



VCE ACCOUNTING UNIT 3 / 4

2021

CPAP Practice Examination No. 1

Reading time: 15 minutes

Writing time: 2 hours

QUESTION BOOK

Structure of book

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
10	10	100

Directions to students

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 white out liquid/tape.

Materials supplied

- Question book of 12 pages.
- Answer book of 16 pages.

Instructions

- Answer all questions in the Answer book.
- All written responses must be in English.

At the end of the examination

- Please submit both this Question book and the Answer book at the end of the examination.

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

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Question 1 – Claudia’s Cars (10 marks)

Claudia Cox owns and operates Claudia’s Cars, a small business that sells second-hand cars.

Claudia’s Cars uses the Identified Cost assignment method.

- a. Explain why Claudia’s Cars would use the Identified cost assignment method instead of the First In, First Out cost assignment method.

2 marks

As at 1 January 2021 Claudia’s Cars has the following asset and liability balances.

	\$	
Accrued Wages	1 200	
Bank	10 170	
Equipment	15 800	
GST Clearing	1 116	debit
Inventory	148 000	
Loan – MNC Bank	24 000	
Prepaid Rent Expense	36 000	
Vehicle	15 000	

- b. Prepare the Assets extract from the classified Balance Sheet of Claudia’s Cars as at 1 January 2021.

3 marks

Claudia’s Cars makes loan repayments of \$1 500 on a quarterly basis.

- c. Referring to the definition of the liability accounting element, explain how the loan balance owing to MNC Bank would be classified on the Balance Sheet of Claudia’s Cars as at 1 January 2021.

3 marks

On 6 January 2021 Claudia’s Cars used cheque 927 to pay Wages of \$2 000.

- d. Prepare the General Journal entry to record cheque 927.

A narration is **not** required.

2 marks

Question 2 – Rob’s Rugs (18 marks)

Rob Sinclair owns and operates Rob’s Rugs, a small business that uses the First In, First Out cost assignment method.

Each of the 45 ‘Newton’ rugs on hand as at 1 January had a cost price of \$70.

Rob has provided the following source documents.

FAB THREADS			
Date: 08/01/2021		Invoice: 1039	
Charge to Rob’s Rugs			
Item	Qty	Unit Cost	\$
‘Newton’ Rugs	30	80	2 400
		GST (10%)	240
		Total Owing	2 640
Terms 2/10, n/30			

ROB’S RUGS			
Date: 12/01/2021		Invoice: 510	
Charge to Latrobe Living			
Item	Qty	Unit Cost	\$
‘Newton’ Rugs	50	200	10 000
		GST (10%)	1 000
		Total Owing	11 000
Terms 5/7, n/30			

ROB’S RUGS	
Date: 14 January 2021	Memo: 38
Details: Donation of three ‘Newton’ rugs to Springwood Netball Club.	
Signed: <i>Rob Sinclair</i>	

ROB’S RUGS			
Date: 15/01/2021		Credit Note: 21	
Credit to Latrobe Living			
Item	Qty	Unit Cost	\$
‘Newton’ Rugs	10	200	2 000
		GST (10%)	200
		Total Credit	2 200

MNC BANK BANK STATEMENT Rob’s Rugs				
Date	Particulars	Debit	Credit	Balance
17/01	Transfer: Latrobe Living		8 360	12 150 CR

Question 2 - continued

- a. Record each source document in the General Journal of Rob's Rugs.

Narrations are **not** required.

14 marks

- b. Explain how the donation of three 'Newton' rugs demonstrates Rob's Rugs' commitment to being an ethical trading business.

2 marks

- c. Explain how receiving a Bank Statement each month from MNC Bank would assist Rob's Rugs' internal control.

2 marks

Question 3 – Bonnie's Blinds (4 marks)

Bonnie Moorcraft, the owner of Bonnie's Blinds, is preparing her cash budget for the month of March 2021.

Inventory purchases are estimated to be 75% on credit and 25% using cash.

Bonnie expects that 80% of the suppliers will be paid in the month following the purchase taking advantage of a 5% discount.

The remaining amount owing will be paid in the 2nd month following the purchase.

Inventory purchases for January to March 2021 are provided below.

Inventory purchase figures do not include GST.

