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

 **PES**

**2020 ACCOUNTING**

## Unit 3&4 Exam 2

**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 12 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 (21 marks)**

***Phoebe’s Flowers***, was opened in February 2020 with the following transactions occurring:

* The owner deposited $45 000 into the business bank account from her own savings on 1 February
* On the same day, the owner also contributed her personal vehicle to the business. The vehicle was purchased in 2017 for $36 000 and is now valued at $22 000. The owner had borrowed $24 000 from McCallum Finance to buy the vehicle and currently owes $6 000 as at 3 February when the business took over this loan. The loan is due to be repaid by 30 November 2020
* On 5 February the business paid $6 600 (including GST) for 3 month’s rent on a shop
* Purchased shop fittings costing $22 000 cash including GST on 8 February
* Purchased inventory on credit from Fresh Farms for $16 000 plus GST on 12 February
* Paid advertising costing $880 including GST on 14 February
* Negotiated an overdraft with the bank to the value of $10 000 on 15 February 2020.
* Cash sale of inventory on 16 February. The cost price of inventory was $100 and inventory is sold at a mark-up of 50%. All sales attract GST.
1. Record the information above into the General Journal of Phoebe’s Flowers.

15 marks

1. With reference to an accounting element, explain how the loan from McCallum Finance would be reported in the Balance Sheet as at 29 February 2020.

3 marks

1. Identify and explain the accounting assumption that required the business to report the transfer of the vehicle to the business.

3 marks

**Question 2 (8 marks)**

***Lawson’s Lighting*** has been operating as a small business for three years. In April 2020 the owner decided to offer credit terms to regular customers.

The following information relating to credit transactions was provided at 30 April 2020:

* Sales totalled $7 200 plus GST
* Returned inventory totalled $770 including GST
* Cash received from accounts receivable $3 100
* Discounts offered to customers totalled $120
* The owner has been advised to create an allowance for doubtful debts at 2% of net credit sales (including GST)
	+ - * 1. Using the information above, complete the Accounts Receivable general ledger account at 30 April 2020.

5 marks

* + - * 1. Explain, with reference to a qualitative characteristic, why a business may create an allowance for doubtful debts.

3 marks

**Question 3 (5 marks)**

***Yasmin’s Yarns*** has been operating for 2 months and is about to prepare their first set of financial reports. While the business initially recorded inventory movements using the Identified Cost method the owner has been told of a second method of cost assignment for the recording of inventory movements.

The owner prepared the following information comparing the two methods:

|  |  |  |
| --- | --- | --- |
|  | **Identified Cost** | **FIFO** |
| Inventory on Hand at start | 1 @ $190 | 4 @ $200 |
| 3 @ $200 | 25 @ $220 |
| 25 @ $220 |   |
| Inventory on Hand at end | 1 @ $190 | 34 @ $250 |
| 4 @ $220 |   |
| 18 @ $240 |   |
| 11 @ $250 |   |
| Cost of Sales ($) | $16 650 | $16 300 |
| Inventory at End ($) | $8 140 | $8 500 |

Note: All inventory is sold at $600 plus GST per unit.

The owner would like to improve the results in her reports. To do this, she is thinking of using the First-In First-Out method to value Cost of Sales, and at the same time, use the Identified Cost method to value inventory on hand in the Balance Sheet

Analyse the owner’s idea of valuing inventory, referring to any ethical considerations and any appropriate qualitative characteristics.

 **Question 4 (21 marks)**

***SWA*** is a small business that sells Standing Desks. Reports are prepared annually on 31 December. The accountant has provided the following extract from a Pre-adjusted Trial Balance as at 31 December 2020.

