



Letter

Figures								
Words								

VCE ACCOUNTING 3/4 [2020 ADJUSTED STUDY DESIGN]

CPAP Practice Examination No. 2

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>
12	12	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 12 pages.
- Answer book of 17 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 – Anna’s Air Conditioners (6 marks)

On 1 January 2020 Anna Mei started her own business called Anna’s Air Conditioners.

The following events took place on 1 January 2020.

- Anna opened a business bank account with an electronic transfer of \$20 000 from her personal account.
- Anna transferred her Van to the business.
Anna purchased the Van in 2017 for \$38 000 plus GST.
Anna determined that the Van’s fair value is currently \$15 000.
- Inventory costing \$19 800 including GST was purchased on credit.
- Cheque 1 was used to purchase Equipment for \$8 800 including GST.
- Rent for January, February and March at \$2 640 including GST per month was paid with cheque 2.

Prepare the Assets extract from the classified Balance Sheet for Anna’s Air Conditioners as at 1 January 2020.

Question 2 – Matilda’s Mattresses (6 marks)

Matilda’s Mattresses prepares reports on a quarterly basis ending 31 March, 30 June, 30 September and 31 December each year.

On 1 September 2019 Matilda’s Mattresses invested \$30 000 in a 5 year Term Deposit with MNC Bank earning 6% interest per annum.

Interest is paid by MNC Bank on a half yearly basis on 28 February and 31 August each year.

- a. Prepare the adjusting and closing entries required in the General Journal on 31 March 2020.

Narrations are **not** required.

4 marks

- b. Referring to the Accrual Basis assumption, explain why it is necessary to make a balance day adjustment on 31 March 2020 in relation to the Term Deposit.

2 marks

Question 3 – Lena’s Ladders (9 marks)

The following document relate to Lena’s Ladders’ purchase of a Van from Quavo.

QUAVO	
Date: 02/04/2020	Tax Invoice: 24601
Charge to: Lena’s Ladders	
Item	\$
'Intentions' Van	29 990
Signwriting	2 010
Annual Road Registration	<u>1 500</u>
	33 500
	<u>GST (10%) 3 350</u>
	Sub Total 36 850
	Less: EFT Payment (36 850)
	Balance Owing NIL

Additional information

In order to purchase the Van, Lena’s Ladders borrowed \$35 000 from MNC Bank on 1 April 2020.

Loan repayments of \$500 will be made to MNC Bank on the 15th day of each month.

Quavo organised for signwriting to have Lena’s Ladders’ name, logo and contact details to be printed on the Van.

- a. Prepare the entry required to record the purchase of the Van in the General Journal on 2 April 2020.

A narration is **not** required.

4 marks

- b. Referring to your answer in part a., explain your treatment of the Signwriting in calculating the cost price of the Van.

2 marks

- c. Referring to the definition of a liability, explain how the loan from MNC Bank would be classified on the Balance Sheet of Lena’s Ladders as at 30 April 2020.

3 marks

Question 4 – Floyd’s Fridges (9 marks)

Floyd Wells owns and operates Floyd’s Fridges, a small business that prepares reports on a monthly basis and chooses to apply product costing where appropriate.

The following documents relate to Herbert’s Hotels’ special order for the purchase of 60 ‘Tiny’ fridges.

FLOYD’S FRIDGES	
Receipt: 816	
Date 28 April 2020	
To Herbert’s Hotels	
For Deposit on 60 ‘Tiny’ Fridges.	
Amount \$2 750	
<i>Floyd Wells</i>	

MEI’S MANUFACTURING			
Date 09/05/2020		Tax Invoice: G34	
Charge to Floyd’s Fridges			
Item	Qty	Unit Cost	\$
‘Tiny’ Fridge	60	80	4 800
Cartage Inwards			<u>600</u>
			5 400
		<u>GST(10%)</u>	<u>540</u>
		Total Owing	5 940
Terms 2/10, n/30			

FLOYD’S FRIDGES			
Date 12/05/2020		Tax Invoice: 542	
Charge to Herbert’s Hotels			
Item	Qty	Unit Cost	\$
‘Tiny’ Fridge	60	250	15 000
		<u>GST(10%)</u>	<u>1 500</u>
			16 500
		Less Deposit:	(2 750)
		Total Owing	13 750
Terms 2/10, n/30			

FLOYD’S FRIDGES			
Date 15/05/2020		Credit Note: 29	
Credit to Herbert Hotels			
Item	Qty	Unit Cost	\$
‘Tiny’ Fridge	10	250	2 500
		<u>GST(10%)</u>	<u>250</u>
		Total Credit	2 750

MNC BANK				
BANK STATEMENT				
Floyd’s Fridges				
Date	Particulars	Debit	Credit	Balance
18/05	Transfer: Herbert’s Hotels		10 780	15 910 CR

Question 4 - continued

- a. Prepare the entry required to record Invoice 542 in the General Journal of Floyd's Fridges on 12 May 2020.

A narration is **not** required.

5 marks

- b. State one possible reason why Herbert Hotels returned 10 'Tiny' fridges to Floyd's Fridges on 15 May 2020.

