VICTORIAN CURRICULUM AND ASSESSMENT AUTHORITY

Victorian Certificate of Education
2007

ACCOUNTING
Written examination 2

Thursday 8 November 2007

Reading time: 11.45 am to 12.00 noon (15 minutes)
Writing time: 12.00 noon to 1.30 pm (1 hour 30 minutes)

QUESTION BOOK

Structure of book

Number of questions	*Number of questions to be answered*	*Number of marks*
2	2	90

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners, rulers and a 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 7 pages.
- Answer book of 14 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 unauthorised electronic devices into the examination room.

Question 1

Johnson Electrics

Fran Johnson operates a small business, Johnson Electrics, selling electrical equipment. Fran's accountant maintains a double-entry accrual accounting system. The business uses a perpetual inventory recording system with the FIFO cost assignment method. Control accounts are used for Debtors, Creditors and Stock.

1.1 Johnson Electrics sells three different types of microwaves. Details of type 'SUPA3' are shown below.

- Balance (1 December 2007) – 5 units at cost price of $80 each.
- 7 December – Credit purchase of 20 units from Maxwell Industries at a cost of $90 plus $9 GST each (Invoice No. SL77).
- 13 December – Credit sale of 6 units for $160 plus $16 GST each to Goss Ltd (Invoice No. A54).
- 15 December – Goss Ltd returned 1 unit due to damage (Credit Note No. 7).
- 17 December – The damaged stock was returned to Maxwell Industries for a full credit (Credit Note No. M21).
- On 31 December physical stocktake showed 19 units on hand (Memo No. 6).

Required

1.1.1 **Record** all relevant information into the Stock Card.

4 marks

1.1.2 **Record** the transactions on 15 December and 17 December into the General Journal.

(Narrations are **not** required.)

6 + 3 = 9 marks

1.1.3 **Explain** how the use of Stock Cards can assist in the management of stock.

2 marks

1.2 On 31 December 3 units of SUPA3 have been damaged and will be sold for $70 (plus $7 GST) less $10 (plus $1 GST) direct selling expenses.

Required

1.2.1 **Calculate** the total value of SUPA3 to be reported in the Balance Sheet at 31 December 2007 if the 'lower of cost or net realisable value' rule is applied.

2 marks

1.2.2 **Explain** why the 'lower of cost or net realisable value' rule is applied when valuing stock. **Identify** one accounting principle that supports your explanation.

2 + 1 = 3 marks

1.2.3 **Prepare** the General Journal entry required to write down the value of the stock on 31 December 2007 as a result of correctly applying the stock valuation rule (Memo 11).

(Narration **is** required.)

2 + 1 = 3 marks

Question 1 – continued

1.3 On 1 January 2008 Johnson Electrics purchased a new stock item, SUPA4. SUPA4 will be purchased in 40 unit batches delivered monthly with other stock purchases. Details are as follows.

	$	GST $
• Supplier's invoice price (per unit)	80	8
• Cost of modification to Australian electrical standards (per unit)	10	1
• Monthly delivery costs – all stock purchases	300	30

Required

1.3.1 **Calculate** the cost at which each unit of SUPA4 will be recorded in the Stock Card.

1 mark

1.3.2 **Explain**, using the information provided in **1.3** above, the difference between product and period costs.

2 + 2 = 4 marks

1.4 At 1 January 2008 Fran decided to trade in the business motor vehicle for a new model. Details of the old motor vehicle at 31 December 2007 were

- Cost $32 000 plus GST of $3 200
- Accumulated Depreciation – $24 000

Details of the new purchase and trade-in are shown on the invoice below.

NEWTOWN MOTORS
ABN 86 435 572 987

Tax Invoice NM 3584
Date 1 January 2008

Charge to: Johnson Electrics
For: Targo 4WD – Registration No. ACC 888

Invoice Price:	$37 000
Plus GST (10%):	$3 700
	$40 700
Less Trade-in Allowance	$10 000
Balance owing:	$30 700

Terms 2/14, n/30

Required

1.4.1 **Prepare** General Journal entries to record

- the disposal of the old motor vehicle
- the profit or loss on disposal of the old motor vehicle
- the purchase of the new motor vehicle.

(Narrations are **not** required.)

4 + 2 + 4 = 10 marks

Fran's accountant stated 'Profit or loss on disposal of non-current assets only occurs because of depreciation inaccuracies over the asset's life'.

Required

1.4.2 **Explain** the accountant's statement.

2 marks

On 4 January 2008 Fran pays for necessary modifications to the motor vehicle. The modifications cost \$4 000 plus \$400 GST. Fran pays for this using her own personal credit card. This amount will not be repaid to the owner (Memo 15).

Required

1.4.3 **Prepare** the General Journal entry to record this transaction.
(A narration is **not** required.)

3 marks

The invoice from Newtown Motors was paid on 12 January 2008 in accordance with the credit terms offered.

