Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**PES**

**2020 ACCOUNTING**

## Unit 3&4 Exam 1

**QUESTION BOOK**

**Structure of book**

|  |  |  |
| --- | --- | --- |
| *Number of*  *Questions* | *Number of questions*  *to be answered* | *Number of*  *marks* |
| 9 | 9 | 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 9 pages.
* Answer Book of 14 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 (12 marks)**

***Pedalling Home*** sells bicycles and a large range of accessories.

As a small business the owner has kept the financial records himself with help from his wife who also works in the store.

Their accounting system uses the perpetual inventory system for recording the movements of inventory however, in terms of a cost assignment method the owner has decided to:

* Use the Identified Cost method for the bicycles
* Use the First-In First-Out method for accessories

Bikes are sold at a mark-up of 150% on cost while accessories are sold at a mark-up of 100% on cost.

A friend queried the use of two different cost assignment methods, suggesting the owner was breaching a qualitative characteristic of accounting.

1. Referring to the appropriate qualitative characteristic, analyse the friends’ statement.

3 marks

The following information and transactions occurred in May 2020 relating to the Off Road Master bicycle:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item: Off Road Mater Bicycle Cost Assignment Method: Identified Cost**  **Code: X900**  **Supplier: Bikes Galore** | | | | | | | | | | |
| **Date**  **2020** | **Details** |  | **IN** |  |  | **OUT** |  | **BALANCE** | | |
|  | **Qty** | **Unit Cost $** | **Total Cost**  **$** | **Qty** | **Unit Cost $** | **Total Cost $** | **Qty** | **Unit Cost**  **$** | **Total Cost**  **$** |
| May 1 | Balance |  |  |  |  |  |  | 2  12 | 160  180 | 160  2 160 |
|  |  |  |  |  |  |  |  |  |  |  |

May 5 Sold three units for cash [Rec. D09]. All three units had a cost price of $180.

May 9 Sold 2 units on credit to K. Keene [Inv. PH261]. One unit had a cost price of $160 and the second unit had a cost price of $180.

May 11 K. Keene returned one unit as it was damaged. This unit had a cost price of $180 [CN 28]

May 12 Pedalling Home returned the damaged unit to the supplier for a full credit [CN X8]

May 15 Sold 4 units on credit to Lavington Bike Club. Three of the units had a cost price of $180 [Inv. PH270]

May 21 Purchased 12 units on credit from Bikes Galore for $190 each plus GST [Inv. BG843].

May 31 A physical stocktake revealed 18 units on hand – 12 units with a cost price of $190 and 6 with a cost price of $180 [Memo 67]

1. Record these transactions into the Inventory Card.

7 marks

1. Calculate the cost of sales for the month of May 2020 if the business had used the First in First Out cost assignment method.

2 marks

**Question 2 (5 marks)**

The owner of a small business is confused by some data provided by the accountant:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2018** | **2019** | **2020** |
| Inventory Turnover | 47 days | 42 days | 32 days |
| Accounts Receivable Turnover | 29 days | 34 days | 38 days |

The owner assumed that if they were selling their inventory quicker they would be receiving cash quicker.

Explain the owner’s concern, providing an explanation as to how the business could have the turnovers showing these trends and provide one strategy the owner could implement to improve performance.

**Question 3 (21 marks)**

***Chapman Clearing House*** is a small business that sells a wide variety of items which have been discontinued by major retailers. While the business reports annually the owner was concerned about a poor Christmas sales period and is worried about the future. He has decided to prepare a series of interim reports for the quarter ended 31 March 2020.

The following information is provided:

|  |  |  |
| --- | --- | --- |
| **Item** | **As at 1 January 2020** | **As at 31 March 2020** |
| Accounts Receivable | 25 700 | 27 800 |
| Inventory | 36 800 | 37 500 |
| Prepaid Rent (paid on 1 October every 12 months) | 9 000 | 6 000 |
| Accounts Payable | 21 300 | 18 400 |
| Loan – due 30 June 2020 | 6 000 | 4 500 |
| Accrued Wages | 1 100 | 850 |
| GST Clearing (Cr) | 2 510 |  |
| Bank Overdraft | 2 540 |  |

|  |  |
| --- | --- |
| **Item** | **Amounts for the 3 months ended 31 March 2020 \*** |
| Sales (50% are cash) | 84 000 |
| Sales Returns | 3 000 |
| Cartage In | 4 000 |
| Inventory Gain | 300 |
| Discount Revenue | 1 100 |
| Discount Expense | 1 400 |
| Wages Paid (including amount owing at 1 January 2020) | 21 900 |
| Advertising (including inventory used for store display $500) | 4 500 |
| Rent expense | 3 000 |
| Interest Expense | 600 |
| Depreciation - Equipment | 1 200 |
| Office Expenses paid (all items attract GST) | 11 400 |

\* Note – all amounts **exclude GST**

**Additional information:**

* Inventory is marked up by 100%
* All inventory returned by customers is returned to the supplier
* Purchases of inventory are 60% on credit terms
* Drawings of inventory totalled $900
* The balance of the GST Clearing account at 1 January 2020 will be paid on 1 February 2020
  + - * 1. Complete the following general ledger accounts for the three months ended 31 March 2020:
* Inventory – to identify cash and credit purchases of inventory
* GST Clearing – to determine the balance of the GST Clearing account at 31 march 2020.

5 + 6 = 11 marks

* + - * 1. Explain, with reference to an accounting element, how the Loan will be reported in the Balance Sheet of the business as at 31 March 2020.