1 mark

- c. Explain the effect on the Accounting equation of Floyd's Fridges as a result of the transaction on 18 May 2020.

3 marks

Question 5 – Brian's Books (6 marks)

Brian Nguyen owns Brian's Books, a small business that offers customers credit terms of n/30.

Brian has been presented with the following.

Indicator	2019	2020
Working Capital Ratio	1.25 : 1	3.60 : 1
Quick Asset Capital Ratio	1.20 : 1	0.95 : 1
Accounts Receivable Turnover	43 days	52 days
Accounts Payable Turnover	36 days	49 days

Discuss whether the liquidity of Brian's Books has improved or worsened in 2020.

Question 6 – Cameron’s Carpets (17 marks)

Cameron Miranda, the owner of Cameron’s Carpets, has provided the Bank account from the General Ledger for June 2020.

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount
01/06	Balance	9 180	04/06	Advertising / GST Clearing	1 320
08/06	Cash Sales / GST Clearing	1 650	10/06	Drawings	2 500
13/06	Accounts Receivable	29 150	14/06	Wages	800
18/06	Capital	20 000	19/06	Van / GST Clearing	25 850
24/06	Cash Sales / GST Clearing	2 640	20/06	Accounts Payable	5 500
			21/06	GST Clearing	1 278
			25/06	Loan – MNC Bank	500
			25/06	Interest Expense	125
			28/06	Wages	960

Credit Sales

Date	Cross-reference	Amount	Date	Cross-reference	Amount
			26/06	Accounts Receivable	18 600

Inventory

Date	Cross-reference	Amount	Date	Cross-reference	Amount
01/06	Balance	34 700	08/06	Cost of Sales	500
11/06	Accounts Payable	10 200	22/06	Drawings	360
29/06	Cost of Sales	1 500	24/06	Cost of Sales	800
			26/06	Cost of Sales	6 200

Additional information

- Cameron applies a fixed mark-up of 200%.

Question 6 - continued

- a. Prepare the Net Cash Flows from Operations extract from the Cash Flow Statement for the month ending 30 June 2020. 5 marks
- b. Explain what is meant by the term 'Net Cash Flows from Operations'. 2 marks
- c. Complete the Drawings and GST Clearing accounts in the General Ledger after all closing, transfer and balancing entries have been completed for the period 30 June 2020. 10 marks

Question 7 – Lizzy’s Ladders (3 marks)

Lizzy Bennet is the owner of Lizzy’s Ladders, a small business that uses the Identified Cost assignment method for inventory.

In 2020 Lizzy has seen the cost price of her ladders increase twice.

However, Lizzy kept her selling prices constant.

Explain the likely effect on the value of Inventory on the Balance Sheet of Lizzy’s Ladders as at 30 June 2020 if the First In, First Out cost assignment method was used instead of the Identified Cost assignment method.

Question 8 – Perry’s Paint (12 marks)

Perry Semertzidis owns and operates Perry’s Paint, a small business that sells inventory on a cash and credit basis.

Perry prepares reports on an annual basis.

Perry has provided the following Pre-Adjustment Trial Balance extract as at 30 June 2020.

Perry’s Paint**Pre-Adjustment Trial Balance (extract) as at 30 June 2020**

Account	Debit	Credit
Accounts Receivable	13 200	
Accumulated Depreciation - Equipment		3 600
Allowance for Doubtful Debts		1 500
Capital		89 200
Credit Sales		178 400
Drawings	39 700	
Equipment	27 000	
Sales Returns	5 600	

Additional information

- Additional Equipment was purchased on 1 January 2020 for \$15 000 plus GST. All Equipment is depreciated using the reducing balance method at a rate of 30% per annum.
- Perry made a capital contribution of \$20 000 on 16 March 2020.
- Due to the coronavirus, Perry has decided to increase the Allowance for Doubtful Debts to 5% of Net Credit Sales.
- As at 30 June 2020, Wages owing were \$800.

Question 8 - continued

- a. Calculate the depreciation expense amount for the Equipment for the year ended 30 June 2020.
3 marks
- b. Prepare the entry required in the General Journal on 30 June 2020 to adjust the Allowance for Doubtful Debts account.
A narration is **not** required.
2 marks
- c. Calculate the Net Accounts Receivable amount to be reported on the Balance Sheet as at 30 June 2020.
2 marks

Total expenses of \$155 800 were closed to the Profit and Loss Summary account on 30 June 2020.

- d. Discuss whether the balance of Owner's Equity would be higher, lower or unable to be determined as at 30 June 2020 than at 30 June 2019.
3 marks

On 4 July 2019 cheque 197 was used to pay Wages of \$1 800.

- e. Record cheque 197 in the General Journal.
A narration is **not** required.
2 marks

Question 9 – Vincent's Vacuums (4 marks)

Vincent Pham owns and operates Vincent's Vacuums.

Vincent has been presented with the following information.

