Quality Assessment Task

Practice Examination
VCE
Accounting

INTRODUCTION

Unit 4

This Examination relates to Unit 4 in VCE Accounting.

Reading time: 15 minutes

Writing Time Allocated: 90 minutes

This paper contains two questions. ***All*** questions are compulsory.

Total marks: 90

Marks for each question indicated.

Question 1 45 marks

Question 2 45 marks

Students should complete the examination using the ANSWER BOOKLET provided.

Students sitting for the examination are allowed to bring in normal stationery. This includes pens, highlighters, erasers, sharpeners and rulers.

Correction (white out) liquid/tape and blank sheets of paper are not allowed in the examination.

Note: This practice examination has no legal status, as it is only an indication of the type of questions that the VCAA Examiners may set.

Question 1

Barry Winter owns and operates a business called *BW Supplies*. The business, which has been operating for 10 years, sells electrical supplies and equipment to electricians and the public. The accounting system of *BW Supplies* is based on the double-entry accrual accounting system of recording. He uses the First-In-First-Out (FIFO) method of stock recording. Stock is bought from various suppliers on credit terms of 21 days, normally with a discount offered of 2% for payment within the credit terms.

The following documents need to be recorded in the accounting records.

Document A

Eastern Furniture
Mountainside
Date 8/7/07 Invoice No.478
ABN 25 679 123
Terms: Net 30 days

Sold to **BW Supplies**
14 Evans St
Rosanna

QTY	GOODS	TOTAL
4	Display Stands	$13000
	+ GST	1300
TOTAL DUE		$14300

Document B

BW Supplies
14 Evans St
Rosanna
ABN 34 678 901
Credit Note C610
14/7/2007
To: Bayside Electrics

Reason: Not as ordered
Invoice 5213 $770*

B Winter

Document C

South Wholesalers
Southville

Credit Note #712
ABN 79 213 512

13/7/2007
Credit: BW Supplies
Rosanna
Goods damaged in delivery
Invoice No. 9012 $990
(including GST of $90)
S. South

* Document B. Included in the total of $770 was GST of $70.

1.1.1 **Record** Document A in the General Ledger.

1.1.2 **Show** how the transaction recorded on Document B would appear in the stock card.

1.1.3 **Prepare** the General Journal entry for Document C. Narration required.

2+2+2=6 marks

1.2 **Identify** and **explain** the qualitative characteristic that supports the use of source documents.

2 marks

1.3 **Complete** the table in the Answer Booklet to show the effect/s if Document A was not included in the records of BW Supplies.

3 marks

1.4 Barry buys some of his stock from Electric Suppliers. He received the following invoice. Barry is unsure at what cost to value the switchboards. **Identify** and **justify** the unit cost this item should be recorded in the stock card.

1+2=3 marks

Electric Suppliers

Invoice #7012 Date 12/7/2007

Sold to: BW Supplies Terms 1/21

Rosanna

Units	Description	Unit cost	$
40	Switchboards	320	12800
40	+ Delivery		1600
			14400
	+GST		1440
	TOTAL DUE		$15840

S. Sparks

1.5 Barry has surplus funds of $50 000 he has placed in a Term Deposit with the Watt Bank on 1 February 2007. The deposit will earn an interest rate of 6% per annum with the interest paid at the end of each three month period.

1.5.1 **Show** how the interest earned by 30 June 2007 would be recorded in the General ledger.

1.5.2 **Complete** the table in the ANSWER BOOK to show the *$ effect* on the Net Profit if the adjustment was not made on 30 June 2007.

1.5.3 **Explain** one other possible use this $50 000 could have been put to by the business.

2+2+1=5 marks

1.6 On 1 April 2007 the business decided to replace the existing van. The van was bought on 1 September 2004 at a cost of $30 000 and depreciation was charged at 20%. The vehicle was traded in to ACME Motors for $10 000 on a new van that cost $42 000. At 30 June 2006 the accumulated depreciation on the van was $11 000.

1.6.1 **Prepare** the General Journal entries to update the accumulated depreciation of the van.

1.6.2 **Prepare** the required General Journal entries to record the disposal of the van and the transfer of the profit or loss to profit or loss on disposal account. Narrations not required.

1.6.3 **Identify** and **explain** one reason why a business might have received more than the expected residual when a non-current asset is sold.

