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**NAME:**

**ACCOUNTING**

**Unit 3 Examination**

## Reading time: 15 minutes

**Writing time: 120 minutes**

**QUESTION BOOK**

**Structure of book**

|  |  |  |  |
| --- | --- | --- | --- |
| *Number of questions* | *Number of questions to be answered* | *Number marks* | *of* |
| 6 | 6 | 100 | |

* Students are to write in blue or black pen.
* Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners, rulers and one scientific calculator.
* Students are NOT permitted to bring into the examination room: blank sheets of paper and/or correction fluid/tape.

**Materials supplied**

* Question book of 8 pages
* Answer book of 19 pages

**Instructions**

* Write your **name** in the space provided above on this page.
* All written responses must be in English.

**At the end of the examination**

* You may keep this question book

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

**Question 1** [16 marks]

*Tennis Gear Direct* has been purchasing inventory to expand the range of products it sells. Below is a list of purchases made for March 2024.

5 March 20 Elite Tennis Rackets for $165 each (including GST).

11March 14 Basic Tennis Rackets for $55 each (including GST)

14March 35 Excel Tennis Rackets for $110 each (including GST)

17 March 12 Basic Tennis Rackets for $33 each (including GST)

21March 17 Elite Tennis Rackets for $220 each (including GST)

25March 30 Basic Tennis Rackets for $88 each (including GST)

Additional information:

* Due to cash flow concerns, all purchases after 15th March were made on credit
* The business uses the First in, First Out method
* On 24th March, 3 Basic Tennis Rackets were brought home by the owner for his children to have
* On 27th March, suppliers were paid an instalment of $800.

1. Fill in the inventory cards for the Elite Tennis Rackets and the Basic Tennis Rackets. Details are not required. 5 marks
2. Fill in the rest of the ledger accounts for Accounts Payable and Bank in relation to all purchases and the additional information. 6 marks
3. The owner of *Tennis Gear Direct* has stated that his business’ cash purchases of inventory can be classified as expenses. In reference to one accounting assumption, explain whether this is accurate. 3 marks
4. Through the use of an example in relation to *Tennis Gear Direct,* explain how the Identified Cost method can help ensure that owner’s equity is higher. 2 marks

**Question 2** [15 marks]

The following information relates to *John’s Jewelry Shop* for July 2024.

4 July A customer pays the amount owing for the purchase of a ring - $2 000 (ETF. 453)

12July Payment of wages of $3 200 (ETF. 910)

19July A customer purchases a ring for $6 600 including GST (ETF. 410)

25 July Bank of Australia loan is paid down by $1 000 (ETF. 953)

27 July A customer returns a ring worth $200 plus GST bought on credit on 1 July (Cr. note 501)

Additional information:

* The business has applied a $1 000 mark-up for products selling at $3 000 or above, and a $50 mark-up for products selling for less than $500.

An extract of the balance sheet as at 30 June 2024 is as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **$** | **$** |  | **$** | **$** |
| **Current assets** |  |  | **Current liabilities** |  |  |
| Bank | $10 000 |  | Loan – Bank of Australia | $4 000 |  |
| Accounts Receivable | $3 000 |  | GST payable | $500 |  |

1. Prepare the balance sheet extract for *John’s Jewelry Shop* as at 26th July 2024 4 marks
2. The following is an extract from the General Journal for *John’s Jewelry Shop.*

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit $** | **Credit $** |
| July 12 | Bank | 3 200 |  |
|  | Wages |  | 3 200 |
|  |  |  |  |

Write a correcting entry for the above, with a narration. Memo 16 was used to state the correction. 2 marks

1. Prepare the General Journal entries for the transactions occurring on 4 July, 19 July, and 27 July. Narrations are not required. 4 marks

1. Prepare part of the Income statement for *John’s Jewelry Shop* (for July 2024). 3 marks

**JOHN’S JEWELRY SHOP**

**Income Statement for July 2024**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **Revenue** |  |  |
| Sales |  |  |
| Sales returns |  |  |
| **Other expenses** |  |  |
|  |  |  |