Indicator	2019	2020
Return on Assets	12 %	14 %
Net Profit Margin	8 %	7 %
Debt Ratio	50 %	75 %
Cash Flow Cover	10 times	8 times

- a. Explain how it is possible for the Return on Assets to improve even though the Net Profit Margin declined.
2 marks
- b. Explain the implication of the change in the Debt Ratio on the Cash Flow Cover.
2 marks

Question 10 – Clare’s Chairs (7 marks)

The following inventory card relates to the 'Zone Out' chair for June 2020 that Clare’s Chairs sells for \$88 including GST each.

		IN			OUT			BALANCE		
Date	Document	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
01/06	Balance							15	30	450
03/06	Rec.821				6	30	180	9	30	270
05/06	Inv.4148	50	28	1 400				9	30	270
								50	28	1 400
08/06	Memo 56				4	28	112	9	30	270
								46	28	1 288
14/06	Inv.389				20	28	560	9	30	270
								26	28	728
16/06	C/N.25	5	28	140				9	30	270
								31	28	868
19/06	C/N.122				5	28	140	9	30	270
								26	28	728
24/06	Inv.397				6	30	180	3	30	90
					6	28	168	20	28	560
30/06	Memo 61				1	30	30	2	30	60
					1	28	28	19	28	532

Memo 61 is the result of the physical inventory count on 30 June 2020.

a. Calculate the Adjusted Gross Profit made on the 'Zone Out' chair for June 2020.

5 marks

b. Explain the benefit of reporting an Adjusted Gross Profit in an Income Statement.

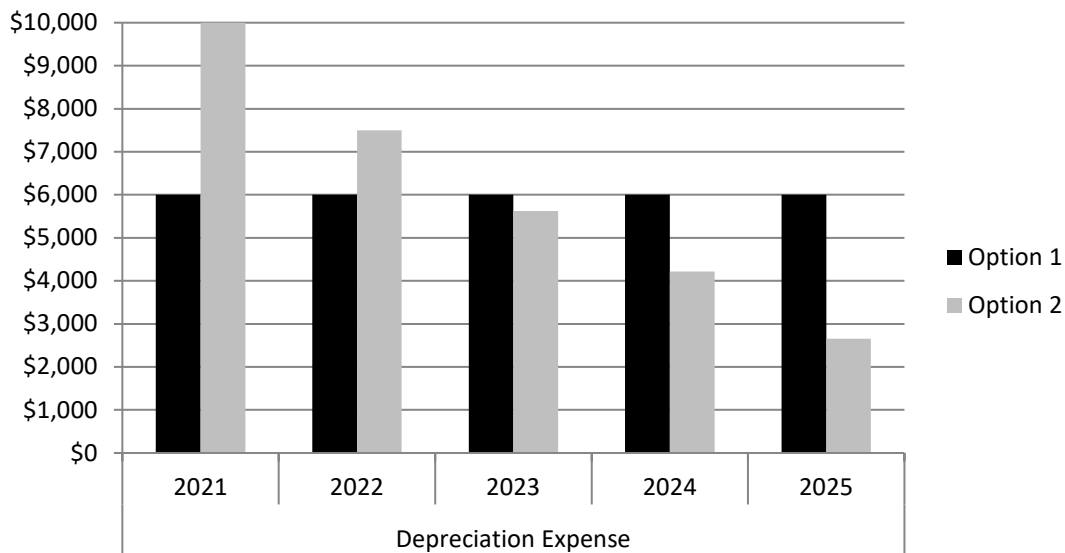
2 marks

Question 11 – Ellie’s Electronics (14 marks)

Ellie Wu owns and operates Ellie’s Electronics.

On 1 July 2020 Ellie’s Electronics purchased a new Van for \$44 000 including GST.

In determining the appropriate depreciation method for the Van, the accountant has provided Ellie with the following estimates.



Ellie and the accountant have decided to select Option 1 to depreciate the Van.

- a. Justify why Ellie should have selected Option 2 to depreciate the Van instead of choosing Option 1.

3 marks

On 30 June 2023 Ellie’s Electronics sold the Van for \$10 000 cash.

- b. Prepare all the General Journal entries required on 30 June 2023.

The closing entry is **not** required.

9 marks

- c. Referring to your answer in part b., explain why a profit or loss from the sale of the Van occurred.

2 marks

Question 12 – Thomas' Treats (7 marks)

Thomas Ross owns and operates Thomas' Treats, a small business that provides snacks to school canteens.

On 4 October 2020 Thomas has been presented with the following Income Statement Variance Report extract.

Thomas' Treats
Income Statement Variance Report (extract)
for the year ended 30 June 2020

	Budget	Actual	Variance	Favourable / Unfavourable
Sales	\$250 000	\$190 000	\$60 000	U
Sales Returns	\$2 500		\$1 300	F
Depreciation - Van	\$12 000	\$12 000	\$0	-
Van Expenses		\$22 500	\$5 000	U

- a. In the Answer Booklet, complete the Income Statement Variance Report extract. 2 marks
- b. Discuss whether there is a relationship between the Unfavourable variance for Sales and the other three variances reported in the Income Statement Variance Report (extract) for the year ended 30 June 2020. 3 marks
- c. Referring to the Timeliness qualitative characteristic, explain the limitation of Thomas using the Income Statement Variance Report as a basis for decision-making. 2 marks

100 marks

END OF QUESTION BOOKLET