2+6+2=10 marks

1.7 The business carries a wide range of stock of electrical accessories. Some of the items have been on hand for quite a while. Barry realises he will have to sell them at a reduced price. He has provided the following data.

Stock Code No.	Estimated selling price $	Cost price $	No. of units on hand
X123	85	136	20
X124	200	230	15
X125	80	45	30

1.7.1 **Calculate** the value of the stock on hand on 30 June 2007.

1.7.2 Using the table in the Answer Book **show** the two-fold effect on the Balance Sheet of this stock adjustment (show $ amounts).

1.7.3 **Identify** and **explain** the accounting principle that supports this adjustment for stock value.

3+3+2=8 marks

1.8 On 15 April 2007 a customer paid in advance (Receipt No. 245) for an imported light costing $1980, plus GST of $198, as it had to be ordered from an overseas source. The cost price of the light was $700. On 30 April 2007 the light was delivered to the customer.

1.8.1 **Record** the receipt on 15 April 2007 in the Cash Receipts Journal.

1.8.2 **Record** the adjustment required by the delivery of the light to the customer on 30 April 2007 in the General Journal. No narration is required.

1.8.3 **Outline** one advantage for a business in receiving revenue paid in advance.

3+4+1=8 marks

Total 45 marks

Question 2

Sophia owns and operates a business called Northern Trading which sells business equipment. In the past the business had cash flow problems towards the end of the financial year. Sophia decides to prepare budgets for the three months ending 30 June 2007 to ensure that there were no cash flow problems in this reporting period.

She presents you with the following budgeted information from the financial records of the business.

- Debtors at 30 June 2007 were budgeted to be 120% of debtors owing on 1 April 2007.
- Creditors on 30 June 2007 were budgeted to be 20% less than the amount owing to creditors on 1 April 2007.

A budgeted Profit and Loss Statement for the three months ending 30 June 2007 showed the following information

	$ Amount
Credit sales	80 000
Cash sales	60 000
Sales returns (credit)	2 500
Bad debts	900
Discount expense	700
Discount revenue	1 200

The following balances were extracted from the General Ledger at 1 April 2007.

Ledger account	$
Creditors control	24 000
Debtors control	40 000

Additional information

	$
Credit purchases	40 000
Cash purchases	55 000

2.1.1 Prepare the Debtors control account to show the budgeted receipts from debtors for the three months ended 30 June 2007.

2.1.2 Prepare the Creditors control account to show the budgeted payments to creditors for the three months ended 30 June 2007.

4+3=7 marks

2.2 Sophia prepares a Cash Budget for the three months ending 31 October 2007.

Northern Trading
Cash Budget for the three months ended 31 October 2007

	$
Cash Receipts	
Receipts from debtors	60 800
Sales-cash	130 400
Loan-EZ Bank	10 000
Proceeds from sale of computer	2 000
Total Receipts	203 200
***less* Cash Payments**	
Purchase of computer	1 400
Drawings	9 600
Sales wages	28 400
Payments to creditors	81 100
Office expenses	6 800
Loan interest	500
Total Cash Payments	127 800
Cash Surplus	75 400
Bank Balance 1/8/2007	(49 560)
Bank Balance 31/10/2007	25 840

Prepare an extract of a budgeted Cash flow Statement to show the budgeted cash flow from operating activities for the three months ended 31 October 2007.

5 marks

2.3 Northern Trading prepares a budgeted Profit and Loss Statement for the six months ended 31 December 2007. It compares the actual with the budgeted figures and finds there is a significant variance between the budgeted and actual Adjusted Gross Profit.

	Budgeted $	Actual $
Revenue		
Credit sales	230 000	180 000
Cash sales	265 000	195 000
	495 000	375 000
less Cost of sales	247 500	262 500
Gross Profit	247 500	112 500
less Stock loss	9 900	14 000
Stock write down	6 000	15 000
Adjusted Gross Profit	231 600	83 500

2.3.1 **Prepare** a variance report using the above information.

2.3.2 **Comment** on a possible reason for the variances with the following items

- Cash sales
- Cost of sales
- Stock loss

2.3.3 **Outline** *one* possible way the business could prevent the significant variance in stock write down from happening again.

2.3.4 **Explain** *one* benefit that could be obtained from preparing three-monthly accounting reports rather than annual reports.