Month	Inventory Purchases (\$)
January	10 000
February	20 000
March	30 000

Calculate the estimated Payments to Accounts Payable for March 2021.

Question 4 – Jordan’s Jet Skis (8 marks)

Jordan James owns and operates Jordan’s Jet Skis, a small business that uses the Identified Cost assignment method.

The following inventory card relates to the ‘Chelsea’ jet ski for the month of May 2021.

ITEM: ‘Chelsea’ Jet Ski		Cost method: Identified Cost								
SUPPLIER: PWC										
		IN			OUT			BALANCE		
Date	Document	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
01/05	Balance							7	1 500	10 500
04/05	Rec.506				2	1 500	3 000	5	1 500	7 500
09/05	Inv.1243	10	1 550	15 500				5	1 500	7 500
								10	1 550	15 500
13/05	Inv.328				2	1 500	3 000	3	1 500	4 500
					2	1 550	3 100	8	1 550	12 400
15/05	Memo 49				1	1 550	1 550	3	1 500	4 500
								7	1 550	10 850
18/05	Inv.332				3	1 500	4 500			
					2	1 550	3 100	5	1 550	7 750
20/05	C/N.7	1	1 500	1 500				1	1 500	1 500
		1	1 550	1 550				6	1 550	9 300
31/05	Memo 53				1	650	650	1	900	900
								1	1 500	1 600
								5	1 550	7 750

Additional information

Jordan’s Jet Skis sells each ‘Chelsea’ jet ski for \$4 950 plus GST.

- a. Prepare an Income Statement extract up to, and including, the Adjusted Gross Profit for the ‘Chelsea’ jet ski for the month ending 31 May 2021.

4 marks

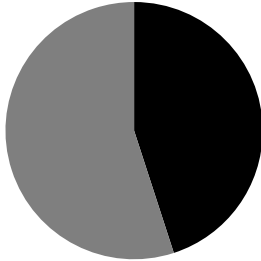
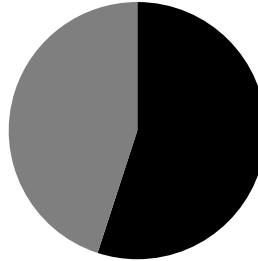
- b. Referring to one qualitative characteristic, explain the benefit of reporting both Sales Returns and an Adjusted Gross Profit in an Income Statement.

4 marks

Question 5 – Vidotto’s Ventures (7 marks)

Vidotto’s Ventures is reviewing its profitability.

The accountant has provided the following information.

% of Sales (2020)**% of Sales (2021)**

■ Cost of Goods Sold

■ Gross Profit

Indicator	2020	2021
Asset Turnover	1.5 : 1	2 : 1
Net Profit Margin	6 %	5 %

- a. Analyse the profitability of Vidotto’s Ventures in 2021.

5 marks

- b. Identify one other relevant financial indicator that Vidotto’s Ventures’ may identify and explain how it could be used to enhance the review of its profitability in 2021.

2 marks

Question 6 – Phillip’s Pianos (8 marks)

Phillip Andrews owns and operates Phillip’s Pianos.

Phillip has provided the Bank account from the General Ledger for June 2021.

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount
01/06	Balance	12 090	08/06	Accounts Payable	12 936
05/06	Cash Sales / GST Clearing	3 300	11/06	Drawings	750
07/06	Accounts Receivable	12 540	14/06	Wages	2 050
13/06	Capital	10 000	15/06	Prepaid Rent Expense / GST Clearing	6 600
16/06	Unearned Sales Revenue	2 000	20/06	Loan – MNC Bank	500
21/06	GST Clearing	1 278	20/06	Interest Expense	150
23/06	Loan – MNC Bank	20 000	25/06	Van / GST Clearing	31 350
			28/06	Wages	2 240

- a. Prepare the Net Cash from Operations extract from the Cash Flow Statement for the month ending 30 June 2021.

6 marks

- b. Explain what is meant by the term ‘Net Cash Flows from Operations’.

2 marks

Question 7 – Arianna’s Aprons (14 marks)

Arianna Russo owns and operates Arianna’s Aprons, a small business that prepares reports quarterly on 31 March, 30 June, 30 September and 31 December.

