

ACCOUNTING
Unit 3&4 Examination 3

MARKING GUIDE

Question 1 [14 marks]

Ken is the owner of Ken's Convenience Store. He employs a casual employee. As at 30 June 2020, an extract of the General Ledger revealed the following:

**General Ledger
Wages Expense**

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|------------|-----------------|--------|------------|----------------------------|--------|
| 30 June | Bank | 1 600 | 30 June | Profit and Loss Summary | 2 000 |
| | Accrued Wages | 400 | | | |
| | | 2 000 | | | 2 000 |

- a. Explain how the Accrued Wages would be reported in the Balance Sheet of Ken's Convenience Store as at 30 June 2020.

2 marks

The accrued wages would be reported as a current liability of \$400 as it is a present obligation of the business to transfer an economic resource (cash) for wages within 12 months.

1 mark - for accrued wages of \$400 as a current liability

1 mark - for explanation

- b. On 22 July 2020, the business paid \$2 000 to the employee for wages. (EFT 12).

Explain the effect of EFT 12 on the accounting equation of Ken's Convenience Store.

3 marks

There would be a decrease in assets of the business of \$2000 due to the decrease in bank and a decrease in liabilities of \$400 of accrued wages. Owner's equity would decrease by \$1600 due to the increased wages expense.

1 mark - for effect on assets

1 mark - for effect on liabilities

1 mark - for effect on owners' equity

Ken's Convenience Store pays its rent six months in advance on 31 March and 30 September. On 31 March 2020, their landlord increased the rent from \$950 (plus GST) to \$1 050 (plus GST) each month. The business prepares financial reports six monthly on 30 June and 31 December.

- c. Record the payment on 31 March 2020 in the General Journal of Ken's Convenience Store (EFT 57). A narration is required.

4 marks

General Journal

| Date | Details | Debit | Credit |
|----------|---|-------|--------|
| 31 March | Prepaid Rent Expense | 6 300 | |
| | GST Clearing | 630 | |
| | Bank | | 6 930 |
| | Payment of rent for the 6 months ended 30 September 2020 (EFT 57) | | |
| | | | |

1 mark - for each line

1 mark - for narration

- d. Complete the Prepaid Rent Expense account in the General Ledger of Ken's Convenience Store as at 30 June 2020.

5 marks

Prepaid Rent Expense

| Date | Cross-reference | Amount | Date | Cross-reference | Amount |
|--------|-----------------|--------|--------|-----------------|--------|
| 1 July | Balance | 2 850 | 31/12 | Rent expense | 6 000 |
| | Bank | 6 300 | 31 /12 | Balance | 3 150 |
| | | 9 150 | | | 9 150 |
| 1/1 | Balance | 3 150 | | | |

1 mark - for each entry

1 mark - for balance

Question 2 [21 marks]

Fabulous Frames is a small business that sells custom frames.

They report on an annual basis will all sales being made using a 200% markup.

The following information has been have provided.

Fabulous Frames
Pre-adjusted Trial Balance as at 30 June 2020

| | Debit | Credit |
|---|---------|---------|
| Cash at Bank | 30 000 | |
| GST Clearing | 4 500 | |
| Accounts Payable | | 32 000 |
| Accounts Receivable | 28 200 | |
| Sales Revenue | | 92 000 |
| Delivery In | 1 400 | |
| Wages | 32 000 | |
| Delivery Van | 40 000 | |
| Accumulated Depreciation – Delivery Van | | 12 000 |
| Prepaid Rent | 18 000 | |
| Inventory | 25 000 | |
| Cost of Sales | 30 000 | |
| Sales Returns | 2 000 | |
| Capital | | 75 100 |
| | 211 100 | 211 100 |

Additional information

- Rent of \$12 000 was paid on 18 March 2020 for the next 6 months ending 30 September 2020.
- The Delivery Van is depreciated using Reducing Balance at 20% per annum. The business did not purchase a new delivery van.
- Frames that had a cost price \$3 000 (plus GST) were returned by *Footy Memorabilia* on 30 June 2020 but were not recorded in Fabulous Frames records.
- Wages owing at 30 June are \$1 500.
- The owner recorded drawings of a frame that cost \$400 (plus GST) as a cash sale of \$1 200 (plus GST).
- A stocktake on 30 June 2020 provided a balance of \$25 000 of inventory on hand.