5+3+2+1=11 marks

2.4 Sophia made the following statement about her business. "According to the figures the profitability of the business has decreased over the year, but the business did not have cash flow problems". **Explain** two possible reasons the business is experiencing reduced profitability although avoiding cash flow problems.

4 marks

2.5 Sophia decides that she will set up an overdraft facility with *Which Bank* so that she can buy extra stock for her shops. The overdraft facilities should only be required for a short period. The bank manager asks her to provide the bank with some financial information about the profitability and liquidity of the business.

Sophia provides the following information to her accountant.

- Sales are expected to be $100 000. Credit sales are likely to be 30% of total sales and cash sales 70% of total sales. Normally 80% of debtors pay in the month following the credit sale and the rest in the following month. Northern Trading gives a discount of 1% for payment in the month following the credit sale. Credit sales in November were $20 000.
- Sophia works on a Gross Profit Margin of 35%.
- Stock on hand (1/12/2007) was $32 000 and $29 000 on 31/12/2007.
- Stock loss is expected to be 1% of stock on hand at the start of the month.
- The business will earn rent revenue of $700 in December.
- Cash expenses paid for in July are likely to be $27 100. There is also depreciation expense of the computer of $185.
- The bank balance on 30 November 2007 is a debit balance of $23 200.
- The business will buy display cabinets that cost $8 000 on credit from EZ Shopfitters on 30 December 2007.
- In December it is expected that payments to creditors will be $62 320.

2.5.1 **Prepare** a budgeted Profit and Loss Statement for the month of December 2007.

Sophie is concerned that the monthly debtors balance has been trending upwards over the last year.

2.5.2 **Outline** why this may be a problem for Northern traders. Explain two ways that Sophie could improve the Debtors Turnover Rate for Northern Traders.

5+4=9 marks

2.6 In 2006 Northern Trading had a net profit of $165 000 and Western Electrics had a net profit of $310 000.

Outline two factors you would need to consider when comparing the relative profitability of the two businesses.

2 marks

2.7 The Working Capital Ratio is measured by current assets/current liabilities. Northern Trading has a Working Capital Ratio of 1.1:1, whereas Western Electrics has a Working Capital ratio of 1.5:1. After analysis it was determined that Northern Trading was in a more liquid position. **Discuss** how this might have occurred.

2 marks

2.8 **Explain** two non-financial key performance indicators that Northern Trading could use when analyzing its performance.

2 marks

2.9 The Quick asset ratio for Northern Trading is shown below:

Quick Asset Ratio = $\dfrac{\text{current assets- (stock + prepayments)}}{\text{Current liabilities – bank overdraft}}$

2004	2005	2006
130%	122%	97%

Explain what this trend indicates about the liquidity of Northern Trading.

2 marks

2.10 **State** one reason why an improvement in the Stock Turnover Rate* may need improve the profitability of Northern Trading.

*Stock turnover rate	$\dfrac{\text{Average stock x 365}}{\text{Cost of goods sold}}$

1 mark

Total: 45 marks

Answer Booklet

Question 1

1.1.1

2007	Cross reference	$	2007	Cross reference	$

2007	Cross reference	$	2007	Cross reference	$

2007	Cross reference	$	2007	Cross reference	$

1.1.2

Item-Electric switches #3245							**Min Stock on hand**-20			
Supplier- DC Importers							**Costing** - FIFO			
Contact – Evan 9 4995678										
2007	Details	IN			OUT			BALANCE		
		QTY	$	Total	QTY	$	Total	QTY	$	Total
Jul 1	Balance							25	70	1750
6	Cash sale				5	70	350	20	70	1400
9	Invoice #56	15	75	1125				20 15	70 75	1400 1125
10	Invoice 5213				7	70	490	13 15	70 75	910 1125

1.1.3

General Journal

Date	Particulars	General ledger		Subsidiary ledger	
2007		Debit	Credit	Debit	Credit

2+2+2=6 marks

1.2

Qualitative characteristic:
Explanation:

2 marks

1.3

	Name of Ledger account	Overstated by $	Understated by $	No effect
Assets				
Liabilities				
Owners equity				

3 marks

1.4

Value of individual switchboard $
Justification:

