E

Free Exam
for 2013-17 VCE study design

Engage
Education
Foundation

Units 3 and 4 Accounting

Practice Exam Solutions

Stop!

Don't look at these solutions until you have attempted the exam.

Any questions?

Check the Engage website for updated solutions, then email practiceexams@ee.org.au.

Marks allocated are indicated by a number in square brackets, for example, [1] indicates that the line is worth one mark.

Question 1
Accrual accounting is where transactions are recorded at the time they occur rather than when cash is received [1]. Therefore credit transactions are recorded [1]

Question 2a
- Discount Revenue should not be recorded under “Revenue” [1].
- “Revenue” should only list revenues earned as a direct result of selling stock, e.g. Sales Revenue. [1]
- It should be recorded in “Other Revenues” as it is revenue earned outside of sales [1]
- Gross Profit and Adjusted Gross Profit are missing from the report. [1]
- Gross Profit should be reported after Cost of Goods Sold, as it reflects the relationship between the firm’s selling and cost prices. Identifying this figure (with its own heading) allows the owner to assess adequacy of the firms’ mark-up. [1]
- Adjusted Gross Profit is missing, and stock loss should go after Gross Profit with Adjusted Gross Profit following underneath it. Other Expenses should be under Adjusted Gross Profit [1]

Question 2b
One of the following:

- To aid decision-making about the firms’ trading operations [1]. The Income Statement allows the owner to assess: the firm’s ability to earn revenue so decisions can be made about the types of stock that are held for sale, the level and/or type of advertising, or the level of selling price. The adequacy of the firms’ mark-up so decisions can be made about adjusting selling prices or controlling cost prices. The firm’s ability to control its expenses so decisions can be made about managing staff wages, protecting stock from stock loss, or operating more efficiently to control operating costs [2]
- To assess the firms’ performance in meeting its sales and expense targets [1]. The Income Statement can be compared against budgeted or expected performance as shown in the Budgeted Income Statement which would have been prepared in advance. [1] The comparison will highlight where performance was better or worse than expected. Corrective action can then be taken [1]
- To assist in planning for future trading activities. [1] By providing a basis for the next budget, the Income Statement will aid the setting of targets for the future. [1] This may include stock levels, staffing requirements or advertising expenditure [1]
- To facilitate the calculation of financial indicators and interpretation [1]. These indicators can be used not only to uncover what has happened [1], but to help explain why. [1]

Question 2c
- In accrual accounting, profit and cash are different resources. [1]
- Profit is determined by matching revenues earned and expenses incurred, while cash is from cash from cash inflows (received) and cash outflows (paid) in a particular reporting period [1] – There Is a difference between revenues earned and received, and expenses paid and incurred.

And any one of the following [1]:

- Cash Inflows that increase cash but are not revenues so do not affect profit. E.g. Capital Contribution, Loan Received, Overall more GST received than paid (including GST refund)
- Expenses that decrease profit but are not cash outflows and so do not affect cash. E.g. Stock Loss, Bad Debts, Depreciation

- Revenue items that increase profit less than the corresponding cash inflow increases cash. E.g. Credit Sales less than Receipts from Debtors
- Expense items that decrease profit more than the corresponding cash outflow decreases cash. E.g. Cost of Sales greater than Payments for Stock, Other expenses incurred greater than paid.

Question 3a
Stock should not be valued at its selling price but at its cost price due to either:

- Conservatism – As the gains from sale are not yet recognised, they might not sell at the price the owner sets and so should only be reported at the price they were purchased. [2]
- Historical Cost – As the cost price is verifiable by source document evidence and hence can be relied upon. [2]

Question 3b
- This would divulge the mark-up / Gross Profit that the firm has on the stock, as $10 is the cost price the firm actually pays for the stock [1]
- This could result in customers not returning to the shop if they know the exact value of the mark-up or haggling harder for price reductions and also competitors may finding out the costing methods of the firm [1]

