



## *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](mailto: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 1a

General Journal

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Jan 7	Motor Vehicle	30 000			
	Prepaid Registration Expense	150			
	Loan - Nateast		12 000		
	Capital		18 150		
<i>Transferred ownership of personal vehicle to the business - Memo 23</i>					

[1] for each line of Journal

[1] for Narration

If amount for Prepaid Registration is incorrect, then Capital figure is consequential. Narration must include Document number.

### Question 1b

Accounting principle: Entity

Explanation: As the business and the owner are two separate entities, the records for both of these entities must be kept separate. This way there can be no confusion between the assets and debts of the business and those of the owner.

[1] for stating business and owner are separate

[1] for recognising that their records must be kept separate

[1] for Entity

## Question 2a

## Creditors Control

Date 2012	Cross-reference	Amount	Date 2012	Cross-reference	Amount
Mar 31	Bank/Discount Revenue	85 400	Jan 1	Balance	11 580
			Mar 31	Stock Control/GST Clearing	85 800
	Balance	<u>11 980</u>			
		<u>97 380</u>			<u>97 380</u>
			Apr 1	Balance	11 980

## GST Clearing

Date 2012	Cross-reference	Amount	Date 2012	Cross-reference	Amount
Mar 31	Bank	5 900	Jan 1	Balance	5 900
	Creditors Control	7 800	Mar 31	Bank	10 400
	Bank	6 180		Debtors Control	8 000
	Balance	<u>4 420</u>			
		<u>24 300</u>			<u>24 300</u>
			Apr 1	Balance	4 420

## Creditor – Little Furniture

Date 2012	Cross-reference	Amount	Date 2012	Cross-reference	Amount
Jan 9	Bank/Discount Revenue	9 100	Jan 1	Balance	9 100
Mar 24	Bank	2 000	Feb 23	Stock Control/GST Clearing	5 005
	Balance	<u>3 005</u>			
		<u>14 105</u>			<u>14 105</u>
			Apr 1	Balance	3 005

[1] for each entry in Creditors Control account (2 entries) plus [1] for providing the closing balance of the account.

[1] for each entry in the GST Clearing account (5 entries) plus [1] for calculating the closing balance of the account.

[1] for each entry in Creditor – Little Furniture account (3 entries) plus [1] for calculating the closing balance.

All accounts must have the closing balance carried forward for the start of the next reporting period. Deduct [1] if this doesn't occur.

In all accounts correct titles must be used – maximum [1] penalty for incorrect title.

Dates must be used correctly- end of period dates in the General Ledger and individual dates in the Subsidiary Ledger.

Closing balances must be provided – this is a common mistake made by students – they must be aware of what is required when they are asked to complete or balance the account.

**Question 2b**

Qualitative characteristic: Reliability

Explanation: Documents are a source of evidence that a transaction has occurred. They allow the information to be recorded in a manner that is free from bias.

[1] for source of evidence

[1] for recording free from bias

[1] for Reliability

**Question 2c**

Subsidiary ledgers allow individual information to be recorded for Debtors, Creditors and Stock but only the totals of these subsidiary accounts are reported in the Balance Sheet. This will reduce the amount of detail in the Balance Sheet, thus making it more relevant for decision making. Understandability is improved as bulky information has been removed from the report.

Subsidiary ledgers allow for cross-checking between the Control account and the total of the schedules. This will improve the reliability of the reports. Subsidiary ledgers allow for the separation of duties, thereby improving reliability and decreasing the chance of fraud. However subsidiary accounts can be more expensive as an additional member of staff is generally required, as more recording is needed.