- a. Prepare the General Journal entries required on 30 June 2020 to record the additional information.

Narrations are not required.

18 marks

General Journal

| Date | Details | Debit | Credit |
|-------------|--|--------------|---------------|
| 30/6 | Rent Expense | 12 000 | |
| | Prepaid Rent Expense | | 12 000 |
| 30/6 | Depreciation of Van | 5 600 | |
| | Accumulated Depreciation of Delivery Van | | 5 600 |
| 30/6 | Sales Return | 9 000 | |
| | GST Clearing | 900 | |
| | Accounts Receivable | | 9 900 |
| | Inventory | 3 000 | |
| | Cost of Sales | | 3 000 |
| 30/6 | Wages | 1 500 | |
| | Accrued Wages Expense | | 1 500 |
| 30/6 | Drawings | 400 | |
| | Sales | 1 200 | |
| | GST Clearing | 120 | |
| | Cost of Sales | | 400 |
| | Bank | | 1 320 |
| 30/6 | Inventory Loss | 3 000 | |
| | Inventory | | 3 000 |
| | | | |

1 mark – for each line entered correctly

- b. Referring to an accounting assumption, explain why the reducing balance method would have been used to determine the depreciation on the equipment.

3 marks

The reducing balance method is used to depreciate non-current assets that have a revenue earning pattern where the asset contributes more to earning revenue earlier in its useful life. In the case of the equipment the accrual basis assumption requires the business to use the reducing balance method as the expense incurred will need to be higher in the earlier years of its life as the revenue earned will be greater. This will allow the business to calculate an accurate net profit.

1 mark - for accounting assumption

2 marks - for explanation (1 mark for a brief outline)

Question 3 [10 marks]

Jose commenced his business, Tottenham Tyres. The business will operate a mobile car tyre service. The business will use the FIFO inventory valuation method with all sales made using a 100% mark-up.

The following transactions occurred in November 2020.

November

- 1 Jose contributed \$40 000 cash to the business
- 4 Jose organised an overdraft of \$40 000 from *Spurs Bank*
- 8 Purchased 40 Tyres for \$100 (plus GST) each from *Great Year* (EFT 54)
- 17 Sold 20 Tyres to *High St Cars* (Inv 1)
- 24 Ordered 30 Tyres for \$120 each (plus GST) from *Great Year* (Order 10)
- 31 Tottenham Tyres purchased a new Truck for \$30 000 (plus GST) (EFT 01)
- 31 Received a loan from *Spurs Bank* of \$30 000 repayable at \$500 per month with the first payment due on 1 January 2020. (EFT 2)

a. Prepare a fully classified Balance Sheet as at 31 November 2020.

7 marks

Tottenham Tyres
Balance Sheet as at 31 November 2020

| Assets | | | Equities | | |
|---------------------------|--------|--------|--------------------------------|--------|--------|
| <u>Current Assets</u> | | | <u>Current Liabilities</u> | | |
| Bank | 32 600 | | Loan – Spurs Bank | 5 500 | |
| Inventory | 2 000 | | | | |
| GST Clearing | 3 000 | | | | |
| Accounts Receivable | 4 400 | 42 000 | | | 5 500 |
| | | | | | |
| <u>Non-Current Assets</u> | | | <u>Non-Current Liabilities</u> | | |
| Truck | 30 000 | 30 000 | Loan – Spurs Bank | 24 500 | 24 500 |
| | | | | | |
| | | | <u>Owner's Equity</u> | | |
| | | | Capital | 40 000 | |
| | | | Net Profit | 2 000 | 42 000 |
| | | 72 000 | | | 72 000 |
| | | | | | |

2 marks - for current assets (1/2 each)

1 mark - for non-current assets

1 mark - for current liabilities

1 mark - for non-current liabilities

2 marks - for owners' equity

Note: subtract 1 mark if totals not shown

b. Explain the effect on the accounting equation of the transaction on 17 November 2020.

