SAMPLE EXAMINATION PAPER ONE

To accompany *'Accounting - Business reporting for decision making'*, Birt, J. et al. 4th edition.

Adds to 100 marks. Time period 3 hours.

INTRODUCTION

This sample examination paper, together with solutions and marking scheme, is suitable for assessment in a higher education, under graduate, accounting for non-accountants, introductory subject. It consists of 9 questions. It adds to 100 marks and relates to a three hour time period.

The time weighting of the questions is 1.8 minutes per mark (180 minutes/100 marks). For example, a question worth 10 marks should take a student approximately 18 minutes to complete, a question worth 18 marks should take approximately 32 minutes.

The questions in this paper are drawn from Chapters 1, 3, 4, 5, 6, 7 & 8 of *Accounting - Business reporting for decision making*, Birt, J. et al. 4th edition. The questions are 42% theoretical and 58% practical. They cover:

1. Six varied short answer practical and theory questions. (17 marks)

2. A theory question on the difference between internal and external users of accounting information. (10 marks)

3. A theory question on the differences between a proprietary company and a partnership. (9 marks)

4. A practical question on transaction analysis. (14 marks)

5. A theory question on the definition of an asset. (6 marks)

6. A practical question on the preparation of a balance sheet from a list of balances. (14 marks)

7. A theory question on the differences between an income statement and a cash flow statement. (6 marks)

8. A practical question on the preparation of an income statement for a service business including three balance day adjustments. (11 marks)

9. A practical question on the preparation of the operating section of a cash flow statement from an accrual income statement and balance sheet plus a theory section on warning signs in managing cash flow. (10 + 3 =13 marks)

QUESTION ONE **(4 + 4 + 2 + 3 + 2 + 2 = 17 marks)** [31 minutes]

REQUIRED:

a) A machine is purchased for $120 000. It is estimated that it has a useful life of five years and will then be sold for $10 000. Using the straight-line method calculate the amount of depreciation to be charged each year <u>and</u> the carrying value of the machine at the end of the second year of its life.

b) Explain the difference between depreciation and accumulated depreciation.

c) If, due to an oversight, interest revenue of $2500 has been earned but has not been received in cash and is not recorded at the end of the accounting period, what is the effect on net profit <u>and</u> current assets or liabilities of this omission?

d) If equity at the beginning of the accounting period was $110 000 and at the end of the period $185 000, and drawings by the owner during the period were $40 000, calculate the amount of net profit that was earned during the period.

e) If the cash received from customers during the year is $90 000 and $20 000 is owed by customers at the beginning of the year and nothing at the end of the year, calculate the amount of credit sales for the year.

f) Explain the meaning of current assets <u>and</u> current liabilities.

QUESTION TWO **(4 + 6 = 10 marks)** [18 minutes]

REQUIRED:

a) Distinguish between internal users of accounting information and external users.

b) List three decisions that might be made by internal users and three decisions that might be made by external users.

QUESTION THREE **(3 x 3 = 9 marks)** [16 minutes]

REQUIRED:

Explain three characteristics that distinguish a proprietary company from a partnership.

QUESTION FOUR **(7 x 2 = 14 marks)** [25 minutes]

Craig Campbell commenced his own courier service, Campbell's Couriers. Set out below are some transactions of the business.

1. Purchased a second-hand delivery truck for $21 000 on credit
2. Placed an advertisement to run for four weeks in the local paper paying $160
3. First month's income from deliveries received in cash $1400
4. Deliveries in the first month made on credit, where payment has not yet been received, $910
5. Paid account at the local service station for the first month's petrol - $280
6. Craig withdrew $800 from the business at the end of the first month to meet his personal expenditure requirements.
7. Received $400 of the amount owing from the sales referred to in transaction (4) above.

REQUIRED:

Using the set out provided below, for each of the transaction for Campbell's Couriers:

- choose names for each account affected
- indicate the type of account. Use only asset (A), liability (L) and owner's equity (OE) types **do not use income and expense types**
- indicate whether each account type is increasing or decreasing. **(Note: if an expense is incurred this will be recorded as OE decreasing)**
- indicate by what amount the account has changed.