[1] for recording all details but reporting only totals

[1] for reducing information in Balance Sheet

[2] for linking response to 2 of understandability/relevance/reliability

[1] for negative factor

## Question 2d

## Mary's Music Mart

Cash Flow Statement for three months ending 31 March 2012

<b>Cash Flows from Operating Activities</b>	<b>\$</b>	<b>\$</b>
Cash Sales	104 000	
GST Collected	10 400	
Receipts from Debtors	<u>86 350</u>	200 750
Payments to Creditors	(82 000)	
GST Paid	(6 180)	
GST Clearing	(5 900)	
Purchases of Stock	(35 000)	
Wages	(32 000)	
Prepaid Advertising	(12 000)	
Customs Duty	(10 000)	
Accrued Wages	(2 300)	
Other Expenses	<u>(9 800)</u>	<u>(195 180)</u>
<b><i>Net Cash Flows from Operations</i></b>		5 570
<b>Cash Flows from Financing Activities</b>		
Capital	10 000	
Loan - ANW	<u>20 000</u>	30 000
Drawings	(20 000)	
Loan - QBF	<u>(3 000)</u>	<u>(23 000)</u>
<b><i>Net Cash Flows from Financing Activities</i></b>		7 000
<b><i>Net increase in Cash Position</i></b>		<b>12 570</b>
<b>Bank at Start (1/1/2012)</b>		<b>(3 800)</b>
<b>Bank at End (31/03/2012)</b>		<b><u>8 770</u></b>

[1] for Operating Activity inflows

[2] for Operating Activity outflows

[1] for Financing Activity inflows

[1] for Financing Activity outflows

[1] for completing the report to show Bank at End

Maximum [1] off for incorrect titles

Must show Outflows as negative either through brackets (as shown), minus sign, or by using classification headings.

**Question 3a**

## General Journal

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Jun 30	Depreciation – Motor Vehicle	5 400			
	Accumulated Depreciation – Motor Vehicle		5 400		
	Depreciation – Shop Equipment	8 000			
	Accumulated Depreciation – Shop Equipment		8 000		
	Bad Debts	800			
	Debtors Control		800		
	Debtor – G. Phelan				800
	Wages Expense	6 000			
	Accrued Wages		6 000		
	Insurance Expense	12 000			
	Prepaid Insurance Expense		12 000		
	Cartage In	1 000			
	GST Clearing	100			
	Drawings		1 100		
	Stock Control	1 100			
	Stock Gain		1 100		

[1] for each line of Depreciation – Motor Vehicle entry

[1] for whole Depreciation – Shop Equipment entry

Same skill was tested twice so only 3 marks in total for depreciation entries.

[1] for Bad Debts

[1] for Debtors Control/Debtor – G. Phelan entry

[1] for Accrued Wages entry as no calculation required

[1] for each line of Insurance Expense entry – calculation required and must be correct

[1] for Cartage In/GST Clearing

[1] for Drawings

[1] for each line of Stock Loss entry

Maximum [1] penalty for incorrect titles.

**Question 3b**

Error 1: Omitted the recording of a transaction altogether / recording a transaction twice.

Error 2: Switching the debit and credit entries of a transaction / recording the incorrect amount in both debit and credit entries.

[1] each for any answer from above

Must clearly indicate error in both debit and credit entry

**Question 3c**

Reason 1: Recording error

Reason 2: Stocktake error / oversupply to customer

[1] each for any correct answer

Must be aware of constraint in question.

Answer must be full explanation – not 'oversupply'.

**Question 4a**

General Journal

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Jun 30	Sales	396 000			
	Discount Revenue	5 600			
	Stock Gain	3 200			
	Profit and Loss Summary		404 800		

[1] for debit entries

[1] for credit entry

**Question 4b**

Profit &amp; Loss Summary

Date 2012	Cross-reference	Amount	Date 2012	Cross-reference	Amount
Jun 30	Expenses	382 300	Jun 30	Revenue	404 800
	Capital	<u>22 500</u>			
		<u>404 800</u>			<u>404 800</u>

Capital

Date 2012	Cross-reference	Amount	Date 2012	Cross-reference	Amount
Sep 30	Drawings	73 000	Apr 1	Balance	167 500
	Balance	<u>117 000</u>	Sep 30	Profit and Loss Summary	<u>22 500</u>
		<u>190 000</u>			<u>190 000</u>
			Oct 1	Balance	117 000

[1] for each entry in Profit &amp; Loss Summary Account

[1] for Drawings entry

[1] for Balance at end and Profit &amp; Loss Summary

Closing balance of Capital must be carried forward or deduct [1].

## Question 4c

Kate's Kookery  
Income Statement for 6 months ending 30 September 2012

Revenue	\$	\$
Sales		396 000
<b>Less Cost of Goods Sold</b>		
Cost of Sales	210 000	
Freight In	<u>6 900</u>	
	216 900	<u>216 900</u>
<b>Gross Profit</b>		179 100
<b>Plus Stock Gain</b>		<u>3 200</u>
<b>Adjusted Gross Profit</b>		182 300
<b>Plus Other Revenue</b>		
Discount Revenue		<u>5 600</u>
		1876 900

[1] for Revenue

[1] for Cost of Sales

[1] for Customs Duty & Cartage In

[1] for Stock Loss

[1] for Discount Revenue

Deduct [1] if titles/headings in report missing.



