



UNSW
A U S T R A L I A

THE UNIVERSITY OF NEW SOUTH WALES
SCHOOL OF ACCOUNTING
SEMESTER 2 2014
FINAL EXAMINATION
ACCT 5930 FINANCIAL ACCOUNTING

Time Allowed: 2 Hours

Reading Time: 10 minutes

This examination paper has 8 pages

Total Number of Questions: 6

Total Marks Available: 100

Answer ALL questions

The questions are NOT of equal value

All answers are to be written in the examination booklet provided

Candidates are to supply their own calculators

All answers must be written in ink. Except where they are expressly required, pencils may be used only for drawing, sketching or graphical work.

This paper may be retained by the candidate

Suggested Solutions

Question 1 Recording Transactions (20 marks)

1 Revenues: (2 marks)
Sales Revenue \$450,000 (c)

2 Expenses: (8 marks)
Cost of Goods Sold \$130,000 (c)
Interest (200,000 x 10%) \$20,000 (e)
Insurance (36,000 x 7/12) \$21,000 (k)
Wages (210,000 + 30,000) \$240,000 (i)

3 Current Assets: (10 marks)

Cash	\$645,000	(4 marks)
Accounts Receivable	\$230,000	(2 marks)
Inventory	\$30,000	(2 marks)
Prepaid Insurance	<u>\$15,000</u>	(2 marks)
Total	\$920,000	

Cash Inflows	Cash Outflows
\$500,000 (a)	\$90,000 (d)
\$200,000 (e)	\$9,000 (e)
\$70,000 (f)	\$36,000 (g)
\$220,000 (h)	\$210,000 (i)

Cash inflows \$990,000 – Cash outflows \$345,000 = \$645,000 increase in cash.

Accounts Receivable: \$450,000 (c) - \$220,000 (h) = \$230,000

Inventory: \$160,000 (b) - \$130,000 (c) = \$30,000

Prepaid Insurance: \$15,000 (g)

Question 2 Accounts Receivables (12 marks)

1.

(a) Amya (opening balance) (1 mark)

Amya			
Opening balance	26 500	Cash	29 000
Sales	35 500		
	<u> </u>	Closing balance	<u>33 000</u>
	<u>62 000</u>		<u>62 000</u>

Amya – opening balance: \$26 500

(b) Coral (closing balance – before write-off) (1 mark)

Coral			
Opening balance	20 400	Cash	19 900
	<u> </u>	Closing balance	<u>500</u>
	20 400		20 400

Coral – closing balance (before write-off): \$ 500

OR

Coral –closing balance (before write-off)= 83 000 - 33 000 - 49 500 = **500**

Coral – closing balance (before write-off): \$ 500

(c) Biell (sales) (1 mark)

Biell			
Opening balance	54 000	Cash	21 000
Sales	16 500		
	<u> </u>	Closing balance	<u>49 500</u>
	70 500		70 500

Biell – sales: \$16 500

(d) Accounts Receivable Control (opening balance) (1 mark)

Amya	26 500	(a)
Biell	54 000	
Coral	<u>20 400</u>	
	<u>100 900</u>	

Accounts receivable – opening balance: \$100 900
No penalty for the carry-forward error from (a).

(e) Total credit sales for 2013 (1 mark)

Amya	35 500	
Biell	<u>16 500</u>	(c)
	52 000	

Total credit sales for 2013: \$52 000
No penalty for the carry-forward error from (c).

2. Bad debts expense for 2013 (3 marks)

Allowance for doubtful debts

(b)	Coral	500	OB	2 000
	CB	<u>2 600</u>	Bad debts	<u>1 100</u>
		<u>3 100</u>		<u>3 100</u>

Total bad debts expense 2013: \$1,100
No penalty for the carry-forward error from (b).

3.

(i) Write-off the remaining balance of Coral's account (2 marks)

	Debit	Credit
Allowance for Doubtful Debts (b)	500	
Account Receivable - Coral		500

No penalty for the carry-forward error from (b).

(ii) Recognise the bad debts expense for the year 2013 (2 marks)

	Debit	Credit
Bad Debt Expense (2)	1,100	
Allowance for Doubtful Debts		1,100

No penalty for the carry-forward error from (2).

