# MINI EXAM NO 4: UNIT 4 AREA OF STUDY 2 (50 MARKS)

**Question 1** (44 marks)

1. **Reconstruct the Accounts Receivable ledger in order to calculate budgeted Receipts from Accounts Receivable for the year ending 30 June 2020.**

**5 marks**

**Accounts Receivable**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount** | **Date** | **Cross-reference** | **Amount** |
|  | Opening Balance | 21 800 |  | Bank | 225 400 |
|  | Credit Sales | 210 000 |  | Discount Expense | 2 500 |
|  | GST Clearing | 21 000 |  | Allowance for Doubtful Debts | 3 000 |
|  |  |  |  | GST Clearing | 300 |
|  |  |  |  | Sales Returns | 6 000 |
|  |  |  |  | GST Clearing | 600 |
|  |  |  |  | Closing Balance | 15 000 |
|  |  | 252 800 |  |  | 252 800 |

**1 mark –** Opening Balance and Closing Balance entries

**1 mark –** Credit Sales and GST Clearing entries

**1 mark –** Discount Expense

**1 mark –** Allowance for Doubtful Debts and GST Clearing entries

**1 mark –** Sales Returns and GST Clearing entries

1. **Reconstruct the Inventory and Accounts Payable ledgers in order to calculate budgeted Payments to Accounts Payable for the year ending 30 June 2020.**

**12 marks**

**Inventory**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount** | **Date** | **Cross-reference** | **Amount** |
|  | Opening Balance | 25 500 |  | Cost of Sales | 120 000 |
|  | Bank | 23 400 |  | Advertising | 1 000 |
|  | Accounts Payable | 93 600 |  | Inventory Loss | 1 500 |
|  | Cost of Sales | 2 400 |  | Accounts Payable | 2 400 |
|  |  |  |  | Closing Balance | 20 000 |
|  |  | 144 900 |  |  | 144 900 |

**Accounts Payable**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount** | **Date** | **Cross-reference** | **Amount** |
|  | Bank | 102 820 |  | Opening Balance | 16 500 |
|  | Discount Revenue | 4 000 |  | Inventory | 93 600 |
|  | Inventory | 2 400 |  | GST Clearing | 9 360 |
|  | GST Clearing | 240 |  |  |  |
|  | Closing Balance | 10 000 |  |  |  |
|  |  | 119 460 |  |  | 119 460 |

**1 mark –** Opening and Closing Balances in Inventory reconstruction

**1 mark –** per each remaining entry in Inventory reconstruction (7 marks)

**1 mark –** Opening and Closing Balances in Accounts Payable reconstruction

**1 mark –** Inventory and GST Clearing entries on credit side of Accounts Payable reconstruction

**1 mark –** Inventory and GST Clearing entries on debit side of Accounts Payable reconstruction

**1 mark –** Discount Revenue

1. **Prepare the Budgeted Income Statement for the year ending 30 June 2020.**

**13 marks**

**Charlotte’s Chairs**

**Budgeted Income Statement for the year ending 30 June 2020**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **Revenues** |  |  |
| Cash Sales | 90 000 |  |
| Credit Sales | 210 000 |  |
| Less: Sales Returns | 6 000 | 294 000 |
| **Less: Cost of Goods Sold** |  |  |
| Cost of Sales |  | 117 600 |
| **Gross Profit** |  | 176 400 |
| Less: Inventory Loss |  | 1 500 |
| **Adjusted Gross Profit** |  | 174 900 |
| **Add: Other Revenues** |  |  |
| Discount Revenue |  | 4 000 |
|  |  | 178 900 |
| **Less: Other Expenses** |  |  |
| Advertising | 5 000 |  |
| Bad Debts | 4 080 |  |
| Depreciation - Equipment | 4 695 |  |
| Discount Expense | 2 500 |  |
| General Expenses | 30 000 |  |
| Interest Expense | 5 000 |  |
| Loss on Disposal - Equipment | 1 200 |  |
| Rent Expense | 23 000 |  |
| Wages | 49 000 | 124 475 |
| **Net Profit / (Loss)** |  | 54 425 |