3 marks

**c.** Prepare the operating section of the Cash Flow Statement for the three months ended 31 March 2020.

5 marks

To further assist the owner in assessing business performance the business’s accountant has suggested preparing budgeted financial reports every quarter.

1. Explain one benefit of preparing a Budgeted Cash Flow Statement every quarter.

2 marks

**Question 4 (24 marks)**

The accountant of ***Scallywags*** provided the following Trial Balance as at 30 September 2020. The business prepares financial reports annually on this date.

**Scallywags**

**Trial Balance (extract) as at 30 September 2020**

|  |  |  |
| --- | --- | --- |
| **Account** | **Debit** | **Credit** |
| Accounts Payable |  | 16 900 |
| Accounts Receivable | 18 450 |  |
| Accumulated Depreciation - Equipment |  | 4 800 |
| Accumulated Depreciation - Vehicle |  | 24 000 |
| Advertising | 4 900 |  |
| Capital |  | 92 530 |
| Cash at Bank | 2 350 |  |
| Cash Sales |  | 140 000 |
| Cost of Sales | 107 000 |  |
| Customs Duty | 6 200 |  |
| Credit Sales |  | 78 000 |
| Discount Expense | 2 200 |  |
| Discount Revenue |  | 2 800 |
| Drawings | 15 700 |  |
| Equipment | 48 000 |  |
| GST Clearing |  | 4 870 |
| Interest Expense | 1 000 |  |
| Inventory | 52 700 |  |
| Loan – Cabrillo Finance |  | 36 000 |
| Office Expenses | 12 500 |  |
| Prepaid Insurance expense | 3 900 |  |
| Rent | 18 000 |  |
| Sales Returns | 4 000 |  |
| Vehicle | 36 000 |  |
| Wages | 67 000 |  |
| **Totals** | **399 900** | **399 900** |

**Additional Information**

* The Equipment is depreciated at 10% per annum on cost
* On 30 September 2020 the business sold the Vehicle for $6 000 cash. Prior to the sale the owner determined that $4 000 of depreciation needed to be charged.
* Wages owing at 30 September 2020 were $1 100
* 12 months Insurance of $2 400 plus GST was paid on 1 August 2020.
* A physical stocktake revealed the following:
* Inventory on hand was valued at $53 900
* Of the inventory on hand, $1 000 worth of inventory is damaged and needs to be written down by $600 so it can be sold

1. Prepare the General Journal entries required to record the additional information on

30 September 2020 [Narrations are not required].

16 marks

1. Prepare an extract of the Income Statement for the year ended 30 September 2020 to show the profit result up to and including Other Revenue.

5 marks

1. With reference to an accounting assumption, explain the need for balance day adjustments.

3 marks

**Question 5 (6 marks)**

Describe the possible impacts on liquidity and profitability of a business having its Debt Ratio change from 48% to 66% within 12 months.

**Question 6 (4 marks)**

Evaluate one benefit of a business comparing its financial performance against benchmarks such as Industry Average and Budgeted figures.

**Question 7 (11 marks)**

***Country Kitchens*** is a small business selling kitchen cupboards and benches. Customers select a design from the business catalogue and the business builds the kitchen and delivers it to customers using a delivery service.

At 1 May 2020 due to expansion, the business decided to replace the delivery service and purchase their own Van for the delivery of the kitchens.

Details of the purchase are:

* Invoice price is $65 000 plus GST
* $1 100 (including GST) will be paid to have the business name and details painted on the Van
* Registration and Insurance for 12 months will cost $2 200 (including GST)
* The Van will be financed by a deposit of $8 000 from the business bank account and a loan from Bloomfield Finance for the balance.

1. Record the information above into the General Journal.

5 marks

The owner is considering charging depreciation at the rate of 25% per annum using the reducing balance method. All other non-current assets of the business are depreciated using the straight line method at a rate of 10% per annum.

1. Calculate the depreciation expense on the Vehicle to be reported at 30 June 2020 using the reducing balance method.

2 marks

1. Explain the effect on the accounting reports of the business at 30 June 2020 if the business decided to use the method and rate of depreciation as other Non-Current Assets for the Vehicle.

4 marks

**Question 8 (3 marks)**

***GroceMart*** is a small convenience store in an outer Melbourne suburb. The business sells a range of fruit and vegetables as well as tinned goods and other items.

The recent bushfires in Victoria and New South Wales have seen numerous crops damaged and as a result the price of many agricultural products have increased – in particular beans, oranges, carrots and tomatoes. The owner is lucky in that all her oranges are sourced from overseas and their price hasn’t been affected. Locally grown oranges have seen an increase in price of over 200% as supply is limited.

The owner is considering increasing the prices of her oranges to those of locally sourced goods. She hopes to make an increased profit as business hasn’t been good in the past two years. She has indicated she will donate 10% of the higher profit on oranges to a bushfire relief fund.

Analyse the ethical issue involved in the owner’s plan and its effect on her Income Statement.

**Question 9 (14 marks)**

The following information relating to credit sales for ***Regal Chairs*** was provided:

* Credit sales for the month ended 31 October 2020 - $52 000 plus GST. Inventory is sold at a mark-up of 100%
* Sales Returns during the month totalled $3 300 (including GST)
* On 1 October 2020 the Allowance for Doubtful Debts had a balance of $484. The Allowance for Doubtful Debts is set at 1% of Net Credit Sales.
* On 25 October 2020 a customer notified the business that they were unable to settle their account of $330 (which included GST) due to bankruptcy.
* Discounts offered to customers totalled $ 2 000
* Cash received from Accounts Receivable was $50 000

Record these transactions into the General Journal on 31 October 2020.

**END OF QUESTION BOOKLET**