marks
- c. **Prepare** the Income Statement for the month ended 28 February 2019. 7 marks
- d. **Complete** the following General Ledger accounts after all closing, balancing and transfer entries have been recorded and posted as at 28 February 2013:
- Wages
 - Profit and Loss Summary
 - Capital
- 3 + 3 + 3 = 9 marks

Question 6 (2 marks)

At the end of each six months, the accountant prepares a Variance Report for Lucy to assess Lucy's Lounges' performance.

Income Statement Variance Report (Extract) for the six months ending 30 June 2019

Item	Actual \$	Budget \$	Variance \$	F/U
Sales	\$820 000		\$45 000	F
Gross Profit	\$425 000	\$390 000	\$35 000	
Advertising	\$26 000		\$5 000	U
Wages	\$83 000	\$96 000	\$13 000	

Complete the Income Statement Variance Report (Extract) provided in the answer booklet.

Question 7 (12 marks)

The following document relates to the most recent purchase of chairs by Tina’s Tables:

KR AMERICA			
Date: 09/07/19 Invoice: 476			
Charge to: Tina’s Tables			
Item	Qty	Unit Cost	\$
Low Rider	20	80	1 600
Fallon Flip	30	100	3 000
Packaging	50	10	500
Cartage Inwards			<u>130</u>
			5 230
<u>GST (10%)</u>			<u>523</u>
		Total	5753

a. Using product costing, **record** information from this Invoice into

- the General Journal
- the Inventory Card for the Fallon Flip

A narration is **not** required.

2 + 3 + 1 = 6 marks

b. **Explain** the effect on profit if period costing is used instead of product costing.

2 marks

Tina’s Tables places a display card on each table on the showroom floor and is included in the packaging of each table sold. The display card shows an image of the table in use, warranty details and an area to write the selling price.

Tina’s Tables recently had 500 display cards for various tables printed for a total cost of \$80 plus \$8 GST.

The accountant likes to use product costing where she can and believes that the cost of these display cards should be included in calculating the cost of each table.

c. **Discuss** whether the accountant should apply product costing to the cost of the display cards.

4 marks

TURN OVER

Question 8 (9 marks)

An extract from Suzy the Supplier's Balance Sheet as at 30 September 2019 is as follows.

Non-Current Assets

Delivery Van	\$24000
less: Accumulated Depreciation	<u>(\$21 600)</u>
	\$2400

Additional Information

The Delivery Van is depreciated at 20% per annum.

Suzy the Supplier prepares reports on a monthly basis.

On 31 October 2019 Suzy decided to sell the Delivery Van to Deborah's Deliveries and to purchase a newer model. Details of the new purchase and trade-in are outlined below:

- Purchase Price - \$28 000 plus \$2 800 GST – Chq 998
- Selling price - \$1 000 plus GST
- Terms – 2/7, n/30

Included in the purchase price is annual registration of \$600 plus \$60 GST and the installation of a radio communication system costing \$400 plus \$40.

The Delivery Van is to be depreciation at 20% per annum on the straight-line basis.

a. **Show** how the following ledger accounts would appear on 31 October 2019 after the General Journal entries relating to the trade-in and the purchase of the Delivery Van have been posted.

- Delivery Van
- Accumulated Depreciation – Delivery Van
- Disposal of Delivery Van

You are **not** required to balance or close the accounts.

2 + 2 + 3 = 7 marks

b. **Explain** why a profit or a loss on the disposal of the Delivery Van occurred.

2 marks

Question 9 (7 marks)

Alf's Art Supplies values their inventory at the lower of cost and net realisable value. Alf's most popular selling item is the Brazilian Brush imported from Brazil.

At 31 August 2019, inventory records revealed the following.

Model	Quantity on Inventory Card	Quantity as per Stocktake	Purchase Price per Unit	Import Duties per Unit	NRV
Brazilian Brush	36	34	\$19	\$3	\$18

- a. Using the information contained in the above table, **calculate** the value of the inventory write-down. 2 marks
- b. With reference to an appropriate qualitative characteristic, **explain** why inventory is valued at the lower of cost and net realisable value. 1 + 2 = 3 marks
- c. **State** two reasons for the net realisable value of a product being lower than its cost price. 1 + 1 = 2 marks

100 marks

END OF QUESTION BOOK