3 marks

Accounts receivable increases by \$4 400, GST Clearing asset will decrease by \$400 and inventory decreases by \$2000. Liabilities will have no effect and owner's equity will increase by \$2 000 of net profit (Sales Revenue increases by \$4000 and Cost of Sales Expense increases by \$2000)

1 mark - for effect on assets

1 mark - for effect on liabilities

1 mark - for effect on owners' equity

Question 4 [22 marks]

Pacific Printers have taken advantage of the boom in people working from home. They sell printers to an online retailer which sells direct to the public.

The owner, Peter, has provided you with the following transactions for March 2020.

The business recently purchased a new delivery van and has a \$5 420 debit balance in their GST Clearing Account.

March 2020

1 Inventory on Hand

| Item | |
|-------------------|---|
| Student Printer | 8 printers cost of \$100 each (plus GST) 10 printers cost of \$110 each (plus GST) |
| Executive Printer | 4 printers cost of \$300 each (plus GST) |

4 Purchased 7 Student Printers for \$110 plus GST each from *Sister Printers* (Inv 21)

6 Sold 4 Student Printers that cost \$110 each for \$200 plus GST each to *Printers Online* (Inv 12)

12 Returned 2 Student Printers from Inv 21 to *Sister Printers* (Credit note 12)

14 Sold 2 Executive Printers for \$400 plus GST each (EFT 22)

19 *Printers Online* returned a printer they purchased on 6 June (Credit Note 33)

24 Sold 1 of the \$110 Student Printers for \$220 (plus GST) to *Printers Online* (Inv 13)

31 A physical stocktake found the following on hand (Memo 23)

| Item | |
|-------------------|--|
| Student Printer | 8 printers cost of \$100 each (plus GST) 7 printers cost of \$110 each (plus GST) |
| Executive Printer | 2 printers cost of \$300 each (plus GST) |

31 One of the \$110 printers was damaged and will be sold for \$50 (plus GST) each. (Memo 24)

a. Complete the Student Printer inventory card using the Identified Cost method for March 2020

8 marks

| Product: Student Printer | | | | | Supplier: Sister Printers | | | | | |
|---|---------------|-----|------|-------|---------------------------|------|-------|---------|------|-------|
| Cost Assignment method: Identified Cost | | | | | | | | | | |
| | | IN | | | OUT | | | BALANCE | | |
| Date | Details | Qty | Cost | Total | Qty | Cost | Total | Qty | Cost | Total |
| 1 | Balance | | | | | | | 8 | 100 | 800 |
| | | | | | | | | 10 | 110 | 1 100 |
| 4 | Inv 21 | 7 | 110 | 770 | | | | 8 | 100 | 800 |
| | | | | | | | | 17 | 110 | 1 870 |
| 6 | Inv 12 | | | | 4 | 110 | 440 | 8 | 100 | 800 |
| | | | | | | | | 13 | 110 | 1 430 |
| 12 | Cr Note 12 | | | | 2 | 110 | 220 | 8 | 100 | 800 |
| | | | | | | | | 11 | 110 | 1 210 |
| 19 | Cr Note 33 | 1 | 110 | 110 | | | | 8 | 100 | 800 |
| | | | | | | | | 12 | 110 | 1 320 |
| 24 | Inv 13 | | | | 1 | 110 | 110 | 8 | 100 | 800 |
| | | | | | | | | 11 | 110 | 1 210 |
| 31 | Memo 23 | | | | 4 | 110 | 440 | 8 | 100 | 800 |
| | | | | | | | | 7 | 110 | 770 |
| 31 | Memo 24 | | | | 1 | 60 | 60 | 8 | 100 | 800 |
| | | | | | | | | 6 | 110 | 660 |
| | | | | | | | | 1 | 50 | 50 |

1 mark - for each line

b. Complete the Student Printer inventory card using the FIFO method for March 2020

