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# PRACTICE EXAM 1

## PRACTICE EXAM 1 / QUESTION 1

### Coates Clothing

Tara Coates operates a small business, Coates Clothing, selling clothing purchased from a factory in Geelong. Tara's accountant maintains a double-entry accrual accounting system. The business uses a perpetual stock recording system with the FIFO cost assignment method. Control accounts are used for Debtors, Creditors and Stock.

- 1.1 Tara sells two different types of winter jackets. Details relating to the "Wind-breaker" jackets for June 2008 are shown below.

June 1 Balance: 3 Wind-breaker jackets at cost price of \$60 each

<b>Coates Clothing</b> ABN 86 218 677 535
Tax Invoice Number 76
Date 07/06/2008
To: Daniel Bohem
For 1 Wind-breaker Jacket
\$200 plus GST \$20
Total \$220
Terms: n/60

<b>Geelong Clothing Co.</b>
Tax Invoice 328      Date: 12/6/08
Charged to:      Coates Clothing
Items              10 Wind-breaker jackets
Cost per item    \$70 plus \$7 GST
Total Invoice    \$770
Credit Terms 2/7 n/30
 ABN 86 971 121 871

<b>Firefly Freight Company</b> ABN 86 313 612 236
<b>Invoice 255</b>
For:      Freight of 10 Jackets Geelong to Melbourne (inv 328)
Amount \$100 plus GST \$10
Total Charge    \$110
Due:              strictly 7 days
Date 13/06/2008

<b>Coates Clothing</b> ABN 86 218 677 535
Tax Invoice Number 79
Date 17/06/2008
To: Kew Basketball Club
For 8 Wind-breaker Jackets
@\$200 plus GST \$20 each
Total    \$1 760
Terms: n/60

<b>Coates Clothing</b> ABN 86 218 677 535
Credit Note Number 9
Date 23/06/2008
To: Kew Basketball Club
For 1 Wind-breaker Jackets
@\$200 plus GST \$20
Total    \$220
Reason:              Damaged stitching

<b>Geelong Clothing Co.</b>
Credit Note 18    Date: 25/6/08
Given to:        Coates Clothing
Items              1 Wind-breaker jacket
Total Credit    \$88
Reason for Credit – Broken stitching
ABN 86 971 121 871

**CREDITORS CONTROL**

Date 2008	Cross Reference	\$	Date 2008	Cross Reference	\$
July31	Discount Revenue	1 000	July31	Stock Control	36 300
	Bank	31 300			
	Balance	4 000			
		<u>36 300</u>			<u>36 300</u>

Payments to Creditors \$ 31 300

**Mark allocation**

5 marks for the correct response in the Payments to Creditors box

If not correct, then instead award marks for the following correct entries in the table:

1 mark for Cost of Sales, 1 mark for Stock Loss, 1 mark for Discount Revenue,

1 mark for Balances in both accounts, 1 mark for 36 300 in both accounts

Maximum 1 mark subtracted for alien entries

**Question 2.1.3**

**2 marks**

**Reason 1: Access the cash for alternative purposes.**

Decrease administration costs associated with outstanding debts

**Reason 2: Decrease likelihood of Bad debts**

**Mark allocation**

1 mark per correct response

**TIPS**

As the question only asks you to 'State', there is no need for detailed responses.

**Question 2.1.4**

**2 marks**

**Explanation: Discount expense is a reduction in inflows to the entity and therefore will reduce the net profit of the business**

**Mark allocation**

1 mark for expense

1 mark for reduce net profit

**Question 2.2.1**

**7 marks**

**ELLIS ELECTRICAL**

**BUDGETED PROFIT AND LOSS STATEMENT FOR THE MONTH ENDED 31 JULY 2008**

Expected Revenue	\$	\$
Sales		60 000
Less Cost of Goods Sold		
Cost Of Sales		<u>30 000</u>
GROSS PROFIT		30 000
Less Stock Loss		<u>300</u>
ADJUSTED GROSS PROFIT		29 700
Add other Revenue		
Discount Revenue		<u>1 000</u>
		30 700
Less other Expenses		
Bad Debts	240	
Discount Expense	500	
Wages	800	
Insurance	150	
Rent	400	<u>2 090</u>
NET PROFIT		<u>28 610</u>

**Mark allocation**

1 mark for Sales and Less Cost of Goods Sold title (No abbreviations as it is a report)

1 mark for Cost of Sales and Gross Profit

1 mark for Less Stock Loss and Adjusted Gross Profit

1 mark for Add other Revenue and Discount Revenue with the subtotal

1 mark for Bad debts and Discount Expense

1 mark for Wages and Rent

1 mark for Insurance

1 mark subtracted if the report is not finished off correctly and net profit calculated.

1 mark subtracted for alien entries

**Question 2.2.2**

**6 marks**

**ELLIS ELECTRICAL**

**EXTRACT FROM BUDGETED STATEMENT OF CASH FLOWS FOR THE MONTH ENDED 31 JULY 2008**

Cash Flow from Operating Activities	\$	\$
Inflows – Receipts from debtors	10 260	
Cash Sales	<u>48 000</u>	58 260
Outflows – Payments to creditors	(31 300)	
Stock	(2 000)	
Wages	(400)	
Prepaid Insurance	<u>(1 800)</u>	(35 500)
NET CASH FROM OPERATING ACTIVITIES		22 760

**Mark allocation**

1 mark for each item

1 mark subtracted for not indicating inflows and outflows (either with a title, brackets or both)

1 mark subtracted for not completing the report with 'Net Cash from Operating Activities'

1 mark subtracted for alien entries