Letter

STUDENT

NUMBER

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**ACCOUNTING UNITS 3 & 4**

2019

**TRIAL EXAM 1**

Reading time: 15 minutes

Writing time: 2 hours

**QUESTION BOOK**

Structure of book

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

* 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 10 pages
* Answer book of 13 pages

**Instructions**

* Write your student number in the space provided on the front cover of the answer book.
* Answer all questions in the answer book.
* All written responses must be in English.

At the end of the examination

* You may keep this question book.

|  |  |  |
| --- | --- | --- |
| *Number of questions* | *Number of questions to be answered* | *Number of marks* |
| 7 | 7 | 100 |

**Question 1 (19 marks)**

Mark is the owner and operator of Simply Sportswear, a retailer that sells a variety of sportswear and equipment. The business always operates with a bank overdraft. On 31 May 2019, the business sent the following document to one of its customers - Main Drive Cricket Club:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | **Simply Sportswear** | | | | | |
| **Statement of Account** | | | | | | | | |
| **Account of:** | | Main Drive Cricket Club | | | **For period:** | | May 2019 | |
| **Date 2019** | **Details** | | | **Debit** | | **Credit** | | **Balance** |
| **1 May** | **Balance** | | |  | |  | | **880 DR** |
| 7 | Receipt - thank you (Rec. 423) | | |  | | 880 | | Nil |
| 15 | Purchase - incl. GST (Inv. 844) | | | 440 | |  | | 440 DR |
| 21 | Receipt - thank you (Rec. 441) | | |  | | 418 | |  |
|  | Discount allowed | | |  | | 22 | | Nil |
| 28 | Purchase - incl. GST (Inv. 853) | | | 825 | |  | | 825 DR |
| **31** | **Balance** | | |  | |  | | **825 DR** |

**Required**

**a.** Completethe account of Main Drive Cricket Club in the General Ledger of Simply Sportswear, as at 31 May 2019.

**3 + 1 = 4 marks**

**b.** Explainthe effect of the transaction on 21 May 2019 on the Equities of Simply Sportswear.

**2 marks**

**c.** With reference to one Qualitative Characteristic, explain how Main Drive Cricket Club could use the Statement of Account to improve the accuracy of its recording process.

**2 marks**

**d.** Using an appropriate definition,justify how the discount allowed on 21 May 2019 would be classified in the records of Main Drive Cricket Club.

**1 mark**

On 10 June 2019, Simply Sportswear noticed that 20 cricket bats were damaged. They were subsequently returned to their supplier who issued a credit for $330 including GST (Credit Note 12). The supplier sells their inventory at a mark-up of 50%.

**e.** Showthe General Journal entry necessary to record Credit Note 12 in the records of the supplier.

**4 marks**

Mark has provided the following graph relating to depreciation of the firm’s Non-Current Assets:

The firm’s accountant is reviewing the methods used to calculate depreciation of Non-Current Assets, and has suggested a change.

**f.** With reference to relevant Accounting Assumptions and Qualitative Characteristics, discusswhether the business should change the method used to calculate the depreciation of the Delivery Van.

**4 marks**

**g.** Statethe effect on the carrying value of the Office Furniture & Fittings at the end of its useful life if the business had used the other depreciation method. Justifyyour answer.

**1 + 1 = 2 marks**

**Question 2 (14 marks)**

On 30 September 2018, Smith’s Landscapes purchased a trailer for use within the business. The supplier issued the following source document:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | **TRAILERS R’ US**  ABN: 17 663 789 221 | | | ***Rec. 13768*** | |
| **Sale to:** | | **Smith’s Landscapes** | | | | | |
| **Date**  **2018** | **Details** | | | **Qty.** | **Unit Price**  **$** | | **Total**  **$** |
| 30 Sep | Trailer | | | 1 | 14 500 | | 14 500 |
|  | Service Agreement (12 months) | | |  |  | | 600 |
|  | Structural modifications to wheel base | | |  |  | | 900 |
|  | GST | | |  |  | | 1 600 |
|  | **Total** | | |  | **$** | | **17 600** |
|  | **Amount received - thank you** | | |  | **$** | | **17 600** |

**Additional information:**

* The trailer is to be depreciated at a rate of 30% p.a. using the straight-line method.
* The structural modifications to the wheel base are necessary to have the trailer comply with Victorian regulations.
* The business prepares financial reports half yearly on 30 June and 31 December.

**Required**

**a.** Calculate the cost of the trailer.

**1 mark**

**b.** With reference to your answer in part a, justify your treatment of the structural modifications.

**2 marks**

**c.** Using only the information provided, show how the Assets section of the Balance Sheet of Smith’s Landscapes would appear as at 30 June 2019. A full Balance Sheet is **not** required.

**3 marks**

**d.** Explain how reporting the trailer at its carrying value in the Balance Sheet can assist the decision making of Smith’s Landscapes.

**2 marks**

Smith’s Landscapes pays its rent six months in advance on 28 February and 31 August. On 28 February 2020, the monthly rent was increased from $950 (plus GST) to $1 050 (plus GST).