Question 3 Bank Reconciliation (8 marks)

1. Balance in Clouds Limited's cash account before reconciliation: (3 marks)

Indicated balance (per books)	\$8 440
Less: NSF cheque	(750)
Cheque recording error	(90)
Reconciled balance	<u>\$7 600</u>
Balance per Cash account before reconciliation = \$7 600 + 90 + 750 =	\$8 440

2. Balance on the bank statement before reconciliation: (3 marks)

Indicated balance (per bank)	\$ 3 730
Add: Deposits in transit	4 500
Less: Outstanding cheques	(630)
Reconciled balance	<u>\$7 600</u>
Balance per bank before reconciliation = \$7 600 + 630 – 4 500 =	\$3 730

3. Adjusting journal entries. (2 marks)

	Debit	Credit
Accounts receivable	750	
Cash at Bank		
		750
Inventory	90	
Cash at Bank		
		90

Question 4 Noncurrent Assets (10 marks)

1. Depreciation expenses for 2013 and 2014 (6 marks).

Depreciation method	Depreciation expense 2013	Depreciation expense 2014
Straight-line	Depreciable amount: $\$300\,000 - \$50\,000$ $= \$250\,000$ $\$250\,000 / 5 \text{ years} = \$50\,000$	$\$250\,000 / 5 \text{ years} = \$50\,000$
Reducing balance	$\$300\,000 \times 30\% = \$90\,000$	$(\$300\,000 - \$90\,000) \times 30\%$ $= \$63\,000$
Units of production	Depreciation per hour $(\$300\,000 - \$50\,000) / 50\,000$ $= \$5$ $12\,000 \text{ hours} \times \$5 = \$60\,000$	$14\,000 \text{ hours} \times \$5 = \$70\,000$

2. (2 marks)

If the asset is expected to benefit earlier periods more than later periods the reducing balance method is more appropriate than the straight-line method because it will result in better matching of revenues and expenses. If an asset is expected to benefit in each period evenly throughout its useful life, the reducing balance method would not be appropriate.

3. (2 marks)

	Debit	Credit
Cash	180,000	
Loss on Sale of Equipment	7,500	
Accumulated Depreciation Equipment	112,500	300,000

or

	Debit	Credit
Cash	180,000	
Proceeds from Sale of Equipment		180,000
Carrying Amount of Equipment Sold	187,500	
Accumulated Depreciation Equipment	112,500	300,000

Question 5 Financial Statement Analysis (10 marks)

Transaction	Current Ratio	Debt to Equity Ratio	Basic Earnings Per Share
a)	Decrease	Increase	Decrease
b)	Increase	No Change	No Change
c)	No change	No change	Decrease
d)	No change	Decrease	Increase
e)	Decrease	Increase	Decrease

Question 6 Cash Flow Statements (40 marks)

1. Suns Limited
Cash Flow Statement for the year ended 30 June 2014

Cash Flow from Operating Activities		
Cash received from customers	5,995	
Cash paid to suppliers and employees (4,900 + 630)	(5,530)	
Income taxes paid	(100)	
Interest paid [†]	<u>(65)</u>	
Net Cash flow from Operating Activities		300
Cash Flow from Investing Activities		
Proceeds from sale of equipment	10	
Purchase of motor vehicle	<u>(15)</u>	
Net Cash Flow from Investing Activities		(5)
Cash Flow from Financing Activities		
Decrease in bank loan	(190)	
Proceeds from issue of shares	20	
Dividends paid	<u>(50)</u>	
Net Cash Flow from Financing Activities		<u>(220)</u>
Net increase (decrease) in cash held		75
Cash at beginning of year		<u>20</u>
Cash at end of year		95

[†] Interest received interest paid may be shown as a financing activity.

2. Suns Limited
Reconciliation of Net Cash from Operating Activities to Operating Profit

Operating Profit After Income Tax	40	
Depreciation Expense – Buildings	20	
Depreciation Expense – Motor Vehicles	25	
Depreciation Expense – Equipment	10	
Loss on Sale of Equipment	15	
Changes in Assets and Liabilities		
Decrease in Accounts Receivable	210	
Increase in Allowance for Doubtful Debts	15	
Decrease in Inventory	75	
Decrease in Prepaid Insurance	20	
Decrease in Accounts Payable	(45)	
Decrease in Interest Payable	(25)	
Decrease in Accrued Expenses	(15)	
Decrease in Income Tax Payable	<u>(45)</u>	
Net Cash Flow from Operating Activities		300