



# Victorian Certificate of Education 2004

## ACCOUNTING

### Written examination 1

**Monday 7 June 2004**

**Reading time: 2.45 pm to 3.00 pm (15 minutes)**

**Writing time: 3.00 pm to 4.30 pm (1 hour 30 minutes)**

### QUESTION BOOK

#### Structure of book

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
2	2	90

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners, rulers, an approved graphics calculator (memory cleared) and/or one scientific calculator.
- Students are NOT permitted to bring into the examination room: blank sheets of paper and/or white out liquid/tape.

#### **Materials supplied**

- Question book of 11 pages.
- Answer book of 12 pages.

#### **Instructions**

- Write your **student number** in the space provided on the front page of the answer book.
- Answer both questions in the answer book.
- All written responses must be in English.

#### **At the end of the examination**

- You may keep this question book.

**Students are NOT permitted to bring mobile phones and/or any other electronic communication devices into the examination room.**

**Question 1****Ruby's Rugs**

Ruby Whelan owns and operates Ruby's Rugs, a small business selling both local and imported floor rugs. Ruby sells her rugs for cash and also offers 30 day credit terms to reliable customers.

Ruby buys her stock both on cash and 30 day credit terms. The business uses the perpetual inventory system and all stock movements are recorded using the FIFO (First In First Out) method of cost assignment.

1.1 At 30 June 2004 Ruby provides you with her journals for the month.

**Cash Receipts Journal**

CRJ9

Date 2004	Details	Post Ref.	Rec. No.	Bank	Discount Expense	Debtors	Sales		Sundries*
							Cost Price	Sales Price	
30 June	Totals			44 300	700	25 000	12 000	20 000	-

**Cash Payments Journal**

CPJ11

Date 2004	Details	Post Ref.	Chq. No.	Bank	Discount Revenue	Creditors	Stock	Drawings	Wages	Sundries*
30 June	Totals			37 700	1 300	27 000	4 000	4 000	3 000	1 000

\* Sundries comprise the following items.

\$

- Freight In                    300 (paid 11 June)
- Advertising                 500 (paid 16 June)
- Interest on Loan          200 (paid 30 June)

**Sales Journal**

SJ8

Date 2004	Debtors	Post Ref.	Invoice No.	Sales	
				Cost Price	Selling Price
30 June	Totals			20 000	39 000

**Purchases Journal**

PJ9

Date 2004	Creditors	Post Ref.	Invoice No.	Amount \$
30 June	Totals			30 000

**General Journal**

GJ3

Date 2004	Particulars	Post Ref.	Debit \$	Credit \$
7 June	Drawings	302	500	
	Stock	103		500
	<i>Withdrew 1 rug for own use (Memo 22)</i>			
24 June	Advertising	502	2 000	
	Stock	103		2 000
	<i>Adjustment: 4 rugs used for display purposes (Memo 23)</i>			

**Required**

**1.1.1 Post** the above journals to the General Ledger accounts provided.

(Posting references **are** required.)

(You are **not** required to balance the accounts.)

9 marks

**1.1.2 State** one benefit of using Posting References in the recording process.

1 mark

The following memo, from the accountant, relates to the General Journal entry on 24 June 2004.

<p><b>Ruby's Rugs</b></p> <p><b>Dear Ruby</b></p> <p><i>The 4 rugs that you took from stock, for display purposes, should be recorded as an advertising expense. My inspection indicates that the rugs are worn out and we will not be able to sell them. I have made a General Journal entry about these 4 rugs.</i></p> <p><b>Bob</b></p>	<p><b>Memo: No. 23</b></p> <p><b>From: Bob Smith</b></p> <p><b>24/06/2004</b></p>
--	---

**Required**

**1.1.3 Explain**, with reference to the definition of an expense, why the stock referred to in Memo 23 should be treated as an expense.

