

# ACCOUNTING

## Units 3 & 4 – Written examination



*(TSSM's 2014 trial exam updated for the current study design)*

### SOLUTIONS

#### Question 1 (8 marks)

a.

#### General Journal

Date	Details	General Ledger	
		Debit	Credit
2019			
28 Feb	Bank	1 000	
	Unearned Sales Revenue		1 000
4 March	Unearned Sales Revenue	1 000	
	Sales Revenue		4 000
	GST Clearing		400
	Account Receivable – Hilda's Hotel	3 400	
	Cost of Sales	2 000	
	Inventory		2 000
8 March	Bank	3 298	
	Discount Expense	102	
	Account Receivable – Hilda's Hotel		3 400

6 marks

b.

Discount expense results in a decrease in assets (Accounts Receivable) that leads to a decrease in owner's equity.

2 marks

**Question 2 (13 marks)**

**a.**

$$20\,000 * 0.25 * 2/12 = 833$$

$$20\,000 * 0.25 = 5\,000$$

$$25\,000 * 0.25 * 6/12 = \underline{2\,500}$$

$$8\,333$$

3 marks

**b.**

**Motor Vehicle**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1 Jan	Balance	40 000	1 March	Disposal of Motor Vehicle	20 000

**Disposal of Motor Vehicle**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1 March	Motor Vehicle	20 000	30 June	Accumulated Depreciation – Motor Vehicle	12 000
				Bank	5 000
				Loss on Disposal of Motor Vehicle	3 000

**Accumulated Depreciation – Motor Vehicle**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1 March	Disposal of Motor Vehicle	12 000	1 Jan	Balance	20 000

8 marks

**c.** A profit on disposal occurs when the business has disposed of the asset for an amount greater than the carrying value. This is because the business has over-depreciated the asset. The business has either understated the useful life or the residual value expected from the asset. The profit represents an accounting adjustment.

2 marks

**Question 3 (14 marks)**

a.

**Cash at Bank**

<b>Date</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date</b>	<b>Cross-reference</b>	<b>Amount</b>
1 July	Balance	4 500	30 June	Accounts Payable	165 000
30 June	Sales/GST Clearing	115 500	30 June	Loan	30 000
30 June	Accounts Receivable	332 300	30 June	Wages	80 000
			30 June	Drawings	1 000
			30 June	Inventory/ GST Clearing	55 000
			30 June	Balance	121 300
		452 300			452 300

1 mark for opening and closing balances

1 mark for sales/GST clearing and accounts receivable

1 mark for accounts payable and inventory

1 mark for loan, wages and drawings

**Inventory**

<b>Date</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date</b>	<b>Cross-reference</b>	<b>Amount</b>
1 July	Balance	8 000	30 June	Drawings	18 000
30 June	Accounts Payable	180 000	30 June	Cost of Sales	210 000
30 June	Bank	50 000	30 June	Inventory Loss	675
			30 June	Balance	9 325
		238 000			238 000

**Accounts Receivable**

<b>Date</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date</b>	<b>Cross-reference</b>	<b>Amount</b>
1 July	Balance	9 000	30 June	Discount Expense	2 750
30 June	Sales/GST Clearing	346 500	30 June	Bank	333 750
			30 June	Balance	19 000
		355 500			355 500

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- 1 mark for opening and closing balances
- 1 mark for discount expense
- 1 mark for sales/GST clearing and bank.

12 marks

b.

The sales figures provide the basis of transactions that occur in a business. The greater the sales, the greater the need for stock purchases, wages, expenses etc. The sales provide the starting point for the budget.

2 marks

**Question 4 (8 marks)**

a.

**General Journal**

Date	Details	General Ledger	
		Debit	Credit
<b>2019</b>			
31 March	Accrued Interest Revenue	20	
	Interest Revenue		20
	Accrual of interest earned for March 2019 (Memo 28)		

3 marks

b.

**Accrued Interest Revenue**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
1/6	Balance	20	30/6	Balance	80
30/6	Interest Revenue	60			

3 marks

c.

**General Journal**

Date	Details	General Ledger	
		Debit	Credit
<b>2019</b>			
31 August	Bank	120	
	Accrued Interest Revenue		80
	Interest Revenue		40

2 marks

**Question 5 (11 marks)**

**a.**

Motor Vehicle – Straight line depreciation – Depreciation is the same amount each year  
Building – Reducing balance – Depreciation reduces each year and is calculate as a percentage on each year's carrying value

4 marks

**b.**

Gary has used reducing balance depreciation for the buildings which are an asset that will have the same revenue earning capacity each year. Straight line would be the preferential method for buildings.

Gary has used straight line for motor vehicles which are an asset that will have a greater revenue earning capacity earlier in their useful life. Reducing balance would be the preferential method for motor vehicles.

4 marks

**c.**

Financial Reports should be able to be compared over time. If the business changes its depreciation method it can result in the reports not being able to be compared over time which impacts on decision making by the business.

2 marks

**d.**

Year 1 20 000  
Year 2 20 000  
Year 3 20 000  
Year 4 20 000  
80 000

1 mark

**Question 6 (10 marks)**

**a.**

X Phones –  $75 * 10 = 750$   
Y Phones –  $72 * 15 = 1080$   
Z Phones –  $136 * 25 = 3400$   
Total = 5230

3 marks

b.