8 marks

| Product: Student Printer | | | | | Supplier: Sister Printers | | | | | |
|------------------------------|---------------|-----|------|-------|---------------------------|------|-------|---------|------|-------|
| Cost Assignment method: FIFO | | | | | | | | | | |
| | | IN | | | OUT | | | BALANCE | | |
| Date March | Details | Qty | Cost | Total | Qty | Cost | Total | Qty | Cost | Total |
| 1 | Balance | | | | | | | 8 | 100 | 800 |
| | | | | | | | | 10 | 110 | 1 100 |
| 4 | Inv 21 | 7 | 110 | 770 | | | | 8 | 100 | 800 |
| | | | | | | | | 17 | 110 | 1 870 |
| 6 | Inv 12 | | | | 4 | 100 | 400 | 4 | 100 | 400 |
| | | | | | | | | 17 | 110 | 1 870 |
| 12 | Cr Note 12 | | | | 2 | 110 | 220 | 4 | 100 | 400 |
| | | | | | | | | 15 | 110 | 1 650 |
| 19 | Cr Note 33 | 1 | 100 | 100 | | | | 5 | 100 | 500 |
| | | | | | | | | 15 | 110 | 1 650 |
| 24 | Inv 13 | | | | 1 | 100 | 100 | 4 | 100 | 400 |
| | | | | | | | | 15 | 110 | 1 650 |
| 31 | Memo 23 | | | | 4 | 100 | 400 | 15 | 110 | 1 650 |
| 31 | Memo 24 | | | | 1 | 60 | 60 | 1 | 50 | 50 |
| | | | | | | | | 14 | 110 | 1 540 |

1 mark - for each line

c. Calculate the Cost of Sales for March 2020 using the FIFO assumption.

2 marks

$$= \$400 - \$100 + \$100 + 600 = \$1\ 000$$

1 mark - for calculations

1 mark - for result

- d. Prepare the Income Statement (extract) up to and including Adjusted Gross Profit for the month ended 31 March 2020 using the FIFO assumption.

4 marks

Pacific Printers
Income Statement for March 2020

| | | |
|--------------------------|-------|------|
| Revenue | | |
| Sales | 1 820 | |
| Less Sales Returns | 100 | 1720 |
| Less Cost of Goods Sold | | |
| Cost of Sales | 1 000 | |
| Gross Profit | | 720 |
| Less Inventory loss | 400 | |
| Less Inventory Writedown | 60 | 460 |
| Adjusted Gross Profit | | 260 |
| | | |

1 mark - for sales less sales returns

1 mark - for cost of sales

1 mark - for less inventory loss

1 mark - for less inventory writedown

Notes:

- **subtract 1 mark if gross profit not shown**
- **subtract 1 mark if adjusted gross profit not shown**

Question 5 [18 marks]

Mary operates a small business called Lit Up that sells lights to electricians. The business prepares its reports on an annual basis.

She is upgrading her warehouse and is replacing some of the cabinets.

The cabinets that are being replaced were purchased on 1 January 2016 for \$15 000 (plus GST) and had a carrying value of \$4 000 on 31 December 2020.

Mary has purchased new cabinets from *Locked Up Cabinets* for \$20 000 (plus GST) on 31 December 2020.

The old cabinets were traded in for \$1 000. The balance owed will be paid using a loan from *SB Bank*.

The residual value of the new cabinets is expected to be \$4 000 and the useful life is expected to be five years.

a. Prepare the General Journal entries required on 31 December 2020.

Narrations are not required.

12 marks

| Date | Details | Debit | Credit |
|-------|--------------------------------------|--------|--------|
| 31/12 | Disposal of cabinets | 15 000 | |
| | Cabinets | | 15 000 |
| | Accumulated Depreciation of Cabinets | 11 000 | |
| | Disposal of Cabinets | | 11 000 |
| | Cabinets | 1 000 | |
| | Disposal of Cabinets | | 1 000 |
| | Loss on Disposal of Cabinets | 3 000 | |
| | Disposal of Cabinets | | 3 000 |
| | Bank | 21 000 | |
| | Loan –SB Bank | | 21 000 |
| | Cabinets | 19 000 | |
| | GST Clearing | 2 000 | |
| | Bank | | 21 000 |

2 marks - for each entry

- b. Referring to an accounting assumption, explain why Lit Up would choose to use the straight-line method to depreciate its shelves.