2 marks

**1.2** The following journals provide summaries of all cash transactions for July 2004.

**Cash Receipts Journal**

CRJ10

Date 2004	Details	Post Ref.	Rec. No.	Bank	Discount Expense	Debtors	Sales		Sundries*
							Cost Price	Sales Price	
31 July	Totals			76 000	1 000	35 000	13 000	22 000	20 000

\* Sundries comprise the following items.

	\$
• Loan – BCA Bank	10 000
• Proceeds from Sale of Equipment	6 000
• Capital	4 000

**Cash Payments Journal**

CPJ12

Date 2004	Details	Post Ref.	Chq. No.	Bank	Discount Revenue	Creditors	Stock	Drawings	Wages	Sundries*
31 July	Totals			85 700	1 300	37 000	4 000	7 000	3 000	36 000

\* Sundries include the following items.

	\$
• Equipment	30 000
• Prepaid Insurance	6 000 (12 month policy beginning 1 July 2004)

**Question 1 – continued**  
**TURN OVER**

The bank balance at 31 July 2004 was \$10 500 (overdraft). The business has negotiated an overdraft limit of \$12 000.

**Required**

- 1.2.1 Prepare** a classified Statement of Cash Flows for July. 7 marks
- 1.2.2 State** why the owner had to contribute additional capital of \$4 000 during July. 1 mark
- 1.2.3** The business reported a profit of \$11 000 for July. **Explain**, giving two examples from the above information, how a business can report a net profit despite a significant fall in cash during the same period. 1 + 1 + 2 = 4 marks

The new equipment, purchased on 1 July 2004, had an estimated useful life of five years and estimated residual (scrap) value of \$7 000. The accountant was unsure about which method of depreciation should be used. It was finally decided to depreciate the equipment using the Straight Line method.

**Required**

- 1.2.4 Calculate** the depreciation expense for the year ended 30 June 2005. 1 mark
- 1.2.5 Prepare** the General Journal entry at 30 June 2005 to record the depreciation expense for the year.  
(A narration is **not** required.) 2 marks
- 1.2.6** If the business used the Reducing Balance method of depreciation, at 25% per annum, instead of the Straight Line method, **state** the effect on profit for the year ended 30 June 2005. 2 marks
- 1.2.7** The owner stated ‘we can change to the Reducing Balance method next year if we want to’. **State** the qualitative characteristic that would be breached if this action was taken. **Justify** your answer. 2 marks

**1.3** At 30 June 2006, the following items required adjusting entries.

- A three month advertising contract, costing \$1 200, was paid in advance and recorded on 1 May 2006. The contract commenced on 1 June 2006.
- A \$500 payment on 15 May 2006 for electricity expense was incorrectly posted to the telephone expense account.
- Wages owing at 30 June 2006 were \$600.

**Required**

**1.3.1** Record the necessary adjustments in the General Journal at 30 June 2006.  
(Narrations are **not** required.)

2 + 2 + 2 = 6 marks

The next date for payment of wages is 12 July 2006 when \$1 500, which includes the wages owing, will be paid.

**Required**

**1.3.2** Show how the wages expense account would appear in the General Ledger after the following entries have been posted.

- adjusting entry on 30 June 2006
- closing entry on 30 June 2006
- the payment on 12 July 2006

3 marks

**1.3.3** State the effect on Liabilities at 30 June 2006 if the adjustment to wages was **not** made.

2 marks

**1.3.4** State the source document that would be used to verify the \$500 payment for electricity on 15 May 2006.

1 mark

Prepaid Advertising was reported as an asset in the Statement of Financial Position at 30 June 2006.

**Required**

**1.3.5** State two characteristics that should be present before an item is reported as an asset.

2 marks

Total 45 marks

**TURN OVER**



2.2 Stationery used during the year was \$1 600.

**Required**

2.2.1 **Calculate** the value of Stock of Stationery on hand at 30 June 2004.

1 mark

2.2.2 **Prepare** the General Journal entry to record the Stationery Expense at 30 June 2004.  
(A narration is **not** required.)