**e.** Recordthe payment on 28 February 2020 in the General Journal of Smith’s Landscapes. A narration is **not** required.

**2 marks**

**f.** Complete the Prepaid Rent Expense account in the General Ledger of Smith’s Landscapes as at 30 June 2020.

**4 marks**

**Question 3 (27 marks)**

Gigs Guitars sells guitars, amplifiers and other equipment. Most sales are made to private music schools on credit terms of 2/5, n/90, but there are also some over-the-counter cash sales. The business has provided the following Pre-adjustment Trial Balance as at 31 December 2019:

**Pre-adjustment Trial Balance as at 31 December 2019**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| Accounts Payable |  | 68 700 |
| Accounts Receivable | 43 000 |  |
| Accumulated Depreciation of Shelving |  | 14 500 |
| Bad Debts | 6 000 |  |
| Bank |  | 3 700 |
| Capital |  | 163 200 |
| Cost of Sales | 76 000 |  |
| Discount Revenue |  | 700 |
| Drawings | 29 000 |  |
| Freight Inwards | 4 000 |  |
| GST Clearing | 4 100 |  |
| Inventory | 209 000 |  |
| Loan - VicBank |  | 100 000 |
| Prepaid Advertising | 2 700 |  |
| Rent expense | 12 000 |  |
| Sales |  | 120 000 |
| Shelving | 40 000 |  |
| Wages | 45 000 |  |
| **Total** | **470 800** | **470 800** |

**Additional information**

* Advertising was paid in advance on 26 June 2019 for 6 commercials to be run on Triple J between July and December 2019. A further payment of $1 500 (plus GST) was made on 23 December 2019 to cover advertising for January to June 2020.
* As at 31 December 2019, Gigs Guitars owed its employees $640 in unpaid wages.
* Shelving is depreciated at $1 800 per year.
* A physical count on 31 December 2019 showed inventory on hand of $207 600.
* All drawings occurred on 18 December 2019. The owner withdrew $9 000 worth of guitars as Christmas gifts to his family and friends. All other drawings were cash.
* A cash contribution of $21 900 was made on 14 March 2019.
* Reports are prepared on 31 December each year.

**Required**

**a.** Explain whether it was correct to record the advertising paid in advance on 26 June 2019 as an asset.

**2 marks**

**b.** Record the additional information in the General Journal of Gigs Guitars. Narrations are **not** required.

**2 + 1 + 1 + 1 = 5 marks**

**c.** Prepare an Income Statement for Gigs Guitars for the year ended 31 December 2019.

**6 marks**

**d.** Referring to the information provided, explain why Gigs Guitars should be concerned about its ability to collect cash from its Accounts Receivable.

**2 marks**

**e.** Prepare the Current Assets section of the Balance Sheet of Gigs Guitars, as at 31 December 2019. A full Balance Sheet is **not** required.

**3 marks**

**f.** Using one example from the information provided, explain why the Net Profit or Loss of Gigs Guitars is different from its Net Cash Flows from Operations.

**1 + 2 = 3 marks**

**g.** Explain one ethical issue that may arise if Gigs Guitars does not satisfy its outstanding obligations to its employees.

**2 marks**

**h.** Show how the Capital account would appear in the General Ledger of Gigs Guitars, as at 31 December 2019, after all closing entries have been made. You are not required to balance the account.

**4 marks**

**Question 4 (8 marks)**

Sam’s Shutters began trading on 1 January 2019. To commence operations, Sam deposited $50 000 cash into the business’ bank account (Rec. 001). The bank also granted the business a $10 000 overdraft limit. On this same date, the business purchased a warehouse via an interest-only mortgage loan with Commonwealth Bank for $100 000.

On 1 January 2019, the following additional transactions occurred:

* Sam transferred ownership of his personal vehicle, purchased in 2016 for $38 000 using a loan with OzE Car Finance. An amount of $12 000 is currently owing on the loan, which will be assumed by the business. An independent valuation concluded that the fair value of the vehicle was $24 000.
* The business purchased inventory for $42 000 plus GST (Chq. 001).

**Required**

**a.** Prepare the General Journal entry necessary to commence Sam’s Shutters on 1 January 2019. A narration is **not** required.

**6 marks**

**b.** Explain how the Accounting Entity assumption is upheld in the recording of the vehicle at its fair value.

**2 marks**

**Question 5 (8 marks)**

Magnificent Magic Supplies has recently imported a new range of top hats from overseas. The following source documents relate to this purchase:

**Document A**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | | **Magicians ‘R Us** | | | **Tax Invoice**: C131  Original  Terms: 10/7, n/30 | |
| **Charge to:** | | Magnificent Magic Supplies | | | | | |
| **Date**  **2019** | **Details** | | | **Qty.** | **Unit Price**  **$** | | **Total**  **$** |
| 1 Oct | Top Hat - Black | | | 5 | 50 | | 250 |
|  | Top Hat - White | | | 5 | 50 | | 250 |
|  | **Subtotal** | | |  |  | | 500 |
|  | GST | | |  |  | | 50 |
|  |  | | | **Total** | **$** | | 550 |

