



**‘2019 Examination Package’ -  
Trial Examination 9 of 11**

**STUDENT NUMBER**

Letter

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**ACCOUNTING**  
**Units 3 & 4– Written examination**

*(TSSM’s 2016 trial exam updated for the current study design)*

Reading time: 15 minutes  
Writing time: 120 minutes

**QUESTION BOOK**

**Structure of book**

<i>Number of Questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
10	10	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 9 pages.
  - Answer book of 16 pages.
- Instructions**
- Answer both questions in the answer book.
  - 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 room for this task.**

## ACCOUNTING EXAM

### Question 1 (6 marks)

Phoenix Paint Supplies has provided the following indicators

	2017	2018	2019
Return on Owner's Investment	4%	6%	9%
Working Capital	1:1	1:1	2:1
Debt Ratio	40%	50%	80%
Accounts Receivable Turnover (days)	18	18	41

The manager is happy with the performance of the business. She is impressed that the Return on Owner's Investment is well above alternative investments. The owner is concerned that the Accounts Receivable Turnover has increased to 41 days but the manager says that's not an issue if the Return on Owner's Investment is 9%.

Discuss, using the indicators provided, why the Return on Owner's Investment may not be the best indication of the performance of the business.

## ACCOUNTING EXAM

### Question 2 (10 marks)

Pete's Pizza Place delivers pizzas throughout the inner city. Pete operates a fleet of delivery vans and is trading in one of his vans. The business reports on 30 June each year.

The delivery van was purchased on 1 June 2012 by Pete for his own personal use and contributed to the business on 31 July 2014 when it was valued at \$40 000 and will be replaced on 31 July 2019. It was initially purchased for \$50 000 plus GST. It has an estimated useful life of 5 years from contribution date and an estimated selling price of \$7 000.

Pete is trading the van in for a new Delivery Van costing \$35 000 plus GST from Essendon Used Cars. The trade-in received for the vehicle was \$10 000 on 31 July 2019. The business uses the straight-line method of depreciation.

- a. Prepare the journal entries to record the trade in and purchase of the new vehicle.

7 marks

- b. Explain how a business could make a profit on the disposal of the delivery van despite selling the delivery vehicle for less than its original cost.

3 marks

### Question 3 (7 marks)

Clarks Christmas Lights is open for business, ready for the end of year rush. The business started on 1 October 2019 when the following took place:

Clark contributed inventory worth \$10 000, a Motor Vehicle worth \$18 000 (with a loan from Portsea Banking of \$5 000 that the business will take over – repayments of \$300 per month), Furniture and Fittings of \$3 000 and Cash of \$1 500.

- a. Prepare the General Journal entry to record the transaction above

3 marks

Clark is purchasing Christmas lights from Switzerland that he will store in his house for extra security. He has asked you to include both the house and the lights in the accounts.

- b. Explain to Clark the issues that will exist if he includes the house in the business's Balance Sheet.

4 marks

**TURN OVER**

ACCOUNTING EXAM

**Question 4 (10 marks)**

Cam's Computer Store has provided you with the following information.

Inventory records as at 30 June 2019:

Phone	Quantity	Price per unit (inc. GST)	Cartage in (exc. GST)	Selling Price
12" Laptop	10	550	40	1 100
15" Laptop	15	825	40	1 650
18" Laptop	12	990	50	1 980

Due to the decline in demand for large laptops, Cam has discounted the 18" laptops to \$500.

Every 15" laptop sold will also come with a laptop bag valued at \$50.

- a. Calculate the value of closing inventory prior to applying lower of cost or Net Realisable Value.  
3 marks
- b. Prepare the General Journal entry to adjust the inventory account after the lower of cost of Net Realisable Value has been applied as at 30 June 2019. A narration is not required.  
2 marks
- c. Explain your treatment of the laptop bag provided with the 15" computer  
2 marks

Cam has decided to implement the First In First Out (FIFO) cost assignment method. He is concerned that computers are remaining on the shelves too long and require discounting in order to sell them.

- d. Explain the concept of FIFO to Cam and explain how it will impact on his ability to prevent inventory becoming obsolete  
3 marks

# ACCOUNTING EXAM

## Question 5 (17 marks)

Exquisite Jewellery is preparing its budgets for 2020. They have provided the following to assist in the process:

### Balances as at 1 July 2019

Inventory	10 000
Bank	20 000
Accounts Receivable	12 000
Accounts Payable	15 000

Actual amounts were also provided for 2019 and budgeted amounts for 2020.

