

NAME:

ACCOUNTING

Unit 3&4 Examination 3

Reading time: 15 minutes

Writing time: 120 minutes

QUESTION BOOK

Structure of book

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
8	8	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 11 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 [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

- 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

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

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

5 marks

Question 2 [21 marks]

Fabulous Frames is a small business that sells custom frames.

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

The following information has been 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

- 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

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) 3960
- 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

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

3 marks

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

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

8 marks

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

2 marks

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

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

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

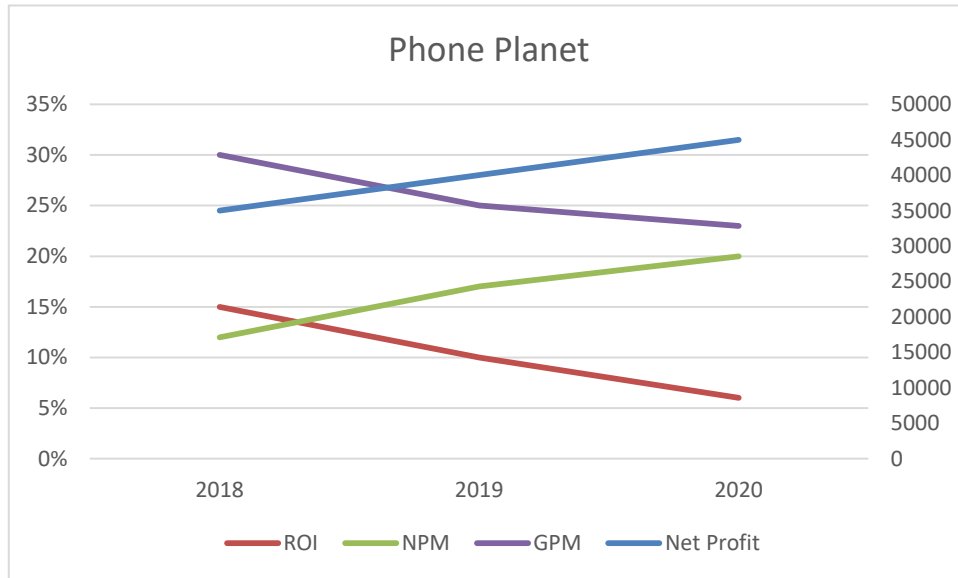
3 marks

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

3 marks

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.

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

b. Record the general journal entry required on 30 November 2020.

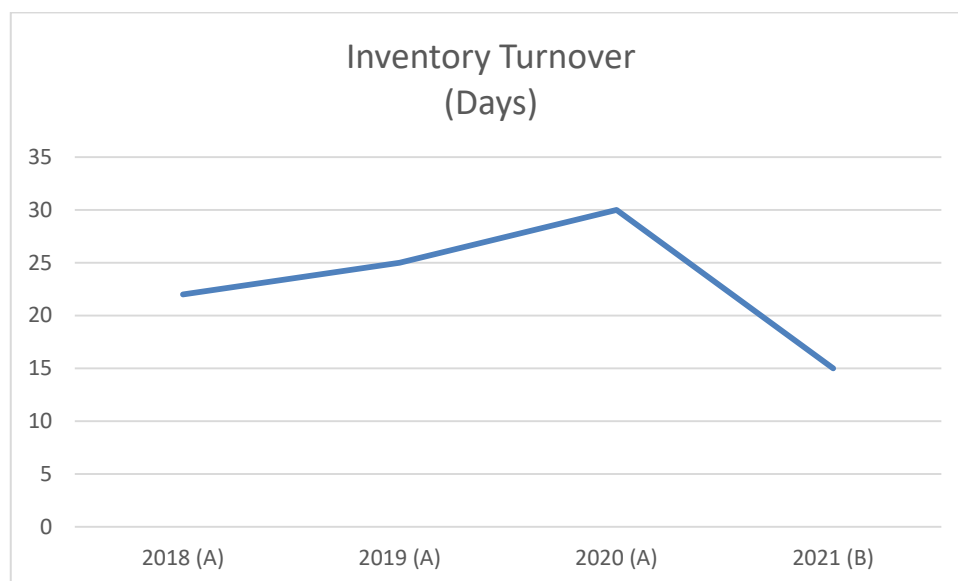
A narration is not required

3 marks

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.