2 marks

2.2.3 Included in the Stationery Expense of \$1 600 was \$15 for a stapler that could not be located. **State** the qualitative characteristic that allows the stapler to be treated as a Stationery Expense rather than being reported separately. **Explain** your answer.

1 + 2 = 3 marks

2.3 The buildings were independently valued at \$600 000 during June 2004. The accountant recommends revaluing the buildings at 30 June 2004.

**Required**

2.3.1 **Prepare** the General Journal entries required to record the new valuation of buildings.  
(Narrations are **not** required.)

4 marks

2.3.2 In revaluing the buildings the accountant has used the principle of conservatism rather than relying on the principle of historical cost.

- **State** the basis of each principle.
- **Justify**, with reference to one appropriate qualitative characteristic, the accountant's decision.

1 + 1 + 2 = 4 marks

2.4 The following year an Adjusted Trial Balance was prepared.

**TINKLER TOYS**  
**ADJUSTED TRIAL BALANCE AS AT 30 JUNE 2005**

ACCOUNT NUMBER	ACCOUNT	DR. \$	CR. \$
101	Petty Cash	500	
102	Bank		140 000
103	Stock	400 000	
104	Stock of Stationery	900	
151	Buildings	600 000	
151A	Accumulated Depreciation – Buildings		15 000
152	Vehicle	12 000	
152A	Accumulated Depreciation – Vehicle		1 000
201	Creditors		60 000
202	Accrued Wages		2 400
203	Loan*		100 000
301	Capital		560 000
302	Drawings	65 000	
401	Sales		1 395 000
402	Discount Revenue		5 000
501	Cost of Sales	800 000	
502	Administration Expenses	40 000	
503	Advertising	60 000	
504	Depreciation of Buildings	15 000	
505	Depreciation of Vehicle	1 000	
506	Freight In	4 000	
507	Interest Expense	7 000	
508	Stationery Expense	2 000	
509	Stock Loss	1 000	
510	Wages	270 000	
	<b>TOTALS</b>	<b>2 278 400</b>	<b>2 278 400</b>

\* The loan principal is repayable at \$10 000 per year.



**Required**

**2.4.1** Show how the following accounts would appear in the General Ledger at 30 June 2005 after all closing entries have been posted and owner's equity updated.

- Capital account
- Drawings account
- Profit and Loss Summary account

5 marks

**2.4.2** Refer to the Capital account provided in the answer book for **2.4.1**.

- **Describe** the transaction recorded on 1 March 2005.
- **Identify** the accounting principle that requires this transaction to be recorded.

1 + 1 = 2 marks

**2.4.3** **Explain**, with reference to one accounting principle, why revenue and expense accounts are closed to the Profit and Loss Summary account.

2 marks

**2.4.4** **Prepare** an extract of a classified Statement of Financial Performance to show Gross Profit and Adjusted Gross Profit for the year ended 30 June 2005.

(You are **not** required to prepare a complete Statement of Financial Performance.)

4 marks

**2.4.5** **Prepare** the Current Liabilities section of the Statement of Financial Position at 30 June 2005.

3 marks

2.5 Matt decides to offer credit terms to customers from 1 May 2006. The following documents relate to the sale of a motorised scooter to customer John Smith.

<b>TINKLER TOYS</b>	
ABN 46 997 218 347	
	<b>Receipt No. 425</b>
	<b>Date 27/5/2006</b>
<b>Received from:</b>	John Smith
<b>For:</b>	Deposit on GT Motorised Scooter (on order)
<b>Amount</b>	\$ 90

<b>TINKLER TOYS</b>	
ABN 46 997 218 347	
	<b>Invoice No. 65</b>
	<b>Date 26/6/2006</b>
<b>Debit Account:</b>	John Smith
<b>For:</b>	GT Motorised Scooter
<b>Amount</b>	\$ 900
<b>Less deposit paid</b>	<u>\$ 90</u>
<b>Balance due</b>	<u>\$ 810</u>

<b>TINKLER TOYS</b>	
ABN 46 997 218 347	
	<b>Receipt No. 528</b>
	<b>Date 12/7/2006</b>
<b>Received from:</b>	John Smith
<b>For:</b>	Balance owing – Invoice 65
<b>Amount</b>	\$ 810

- The scooter was delivered to the customer on 26 June 2006.
- The cost price of the scooter was \$400.