1+2=3 marks

1.5.1

Calculation space

2007	Cross reference	$	2007	Cross reference	$

2007	Cross reference	$	2007	Cross reference	$

1.5.2

Impact on Profit			
Revenue	Overstated by $	Understated by $	No effect
Expenses	Overstated by $	Understated by $	No effect

1.5.3

Alternative use

2+2+1=5 marks

1.6.1 and 1.6.2

General Journal

		General Ledger		Subsidiary Ledger	
Date	Particulars	Debit	Credit	Debit	Credit

1.6.3

Explanation

2+6+2=10 marks

1.7.1

1.7.1

Stock Code No.	Estimated selling price $	Cost price $	No. of units on hand	Value of item per unit $	Total Value $
X123	85	136	20		
X124	200	230	15		
X125	80	45	30		

1.7.2

Item	Increase/Decrease	Amount $	No effect
Assets			
Liabilities			
Owner's Equity			

1.7.3

Accounting principle:
Explanation:

3+3+2=8 marks

1.8.1

Cash Receipts Journal

Date 2007	Details	Rec No	Bank	Debtors	Cost of sales	Sales	GST	Sundries

1.8.2

General Journal

Date	Particulars	General ledger		Subsidiary ledger	
2007		Debit	Credit	Debit	Credit

1.8.3

Advantage:

3+4+1=8marks

Total: 45 marks

Question 2

2.1.1

Debtors control					
2007	Cross reference	$	2007	Cross reference	$

Receipts from debtors	$

2.1.2

Creditors control a/c					
2007	Cross reference	$	2007	Cross reference	$

Payments to Creditors	$

4+3=7 marks

2.2

Cash flows from operating activities	$	$

5 marks

2.3.1

	Budgeted	Actual	Variance	
	$	$	$	F/U
Revenue				
Credit sales	230 000	180 000		
Cash sales	265 000	195 000		
	495 000	375 000		
less Cost of sales	247 500	262 500		
Gross Profit	247 500	112 500		
less Stock loss	9 900	14 000		
Stock write down	6 000	15 000		
Adjusted Gross Profit	231 600	83 500		

2.3.2

Cash sales:
Cost of sales:
Stock loss:

2.3.3

Method:

2.3.4

Benefit:

5+3+2+1=11 marks

2.4

Reason 1
Explanation
Reason 2
Explanation

2+2=4 marks

2.5.1 Northern Trading

Budgeted Profit and Loss Statement for month ending 31 July 2007

	$	**$**
Revenue		

2.5.2

Problem	2 marks
Action1	1 mark
Action2	1 mark

5+4=9 marks

2.6

Factor 1:
Factor 2:

2 marks

2.7

2 marks

2.8

Indicator 1:
Indicator 2:

2 marks

2.9

2 marks

2.10

Reason

1 mark

Total: 45 marks

SOLUTION PATHWAY

1.1.1

Display Stands a/c					
2007	Cross reference	$	2007	Cross reference	$
Jul 8	*Creditor-Eastern Furniture*	*13 000*			

GST Clearing					
2007	Cross reference	$	2007	Cross reference	$
Jul 8	*Creditor-Eastern Furniture*	*1300*			

Sundry Creditor-Eastern Furniture					
2007	Cross reference	$	2007	Cross reference	$
			Jul 8	*Display stands/GST Clearing*	*14 300*

1.1.2

Item-Electric switches #3245 | **Min Stock on hand**-20

Supplier- DC Importers | **Costing** – FIFO

Contact – Evan 9 4995678

2007	Details	IN			OUT			BALANCE		
		QTY	$	Total	QTY	$	Total	QTY	$	Total
Jul 1	Balance							25	70	1 750
6	Cash sale				5	70	350	20	70	1 400
9	Invoice #56	15	75	1 125				20 15	70 75	1 400 1 125
10	Invoice 5213				7	70	490	13 15	70 75	910 1 125
14	*CN C610*	*7*	*70*	*490*				*20* *15*	*70* *75*	*1 400* *1 125*

1.1.3

General Journal

Date	Particulars	General ledger		Subsidiary ledger	
2007		Debit	Credit	Debit	Credit
Jul 15	*Creditors control*	*990*			
	Creditor-South Wholesalers			*990*	
	Stock control		*900*		
	GST Clearing		*90*		
	Return of goods as per CN #712				