Required

1.4.4 **Record** the payment (Chq. No. 321) to Newtown Motors in the Cash Payments Journal.

2 marks

Total 45 marks

Question 2

Sporting World

John Easton owns a small business, Sporting World, selling sporting equipment to gyms and fitness clubs. John's accountant maintains a double-entry accrual accounting system. The business uses a perpetual inventory recording system with the FIFO cost assignment method. Control accounts are used for Debtors, Creditors and Stock.

2.1 In reviewing the business's activities for the year ended 31 December 2007, the accountant prepared a Profit and Loss Variance Report. An incomplete extract from the report is shown below.

	Actual $	Budget $	Variance $	F/U
Sales	500 000	490 000	+10 000	?
Less Cost of Sales	280 000	300 000	–20 000	?
Gross Profit	220 000	190 000	?	?

Required

2.1.1 **Complete** the (extract of) Profit and Loss Variance Report.

1 mark

2.1.2 **Explain** why a variance report should be prepared more than once each year.

2 marks

2.1.3 **State** two possible reasons, apart from budget error, why actual Cost of Sales could be less than budgeted despite actual Sales exceeding budget expectation.

2 marks

For the purposes of Question 2.2 you are not required to consider GST.

2.2 For the year ended 31 December 2008, the following information was provided:

1. Account balances

	1 January 2008 (Actuals)	31 December 2008 (Budgeted)
Stock Control	$40 000	$45 000
Creditors Control	$30 000	$27 000
Debtors Control	$12 000	$20 000
Bank	$15 000	not provided

2. Sales are expected to increase by 10% on previous year. Cash Sales will be 50% of total sales.
3. Payments to creditors are expected to be $330 000 and Discount Revenue $6 000. All stock purchases are made on credit.
4. Bad Debts are estimated to be 2% of Credit Sales. Discount Expense to be 1% of Credit Sales.
5. Wages, Administrative and Vehicle expenses (including Depreciation of Vehicle $5 000) estimated to total $150 000.
6. Details of prepayments and accruals – there will be accrued wages of $2 000 and prepaid administration expense of $4 000 at 31 December 2008. There were no accruals or prepayments at 1 January 2008.
7. During the year the business's premises will be expanded at a cost of $200 000. This will be financed by a loan of $120 000 and the owner will contribute $80 000 cash during the year.
8. Drawings – cash drawings of $35 000 and stock drawings $4 000.
9. Loan repayments will be $30 000 including $7 000 interest. The interest expense is in addition to the expenses shown in (5) above.

Required

2.2.1 **Reconstruct** the Creditors Control Account and the Stock Control Account to **calculate** budgeted Cost of Sales for the year.

2 + 2 = 4 marks

Question 2 – continued
TURN OVER

2.2.2 **Reconstruct** the Debtors Control Account to **calculate** budgeted cash received from Debtors.

3 marks

2.2.3 **Prepare** the Budgeted Profit and Loss Statement for the year ended 31 December 2008.

5 marks

2.2.4 **Prepare** a Budgeted Statement of Cash Flows for the year ended 31 December 2008.

8 marks

2.3 In March 2009, the business invested $50 000 cash into an investment account for a term of six months. Interest on the investment is payable at the end of the 6-month term. On 30 June 2009 a balance day adjustment was prepared to record $1 000 interest revenue due but not yet received. On 31 August 2009, at the end of the 6-month period, a cheque covering interest and principal for $51 500 was received (Receipt No. 524).

Required

Record the receipt of $51 500 on 31 August 2009 in the Cash Receipts Journal.

3 marks

2.4 During May 2009 a customer (Golden Gyms) placed an order for 10 Fujo treadmills. (Total selling price: $33 000 including GST of $3 000. Total cost price $22 000 including GST of $2 000.) The customer paid a $10 000 deposit. The deposit was correctly recorded in the Cash Receipts Journal as Prepaid Revenue.

Required

Explain why the deposit should be recorded as Prepaid Revenue.

2 marks

2.5 On 29 June 2009 five Fujo treadmills were delivered to the customer. The invoice for this transaction has not yet been prepared.

Required

Prepare the balance day adjustment required in the General Journal on 30 June 2009 to record this transaction.

(Narration is **not** required.)

5 marks

2.6 At the end of each year the accountant prepares a report on business profitability and liquidity.

The report for the year ended 31 December 2008 stated that 'despite last year's review of discounts and credit terms, Debtors Turnover continues to deteriorate and is negatively affecting liquidity', and provided the following information:

	2007	**2008**
Debtors Turnover (Average Debtors × 365 /Credit Sales)	52 days	58 days

Credit terms: 5/14, n30

Required

2.6.1 **Explain** what is meant by the term 'liquidity'.

2 marks

2.6.2 **Explain** how the trend in Debtors Turnover can have a negative effect on liquidity.

2 marks

2.6.3 **State** two new strategies that could be implemented to improve Debtors Turnover.

