

Question 4 (13 marks)

In January 2022, the accountant for De Plete Garden Supplies provided the following budgeted information for the year ending 31 December 2022:

- Sales are expected to be \$500 000 plus GST (40% on credit).
- Credit purchases are expected to be 60% of sales (all inventory is purchased on credit and no discounts are offered from suppliers).
- Drawings are expected to be \$40 000 cash and \$1 000 inventory.
- Sales returns are expected to be \$3 000 plus GST with a cost price of \$2 000.
- All sales returns are expected to be returned to suppliers.
- Discount expense is expected to be \$4 000.
- Inventory write-downs are expected to be \$2 000.

Based on these figures, the accountant has provided the following estimates for changes in account balances:

Account	1 Jan 2022 (actual)	31 Dec 2022 (expected)
Inventory	180 000	190 000
Accounts Payable	40 000	40 000
Accounts Receivable	30 000	25 000

- a. Reconstruct the Accounts Receivable account in order to calculate the expected cash received from Accounts Receivable during the year ended 31 December 2022. 5 marks
- b. Reconstruct the Inventory account in order to calculate the expected Cost of Sales (on sales) during the year ended 31 December 2022. 5 marks
- c. Reconstruct the Accounts Payable account in order to calculate the expected payments to Accounts Payable during the year ended 31 December 2022. 3 marks

DOCUMENT 4

<p><i>Terry's Tents</i> <i>43 Long Street</i> <i>Elstermwick</i></p> <p><i>An Account Receivable, K Elias, has been declared bankrupt. The business has received 20 cents in the dollar of the amount owing (\$220) (Rec. 9). Record the receipt and write off the balance of the account.</i></p> <p><i>Signed: Terry</i></p>	<p><i>Memo: No. 2</i></p> <p>31 January 2020</p>
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- a. With reference to a qualitative characteristic, explain the need for source documents. 2 marks
- b. Record the information from Documents 1 to 4 in the General Journal.
 Narrations are **not** required. 6 marks
- c. Explain why an expense is created as a result of Document 4. 2 marks
- d. Show the Accounts Receivable account in the General Ledger at 31 January 2020 after posting the journal entries completed in your answer to **part b**. 4 marks
- e. A fifth document is shown below.

DOCUMENT 5

Date:	4/2/20
Payee:	D Banks
For:	Wages
	<i>For period 28/1/20 to 4/2/20</i> <i>(includes \$600 owing at 31/1/20)</i>
This Cheque:	4 600
Cheque No: 410	

Record Document 5 in the General Journal.

A narration is **not** required.

2 marks

Question 7 (14 marks)

Roger Oldridge owns a business, Sweatmaster, which sells gym equipment. All sales have been on cash but Roger is considering introducing credit sales in 2022 with credit terms of 5/7, n/45.

When preparing the budgets for 2022 the following information was used:

Estimates for year ending 31 December 2022:

- Cash sales are estimated to be \$90 000 plus GST (Cost of Sales: \$58 500).
- Credit sales are estimated to be \$30 000 plus GST (Cost of Sales: \$19 500).
- Sales return is expected to be \$5 000 plus GST (Cost of Sales: \$3 900).
- All sales returns were returned to the supplier.
- The closing balance in the Accounts Receivable account is estimated to be \$3 000.
- Discount expense is estimated to be \$60.
- The Accounts Payable balance at 1 January 2022 is \$6 000 and it is estimated to increase by \$4 000 by the end of the year.
- Inventory purchases on credit are estimated to be \$70 000 plus GST and cash \$20 000 plus GST.
- Wages accrued at 31 December 2022 are estimated to be \$2 400. Wages paid during the year were \$20 000, including the amount owing at 1 January 2022 of \$600.
- Drawings are estimated to be \$10 000 (including \$2 000 drawings of inventory).
- Office expenses are estimated to be \$24 000 (including \$2 500 depreciation of equipment).
- The loan repayment is estimated to total \$4 400 (including interest of \$400).
- The inventory write-down is estimated to be \$1 000.

Actual sales in December 2021 were \$5 000 plus GST.

Estimated sales for December 2022 are \$8 000 plus GST.

- a. Prepare the Budgeted Income Statement for the year ended 31 December 2022. 8 marks
- b. Explain how the accrued wages would appear in the Balance Sheet as at 31 January 2022. 2 marks
- c. Discuss the implications of introducing credit sales in 2022. 4 marks

Question 8 (10 marks)

On 31 December 2020, the accountant provided the following information:

Sales for the year ended 31 December 2020 were \$60 000.