**Document B**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **FLX**  *Freight and Logistics* | | |  | **Tax Invoice**  **Invoice:** FLX99  Net 30 days | |
| **Charge to:** | | Magnificent Magic Supplies | | | |
| **Date**  **2019** | **Details** | | | | **$** |
| 1 Oct | Freight Charge for 10 Top Hats - Black and White | | | | 120 |
|  | GST | | | | 12 |
|  | **Total** | | | | 132 |

**Additional information:**

* Magnificent Magic Supplies will attach their business logo onto each top hat prior to sale. A packet of 10 logos costs $2.50 (plus GST). The firm’s accountant has decided to treat the logos as a period cost.
* Magnificent Magic Supplies’ online store ships directly to Australian customers. Delivery costs are charged at a flat rate of $5 per item.
* The business will sell all top hats for $100 (plus GST) each, exclusively on the online store.

**Required**

**a.** Calculatethe cost price of one top hat.

**1 mark**

**b.** Do you agree with theaccountant’s decision to treat the cost of attaching the logos as a period cost? Discuss.

**3 marks**

**c.** Record the transactions on 1 October 2019 in the Inventory Card for black top hats.

**1 mark**

During October 2019, 8 top hats were sold.

**d.** Identify the effect on Gross Profit if the Freight Charge was treated as a period cost instead of a product cost. Justify your answer.

**1 + 1 + 1 = 3 marks**

**Question 6 (11 marks)**

A business has provided the following information:

**General Journal (extract)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date**  **2019** | **Details** | **Debit**  **$** | **Credit**  **$** |
| 10 Mar | Accounts Payable | 330 |  |
|  | Inventory |  | 300 |
|  | GST Clearing |  | 30 |
| 14 Mar | Sales Returns | 500 |  |
|  | GST Clearing | 50 |  |
|  | Accounts Receivable |  | 550 |
|  | Inventory | 250 |  |
|  | Cost of Sales |  | 250 |
| 29 Mar | Allowance for Doubtful Debts | 1 500 |  |
|  | GST Clearing | 150 |  |
|  | Accounts Receivable |  | 1 650 |

**Additional information for March 2019:**

* Discount expense was $700 and discount revenue was $170.
* Cash sales amounted to $2 200 (incl. GST) whereas credit sales amounted to $11 000 (plus GST).
* Credit purchases of inventory amounted to $4 500 (plus GST).

|  |  |  |
| --- | --- | --- |
| **Balance as at:** | **1 March 2019** | **31 March 2019** |
| Accounts Receivable | $4 900 | $9 500 |
| Accounts Payable | $10 050 | $8 600 |

**Required**

**a.** Calculatethe percentage mark-up that is applied to sales.

**1 mark**

**b.** Reconstructthe Accounts Receivable account to calculate Receipts from Accounts Receivable for March 2019. Transaction dates are **not** required.

**6 marks**

**c.** Using only the information provided, prepare the Operating section of the Cash Flow Statement for March 2019.

**4 marks**

**Question 7 (13 marks)**

Daniel’s Delicatessen maintains the FIFO cost assignment method and purchases and sells all inventory on a credit basis only. The following transactions relate to the XL Jarlsberg cheese wheel for June 2019:

|  |  |  |
| --- | --- | --- |
| 9 June | Sold to Hot Hotel for $4 800 (plus GST). The total cost price of this sale was $2 700. | Inv. 98 |
| 17 June | Purchased from Jarlsberg for $2 000 (plus GST) in total. | Inv. OP141 |
| 25 June | Sold to Indie Grocers for $1 320 (incl. GST). The total cost price of this sale was $450. | Inv. 99 |

**Additional information:**

* On 10 June 2019, the supplier, Jarlsberg, decreased their cost prices from $30 (plus GST) per unit to $20 (plus GST) per unit.

**Required**

**a.** Recordthe above transactions in the Inventory Card for the XL Jarlsberg cheese wheel.

**3 marks**

**b.** Explainthe effect of the supplier’s decision on 10 June 2019 on the Cost of Sales and Gross Profit of Daniel’s Delicatessen.

**2 marks**

On 29 June 2019, Daniel’s Delicatessen donated 3 XL Jarlsberg cheese wheels to a local community fete (Memo 45).

**c.** Show the General Journal entries necessary to record Memo 45. A narration is **not** required.

**2 marks**

On 14 July 2019, Daniel withdrew a crate of cheese for personal use but the transaction was accidentally recorded as a sale to Western Distributors. The cheese had a cost price of $250 (plus GST) and a selling price of $440 (incl. GST).

**d.** Showthe General Journal entry necessary to correct this error. A narration is **not** required.

**4 marks**

**e.** State the effect of the sale to Western Distributors on the Assets and Equities of Daniel’s Delicatessen. Show **all** workings.

**1 + 1 = 2 marks**

**100 marks**

**End of Question Book**

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