Item	2019 (Actual)	2020 (Budgeted)
Sales (excluding GST)	300 000	Increase by 5%
Cash Sales (excluding GST)	40% of Sales	30% of Sales
Cost of Sales	40% of Sales	50% of Sales
Inventory Purchases (Credit) (excluding GST)		180 000
Inventory Purchases (Cash) (excluding GST)		50 000
Drawings of Inventory	8 000	12 000
Drawings – Cash	20 000	5 000
Accounts Receivable– end		30 000
Accounts Payable– end		45 000

Discount revenue is budgeted to be \$1 200

Discount expense is budgeted to be \$1 200

Inventory loss is budgeted to be \$900

- a. Prepare the following accounts reconstruction to determine:
- Budgeted receipts from Accounts Receivable for Year ended 30 June 2020
  - Budgeted closing balance of Inventory for Year ended 30 June 2020
  - Budgeted payments to Accounts Payable for the year ended 30 June 2020

11 marks

**TURN OVER**

## ACCOUNTING EXAM

The owner is concerned that preparing budgeted figures is just simple guesswork and no matter how hard you try you will never get the figures right. *“Why bother producing accounts that you know will be wrong”*.

- b.** Discuss his comments, with reference to appropriate accounting assumptions and qualitative characteristics.

6 marks

### Question 6 (11 marks)

Kev’s Couches sell tailor-made recliners. Hite Hotels ordered 10 recliners on 1 July 2019 for \$500 each. Kevs Couches sells his recliners at a 100% mark-up. On 7 July 2019 Hite Hotels paid a deposit of \$2 000 (Rec. 99) for the recliners.

5 recliners were delivered to Hite Hotels on 15 July (Inv. 22) with the balance being delivered on 21 July. (Inv. 29)

- a.** Record the transactions in the General Journal.  
Narration is **not** required

6 marks

- b.** Explain your treatment of the transaction on 1 July 2019

1 mark

- c.** Explain the concept of accrual accounting and how it applies in this scenario

4 marks

ACCOUNTING EXAM

**Question 7 (18 marks)**

Barry's Beds retails quality bedding. Its range of beds include Snuggly Single, Delightful Doubles and Comfy King.

The business uses the FIFO inventory valuation method.

The following details relate to Barry's beds for August 2019:

Balances at 31 July 2019

- Snuggly Singles 2 @ \$250 each
- Delightful Doubles 4 @ \$400 each
- Comfy King 5 @ 600 each