**General Journal**

Date	Details	General Ledger	
		Debit	Credit
<b>2019</b>			
31 March	Inventory Write-down	620	
	Inventory		620

2 marks

c.

The lower of cost and NRV is required to be used in order to comply with relevance as the users of the reports would be able to make more informed decisions when using the lower value.

3 marks

d.

GST is not included in the cost price of inventory. It is paid to the supplier who then either passes the GST on to the ATO or receives a credit against any GST paid.

2 marks

**Question 7 (9 marks)**

a.

Inventory purchases impact on the working capital ratio but not on the quick asset ratio. In this case there may have been large inventory purchases.

2 marks

b.

Current assets may not be being used effectively. Cash may be sitting in the bank and not being used to grow the business or placed in longer term higher yield investments.  
 High WCR due to large amount of accounts receivable who are slow to pay.  
 High levels of stock – holding inventory that is not selling

2 marks

c.

As this is a discuss question, students need to look at both sides of the solution. Harriet is probably looking at the bank balance when she refers to the liquidity of the business as the bank is increasing each year.

The cash flow cover is also positive and indicates that the business is able to meet its short term liabilities from its operating activities.

Harriet needs to consider that the interest cover has been in decline indicating that the business is receiving less cash from its operating activities to cover its interest costs.

The accounts payable is also becoming a concern as they are moving well beyond their terms.

5 marks

**Question 8 (20 marks)**

a.

**Jeff's Jackets**  
**Cash Flow Statement for the year ending 30 June 2019**

<b>Cash Flow from Operating Activities</b>	<b>\$</b>	<b>\$</b>
Cash Sales	130 000	
Collections from Accounts Receivable	191 800	
Interest received	620	
GST Collected	13 000	335 420
Office Expenses	(14 250)	
Prepaid insurance	(5 000)	
Interest	(3 250)	
GST Paid	(5 710)	
GST Settlement	(7 220)	
Advertising	(3 850)	
Cash purchase of inventory	(34 000)	
Wages	(90 675)	
Payments to Accounts Payable	(162 600)	(326 555)
<b>Net cash flows from Operations</b>		<b>8 865</b>
<b>Net Cash Flows from Investing Activities</b>		
Proceeds from disposal of office equipment	5 000	
<b>Net Cash Flows from Investing Activities</b>		<b>5 000</b>
<b>Cash flows from Financing Activities</b>		
Drawings	(57 000)	
Loan - Eastpac	(6 000)	
<b>Net Cash Flows from Financing Activities</b>		<b>(63 000)</b>
<b>Net decrease in cash position</b>		<b>(49 135)</b>
<b>Bank Balance at Start</b>		<b>53 235</b>
<b>Bank Balance at End</b>		<b>4 100</b>

1 mark for collections from accounts receivable and payments to accounts payable

1 mark for GST Collected, GST Paid and GST Settlement

1 mark for interest received

1 mark for accrued wages

1 mark for office expenses, prepaid insurance and interest

1 mark for advertising and inventory purchases

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- 1 mark for disposal of office equipment
- 1 mark for drawings and Loan – Eastpac
- 1 mark for opening bank
- 1 mark for format

10 marks

b.

**Jeff's Jackets**  
**Income Statement for year ended 30 June 2019**

Revenue	\$	\$
Sales	428 000	
<b>Less Sales Returns</b>	<u>(8 000)</u>	420 000
<b><u>Less Cost of Goods Sold</u></b>		
Cost of Sales	150 000	
Customs Duty	<u>4 400</u>	<u>154 400</u>
<b><u>Gross Profit</u></b>		265 600
<b>Less Inventory Loss</b>	680	
<b>Add Inventory Write-down</b>	<u>200</u>	<u>880</u>
<b><u>Adjusted Gross Profit</u></b>		<u>264 720</u>
<b><u>Add Other Revenue</u></b>		
Discount Revenue	1 400	
Profit on disposal of office equipment	1 051	
Interest Revenue	<u>620</u>	<u>3 071</u>
		267 791
<b><u>Less Other Expenses</u></b>		
Advertising	4 250	
Bad Debts	300	
Depreciation – Office Equipment	1 400	
Depreciation – Delivery Van	1 000	



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Discount Expense	3 200	
Insurance Expense	16 250	
Interest Expense	3 250	
Office Expenses	14 250	
Wages	<u>75 000</u>	<u>118 900</u>
<b>Net Profit</b>		<b><u>148 891</u></b>

- 1 mark for sales and sales returns
- 1 mark for cost of sales and customs duty
- 1 mark for inventory loss
- 1 mark for inventory write-down
- 1 mark for discount revenue, profit on disposal of equipment and interest revenue
- 1 mark for advertising and bad debts
- 1 mark for depreciation office equipment, depreciation delivery van and discount expense
- 1 mark for format
- 1 mark for insurance, interest
- 1 mark for office expenses and wages

10 marks

**Question 9 (7 marks)**

**a.**

The period assumption best identifies the need to prepare balance day adjustments. Cash and profit are different and in order for revenue and expenses to be matched correctly to the period in which they are earned and incurred balance day adjustments are used.

3 marks

**b.**

Operating activities refer to cash flow from the day to day trading activities of a business

2 marks

**c.**

Accrual accounting refers to accounting for revenues when they are earned and expenses when they are incurred. Revenues earned are matched to expenses incurred to determine profit

2 marks