Student Name:

**PES**

**2020 ACCOUNTING**

## Unit 3 Exam

## FINANCIAL ACCOUNTING FOR A TRADING BUSINESS

**QUESTION BOOK**

**Structure of book**

|  |  |  |
| --- | --- | --- |
| *Number of*  *Questions* | *Number of questions*  *to be answered* | *Number of*  *marks* |
| 8 | 8 | 100 |

* Students are permitted to bring into the SAC room: pens, pencils, highlighters, erasers, sharpeners, rulers and one scientific calculator.
* Students are NOT permitted to bring into the SAC room: blank sheets of paper and/or white out liquid/tape.

**Materials supplied**

* Question Book of 10 pages.
* Answer Book of 18 pages.

**Instructions**

* Write your name and your teacher’s name in the space provided on the front page of both this Question Book and the Answer Book.
* Answer all questions in the Answer Book.

**At the end of the task**

* Place this Question Book on top of the Answer Book and wait for both to be collected.

**Students are not permitted to bring mobile phones and/or any other unauthorised electronic devices into the SAC room.**

**Question 1 (**8 marks)

Judy Dench owns and operates ***Small Bytes***, a small business selling computers, printers and other accessories. All inventory is marked up by 100%.

The following documents have yet to be recorded in the General Journal of the business.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Small Bytes  21 Albert Rd  Mountfied 3478 | | 30 May 2020  TAX INVOICE  Credit Note CN23 Duplicate | | |
| *Returned by*: | O. Gillespie  65 Charlies Rd, Mentone VIC 3066 | | | |
| Qty | Item | | Unit price $ | Total cost $ |
| 2 | Printer cartridges | | 80 | 160.00 |
|  | GST (10%) | |  | 16.00 |
|  | **Total** | | | **176.00** |
| Reason | Faulty goods | | | |

**Document A**

|  |  |  |  |
| --- | --- | --- | --- |
| **Winzap Computing**  8 Marriot St  Coburg 3032 | 31 May 2020 | | |
| **To:** Small Bytes  21 Albert Rd  Mountfied 3478 | | | |
| **Order confirmation** | | **Qty** | **Unit price** |
| *We are pleased to confirm the availability of the items as requested:* | |  |  |
| * *Order form 619: 2020Malware* | | 50 | $30 plus GST |
| *Please confirm delivery details by return email.* | | | |

**Document B**

1. Explain, with reference to a qualitative characteristic, the role of documents in the accounting system.

3 marks

1. Explain the effect of Document B on the accounting equation.

2 marks

1. Record Document A in the General Journal (A narration is not required)

. 3 marks

**Question 2** (10 marks)

Quinlan Welsh has decided to open a small business called ***Backboard***, selling basketball merchandise and clothing. To commence operations, he made the following transactions in the week commencing 1 March 2020:

* Cash contribution of $20 000
* Borrowed $60 000 from Lonestar Bank, repayable $3 000 per quarter plus interest payments of $500 per month required with the first payment due on 31 May 2020.
* Rented business premises at a cost of $2 000 plus GST per month. The first 6 month’s rent has been paid in advance.
* Contributed office equipment valued at $9 000.
* Purchased additional office equipment for $5 000 cash (plus GST)
* Purchased inventory on credit from Clothing World for $25 000 plus GST and Hops Inc. for $33 000 including GST.
* Arranged for an overdraft facility of $10 000 from Lonestar Bank

1. Prepare the Balance Sheet for the business at 1 March 2020.

5 marks

1. Define Owner’s Equity

2 marks

1. Explain, with reference to an accounting element, your treatment of the Loan.

3 mark

**Question 3** (10 marks)

The accountant of ***Gardening Gurus*** provides you with the Working Capital Ratio for the past 3 years.

1. Explain the trend in the Working Capital Ratio and suggest two reasons for the trend. 4 marks
2. Referring to your answer in part a., **explain** how this trend may impact the liquidity of the business.

2 marks

1. Suggest two other financial indicators the business could use to assess the liquidity of the business.

2 marks

1. The owner is keen to improve the performance of the business in 2020. Explain one strategy the owner could implement to improve the Working Capital Ratio.

