



Student Name: \_\_\_\_\_

## ACCOUNTING UNITS 3&4 2022 Trial Examination (2)

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> |
|----------------------------|---|------------------------|
| 6                          | 6   | 100                    |

- 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 17 pages

#### Instructions

- 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.

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

**Instructions**

Answer all questions in the answer book provided.

**Question 1 (26 marks)**

Lebron James own and operates '*Top Basketball Supplies*', a business selling basketballs, basketball equipment and clothing. He sells to schools, clubs and the general public. The business uses the perpetual method of inventory recording and the Identified Cost method of cost allocation. He applies a mark-up of 100% on all inventory lines.

- a. **Explain** one benefit of the perpetual method of inventory recording. 2 marks
- b. **Define** the term 'mark-up' 2 marks

He has provided the following information for the 'Grade A Basketball' for at 1 June 2022:

| Inventory Item     | Number of Units | Purchase Price | Freight In | Unit cost |
|--------------------|-----------------|----------------|------------|-----------|
| Grade A Basketball | 5               | 16             | 2          | 18        |
|                    | 15              | 18             | 2          | 20        |

- c. **Explain** the difference between the purchase price and unit cost. 2 marks

The following transactions occurred during the month of June:

- 2 June Sold 6 Grade A Basketballs, 3 units @\$18 each and 3 units @\$20. (EFT Rec. 77)
- 5 June Owner withdrew 1 Grade A Basketball for his son with a selling price of \$40 plus GST (Memo 13)
- 10 June Sold 3 Grade A Basketballs, 2 units @\$18 and 1 unit @\$20 (Invoice No. B08)
- 12 June Customer returned 1 Grade A Basketball @\$18 due to being damaged (Credit note 65)
- 12 June The faulty ball was unable to be sold and was thrown out (Memo 17)
- 19 June Purchased 15 Grade A Basketballs from Sports Supplies for \$20 each plus GST, freight in on the 15 balls was \$30 plus GST. (Invoice S64)
- 25 June Sold 5 Grade A Basketballs for a total cost of \$121 including GST (EFT Rec. 99)
- 30 June A physical count revealed 10 units @\$20 each and 9 units @\$22 each. (Memo 25)

- d. **Record** the above transactions in the Inventory Card for Grade A Basketballs for the month of June. 9 marks
- e. **Calculate** the Adjusted Gross Profit for Grade A Basketballs for June using the Identified Cost method of cost allocation. 4 marks
- f. **Explain** how the Gross Profit of the business would be impacted if the FIFO method of cost allocation was used instead of Identified Cost. 3 marks
- g. **Record** Memo 17 and Invoice S64 in the General Journal (Narrations not required) 4 marks

**TURN OVER**

**Question 3** (29 marks)

On 1 September 2022 Nick K commenced a new business called '*Tennis Essentials*', a business selling tennis equipment. The premises are owned by Nick's parents who have allowed him to use the premises rent free to run his business. At 30 September 2022 he provides you with the following transactions for the month of September:

- On 1 September Nick contributed \$50 000 cash to the business.
- Cash sales were \$28 000 plus GST with a 100% mark-up applied to all inventory.
- Credit sales were \$13 200 including GST, with \$5 280 of this still outstanding at 30 September 2022.
- Nick negotiated a rental agreement to lease out some of the floor space in his store to Thanasi K who will be providing a stringing service for tennis racquets. Thanasi paid three months rent in advance at a rate of \$400 plus GST on 1 September.
- On 1 September Nick took out a loan from JNK Bank for \$40 000 repayable at a rate of \$1 200 per quarter commencing 1 December 2022. Interest on the loan is charged at a rate of 6% p.a. and paid half yearly with the first payment due on 28 February 2023.
- Nick contributed his personal computer system to the business. The computer system was purchased for \$11 000 including GST but now has a fair value of \$5 000. Nick had taken out a personal loan to purchase the computer system with \$3 000 still owing to ABC Bank. The business will take over the loan from 1 September 2022. A loan repayment is due on 30 September of \$600 along with interest of \$100.
- A Van was purchased for \$15 500 plus GST during September 2022. On the same day the van was fitted with shelving worth \$660 plus GST.
- Inventory of \$16 000 plus GST was purchased on credit from Tsitsipas Supplies during September. All inventory is paid for at the end of each month to take advantage of the 5% discount offered.
- Cash purchases of inventory during September totaled \$7 200 plus GST.
- Stationery expenses of \$900 plus GST were paid during September.
- Wages expense was \$8 500, which included \$500 owing at 30 September 2022.
- Advertising of \$2 200 including GST was incurred but not yet paid.
- Nick withdrew \$2 500 cash and \$500 of inventory for personal use during September.

- a. **Prepare** a classified Cash Flow Statement for the month ended 30 September 2022. 16 marks
- b. **Explain** how the preparation of the Cash Flow Statement assist decision-making. 2 marks
- c. **Explain** how the purchase of the Van could impact the firm's profit negatively. 2 marks

On 15 October wages of \$8,000 were paid (EFT Trans 345).

- d. **Record** the payment in the General Journal of 'Tennis Essentials'. (Narration is required). 4 marks
- e. **Show** how the transaction related to the receipt of rent in advance would be reported in the following reports at 1 September 2022.
- Cash Flow Statement
  - Income Statement
  - Balance Sheet

5 marks

**TURN OVER**