Tinkler Toys may choose to recognise revenue at either the

- Point of Sale, or
- Point of Cash Transfer.

**Required**

**2.5.1 Determine** the revenue that would be recognised under each method at 30 June 2006.

2 marks

The accountant decided to use the Point of Sale as the method of revenue recognition for Tinkler Toys.

**Required**

**2.5.2 Explain** why the Point of Sale method of revenue recognition is more appropriate for Tinkler Toys.

2 marks

**2.5.3 Show** the effect of this transaction on Assets and Owner's Equity, at 30 June 2006, assuming Tinkler Toys uses the Point of Sale as their revenue recognition method.

3 marks

Total 45 marks



**Victorian Certificate of Education  
2004**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

**STUDENT NUMBER**

Figures											Letter
Words											

**ACCOUNTING**  
**Written examination 1**

**Monday 7 June 2004**

**Reading time: 2.45 pm to 3.00 pm (15 minutes)**

**Writing time: 3.00 pm to 4.30 pm (1 hour 30 minutes)**

**ANSWER BOOK**

**Instructions**

- A question book is provided with this answer book.
- Answer all questions in the spaces provided in this book.
- Write your **student number** in the space provided above on this page.
- Refer to **Instructions** on the front cover of the question book.

**Students are NOT permitted to bring mobile phones and/or any other electronic communication devices into the examination room.**

**This page is blank**

**Question 1 – Ruby’s Rugs****1.1.1****103****STOCK**

<b>Date 2004</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>	<b>Date 2004</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>
1 June	Balance		38 000				

**104****DEBTORS**

<b>Date 2004</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>	<b>Date 2004</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>
1 June	Balance		32 000				

**502****ADVERTISING**

<b>Date 2004</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>	<b>Date 2004</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>

9 marks

**1.1.2**

<b>Benefit</b>

1 mark

**1.1.3**

<b>Explanation</b>

2 marks

**Question 1 – continued**  
**TURN OVER**

## 1.2.1

**RUBY'S RUGS**  
**STATEMENT OF CASH FLOWS FOR MONTH ENDED 31 JULY 2004**

	\$	\$
<b>Cash Flow from Operating Activities</b>		
<b>Cash Flow from Investing Activities</b>		
<b>Cash Flow from Financing Activities</b>		
<b>Net increase (decrease) in Cash</b>		
<b>Cash at Bank (1/07/2004)</b>		
<b>Cash at Bank (31/07/2004)</b>		

7 marks

## 1.2.2

<b>Reason</b>	

1 mark

**1.2.3**

<b>Example 1</b>
<b>Example 2</b>
<b>Explanation</b>

1 + 1 + 2 = 4 marks

**1.2.4**

<b>Calculation</b>
<b>Depreciation Expense for year</b>
<b>\$</b>

1 mark

**1.2.5**

**GENERAL JOURNAL**

**GJ7**

<b>Date 2005</b>	<b>Particulars</b>	<b>Post Ref.</b>	<b>Debit \$</b>	<b>Credit \$</b>

2 marks

**1.2.6**

	<b>Increase/Decrease</b>	<b>Amount \$</b>
<b>Effect on Profit</b>		

2 marks

**1.2.7**

<b>Qualitative characteristic</b>
<b>Justification</b>

2 marks



1.3.1

**GENERAL JOURNAL**

**GJ10**

<b>Date 2006</b>	<b>Particulars</b>	<b>Post Ref.</b>	<b>Debit \$</b>	<b>Credit \$</b>

2 + 2 + 2 = 6 marks

1.3.2

508

**WAGES**

<b>Date 2006</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>	<b>Date 2006</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>
30 June	Balance		37 000				