2 marks

**Question 4** (19 marks)

Zoe Callinan owns and operates ***Clickety Clack***, a boutique shoe store in Melbourne’s eastern suburbs.

At 30 June 2020 the following pre-adjustment Trial Balance was prepared by the bookkeeper:

**Clickety Clack**

**Pre-adjustment Trial Balance at 30 June 2020**

|  |  |  |
| --- | --- | --- |
| **Account Name** | **Debit**  **$** | **Credit**  **$** |
| Accounts Payable |  | 35 700 |
| Accounts Receivable | 31 600 |  |
| Advertising | 12 000 |  |
| Bank | 7 080 |  |
| Capital |  | 73 820 |
| Cost of Sales | 166 650 |  |
| Customs Duty | 3 000 |  |
| Discount Expense | 4 000 |  |
| Discount Revenue |  | 3 500 |
| Drawings | 36 000 |  |
| Freight Out | 11 500 |  |
| GST Clearing |  | 6 430 |
| Insurance | 4 800 |  |
| Interest Expense | 6 500 |  |
| Inventory | 42 200 |  |
| Inventory Gain |  | 800 |
| Loan – Ezy Finance Co (Repayable $2,000 per month) |  | 35 000 |
| Motor Vehicle | 55 000 |  |
| Office Expense | 7 100 |  |
| Rent Expense | 20 400 |  |
| Sales |  | 337 800 |
| Sales Returns | 4 500 |  |
| Telephone | 720 |  |
| Wages | 80 000 |  |
| **Totals** | **493 050** | **493 050** |

**Note:** At 30 Junethe bookkeeper advised that$600 worth of inventory donated to the local primary school that Zoe’s daughter attends was incorrectly recorded as Drawings. This error had not yet been corrected [Memo 43].

1. Record the information in Memo 43 into the General Journal.

A narration is **not** required.

2 marks

1. Excluding the error shown above, identify tworeasons why a Pre-adjustment Trial Balance may balance yet be incorrect.

1 + 1 = 2 marks

1. Prepare the General Journal entry necessary to close the Revenue accounts.

A narration is **not** required.

3 marks

1. Explain why it is necessary to close revenue and expense accounts each period.

2 marks

1. Prepare an Income Statement for the year ended 30 June 2020.

7 marks

1. Complete the Capital Account in the general ledger at 30 June 2020.

3 marks

**Question 5** (8 marks)

Angela Sparks owns and operates ***Bayside Newsagency***, a small business located across the road from Bayside railway station. The railway station services five local secondary schools and two primary schools and is also next to a large bus hub.

In recent years Angela has been concerned with a growing increase in thefts from her store. The growing thefts have increased her expenses and so reduced her profit. As she is seeking a loan to expand the business Angela is concerned about the effect the thefts are having on her financial position. She has decided to not report the inventory loss in this financial period so her Income Statement and Balance Sheet will show an improved result – she has indicated she will report the loss in the next period after she has obtained the loan.

1. Discuss the ethical issue surrounding Angela’s decision to not report the inventory loss in the current period.

4 marks

1. Describe two strategies Angela could adopt to reduce theft from her store.

4 marks

**Question 6** (9 marks)

The accountant for ***Wilson’s Windows*** provided the following financial indicators:

1. Define profitability

2 marks

1. Describe the performance of the business in terms of profitability based on the information provided in the graph and explain possible causes.

4 marks

1. Identify one non-financial performance indicator the business could use to assess business performance in terms of profitability.

1 mark

1. Outline one strategy the business could implement to improve the performance of the business in terms of profitability.

2 marks

**Question 7** (10 marks)

William Winata owns and operates ***Door Jam***, a small business selling doors, windows and gates.