**SWA**

**Pre-adjusted Trial Balance (extract) as at 31 December 2020**

|  |  |  |
| --- | --- | --- |
| **Account** | **Debit** | **Credit** |
| Accumulated Depreciation - Equipment |  | 6 800 |
| Accumulated Depreciation – Vehicle |  | 5 634 |
| Advertising | 3 900 |  |
| Allowance for Doubtful Debts |  |  350  |
| Bank Term Deposit (matures 30 June 2022) | 12 000 |  |
| Bank | 18 400 |  |
| Cost of Sales | 78 000 |  |
| Accounts Receivable | 14 775 |  |
| Depreciation - Equipment | 3 400 |  |
| Discount Expense | 980 |  |
| Drawings | 45 000 |  |
| Equipment | 34 000  |  |
| GST Clearing |  | 6 930 |
| Interest Expense | 1 700 |  |
| Loan – BLD Bank |  | 24 000 |
| Prepaid Rent Expense | 5 700 |  |
| Sales |  | 171 600 |
| Inventory | 22 800 |  |
| Vehicle | 50 034 |  |
| Wages | 41 800 |  |

**Additional information at 31 December 2020**

* The vehicle is depreciated at a rate of 25% p.a. using the reducing balance method. The vehicle has a useful life of four years and an expected residual value of $4 000.
* The owner has already calculated and recorded the depreciation on equipment for the period. It was calculated at 10% per annum on cost.
* Interest on the Bank Term Deposit is 6% p.a. and is received annually on 30 September. The Term Deposit was established on 1 October 2020.
* On 31 December the business was notified that one of their customers who owed the business $275 (including GST) had gone bankrupt and the debt was deemed irrecoverable.
* The Allowance for Doubtful Debts is to be maintained as 2% of Accounts Receivable balance.
* Rent is paid 12 months in advance on 1 August. Rent is $300 per month (plus GST).
* A payment for Advertising for $308 including GST was incorrectly recorded as Wages.
* The owner recognised the following issues with inventory:
* $120 worth of inventory withdrawn by the owner in November was not recorded
* A line of inventory has been discontinued and so the owner will write down the inventory by $400
* A physical stocktake determined inventory on hand to be $21 860
1. Record the entries in the General Journal provided taking into consideration the additional information. Narrations are **not** required.

15 marks

1. The owner stated that he wants to depreciate all his Non-Current Assets using the same method as the owner feels it would be less confusing.

Discuss with reference to a Qualitative Characteristic and an Accounting Assumption the statement by the owner.

 6 marks

**Question 5 (18 marks)**

***Victory Equipment*** sells a range of gym equipment. The owner maintains an accounting system using the First-In First-Out cost assignment method for inventory.

The business prepares reports on a monthly basis, and the accountant provided the following information:

**Victory Equipment**

**Balance Sheet (Extract) as at 31 October 2020**

|  |  |  |  |
| --- | --- | --- | --- |
| **Current Assets** | **$** | **Current Liabilities** | **$** |
| Cash at Bank | 12 000 | Accounts Payable | 19 600 |
| Accounts Receivable | 25 000 | Accrued Wages | 2 100 |
| Inventory | 34 000 | Loan (Due 31 December 2020) | 4 600 |
| Accrued Commission Revenue | 1 000 | GST Clearing | 800 |
|  |  |  |  |

The following transactions occurred in November 2020:

|  |  |
| --- | --- |
| **Item** | **November 2020** |
| Sales (50% are cash) | $90 000 |
| Sales Returns  | $2 000 |
| Cost of Sales (40% of net sales) |  |
| Inventory Loss | $500 |
| Purchases of inventory (20% on cash) | $38 000 |
| Wages Paid | $19 500 |
| Discount Expense | $ 800 |
| Receipts from Accounts Receivable | $39 500 |
| Discount Revenue | $500 |
| Drawings ($1 000 inventory) | $2 400 |
| Rent paid for 3 months commencing 1 November 2020 | $6 000 |
| Interest Expense | $300 |
| Depreciation – Equipment | $1 200 |
| Cartage In | $600 |
| Office Expenses (excluding Depreciation) | $17 000 |
| Payments to Accounts Payable | Opening Balance + 50% Credit Purchases (incl. GST) |

**Additional Information:**

* GST has not been applied to any transaction shown above
* All Sales Returns are returned to the supplier
* At 30 November 2020, the balance of accounts receivable is expected to be $32 000
* The GST balance from October will be paid in November
* Wages owing at 30 November 2020 is expected to be $2 800
* Office expenses incur GST
* Commission Revenue (including GST) will be received during November 2020.
1. Prepare an extract of the Cash Flow Statement for the month ending 30 November 2020 to show Net Cash Flow from Operations.