2+2+2=6 marks

1.2

Qualitative characteristic: *Reliability*
Explanation *Provides data about transactions-gives details required for recording in journal and provides evidence that transaction occurred.*

2 marks

1.3

	Name of Ledger account	Overstated by $	Understated by $	No effect
Assets	*Display Stands*		*13 000*	
Liabilities	*GST Clearing* *Creditor-Eastern Furniture*	*1 300*	 *14 300*	
Owners equity	-	-	-	-

3 marks

1.4

Value of individual switchboard $*320+40 =$360*
Justification: *Delivery cost is incurred to get goods into saleable position, therefore part of cost of goods sold. GST is not included in cost as this will be returned by the ATO.*

1+2=3 marks

1.5.1

Interest Revenue					
2007	Cross reference	$	2007	Cross reference	$
			Apr 30	*Bank*	*750*
			Jun 30	*Accrued interest revenue*	*500*

Accrued interest revenue					
2007	Cross reference	$	2007	Cross reference	$
Jun 30	*Interest revenue*	*500*			

1.5.2

Impact on Profit			
Revenue		Understated $ *500*	
Expenses			No effect

1.5.3

Alternative use—*purchase additional stock, more advertising, more sales staff, purchase non-current assets or something else that would improve profitability.*

2+2+1=5 marks

1.6.1 and 1.6.2

		General Ledger		Subsidiary Ledger	
Date 2007	Particulars	Debit	Credit	Debit	Credit
Mar 31	*Depreciation of van*	*4 500*			
	Accum depreciation of van		*4 500*		
Apr 1	*Disposal of Van*	*30 000*			
	Van		*30 000*		
	Accumulated Depreciation of Van	*15 500*			
	Disposal of Van		*15 500*		
	Sundry Creditor-Acme Motors	*10 000*			
	Disposal of Van		*10 000*		
	Loss on disposal	*4 500*			
	Disposal of Van		*4 500*		

1.6.3

Explanation: *A non-current asset could be in better condition than expected and had more economic life left, or was in shorter supply than expected so was sold for higher amount.*

8+2=10 marks

1.7.1

Stock Code No.	Estimated selling price $	Cost price $	No. of units on hand	Value of item per unit $	Total value $
X123	85	136	20	*85*	*1 700*
X124	200	230	15	*200*	*3 000*
X125	80	45	30	*45*	*1 350*
					6 050

1.7.2

Item	Increase/Decrease	Amount $	No effect
Assets	*Decrease*	*1 470*	-
Liabilities	-	-	-
Owner's Equity	*Decrease*	*1 470*	-

1.7.3

Accounting principle: *Conservatism*	
Explanation: *A business should recognise a loss or a liability as soon as it knows that the loss is likely to occur.*	

3+3+2=8 marks

1.8.1

Cash Receipts Journal

Date 2007	Details	Rec. No.	Bank	Discount expense	Debtors	Cost of sales	Sales	GST	Sundries
Apr 15	*Prepaid sales*	*245*	*2 178*					*198*	*1 980*

1.8.2

General Journal

Date	Particulars	General ledger		Subsidiary ledger	
2007		Debit	Credit	Debit	Credit
Apr 30	*Prepaid sales*	*1 980*			
	Sales		*1 980*		
30	*Cost of sales*	*700*			
	Stock control		*700*		

1.8.3

Advantage: *The business knows the level of sales it has made, can order in goods with certainty that they have been sold and provides the business with cash inflow if the goods have been paid for by the purchaser.*

3+4+1=8 marks

Question 2

2.1.1

Debtors control					
2007	Cross reference	$	2007	Cross reference	$
Apr 1	*Balance*	*40 000*	*Jun 30*	*Bad debts*	*900*
Jun 30	*Sales*	*80 000*	*30*	*Discount expense*	*700*
			30	*Sales returns*	*2 500*
			30	*Bank*	*67 900*
		120 000		*Balance 48 000*	*120 000*

Receipts from debtors	$*67 900*

2.1.2

Creditors control					
2007	Cross reference	$	2007	Cross reference	$
Jun 30	*Discount revenue*	*1 200*	*Apr 1*	*Balance*	*24 000*
30	*Bank*	*43 600*	*Jun 30*	*Stock control*	*40 000*
30	*Balance*	*19 200*			
		68 000			*64 000*

