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PRACTICE EXAM 1

PRACTICE EXAM 1 / QUESTION 1

Sinc Bikes

Leigh Sinclair operates a small trading business, Sinc Bikes, selling bicycles and cycling equipment. Leigh uses a double entry accrual system of recording and reporting and maintains control accounts for Debtors, Creditors and Stock. The business uses the FIFO (First In First Out) cost assignment method in its perpetual inventory recording system.

1.1 The following Information was provided on 1 February 2008.

TRIAL BALANCE

Account	General Ledger	
	Dr	Cr
Bank	5 400	
Stock Control*	22 000	
Debtors Control**	4 000	
Equipment#	34 000	
Less Accumulated Depreciation - Equipment		19 000
Land & Buildings	650 000	
GST Clearing	1 200	
Creditors Control***		8 600
Loan ANZ		420 000
Capital		269 000
	716 600	716 600

#The equipment has a useful life of 2 years from the time of purchase and a scrap value of \$10 000.

*Stock control includes 4 Hybrid Bikes at a cost of \$600 each.

**Debtors Control is made up of

- Barrie Secondary College	\$1 800
- Sam O'Loughlin	\$2 200

***Creditors Control is made up of

- Trek Cycles	\$6 400
- Repco	\$2 200

Required

1.1.1 Explain how the GST Clearing account would be reported in the Classified Balance Sheet of Sinc Bikes as at 1 February 2008

Explanation
Classification

3 MARKS

Question 1.4.3 1 + 2 + 2 = 5 marks

The two types of accounts that are closed off to the Profit and Loss Summary account are the Revenue and Expenses accounts in accordance with the reporting period principle. The two purposes of closing to the Summary account are:

- to clear the Revenue and Expenses accounts of data that is irrelevant to future periods
- to calculate profit (or loss) in the ledger and close the account by transferring the balance to the Capital account at the end of the period. (Drawings for the period are also closed to Capital.)

Mark allocation

1 mark for correctly identifying Revenues and Expenses as the accounts to be closed to the Profit and Loss Summary account

1 mark for the identification of the reporting period principle

1 mark for the inclusion of each of the purposes of closing to the Summary account

Question 1.5 6 marks

BABYLAND

STATEMENT OF CASH FLOWS FOR THE TWO MONTHS ENDING 30 JUNE 2005

	\$	\$
Operating Activities		
Receipts from debtors	29 000	
Sales	70 000	
Payments to creditors	(44 000)	
Stock	(21 500)	
Wages	(8 600)	
Prepaid rent	(12 000)	
Prepaid registration and insurance of vehicle	(1 600)	
NET CASH FLOW FROM OPERATING ACTIVITIES		11 300
INVESTING ACTIVITIES		
Purchase of computer	(5 400)	
Deposit on purchase of vehicle	(12 000)	
NET CASH FLOW FROM INVESTING ACTIVITIES		(17 400)
FINANCING ACTIVITIES		
Capital	12 000	
Drawings	(4 000)	
NET CASH FLOW FROM FINANCING ACTIVITIES		8 000
TOTAL NET CASH FLOW		1 900
Add opening bank balance		NIL
Equals closing bank balance		\$ 1 900

Mark allocation

1 mark for calculating the correct cash flow from debtors and creditors after deducing the discount

1 mark for entering sales as inflow, and wages, prepaid rent and stock as outflow under operating activities

1 mark for including the vehicle registration and insurance under operating outflows

1 mark for entering the purchases of the computer and the vehicle under investing activities

1 mark for entering drawings as outflow under financing activities

1 mark for including the labels and subtotals

Question 1.6 3 marks

Profit and cash flow are not the same. For instance:

- profit may include some non-cash items, such as credit sales that have not yet been paid
- bank may also be reduced by the payment to creditors for a previous period's purchases of stock
- prepaid rent expense may be less than the rent paid
- profit will not be affected by the purchase of the computer
- profit will not include the deposit on the vehicle that has reduced cash flow
- drawings also reduce cash flow but will have no effect on profit.

Question 1.7.1 2 marks

GENERAL JOURNAL

GJ2

Date	Particulars	Post Ref.	Debit \$	Credit \$
2005				
30 Jun	Stock		200	
	Stock gain (Stock gain as per physical stock-take – stock sheet X20)			200

One mark is allocated for each correct line.

Marks will be deducted for the lack of dates or narration

Question 1.7.2 2 marks

A stock gain has occurred. Reasons for this could be:

- incorrect recording
- overdelivery by Babyland's suppliers
- underdelivery by Babyland to its customers.

A physical stock take was undertaken to check that the current record of stock is reliable.

Mark allocation

1 mark for any of the above reasons

1 mark for the reference to a qualitative characteristic that necessitated the performance of the physical stock take

Question 1.7.3 2 marks

THE EFFECT OF NOT MAKING THE ADJUSTMENT IN 1.7.1 ON BABYLAND'S

Statement of Financial Performance	Revenue and Adjusted Net Profit would have been understated by \$500. Net Profit would also have been understated.
Statement of Financial Position	The Current Asset Stock would have been understated by \$500. The Owner's Equity would also have been understated by \$500 due to the lower Net Profit.

Mark allocation

1 mark for recognising that Revenue, and consequently Adjusted Gross Profit and Net Profit, would have been understated if Stock Gain had not been recorded.

1 mark for identifying that Current Assets would be understated.

1 mark for identifying that Owner's Equity would be understated due to the lower Net Profit

Total = 45 marks