



Victorian Certificate of Education 2009

ACCOUNTING

Written examination 2

Thursday 5 November 2009

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

<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 and 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 7 pages.
- Answer book of 11 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**Sporting Life**

Jackie Jones owns and operates a small business, Sporting Life, that specialises in the sale of sports clothing and sports equipment. The business uses the double entry accounting system based on the accrual method of accounting. Other features of Sporting Life's accounting system are as follows.

- The business uses control accounts and subsidiary records for Debtors, Creditors and Stock.
- The perpetual method of stock recording and the FIFO cost assignment method are used.
- Sporting Life uses a 12-month reporting period ending 31 December.

1.1 On 1 October 2008 Jackie purchased a new delivery van on credit from Van Sales & Finance. Jackie organised to have some modifications made to the delivery van prior to the delivery date. The following invoice relates to the purchase.

Van Sales & Finance		Tax Invoice VS 1164	
ABN 93 414 828 672		Date 1 October 2008	
Charge to:	Sporting Life		
For:	Toyota Van – Registration No. BND 772		
Purchase Price	\$27 000		
Registration & Insurance (12 months)	\$ 1 200		
Shelving and Racks	\$ 3 000		
Plus GST (10%)	<u>\$ 3 120</u>		
Balance Owing	\$34 320		
Terms 2/7, n/30			

The delivery van was expected to have a useful life of four years and an expected residual value of \$8 000.

Required

- 1.1.1** Prepare the General Journal entry to record this invoice.
(Narrations are **not** required.)

4 marks

On 31 December 2010, Jackie decided to trade in the delivery van for a new model from Van Sales & Finance. Details of the trade-in and purchase are as follows.

New van	\$33 000
Plus GST (10%)	<u>\$ 3 300</u>
	\$36 300
Less agreed trade-in value	<u>\$14 000</u>
Balance owing	<u>\$22 300</u>

Required

- 1.1.2** Calculate the value of the Accumulated Depreciation of the Delivery Van account as at 31 December 2010, before the delivery van was traded in.

2 marks

- 1.1.3** Show how the Disposal of Delivery Van account would appear in the General Ledger after the disposal of the delivery van had been recorded at 31 December 2010.

4 marks

Question 1 – continued

- 1.1.4** Jackie is concerned that the depreciation expense will have a negative impact on her cash flow. **Explain** the effect depreciation has on the cash flow of the business.

2 marks

- 1.2** Sporting Life carries a line of imported netballs supplied by Pro Netball Suppliers (India). At 31 December 2010, stock records revealed the following.

Type	Quantity	Purchase Price per unit	Import Duties per unit	Unit Selling Price
Pro-Junior	100	\$15	\$3	\$30
Pro-Senior	120	\$25	\$4	\$40
Pro-Leather Exclusive	80	\$58	\$7	\$80

Additional information

- Each ball sold comes with a signed poster of the Australian netball team. This costs the business \$5 per poster. At 31 December 2010 there were 90 posters on hand. Posters are purchased as required.
- The Pro-Leather Exclusive balls have not sold well so the selling price will be reduced to \$60 each to clear stock.
- Stock is valued at the lower of cost and net realisable value.

Required

- 1.2.1** Calculate the value of closing stock of netballs at 31 December 2010.

3 marks

- 1.2.2** With reference to one accounting principle, **explain** why stock is valued at the lower of cost and net realisable value.

1 + 2 = 3 marks

- 1.2.3** Prepare the General Journal entry required to adjust the Stock Control account to the lower of cost or net realisable value at 31 December 2010.

(Narration is **not** required.)

2 marks

- 1.3** Sporting Life also sells basketballs produced by an Australian supplier. Costs associated with the buying and selling of the basketballs are as follows.

- Supplier's invoice price: \$15 per ball.
- GST charged by supplier: \$1.50 per ball.
- Freight: \$100 (plus \$10 GST) per shipment of 50 balls.
- Insurance of stock at Sporting Life store: \$2 500 (plus \$250 GST) per annum.
- Sporting Life logo attached to each ball is \$3 (plus \$0.30 GST) per ball.

Required

- 1.3.1** Calculate the cost price of each basketball as it would be recorded in the Stock Card.

3 marks

- 1.3.2** Explain your treatment of the following items.

- The cost of the insurance
- The cost of the Sporting Life logo
- GST charged by the supplier

2 + 2 + 2 = 6 marks

- 1.4** The accountant reports that the profitability of the business has improved since 2009 and provides the following information.