Question 3c
- GST has no effect on the valuation of stock [1]
- It is merely a tax on most goods and services which will either increase or decrease your GST liability towards the ATO [1]

Question 3d
Cost Price is $10, Sale Price is $20 ($22 - $2 GST), and therefore mark-up is 100% [10*(1+<u>100%</u>)] [1]

Question 4a
63400 + 9000 + 650 + 3700 + 1000 + 800 = 78550

Question 4b
The Annual Insurance is not included in the cost of the Van as it is not involved in getting the van into a location and condition ready for use and will not provide a benefit for the life of the van, and hence should not be included as part of the depreciable value of the asset. Instead, the insurance will be consumed over the next 12 months.

Question 4c

Date 2014	Details	Chq No.	Bank	Disc Rev	Creditors	Stock	Wages	GST	Sundries
2 Jan	Sundry Creditor – Jax Motors	734	20000						20000

Question 4d
78550 × 0.0764 = 6001 (note: ignore decimal places as they are not 'material')

(78550 – 3550) / 6001 = 12.5 years

Question 4e

Assets as at June 30 2014	$	$
Current Assets		
Prepaid Registration	350	
Prepaid Insurance	1150	1500
Non-Current Assets		
Delivery Van	78550	
less Accumulated Depreciation	3000	75550

Question 4f

Disposal of Van

Date 2017	Cross-Reference	Amount	Date 2017	Cross-Reference	Amount
12 Sep	Jax Van	78550	12 Sep	Accumulated Depreciation – Jax Van	22500
				Sundry Creditor – Karl's Vehicles	50000
				Loss on Disposal of Van	6050
		78550			78550

Question 4g
Reported as an expense under 'other expenses' as it is a reduction in the inflow of an economic benefit (less cash/trade-in is received from the creditor – Karl's Motors), in the form of an increase in liabilities (Sundry Creditor), which decreases owner's equity.

Question 4h
Original estimates assumed that the asset would be in better condition than it actually was

or

Original estimates assumed that the demand for the asset would be higher than it actually was

Question 5a
Aids decision-making as it allows owners to assess whether targets have been met and will allow for new targets to be set in future periods. [1] It will also allow unfavourable variances to be identified so that corrective action can be taken.[1]

Question 5b
Qualitative characteristic: relevance [1]

Explanation: cents are not useful for decision-making and hence should be excluded from reports.[1]

Question 5c
The firm could switch to a cheaper supplier.[1] Disadvantage: possible lower quality stock will lead to an increase in sales returns, stock write down and also a loss of customers due to decreased satisfaction.[1] Firm could increase selling prices.[1] Disadvantage: could lead to a proportionally greater decrease in sales.[1]

Question 6a

Improvement, [1] due to Total Expenses decreasing from 67.5% of revenue to 65% of total revenue.[1]

Question 6b

Switch to a cheaper provider / hire less staff / streamline administration practices [1]

or

Replace current lights with energy-saving ones [1]

Question 6c

Year (at 30th June)	Total Sales	Total Expenses
2014	790122 [1]	493826 [2]

Question 6d

The information is not detailed enough to provide a breakdown of sales and expenses that is required for deeper level analysis. [1] For example, this doesn't take into account the gearing of the firm, and it is impossible to determine mark-up and why sales or total expenses have decreased, which would help to rectify the problem, or to stop it from happening in the future.[1]

Question 7a

Classification: Current Liability
Explanation: The Prepaid Sales Revenue represents a present obligation arising from a
past event that will result in a future outflow of economic resources. This outflow is
expected to occur within the next 12 months.