7 marks

1. Prepare the Income Statement for the month ending 30 November 2020.

7 marks

To better improve business performance the owner prepared budgeted financial reports for cash and profit for the month ended 31 December 2020. The owner was concerned to see that whilst Net Profit was budgeted to improve the business was expected to suffer a negative net cash flow from operating activities.

1. Explain to the owner how the business could expect to budget for a Net Profit yet budget for a negative net cash flow from operating activities at the same time

 4 marks

**Question 6 (4 marks)**

***Cajun Electrics*** purchased a new computerised packaging machine and a new vehicle in November 2018. The packaging machine packs customer orders for delivery to customers. It is quicker than using a staff member who is taken away from assisting customers and generating more sales. The new vehicle was to allow the business to run its own delivery service rather than rely on a courier to deliver orders. After the purchase of the assets, the owner provided the information on Asset Turnover:

Evaluate the performance of the business given the information provided.

**Question 7 (8 marks)**

***KD Cars*** has been operating for 50 years in Sunshine. The business sells a variety of brand new and second-hand cars. The business prepares budgets on a yearly basis, and the accountant is in the process of preparing Variance Reports.

The following is an extract from a Variance Report.

**KD Cars**

**Income Statement Variance Report (extract) for the year ending 30 November 2020**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Actual****$** | **Budget****$** | **Variance****$** | **Unfavourable/****Favourable** |
| Sales | 1 200 000 | 900 000 | 300 000 | F |
| Cost of Sales | 600 000 | 500 000 | 100 000 | U |
| Sales Staff Commission Expense | 130 000 | 110 000 | 20 000 | F |
| Rent Expense | 300 000 | 350 000 | 50 000 | U |

1. Discuss the benefit of completing a Variance Report annually.

4 marks

1. Describe one possible reason to explain the variances for:
* Sales Staff Commission Expense
* Cost of Sales

2 + 2 = 4 marks

**Question 8 (5 marks)**

The following data was provided for the owner of ***Bigfoot***, a small business selling shoes. The owner has become concerned about business performance and wanted information regarding profit and cash flow.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March Quarter** **2020** | **June Quarter** **2020** | **September Quarter 2020** |
| **Net Profit** | $26 000 | $21 000 | $16 700 |

Analyse the performance of the business. In your answer, explain a possible link between the performance in relation to profit and the trend in the Cash Flow Cover.

**Question 9 (10 marks)**

The following Adjusted Trial Balance extract was provided by the owner of ***West Wing Furniture****:*

**West Wing Furniture**

**Adjusted Trial Balance (extract) as at 31 March 2020**

|  |  |  |
| --- | --- | --- |
| **Account** | **Debit** | **Credit** |
| Accumulated Depreciation – Equipment |  | 9 400 |
| Advertising | 2 500 |  |
| Allowance for Doubtful Debts |  |  620 |
| Bad Debts | 400 |  |
| Bank | 6 300 |  |
| Cost of Sales | 42 000 |  |
| Capital |  | 75 600 |
| Depreciation - Equipment | 4 000 |  |
| Discount Expense | 1 050 |  |
| Discount Revenue |  |  2 100  |
| Drawings | 12 000 |  |
| Equipment | 48 000 |  |
| GST Clearing |  | 4 710 |
| Interest Expense | 1 800 |  |
| Inventory | 22 400 |  |
| Loan – Ace Finance |  | 12 000 |
| Office Expenses | 8 600 |  |
| Profit on Disposal of Equipment |  | 400 |
| Rent | 4 500 |  |
| Sales |  | 86 000 |
| Sales Returns | 2 000 |  |
| Telephone | 900 |  |
| Vehicle | 46 000 |  |
| Wages | 11 200 |  |

**Additional information:**

* On 1 March 2020 the owner disposed of some old equipment. This equipment had a historical cost of $3 000 and at the time of sale had a carrying value of $800. It was sold for cash.
* Drawings by the owner included inventory of $600 and an old computer with a cost of $1 400.
* The owner contributed cash of $8 000 on 31 March 2020 to assist in the purchase of a business vehicle.
* The business prepares reports quarterly on 31 March, 30 June, 30 September and 31 December each year.

Using the information provided, complete the following General ledger accounts:

* Disposal of Equipment
* Profit & Loss Summary
* Drawings
* Capital

 **END OF QUESTION BOOKLET**