Payments to creditors	$*43 600*

4+3=7 marks

2.2

Cash flows from operating activities	$	$
Receipts from debtors	*60 800*	
Sales-cash	*130 400*	
Sales wages	*(28 400)*	
Payments to creditors	*(81 100)*	
Office expenses	*(6 800)*	
Loan interest	*(500)*	
*Net cash **in** flow from operating activities*		*74 400*

5 marks

2.3.1

	Budgeted $	Actual $	Variance $	F/U
Revenue				
Credit sales	230 000	180 000	*50 000*	*U*
Cash sales	265 000	195 000	*70 000*	*U*
	495 000	375 000	*120 000*	*U*
less Cost of sales	247 500	262 500	*15 000*	*U*
Gross Profit	247 500	112 500	*135 000*	*U*
less Stock loss	9 900	14 000	*4 100*	*U*
Stock write down	6 000	15 000	*9 000*	*U*
Adjusted Gross Profit	231 600	83 500	*148 100*	*U*

2.3.2

Cash sales: *Competitors may have undercut prices, poor product range, economic conditions, for example increase in interest rates leading to a decrease in sales*
Cost of sales: *Price increases from suppliers and more expensive products leading to an increase in cost of sales*
Stock loss: *More damage to stock, shop lifting and better physical stock taking to detect stock loss*

2.3.3

Method 1: *Stock write down can occur due to the wrong stock being bought for sale and it then has to be valued at a lower value, therefore, have better stock purchasing. May also occur due to stock being damaged and it has to be valued at a lower value. Therefore, better stock handling procedures may be necessary.*

2.3.4

Benefit: *If a problem is found, then remedial action can be taken more quickly with three monthly or monthly reports rather than at the end of a year. If there are positive outcomes then it may be beneficial to get other departments/stores etc. to introduce similar procedures or processes.*

5+3+2+1=11 marks

2.4

Reasons: *Owner introduced more capital, business took out a loan, sold non-current assets or drawing may have decreased. The business may have started the period in a very liquid position and the decrease in profitability was not sufficient to impact on the cash position.*

4 marks

2.5.1

Northern Trading
Budgeted Profit and Loss Statement for month ended 31 December 2007

	$	$
Revenue		
Cash sales	*70 000*	
Credit sales	*30 000*	*100 000*
less Cost of sales		*65 000*
Gross profit		*35 000*
less Stock loss		*320*
Adjusted Gross profit		*34 680*
plus Other revenue		
Rent revenue		*700*
		35 380
less Expenses		
Discount expenses	*160*	
Other General expenses	*27 100*	
Depreciation of computer	*185*	*27 445*
Net Profit		*7 935*

2.5.2

Problem: The increase in the balance Debtors control may reduce the cash inflow from credit sales each month. This will have a negative effect on the liquidity of the business. This may mean the business has to borrow, paying additional interest expense. Alternatively the business may have insufficient funds to purchase additional non-current assets or stock.

Select 2 from:
Improve Northern Traders credit policy such as restricting credit sales to reliable payers.
Improving billing and collection procedures.
Increasing discounts to quick payers.
Restricting credit terms to 21 or 14 days rather than 1 month.

5+4=9 marks

2.6

Factors: *Answers need to mention there are different measures of 'profitability'. The relative size of the businesses may have been different-the following factors may have varied-sales revenue, type of products sold, cost structures, amount of capital which the owners have contributed assets of the two businesses.*

2 marks

2.7

Western Electrics may have had more stock than Northern Trading which would take longer to sell. It may have greater amounts of debtors which will mean that the cash available will be less until the debtors are collected. Northern Trading may have had better stock and debtor management than Western Electrics and therefore be in a more liquid position.

2 marks

2.8

Indicators-*customer satisfaction surveys, comparison of customers entering store v. number of sales, $ amount and number of sales returns, employee satisfaction surveys, profit/sales compared to sales salaries and commission and management skills surveys.*

2 marks

2.9

It means that over the three years the amount of funds available to meet the short-term obligations of the business has decreased. In 2006 the business could not meet its short-term obligations with the liquid assets it holds.

2 marks

2.10

Northern Trading because of the nature of the industry, may have increased its stock turnover of lower margin items. Selling more at reduced prices with reduced margins, therefore reducing profitability.

1 mark