	31 December 2020 (actual)	31 December 2021 (estimate)
Accounts Receivable	10 000	16 000
Inventory	12 000	14 000
Accounts Payable	9 000	15 000

Estimates for year ending 31 December 2021:

- All inventory transactions are on credit.
- Sales are expected to increase by 20%.
- Discount expense is expected to be 1.5% of sales including GST.
- Mark-up on sales is expected to be 60%.
- Inventory write-down is expected to be 1% of sales.
- Drawings of inventory is expected to be \$2 780.

Reconstruct the General Ledger accounts provided in the Working Space Booklet to determine the estimated:

- a.** cash collected from Accounts Receivable. 4 marks
- b.** cash paid to Accounts Payable. 6 marks

Question 9 (11 marks)

On 31 December 2021, the accountant provided the following information:

Tony's Tents**Trial Balance as at 31 December 2021**

Account	Debit	Credit
Accounts Payable		6 000
Accounts Receivable	14 000	
Accrued Interest Revenue	420	
Accrued Wages Expense		200
Accumulated Depreciation of Shop Fittings		4 800
Bank	5 100	
Capital		19 000
GST Clearing		1 520
Inventory	8 000	
Loan (interest-only Loan repayable 1 January 2026)		30 000
Shop Fittings	22 000	
Term Deposit (due 31 May 2022)	12 000	
	61 520	61 520

Estimates for year ending 31 December 2022:

- Total sales are expected to be \$75 000.
 - Credit sales are expected to be 50% greater than cash sales.
 - Sales returns are expected to be 5% of credit sales. There were no purchase returns.
 - Mark-up on sales is 100%.
 - Inventory write-down are expected to be \$1 000.
 - All inventory purchases made on credit are expected to be \$44 000 (including GST).
 - The Accounts Payable balance is expected to increase by 20%.
 - GST Settlement paid to the ATO is expected to be \$4 000.
 - The term deposit was for the year ending 31 May 2022. Interest on the term deposit is \$720 and will be received at maturity.
 - The bank balance is expected to remain positive.
 - Depreciation expense for shop fittings is expected to be \$1 500.
 - Drawings for the year are expected to be \$20 000 (\$2 500 inventory and \$17 500 cash).
 - Wages are expected to be \$20 000 (including accrued wages at 31 December 2021).
 - Rent expense is expected to be \$3 300 (including GST).
 - Interest expense is expected to be \$3 600.
 - Wages owing at 31 December 2022 are expected to be \$500.
 - There are no prepayments or other accruals expected at 31 December 2022.
- a. Prepare a Budgeted Income Statement for the year ending 31 December 2022. 8 marks
- b. Prepare the Equities section of the Budgeted Balance Sheet as at 31 December 2022. 3 marks

b.

General Journal

Date 2023	Details	Debit	Credit
30 Jun.	Bank	12 688	
	Loan – NT Finance		12 688
	Vehicle	10 580	
	GST Clearing	2 108	
	Bank		12 688

OR

General Journal

Date 2023	Details	Debit	Credit
30 Jun.	Bank	12 688	
	Loan – NT Finance		12 688
	Vehicle	21 080	
	GST Clearing	2 108	
	Disposal of Vehicle		10 500
	Loan – NT Finance		12 688

4 marks

Question 4 (13 marks)

a.

Accounts Receivable

Date 2022	Cross-reference	Amount	Date 2022	Cross-reference	Amount
1 Jan.	Balance	30 000	31 Dec.	Sales Returns/GST Clearing	3 300
31 Dec.	Credit Sales/GST Clearing	220 000		Discount Expense	4 000
				Bank	217 700
				Balance	25 000
		250 000			250 000

Cash Expected from Accounts Receivable:	\$217 700
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5 marks

Practice Exam 3

Question 1 (16 marks)

- a. **Explanation:** Verifiability refers to the ability to ensure that different knowledgeable and independent observers can reach a consensus (arrive at the same conclusion) that a particular depiction of an event is faithfully represented. Verifiability is maintained by retention of source documents used to record the transaction and checked through auditing. The purpose of verifiability is to hold the accounting professional accountable for their work.

Qualitative characteristic: Verifiability

2 marks

b.