3 marks

The straight-line method would be appropriate for the cabinets as Mary would have chosen the method that most accurately suits the revenue earning pattern of the cabinets. This is because the cabinets would contribute evenly to revenue earning over their useful life so the straight line method would be more appropriate than the reducing balance method

1 mark – reference to an accounting assumption

2 marks – explanation (1 mark for a brief outline)

- c. Explain how a business could incur a loss on disposal of a non-current asset.

3 marks

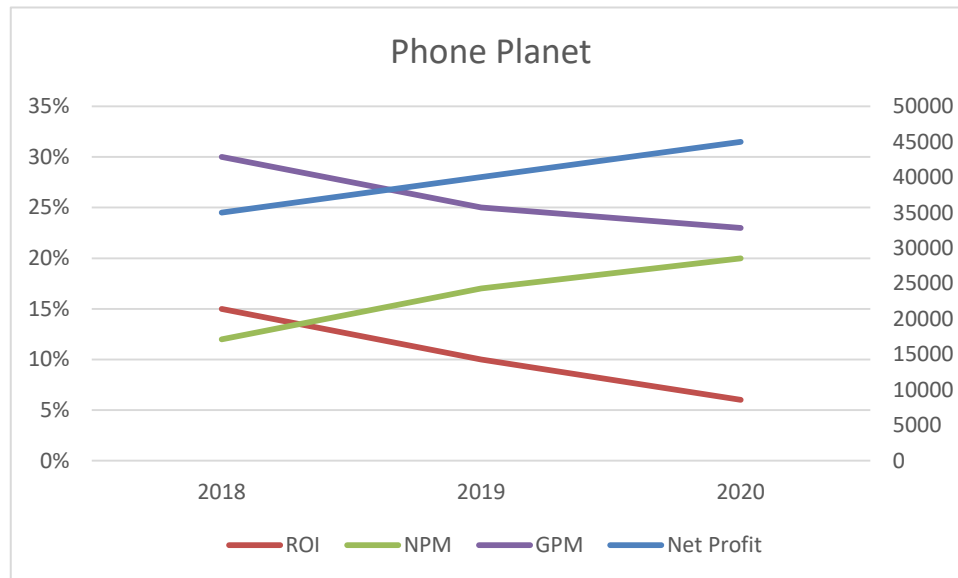
A business would incur a loss on disposal of a non-current asset if the asset has been under depreciated. This would occur if the useful life or the residual value of the asset have been overstated.

1 mark – statement as to how

2 marks – explanation (1 mark for a brief outline)

Question 6 [5 marks]

The following chart has been prepared for Phone Planet.



| | 2018 | 2019 | 2020 |
|------------|-------|-------|-------|
| Net Profit | 35000 | 40000 | 45000 |
| ROI | 15% | 10% | 6% |
| NPM | 12% | 17% | 20% |
| GPM | 30% | 25% | 23% |

Discuss the profitability of Phone Planet.

Profitability refers to the ability of a business to earn profit compared to a base such as sales, assets or owner's equity. The net profit has increased over the three years which would usually indicate improved profitability, however, the owner has experienced a decrease in return on investment over that time. This is likely due to the owner has made additional capital contribution in 2019 and 2020 which is proportionally higher than the increases in net profit in those years. The Gross Profit Margin has declined which indicates that the business has either had to decrease its selling prices or has experienced an increase in the cost of its phones. Despite the decrease in its Gross Profit Margin it has been able to increase its net profit margin which would indicate improved expense control in other areas by the business.

Mark this question globally. High range answers need to consider different considerations from the data and draw clear links to business profitability

Question 7 [5 marks]

File It is an office supplies business that invested \$12 000 on 30 November 2019 into a term deposit maturing in 12 months earning 8% interest per annum (payable quarterly on 28 February, 31 May, 31 August and 30 November).