- 1 mark for Current Liability
- 1 mark for present obligation
- 1 mark for future outflow occurring within 12 months

Question 7b

General Journal

Date 2014	*Details*	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
Jan 7	Prepaid Sales Revenue	4 000			
	Sales Revenue		4 000		

Sales Journal

Date 2014	Debtor	Inv. No.	Cost of Sales	Sales	GST	Debtors Control
Jan 7	JMC Music Academy	J89	3 750	3 500	750	4 250

- 1 mark for each line of the General Journal = 2 marks
- 1 mark for date/Name of debtor in full and Invoice No
- 1 mark for Cost Price in Sales Journal
- 1 mark for GST in Sales Journal
- 1 mark for Sales Price and Total Debtors in Sales Journal

Question 7c

Cash Receipts Journal

Date 2014	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sundries	GST
Jan 12	JMC Music Academy	S93	4 165	85	4 250				

- 1 mark for Date, Details, Rec No.
- 1 mark for Bank, Disc Exp and Debtors
- Discount applies to the full amount of the Sale (which was $5,500)

Question 8a

Cash Receipts Journal

Date 2013	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sundries	GST
Apr 1	Prepaid Rent Revenue	72	15840					14 400	1 440

- Mark allocated for full entry as shown

Question 8b

General Journal

Date 2013	Details	General Ledger Debit	General Ledger Credit	Subsidiary Ledger Debit	Subsidiary Ledger Credit
Dec 31	Prepaid Rent Revenue	13 800			
	Rent Revenue		13800		

Question 8c

Prepaid Rent Revenue

Date 2013	Cross-reference	Amount	Date 201	Cross-reference	Amount
Dec 31	Rent Revenue	13 800	1-Jan	Balance	3 000
	Balance	3 600	Dec 31	Bank	14 400
		17 400			17 400
			Jan 1	Balance	3 600

Rent Revenue

Date 2013	Cross-reference	Amount	Date 201	Cross-reference	Amount
Dec 31	Profit & Loss Summary	13 800	Dec 31	Prepaid Rent Revenue	13 800

- 1 mark for Bank entry in Prepaid Rent Revenue account
- 1 mark for Rent Revenue entry in Prepaid Rent Revenue account
- 1 mark for Prepaid Rent Revenue entry in Rent Revenue account
- 1 mark for balancing/closing of both accounts

Question 8d

Cash Receipts Journal

Date 2013	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sundries	GST
Aug 31	Accrued Interest Revenue	99	10 600					200	
	Interest Revenue							400	
	Investment Account							10 000	

- 1 mark for each line in CRJ as shown

Question 9a

Year	2012	2013	2014	2015	2016
Carrying Value of W	20000	17000	14000	11000	8000
Carrying Value of X	20000	16000	12800	10240	8192
Carrying Value of Y	20000	17500	15000	12500	10000
Carrying Value of Z	20000	15000	11000	8000	6000

Question 9b

Line	A	B
Computer	Y	X

Question 10a

Paula's Pantry
Budgeted Income Statement for Year Ended 31 December 2014

Revenue	$	$
Cash Sales	280 000	
Credit Sales	1 200 000	
Less Sales Returns	(5 000)	1 475 000
Less Cost of Goods Sold		
Cost of Sales	921 875	
Customs Duty	50 400	972 275
Gross Profit		502 725
Less Stock Write Down		6 000
Adjusted Gross Profit		496 725
Plus Other Revenue		
Discount Revenue		3 000
		499 725
Less Expenses		
Discount Expense	36 000	
Loss on Disposal of Asset	2 000	
Depreciation – Motor Vehicle	8 500	
Depreciation – Equipment	7 400	
Bad Debts	12 000	
Interest Expense	16 000	
Advertising	59 000*	
Wages	166 700	
Insurance Expense	13 500	
Other Cash Expenses	120 000	441 100
Net Profit		58 625

9 marks

- 1 mark for Sales and Sales Returns
- 1 mark for Cost of Sales and Customs Duty
- 1 mark for Stock Write Down and Adjusted Gross Profit
- 1 mark for Discount Revenue
- 1 mark for every 2 expenses reported correctly

*Advertising includes $5000 the owner donated

Question 10b
Budgets are a plan for the future [1] and so set a target that the business can aim to achieve [1].

Question 10c
Budgets should be prepared more frequently so problems can be identified [1] and corrective action can be taken [1].