**1 mark –** Cash Sales

**1 mark –** Credit Sales

**1 mark –** Sales Returns

**1 mark –** Cost of Sales

**1 mark –** Inventory Loss

**1 mark –** Discount Revenue

**1 mark –** Advertising

**1 mark –** Depreciation - Equipment

**1 mark –** Discount Expense and General Expenses entries

**1 mark –** Interest Expense and Wages Expense entries

**1 mark –** Doubtful Debts

**1 mark –** Loss on Disposal - Equipment

**1 mark –** Rent Expense

1. **Prepare the Budgeted Cash Flow Statement for the year ending 30 June 2020.**

**14 marks**

**Charlotte’s Chairs**

**Budgeted Cash Flow Statement for the year ending 30 June 2020**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **Cash Flow from Operating Activities** |  |  |
| Cash Sales | 90 000 |  |
| GST Collected | 9 000 |  |
| Receipts from Accounts Receivable | 225 400 |  |
| Payments to Accounts Payable | (102 820) |  |
| Purchases of Inventory | (23 400) |  |
| Advertising | (4 000) |  |
| Interest | (5 000) |  |
| General Expenses | (30 000) |  |
| Prepaid Rent Expense | (24 000) |  |
| Wages | (47 000) |  |
| GST Paid | (9 540) |  |
| GST Settlements | (8 730) |  |
| **Net Cash Flows from Operations** |  | 69 910 |
| **Cash Flows from Investing Activities** |  |  |
| Disposal of Equipment | 2 000 |  |
| Purchase of Equipment | (14 000) |  |
| **Net Cash Flows from Investing Activities** |  | (12 000) |
| **Cash Flows from Financing Activities** |  |  |
| Capital | 4 000 |  |
| Loan Borrowings – MNC Bank | 9 000 |  |
| Drawings | (36 000) |  |
| Loan Repayments – MCN Bank | (12 000) |  |
| **Net Cash Flows from Financing Activities** |  | (35 000) |
| **Net Increase / (Decrease) in Cash Position** |  | 22 910 |
| **Bank Balance at 1 July 2019** |  | (15 230) |
| **Bank Balance at 30 June 2020** |  | 7 680 |

**1 mark –** Cash Sales and GST Collected entries

**1 mark –** Receipts from Accounts Receivable and Payments to Accounts Payable entries

**1 mark –** Purchases of Inventory

**1 mark –** Advertising

**1 mark –** Interest, General Expenses and Prepaid Rent Expense entries

**1 mark –** Wages

**1 mark –** GST Paid and GST Settlements entries

**1 mark –** Disposal of Equipment

**1 mark –** Purchase of Equipment

**1 mark –** Capital

**1 mark –** Loan Borrowings – MNC Bank

**1 mark –** Drawings

**1 mark –** Loan Repayment – MNC Bank

**1 mark –** Final three lines

**Question 2 (6 marks)**

1. **In the Answer Booklet, complete the variance report extracts.**

**2 marks**

**Larry’s Ladders**

**Cash Budget Variance Report (extract) for the year ended 31 December 2020**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Budget** | **Actual** | **Variance** | **Favourable / Unfavourable** |
| Cash Sales | **$225 000** | $217 500 | $7 500 | U |
| Receipts from Accounts Receivable | $220 000 | $252 000 | $32 000 | **F** |
| Advertising | $15 000 | $19 500 | $4 500 | U |

**Larry’s Ladders**

**Income Statement Variance Report (extract) for the year ended 31 December 2020**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Budget** | **Actual** | **Variance** | **Favourable / Unfavourable** |
| Credit Sales | $235 000 | $259 000 | **$24 000** | F |
| Inventory Loss | $4 600 | **$8 560** | $3 960 | U |
| Discount Expense | $9 000 | $11 800 | $2 800 | U |

**½ mark –** per entry in Variance Report

1. **Explain how the preparation of variance reports helps specifically with Larry’s decision making.**

**2 marks**

The preparation of variance reports allows budgeted amounts to be compared to actual amounts during a budget period and can be used to identify problem areas. **(1 mark)**

Decisions can then be made and corrective action taken to improve future performance such as the management of Inventory as illustrated by the unfavourable Inventory Loss variance. **(1 mark)**

1. **Explain why Larry may view the Discount Expense variance as favourable.**

**2 marks**

Even though the actual amount of Discount Expense was greater than the budgeted amount, this may have occurred due to credit customers taking advantage of the credit terms available. **(1 mark)**

This is reflected in the favourable variance in the Receipts from Accounts Receivable which would help with the liquidity of the business / reduce the likelihood of incurring bad debts. **(1 mark)**

**END OF MINI EXAM NO. 4**