File It prepares its accounting reports on the 31st of December each year.

- a. Record the general journal entry required on 28 February 2020.
A narration is not required.

2 marks

| Date | Details | Debit | Credit |
|------|--------------------------|-------|--------|
| 28/2 | Bank | 240 | |
| | Accrued Interest Revenue | | 80 |
| | Interest Revenue | | 160 |
| | | | |

1 mark - for bank and interest revenue (1/2 mark each)

1 mark - for Accrued interest revenue

- b. Record the general journal entry required on 30 November 2020.
A narration is not required

3 marks

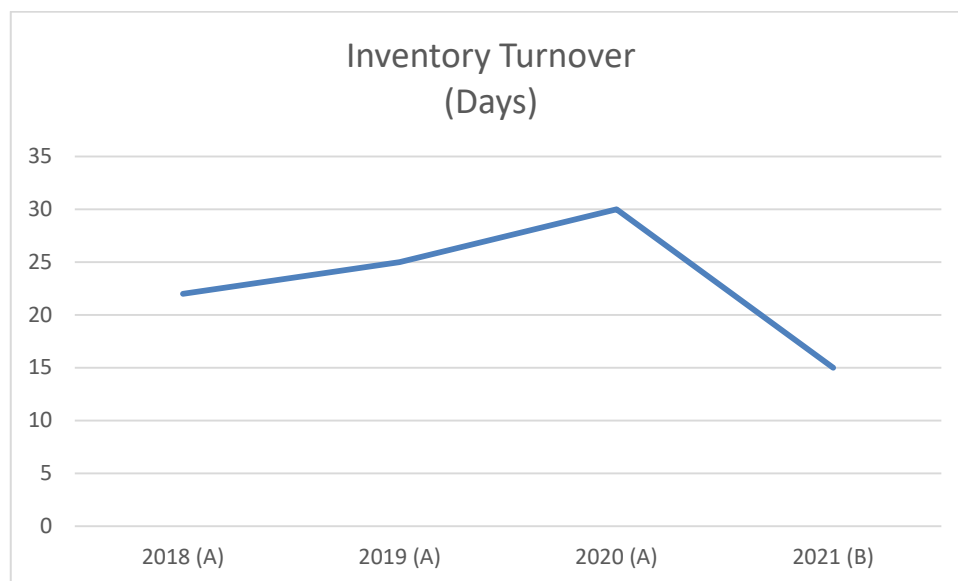
| Date | Details | Debit | Credit |
|-------|------------------|--------|--------|
| 30/11 | Bank | 12 240 | |
| | Interest Revenue | | 240 |
| | Term Deposit | | 12 000 |
| | | | |

1 mark - for each line

Question 8 [5 marks]

Simon's Spares sells spare parts for tractors to mechanics who provide repairs to farming equipment. The following chart was prepared using actual data up to the year ending 30 June 2020 and budgeted data for the year ending 30 June 2021.

Simon has introduced changes to the operations of the business at the end of June 2020 which he hopes will achieve the budgeted results. As the only supplier of specialised spare parts to farmers, he knows that customers will continue to be reliant on his business.



Referring to ethical considerations, discuss the inventory turnover of Simon's Spares.

Simon's Spares has experienced a slowing of inventory turnover in recent years. This could be due to a variety of reasons such as in wanting to provide a greater range to customers or slowing sales. While this graph provides some information regarding the inventory management of Simon's Spares we could give a more detailed response if we were provided with information such as inventory writedown or inventory loss or non-financial information such as customer satisfaction. Simon is aiming to reduce inventory turnover in the 2021. As the sole supplier of specialised spare parts to farmers he should consider the impact on farmers if they are not able to source the parts. While he is able to potentially improve his inventory turnover this could cause significant implications to the farmers' ability to harvest crops or potentially manage their land.

Mark this question globally. High range responses need to discuss in reference to the data provided, by linking it to relevant ethical considerations.