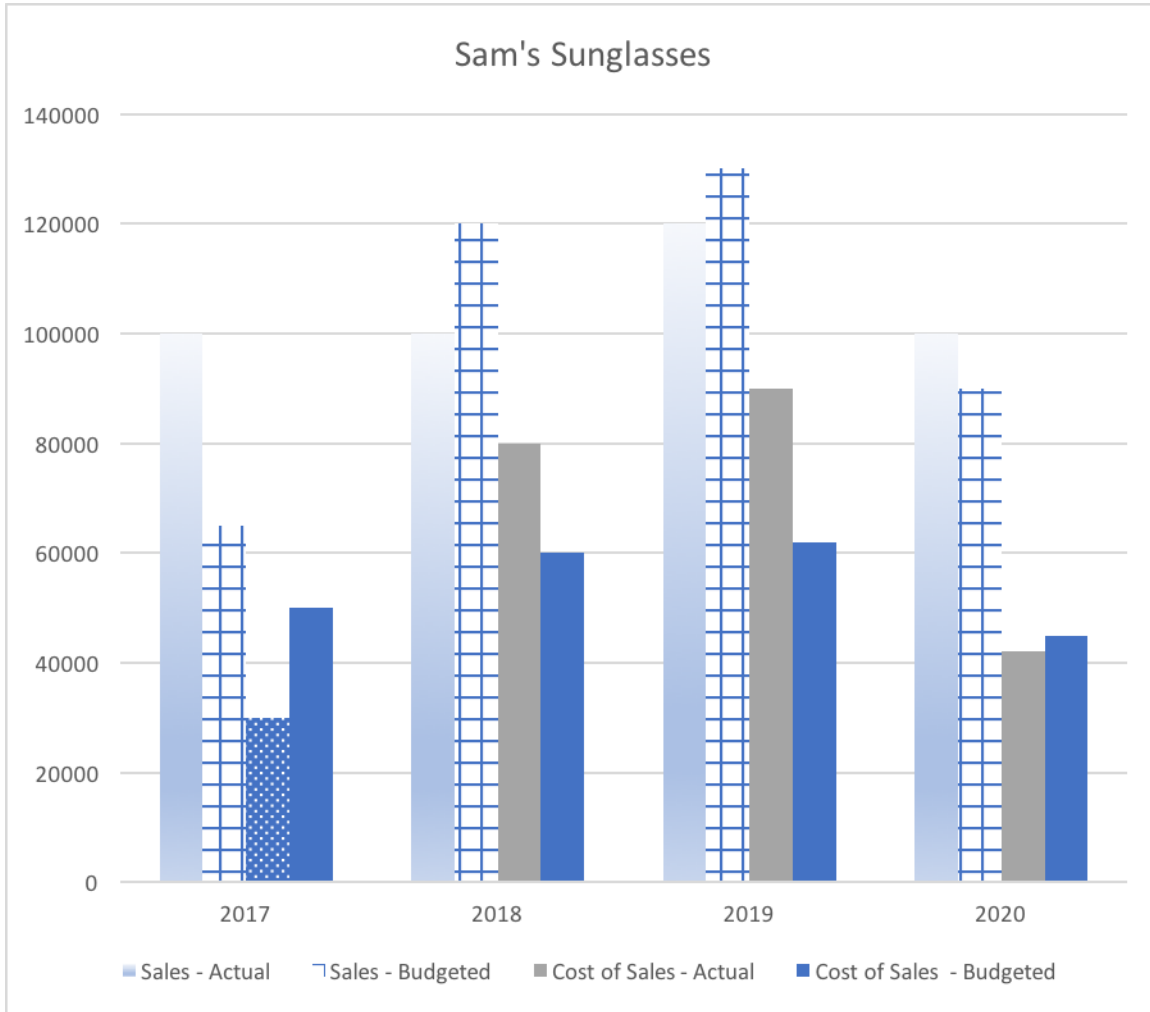
The following transactions occurred in August

3 August	Purchased 5 Snuggly Singles beds for \$280 (+GST) Inv 48
4 August	Sold 3 Snuggly Singles for \$400 each (+GST) Rec 39
8 August	Purchased 2 Delightful Doubles for \$410 each (+GST) Inv 89
12 August	Purchased 18 Snuggly Singles for \$300 each (GST) Ch 389
14 August	Owner took home 1 Snuggly Singles bed home (Memo 20)
16 August	Discovered that 3 Snuggly Singles beds purchased on 3/8 were damaged. Selling price will now be \$100 (+GST) each (Memo 21)
17 August	Sold 2 Snuggly Singles for \$500 (+GST) each Rec 40
25 August	Ordered 10 Snuggly Singles for \$250 (+GST each)
26 August	Donated 2 Snuggly Singles to Keilor Kindergarten (Memo 22)
31 August	Stocktake found 15 Snuggly Singles, 6 Delightful Doubles, 5 Comfy Kings (Memo 23)

- a. Prepare the inventory card for 'Snuggly Singles' 6 marks
- b. Calculate the cost of sales for 'Snuggly Singles' using the inventory card. 2 marks
- c. Outline the process by which an inventory gain is calculated by a business 3 marks
- d. Explain your treatment of the transactions on:  
i. 16 August  
ii. 31 August 4 marks
- e. Explain why an inventory write-down is recorded by a business. Refer to any relevant accounting assumptions and qualitative characteristics in your response. 3 marks

**TURN OVER**

**Question 8 (7 marks)**



a. Describe the relationship between budgeted sales and actual sales over the four years. 5 marks

b. Calculate actual Gross Profit for the year ended 30 June 2020 2 marks



ACCOUNTING EXAM

**Question 9 (11 marks)**

	<b>Actual</b>	<b>Budgeted</b>	<b>Variance</b>	<b>U/F</b>
Sales	250 000	200 000		
Cost of Sales		100 000	25 000	U
Wages	50 000	25 000		U
Advertising	3 000		3 000	U

- a. Complete the table above. 4 marks
- b. Explain how the variances identified above could have occurred based on the details provided. 4 marks
- c. Explain why an unfavourable variance may not always be a negative for a business. 3 marks

**Question 10 (3 marks)**

Explain the accounting elements that are impacted when a business depreciates a non-current asset. 3 marks

**END OF QUESTION BOOK**