3 marks

1.3.3

	<b>Overstated/Understated</b>	<b>Amount \$</b>
<b>Effect on Liabilities</b>		

2 marks

1.3.4

<b>Source document</b>	
------------------------	--

1 mark

1.3.5

<b>Characteristic 1</b>
<b>Characteristic 2</b>

2 marks

Total 45 marks

**Question 2 – Tinkler Toys****2.1.1**

<b>Stock Loss or Gain</b>	
<b>Amount</b>	\$

1 + 1 = 2 marks

**2.1.2**

<b>Reason</b>

1 mark

**2.1.3****GENERAL JOURNAL****GJ4**

<b>Date 2004</b>	<b>Particulars</b>	<b>Post Ref.</b>	<b>Debit \$</b>	<b>Credit \$</b>

2 + 1 = 3 marks

**2.1.4****Stock Card****Fire Engine: model no. 4XE**

<b>Date 2004</b>	<b>Details</b>	<b>IN</b>			<b>OUT</b>			<b>BALANCE</b>		
		<b>Qty</b>	<b>Unit Cost \$</b>	<b>Total Cost \$</b>	<b>Qty</b>	<b>Unit Cost \$</b>	<b>Total Cost \$</b>	<b>Qty</b>	<b>Unit Cost \$</b>	<b>Total Cost \$</b>
30 June	Balance							200	80	16 000

2 marks

**2.2.1**

<b>Calculation</b>	
<b>Stock of Stationery on hand</b>	<b>\$</b>

1 mark

**2.2.2**

**GENERAL JOURNAL**

**GJ5**

Date 2004	Particulars	Post Ref.	Debit \$	Credit \$

2 marks

**2.2.3**

<b>Qualitative characteristic</b>
<b>Explanation</b>

1 + 2 = 3 marks

2.3.1

**GENERAL JOURNAL****GJ6**

<b>Date 2004</b>	<b>Particulars</b>	<b>Post Ref.</b>	<b>Debit \$</b>	<b>Credit \$</b>

4 marks

2.3.2

<b>Conservatism principle</b>
<b>Historical Cost principle</b>
<b>Justification</b>

1 + 1 + 2 = 4 marks

## 2.4.1

**GENERAL LEDGER (extract only) of Tinkler Toys**

## 301

**CAPITAL**

<b>Date 2004</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>	<b>Date 2004</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>
				1 July	Balance		548 000
				2005 1 March	Vehicle	GJ 8	12 000

## 302

**DRAWINGS**

<b>Date 2004</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>	<b>Date 2004</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>
1 July – 30 June 2005	Bank	CPJ	65 000				

## 304

**PROFIT AND LOSS SUMMARY**

<b>Date 2005</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>	<b>Date 2005</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>

5 marks

## 2.4.2

<b>Description</b>
<b>Principle</b>

1 + 1 = 2 marks

2.4.3

Explanation

2 marks

2.4.4

**TINKLER TOYS**  
**STATEMENT OF FINANCIAL PERFORMANCE (extract only)**  
**FOR YEAR ENDED 30 JUNE 2005**

	\$	\$
Revenue		
Adjusted Gross Profit		

4 marks

2.4.5

**TINKLER TOYS**  
**STATEMENT OF FINANCIAL POSITION (extract only)**  
**AS AT 30 JUNE 2005**

	\$	\$
Current Liabilities		

3 marks

**Question 2 – continued**  
**TURN OVER**

## 2.5.1

<b>Revenue recognised at 30 June 2006</b>	<b>\$</b>
<b>Point of Sale</b>	
<b>Point of Cash Transfer</b>	

2 marks

## 2.5.2

<b>Explanation</b>

2 marks

## 2.5.3

	<b>Assets</b>			<b>Owner's Equity</b>	
<b>Account</b>	<b>Increase/Decrease</b>	<b>\$</b>	<b>Account</b>	<b>Increase/Decrease</b>	<b>\$</b>
<b>Bank</b>			<b>Capital</b>		
<b>Debtor</b>					
<b>Stock</b>					
<b>Overall</b>					

3 marks

Total 45 marks