## Question 5a

## General Journal

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Apr 1	Disposal of Motor Vehicle	54 000			
	Motor Vehicle		54 000		
	Accumulated Depreciation – Motor Vehicle	36 000			
	Disposal of Motor Vehicle		36 000		
	Motor Vehicle	33 300			
	GST Clearing	3 330			
	Sundry Creditor – Smith Motors		36 630		
	Loss on Disposal of Motor Vehicle	1 500			
	Disposal of Motor Vehicle		1 500		

## Cash Payments Journal

Date 2012	Details	Chq. No.	Bank	Disc. Rev.	Creditors Control	Wages	Sundries	GST
Apr 1	Motor Vehicle	53	2 200				2 000	200
	Sundry Creditor – Smith Motors	54	10 000				10 000	

## Cash Receipts Journal

Date 2012	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sale s	Sundries	GST
Apr 1	Proceeds from Disposal of Motor Vehicle	72	16 500					16 500	

[1] for each line of GJ except for Motor Vehicle/GST Clearing

[1] for each line of CPJ

[1] for entry in CRJ

Mark consequentially.

**Question 5b****Disposal of Motor Vehicle**

Date 2012	Cross-reference	Amount	Date 2012	Cross-reference	Amount
Apr 30	Motor Vehicle	54 000	Apr 30	Accumulated Depreciation – Motor Vehicle	36 000
				Bank	16 500
				Loss on Disposal of Motor Vehicle	<u>1 500</u>
		54 000			54 000

[1] for each entry as shown

Mark consequential errors from Q1a.

**Question 5c**

Explanation: A profit on disposal of a non-current asset occurs when an asset is sold for more than the carrying value. This occurs because the asset has been over-depreciated. Over-depreciation occurs due to underestimation of residual value or useful life.

[1] for asset sold for more than carrying value

[1] for over-depreciation and the two causes

**Question 5d**

Discussion: Assets should be depreciated using the same depreciation method from one period to the next. This is supported by the consistency principle [1]. By doing so, the information displayed in financial reports can be compared from one period to the next, thus satisfying the Qualitative Characteristic of Comparability [1].

However, as the business has replaced its Motor Vehicle, it is acceptable for the business to change depreciation methods as it is a new asset [1].

The use of the reducing balance depreciation method is appropriate for this asset as Motor Vehicles are more efficient and productive in the early years of their useful life, thus contributing more to revenue-earning in early years as opposed to later years [1]. The Reducing Balance method is a better reflection of the revenue earning capacity of the asset as it allocates more of the cost of the asset in the early years and less in the later years [1].

**Question 6a**

Item	Budget \$	Actual \$	Variance \$	F/U
Cash Drawings	84 000	80 000	4 000	F
Advertising Expense	20 000	35 000	15 000	U
Capital	-	40 000	40 000	F

[1] for each line of table completed

**Question 6b**

Capital: The business found itself with a cash flow problem or needed to finance the purchase of a new asset. Rather than borrow, the owner contributed cash to either relieve the liquidity problem or fund an asset purchase.

Drawings: As with above statement, if the business needed additional cash to overcome liquidity problems or needed cash to purchase assets, then if the owner was required to contribute cash they would also reduce their Drawings. Both variances were unexpected.

[1] for business needed cash that was not planned for

[1] for owner to contribute cash rather than borrow

[1] for business needed to access cash

[1] for reduce Drawings to decrease need to borrow or contribute Capital

**Question 7a**

Explanation: Net realisable value is the estimated selling price of stock less any estimated costs involved in selling that stock.

[1] for estimated selling price of stock

[1] for 'less and estimated costs of selling the stock'

**Question 7b**

Cordless Drills: \$220

Electric Drills: \$370

Hammer Drills: \$270

[1] for each figure correctly calculated

**Question 7c****General Journal**

Date 2012	Details	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Jun 30	Stock Write Down	600			
	Stock Control		600		
20 units of Hammer Drills written down to NRV – memo 3					

[1] for each line of journal

Narration must include quantity, type of stock and document number.