General Journal

Date 2020	Details	Debit	Credit
29 Jan.	Bank	1 650	
	Cash Sales		1 500
	GST Clearing		150
	Cost of Sales	750	
	Inventory		750
29 Jan.	Prepaid Rent Expense	3 000	
	GST Clearing	300	
	Bank		3 300
29 Jan.	Accounts Receivable – S Chen	880	
	Credit Sales		800
	GST Clearing		80
	Cost of Sales	400	
	Inventory		400
31 Jan.	Allowance for Doubtful Debts	160	
	GST Clearing	16	
	Bank	44	
	Accounts Receivable – K Elias		220

6 marks

- c. **Explanation:** Expenses are decreases in assets that result in a decrease in owner's equity other than those relating to distributions to the owner. Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the business. Bad debts are an expense because they result in a decrease in assets that decrease owner's equity.

2 marks

d.

Accounts Receivable

Date 2020	Cross-reference	Amount	Date 2020	Cross-reference	Amount
1 Jan.	Balance	2 200	31 Jan.	Bank	44
31 Jan.	Sales/GST Clearing	880	31 Jan.	Allowance for Doubtful Debts/GST Clearing	176
			31 Jan.	Balance	2 860
		3 080			3 080
1 Feb.	Balance	2 860			

4 marks

e.

General Journal

Date 2020	Details	Debit	Credit
4 Feb	Accrued Wage	600	
	Wages	4 000	
	Bank		4 600

2 marks

Question 2 (11 marks)

a.

General Journal

Date 2019	Details	Debit	Credit
30 Jun	Sales	25 000	
	Interest Revenue	180	
	Inventory Gain	220	
	Profit and Loss Summary		25 400

2 marks

b. **Explanation:** Revenue and Expense accounts are closed so as to prepare the accounts for the preparation of reports, to 'zero off' the accounts and have accounts ready for the next reporting period.

2 marks

Question 7 (14 marks)

a.

Sweatmaster**Budgeted Income Statement for the year ending 31 December 2022**

	\$	\$
Revenue		
Cash Sales	90 000	
Credit Sales	30 000	120 000
Less Sales Return		5 000
		115 000
LESS COST OF GOODS SOLD		
Cost of Sales (58 500 + 19 500 – 3 900)		74 100
Gross Profit		40 900
Less Inventory Write-down		1 000
Adjusted Gross Profit		39 900
Less Other Expenses		
Wages (20 000 – 600 + 2 400)	21 800	
Office Expenses (24 000 – 2 500)	21 500	
Depreciation – Equipment	2 500	
Interest Expense	400	
Discount Expense	60	
		46 260
Net Profit (Loss)		(6 360)

8 marks

- b. **Explanation:** The accrued wages would appear as a current liability. This is because of the present obligation of Sweatmaster to transfer an economic resource (wages) as a result of past events (employee labour). This obligation of \$2 400 is reasonably expected to be settled within 12 months after the end of the reporting period.

2 marks

- c. **Discussion:** Credit sales may attract customers who would buy now if they could pay later. It may result in more customers and increased total sales, which should increase net profit. However, discounts will increase expenses and could increase the Bad Debts expense, thus decreasing net profit. It will also take longer to receive cash from credit sales. Customers who were buying for cash may instead take advantage of credit terms, which may have a negative impact on liquidity.

4 marks

Question 7 (9 marks)**General Journal**

Date 2023	Details	Debit	Credit
11 Jan.	Accounts Receivable – Hume Golf Club	6 200	
	Sales Revenue		5 500
	GST Clearing		700
	Cost of Sales	3 500	
	Inventory		3 500
31 Jan.	Unearned Sales Revenue	1 500	
	Sale Revenue		1 500
1 Mar.	Bank	5 288	
	Accrued Interest Revenue		240
	Interest Revenue		48
	Term Deposit		5 000

9 marks

Question 8 (10 marks)

a.

Accounts Receivable

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
1 Jan.	Balance	10 000	31 Dec.	Discount Expense	1 188
31 Dec.	Credit Sales	72 000		Bank	72 012
	GST Clearing	7 200		Balance	<u>16 000</u>
		<u>89 200</u>			<u>89 200</u>

Estimated Collections from Accounts Receivable:	\$72 012
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4 marks

Question 9 (11 marks)

a.

Tony's Tents**Income Statement for year ending 31 December 2022**

	\$	\$
Revenue		
Cash Sales	25 000	
Credit Sales	50 000	75 000
Less Sales Return		2 500
		72 500
LESS COST OF GOODS SOLD		
Cost of Sales		36 250
Gross Profit		36 250
Less Inventory Write-down		1 000
Adjusted Gross Profit		35 250
Add Other Revenue		
Interest Revenue		300
		35 550
Less Other Expenses		
Wages	20 300	
Rent Expense	3 000	
Interest Expense	3 600	
Depreciation – Fixtures and Fittings	1 500	28 400
Net Profit		7 150

8 marks