At 30 April 2020 the following general ledger account was provided:

**Bank**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  **2020** | **Cross-reference** | **Amount** | **Date**  **2020** | **Cross-reference** | **Amount** |
| Apr 2 | Sales/GST Clearing | 770 | Apr 1 | Balance | 3 500 |
| 4 | Accounts Receivable | 2 400 | 2 | Advertising/GST Clearing | 440 |
| 7 | Sales/GST Clearing | 880 | 5 | Drawings | 900 |
| 11 | Sales/GST Clearing | 1 320 | 6 | Inventory/GST Clearing | 3 300 |
| 12 | Accounts Receivable | 950 | 9 | Wages | 700 |
| 19 | Sales/GST Clearing | 550 | 15 | Rent/GST Clearing | 990 |
| 28 | Sales/GST Clearing | 1 100 | 16 | Loan – Ace Finance | 350 |
| 29 | Capital | 10 000 |  | Interest Expense | 150 |
|  |  |  | 20 | Accounts Payable | 2 800 |
|  |  |  | 23 | Wages | 1 400 |
|  |  |  | 29 | GST Clearing | 1 470 |
|  |  |  | 30 | Equipment/GST Clearing | 4 400 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

1. Complete the ledger account in the Answer Booklet.

2 marks

1. Using the information provided in the ledger account, prepare an extract of the Cash Flow Statement for the month ended 30 April 2020 to show Net Cash Flow from Operations.

6 marks

1. Explain, with the use of an example from the ledger account above, what is meant by Net Cash Flows from Investing Activities.

2 marks

**Question 8** (26 marks)

Olivia Pagano owns and operates ***Coffee Express***, a small business selling coffee machines, presses, coffee beans and other accessories. She uses the perpetual method of recording inventory and the First In First Out cost assignment method.

All inventory is marked-up by 100% on cost.

Olivia regularly assess the performance of each line of inventory to determine its viability in terms of continuing to stock the item.

The information below relates to a line of personal coffee machine – the Nuline Pro:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Inventory Item: Nuline Pro Cost Assignment Method: FIFO** | | | | | | | | | | | | | | |
| **Date**  **2020** | **Details** | **IN** | | | | **OUT** | | | | **BALANCE** | | | |
| **Qty** | **Cost** | **Total** | **Qty** | | **Cost** | **Total** | **Qty** | | **Cost** | **Total** |
| June 1 | Balance |  |  |  |  | |  |  | 3 | | 50 | 150 |
| 3 | Inv. G801 | 15 | 55 | 825 |  | |  |  | 3  15 | | 50  55 | 975 |
| 7 | EFT 346 |  |  |  | 1 | | 50 | 50 | 2  15 | | 50  55 | 925 |
|  |  |  |  |  |  | |  |  |  | |  |  |

The remaining transactions for June 2020 were:

June 12 Credit sale of 2 units to R. Cox [Inv. Q012]

June 18 Credit sale of 6 units to High Rise Hotels [Inv. Q083]

June 20 High Rise Hotels returned 1 unit due to damage [CN 019]. This unit was returned to the supplier – Nuline Ltd. [CN X12]

June 23 Purchased 12 units on credit from Nuline Ltd for $60 each plus GST [Inv. G934]

June 26 Cash sale of 1 unit [EFT 411]

June 28 Donated 1 unit to a local tennis club as a prize for a raffle [Memo 85]

June 30 A physical stocktake revealed 17 units on hand [Memo 86]

Olivia was informed that the Nuline Pro is no longer going to be produced and a new model – the Nuline Expert will be replacing this model in August 2020. To clear the shelves, Olivia will sell the remaining units for $45 each plus GST. The staff member who makes the sale will earn $5 per unit sold [Memo 87]

1. Record the information above into the Inventory Card.

9 marks

1. Record Memos 85, 86 and 87 into the General Journal.

Note: Narrations are not required

6 marks

1. Explain, with reference to a qualitative characteristic why it was necessary to record the information in Memo 87.

3 marks

On 1 August 2020 Olivia took delivery of the following items of inventory:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Item** | **Qty** | **Invoice Price (plus GST)** | **Customs Duty (10% of Invoice Price)** | **Freight Cost**  **(plus GST)** |
| Nuline Magic | 10 | 100 | 10 | $300 |
| Nuline Beginner Pack | 20 | 50 | 5 |
| Nuline Expert | 40 | 80 | 8 |
| Nu Premium Blend Beans | 200 | 10 | 1 |

1. Calculate the unit price of one Nuline Expert.

2 marks

1. Explain your treatment of the Freight Cost and explain how this expense would be reported in the Income Statement of the business.

4 marks

“Product or period costing? It doesn’t matter as my profit will be the same anyway.”

1. Explain Olivia’s statement providing an example of a situation where she is incorrect.

2 marks

**END OF QUESTION BOOKLET**