1. Explain how ethical considerations are relevant in relation to allowing customers to make credit purchases. 2 marks

**Question 3** [21 marks]

*Terry’s Textbooks,* owned by Terry Readings,is a textbook supplier for primary and secondary school students. On 1 December 2023, $55 000 worth of textbooks (including GST) were purchased on credit from publishers to ensure that there was sufficient stock for the following school year. The credit terms are 30/10 n/90 for all such purchases. The business sells textbooks for double the amount it costs to obtain them. The following information concerns January 2024:

Textbook sales on credit (n/30) $44 000 (including GST)

Textbook sales through EFT $33 000 (including GST)

Rent paid $1 650 (including GST)

Wages paid $4 000

Purchase of photocopier via business debit card $3 300 (including GST)

Drawings $720

1. Calculate the discount revenue that *Terry’s Textbooks* would have been eligible for, and state the circumstance in which he would have been eligible for it. 2 marks
2. Prepare a cash flow statement for *Terry’s Textbooks* for January 2024. 6 marks
3. Explain whether or not it would have been feasible for Terry to receive discount revenue. 3 marks
4. Explain two actions that Terry should consider that could result in his customers being a greater source of positive cash flow. 4 marks
5. Based on the above information, calculate *Terry’s Textbooks’* net profit for the month of January. 2 marks
6. Through the use of two examples, distinguish between cash and profit. 4 marks

**Question 4** [30 marks]

*Computing Max* sells parts used in the manufacturing of laptops and other technological devices. The business orders them from a supplier for $220 each (including GST), plus delivery charges being $44 per batch of 10 (including GST). The business resells such parts based on a markup of $110. The Identified Cost method is used.

On 2 October 2024, four parts got damaged due to a water leak at *Computing Max’s* warehouse. Owing to the damage, the net realizable value per item has been calculated to be $180.

The business owner has also recorded the following information applicable to October 2024:

3 October During a stock take, 12 extra machine parts were found (Memo 23)

12 October A customer returned 1 machine part before they had made payment for it (the part was purchased on 2nd October)

13 October 30 machine parts were purchased on credit from suppliers (Inv. 321)

17 October A customer bought 50 machine parts through a credit card (delivery charges paid by us via EFT 101, $1 000 altogether + GST)

21 October Rent was paid of $2 000 plus GST (EFT. 902)

26 October Brought a printer worth $200 from home for the business to have (Memo 51)

28 October Wages of $4 300 were paid (EFT. 987)

Note: no customers purchased any of the damaged items.

1. Calculate the product cost for one part. 1 mark
2. Show the inventory write-down on the inventory card and on the general ledger. Details and narrations are not required. 2 marks
3. Discuss how inventory can be managed effectively to prevent the need for inventory write-downs. 4 marks
4. Explain how inventory cards help foster one qualitative characteristic. 3 marks
5. Prepare the general journal entries and general ledger entries for 13 October and 17 October. 10 marks
6. Prepare an Income Statement for October 2024. 10 marks

**Question 5** [8 marks]

A clothing retailer has prepared its Income Statement for June 2024, and has derived the following information from it.

*Net profit margin* 8.5 % [6 000 / 65 000]

*Gross profit margin* 49% [32 000 / 65 000]

1. Explain why the net profit margin is often less than the gross profit margin. Give examples of different types of expenses in your answer. 3 marks
2. Outline a strategy that could further improve the gross profit margin, and discuss an ethical consideration associated with this. 5 marks

**Question 6** [10 marks]

A retailer of gardening tools is in the process of evaluating its management of accounts payable. The following information is being considered:



Note: the first column for each year refers to accounts payable turnover, and the second column refers to credit terms.

1. Explain whether or not this business has been meeting its obligation towards creditors. 2 marks

1. Explain one advantage and one disadvantage of paying creditors just before the due date. 4 marks
2. State a risk that this business could have in future years, and explain a recommendation that this business could consider to mitigate this risk. 4 marks