Arianna has provided the following Pre-Adjustment Trial Balance extract as at 30 June 2021.

Arianna’s Aprons**Pre-Adjustment Trial Balance (extract) as at 30 June 2021**

Account	Debit	Credit
Accounts Receivable	13 200	
Allowance for Doubtful Debts		450
Cash Sales		7 500
Credit Sales		16 500
Interest Revenue		120
Prepaid Rent Expense	18 000	
Sales Returns	1 500	

Additional information as at 30 June 2021

- A one year term deposit started on 1 November 2020. Interest is paid quarterly on 31 January, 30 April, 31 July and 31 October.
- On 31 May, Grollo’s advised that they will not be able to pay the debt of \$2 420. This is the only debt to be written off for the period.
- Arianna has decided to increase the Allowance for Doubtful Debts to 5% of Net Credit Sales.
- Rent for the year ended 31 December 2021 was paid on 1 January 2021.

a. Explain the purpose of preparing a Pre-Adjustment Trial Balance.

2 marks

b. Complete the Interest Revenue and Allowance for Doubtful Debts accounts in the General Ledger as at 30 June 2021.

7 marks

c. Prepare the General Journal entry to record the balance day adjustment for Rent as at 30 June 2021.

A narration is **not** required.

2 marks

d. Referring to an accounting assumption, explain the purpose of adjusting the rent account as at 30 June 2021.

3 marks

Question 8 – Coleman’s Chairs (20 marks)

Coleman Jones owns and operates Coleman’s Chairs, a small business that prepares reports on an annual basis on 30 June.

On 1 July 2019 Coleman’s Chairs purchased Van for \$40 000 plus GST.

The Van had an expected residual value of \$10 000 and an estimated useful life of 4 years.

The Van can be depreciated using the straight-line method or the reducing balance method at a rate of 30% per annum.

- a. Explain how Coleman should determine the appropriate method of depreciation for the Van.

4 marks

Coleman’s accountant has told Coleman to depreciate the Van using the reducing balance method.

On 30 June 2021 Coleman’s Chairs traded-in the Van to Vic’s Vans.

Vic’s Vans agreed to a trade-in allowance of \$10 000 on the cash purchase of a new Van with a selling price of \$33 000 including GST.

- b. Prepare all the General Journal entries required on 30 June 2021.

The closing entry for the profit or loss on disposal is **not** required.

10 marks

- c. Referring to your answer in part b., explain why a profit or loss from the trade-in of the Van occurred.

2 marks

- d. Explain the effect on Net Profit for the years ended 30 June 2020 and 30 June 2021 if Coleman depreciated the Van using the straight-line method instead of the reducing balance method.

4 marks

Question 9 – Walter’s Windows (6 marks)

Walter Michaels owns and operates Walter’s Windows.

Walter’s Windows’ accountant suggests Walter adopt product costing to inventory purchases where appropriate.

- a. Explain the effect on the Income Statement of Walter’s Windows if product costing is used instead of period costing.

3 marks

- b. Explain the effect on the Working Capital Ratio and the Quick Asset Ratio if Walter’s Windows ignores the advice of his accountant.

3 marks

Question 10 – Lily’s Lights (5 marks)

Lily Yang owns Lily’s Lights.

Lily has been provided with the following incomplete Variance Reports extracts.

Lily’s Lights**Cash Budget Variance Report (extract) for the year ended 30 June 2021**

	Budget	Actual	Variance	Favourable / Unfavourable
Receipts from Accounts Receivable	\$209 000	\$204 600	\$4 400	U
Unearned Sales Revenue	\$0	\$25 000	\$25 000	
Drawings	\$18 000	\$42 500	\$24 500	U

Lily’s Lights**Income Statement Variance Report (extract) for the year ended 30 June 2021**

	Budget	Actual	Variance	Favourable / Unfavourable
Credit Sales	\$225 000	\$310 000	\$85 000	F
Discount Expense		\$4 500	\$1 500	F
Advertising	\$8 500	\$11 000	\$2 500	U

- a. In the Answer Booklet, complete the variance report extracts. 2 marks
- b. Explain how the preparation of these two variance reports helps with Lily’s planning for the year ended 30 June 2022. 3 marks

Total Exam 100 marks

END OF QUESTION BOOKLET