Sample: Craig Campbell paid $50 000 into a business bank account to commence his courier service.

Set out:

Transaction	Account Names	Asset, (A) Liability (L) Equity (OE)	Increase /decrease	Amount $
Sample	**Bank** **Capital**	**A** **OE**	**Inc** **Inc**	**50 000** **50 000**
1				
2				
3				
4				
5				
6				
7				

QUESTION FIVE **(6 marks)** [11 minutes]

REQUIRED:

Referring to the Framework's definition of an asset explain why accountants regard accounts receivable as an asset.

QUESTION SIX **(14 marks)** [25 minutes]

The following information has been provided by D. Adams who, operating as a sole trader in Carlton, runs a small architect's practice, Adams Architects.

Cash at bank	$14 300
Wages payable	460
Accounts receivable	2 200
Capital, D. Adams - 1.1.2013	16 040
Net loss	1 176
Vehicle	19 600
Accumulated depreciation - vehicle	2 600
Accounts payable	860
Prepaid insurance	$104
Drawings	1 080
Bank loan payable 30 October 2014	2 000
Bank loan payable 1 December 2016	16 000
Income received in advance	$500

REQUIRED:

Prepare a classified balance sheet for D. Adams Architects as at 31 December 2013.

QUESTION SEVEN **(4 + 2 = 6 marks)** [11 minutes]

'Two of the key accounting reports available to users of accounting information are the income statement and the statement of cash flow'.

REQUIRED:

a) Explain the fundamental difference between an income statement and a statement of cash flow.

b) Why do decision-makers need both reports? Explain.

QUESTION EIGHT **(11 marks)** [20 minutes]

The following account balances for the year ended 30th June 2013, relate to Endeavour Enterprises.

Wages and salaries	$88 000
Debtors	$45 000
Drawings	$21 000
Other operating expenses	$4 000
Rent expense	$14 000
Computer operating expenses	7 100
Interest on loan	$2 000
Loan from bank (payable 30 October 2015)	$50 000
Inventory on hand (at cost)	$23 000
Equipment (cost)	$40 000
Depreciation – equipment	$5 000
Accumulated depreciation – equipment	$10 000
Capital - 1 July 2012	$37 800
Bank	$52 000
Sales	$280 000
Cost of sales	$75 000
Creditors	$1 800

Additional information at 30 June 2013:

- Wages and salaries of $88 000 include an amount of $2500 prepaid to employee's for July 2013.
- Rent expense of $14 000 does not include an amount of $1000 owing as at 30 June 2013.
- Sales of $280 000 include $5000 which is an advance payment for a job which had not been started on 30 June 2013.

REQUIRED:

Prepare an income statement for Endeavour Enterprises for the year ending 30 June 2013 using the accrual approach.

QUESTION NINE **((3 + 3) + 4 + 3 = 13 marks)** [23 minutes]

Below are two balance sheets for Cameron's Cleaning plus information concerning net profit.

Balance sheets at 30th June

	2013	**2012**
	$	$
Cash	72 000	76 000
Accounts receivable	45 000	25 000
Prepaid operating expenses	7 000	12 000
Equipment at cost	135 000	105 000
Accumulated depreciation equipment	(45 000)	(25 000)
Owner's Equity	(194 000)	(179 000)

Net profit was $100 000 for the year, sales $370 000, interest paid $15 000, salaries $19 000, depreciation of equipment $50 000 and operating expenses $186 000.

REQUIRED:

a) Calculate:
   i) Cash receipts from customers
   ii) Cash payments for operating expenses.

b) Prepare the operating section of the cash flow statement for the year ended 30 June 2013. **(Note: you are <u>not</u> required to prepare the complete cash flow statement.)**

c) List three warning signs that a cash flow statement can reveal which may indicate problems in managing cash.