2 marks

2.7 The report also stated that 'profitability has improved'. The following information about profitability was provided:

	2007	**2008**
Return on Assets (Net Profit/Average Total Assets)	12%	15%
Gross Profit Ratio (Gross Profit/Sales)	45%	43%
Net Profit Ratio (Net Profit/Sales)	8%	10%

Required

2.7.1 **State** two reasons to explain how profitability could have improved despite a fall in the Gross Profit Ratio.

2 marks

2.7.2 **Explain** why Return on Assets is used as an indicator of business profitability.

2 marks

Total 45 marks

END OF QUESTION BOOK

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SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

Letter

Figures									
Words									

ACCOUNTING
Written examination 2

Thursday 8 November 2007

Reading time: 11.45 am to 12.00 noon (15 minutes)
Writing time: 12.00 noon to 1.30 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.

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1.1.1

Stock Card: SUPA3

Date 2007 Dec	Details	IN			OUT			BALANCE		
		Qty	Unit Cost $	Total Cost $	Qty	Unit Cost $	Total Cost $	Qty	Unit Cost $	Total Cost $
1	Balance							5	80	400

4 marks

1.1.2 **GENERAL JOURNAL**

Date 2007	Particulars	General Ledger		Subsidiary Ledger	
		Debit $	Credit $	Debit $	Credit $

6 + 3 = 9 marks

Question 1 – continued
TURN OVER

1.1.3

Explanation

2 marks

1.2.1

Stock value	**$**

2 marks

1.2.2

Explanation
Accounting Principle

2 + 1 = 3 marks

1.2.3 **GENERAL JOURNAL**

Date 2007	**Particulars**	**General Ledger**		**Subsidiary Ledger**	
		Debit $	**Credit $**	**Debit $**	**Credit $**

2 + 1 = 3 marks

1.3.1

Cost price	**$**

1 mark

1.3.2

Explanation

2 + 2 = 4 marks

1.4.1 **GENERAL JOURNAL**

Date 2008	Particulars	General Ledger		Subsidiary Ledger	
		Debit $	Credit $	Debit $	Credit $

4 + 2 + 4 = 10 marks

1.4.2

Explanation

2 marks

1.4.3 GENERAL JOURNAL

Date 2008	Particulars	General Ledger		Subsidiary Ledger	
		Debit $	Credit $	Debit $	Credit $

3 marks

1.4.4 CASH PAYMENTS JOURNAL

Date 2008	Details	Chq. No.	Bank	Disc. Rev.	Creditors	Wages	Stock	GST	Sundries

2 marks

Total 45 marks

2.1.1

	Actual	**Budget**	**Variance**	**F/U**
Sales	500 000	490 000	+10 000	
Less Cost of Sales	280 000	300 000	–20 000	
Gross Profit	220 000	190 000		

1 mark

2.1.2

Explanation

2 marks

2.1.3

Reason 1
Reason 2

2 marks

2.2.1 Ledger Accounts

CREDITORS CONTROL

Date 2008	Cross reference	$	Date 2008	Cross reference	$
			Jan 1	Balance	30 000

STOCK CONTROL

Date 2008	Cross reference	$	Date 2008	Cross reference	$
Jan 1	Balance	40 000			

Cost of Sales $

2 + 2 = 4 marks

2.2.2

DEBTORS CONTROL

Date 2008	Cross reference	$	Date 2008	Cross reference	$
Jan 1	Balance	12 000			

Receipt from Debtors $

3 marks

Question 2 – continued
TURN OVER

2.2.3

SPORTING WORLD
BUDGETED PROFIT AND LOSS STATEMENT FOR YEAR ENDED 31 DECEMBER 2008

	$	$
Expected Revenue		

5 marks

2.2.4

SPORTING WORLD
BUDGETED STATEMENT OF CASHFLOWS FOR YEAR ENDED 31 DECEMBER 2008

	$	$
Cash Flow from Operating Activities		
NET CASH FROM OPERATING ACTIVITIES		
Cash Flow from Investing Activities		
NET CASH FROM INVESTING ACTIVITIES		
Cash Flow from Financing Activities		
NET CASH FROM FINANCING ACTIVITIES		
NET INCREASE/(DECREASE) IN CASH		
Cash at Bank (1/1/2008)		15 000
Cash at Bank (31/12/2008)		

8 marks

2.3 **CASH RECEIPTS JOURNAL**

Date 2009	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	GST	Sundries

3 marks

2.4

Explanation

2 marks

2.5 **GENERAL JOURNAL**

Date 2009	Particulars	General Ledger		Subsidiary Ledger	
		Debit $	Credit $	Debit $	Credit $

5 marks

2.6.1

Explanation

2 marks

2.6.2

Explanation

2 marks

2.6.3

Strategy 1
Strategy 2

2 marks

2.7.1

Reason 1
Reason 2

2 marks

2.7.2

Explanation

2 marks

Total 45 marks

END OF ANSWER BOOK