Indicator	2009	2010
Return on Assets	24%	26.4%
Net Profit Ratio	15%	12%
Total Sales	\$1.6 million	\$1.98 million

Required

- 1.4.1** **Explain** how the Return on Assets can improve despite a fall in the Net Profit Ratio. 2 marks
- 1.4.2** **State** two possible reasons for the fall in the Net Profit Ratio. 1 + 1 = 2 marks
- 1.4.3** **Identify** two other benchmarks that should be considered before making any decisions about the profitability of the business. 1 + 1 = 2 marks
- 1.5** On 15 December 2010 the Boytown Football Club ordered 50 football training tops. A deposit of \$200 was paid on 15 December 2010 (Receipt No. 28) with delivery expected in January 2011. Details of the purchase are as follows.
- Cost Price – \$30 (plus \$3 GST)
 - Selling Price – \$50 (plus \$5 GST)

Required

- 1.5.1** **Record** the deposit in the Cash Receipts Journal on 15 December 2010. 1 mark
- 1.5.2** **Identify** the two financial reports that the deposit would be recognised in at 31 December 2010. **State** how the deposit would be classified in each report. 2 + 2 = 4 marks
- 1.5.3** **Show** the journal entries made in January 2011 when the tops are delivered and the football club is invoiced for the balance. Delivery and invoice date is 20 January 2011. (Invoice D226) (Narrations are **not** required.) 2 + 3 = 5 marks
- Total 45 marks

Question 2**Slumber City**

Jerry Dawson owns and operates a small business, Slumber City, that sells mattresses and bedding. The business uses the double entry accounting system based on the accrual method of accounting. Other features of Slumber City's accounting system are as follows.

- The business uses control accounts and subsidiary records for Debtors, Creditors and Stock.
- The perpetual method of stock recording and the FIFO cost assignment method are used.
- Slumber City uses a 12-month reporting period ending 31 December each year.

2.1 The following documents relate to a stock item found to be damaged when unpacked after delivery to a customer.

Document A

Slumber City		Date: 20/10/09	
Higgins Road Surrey Park		Credit Note: S823	
Credit to:	Star Travel Motel Duke Street Blacktown		
Item	Qty	Unit Cost	\$
Super Delux Mattress returned	10	300.00	3 000.00
		10% GST	300.00
		Total	\$3 300.00

Document B

Snoresville		Credit Note: M1530	
James Court Seville		Date: 22/10/09	
Credit to:	Slumber City Higgins Road Surrey Park		
Item	Qty	Unit Cost	\$
Super Delux Mattress returned	10	200.00	2 000.00
		GST (10%)	200.00
		Total	\$2 200.00

Required

2.1.1 **State** the transaction type evidenced by Document B.

1 mark

2.1.2 **State** whether Slumber City would use the original or the duplicate copy of Document B in its recording process.

1 mark

2.1.3 **Record** both documents in the General Journal.
(Narrations are **not** required.)

4 + 2 = 6 marks

Question 2 – continued
TURN OVER

2.2 When preparing budgets for 2010 the accountant used the following information.

Estimates for year ending 31 December 2010

Credit Sales	\$630 000
Bad Debts	4% of credit sales
Discount Expense	2% of credit sales
Rent Revenue	\$2 000 per month
Wages Expense	\$122 000
Stock Write Down	\$ 10 000
Cost of Sales	\$300 000
Other expenses (including \$10 000 Depreciation)	\$ 50 000

Relevant account balances

	1 January 2010	31 December 2010
	(Actual)	(Estimated)
Accrued Rent Revenue	Nil	\$ 2 000
Creditors Control	\$ 45 000	\$ 50 000
Debtors Control	\$ 80 000	\$ 75 000
Stock Control	\$100 000	\$120 000

The bank balance at 31 December 2010 was estimated to be \$28 500 Cr.

Required

2.2.1 Reconstruct the necessary ledger accounts to determine the estimated

- Cash collected from debtors
- Cash paid to creditors
- Rent Revenue received.

4 + 5 + 3 = 12 marks

2.2.2 Prepare the Budgeted Profit and Loss Statement for the year ended 31 December 2010.

5 marks

2.2.3 Prepare the Current Assets and Current Liabilities section of the Budgeted Balance Sheet at 31 December 2010.

4 marks

2.2.4 Prepare the Budgeted Cash Flow from Operations section of the Budgeted Cash Flow Statement for the year ended 31 December 2010.

4 marks

2.2.5 Explain how the Budgeted Cash Flow Statement could be improved to enable it to be used more effectively during the budgeted period.

2 marks

2.3 In August 2010, Jerry Dawson negotiated a new rental agreement with his tenant. Rent (revenue) was increased from \$2000 per month to \$2200 per month commencing with the August payment due on 31 August.

Due to the Christmas shutdown period, the December payment was not received by 31 December.

Required

2.3.1 Record the adjustment relating to Rent Revenue required in the General Journal on 31 December.

(Narration is **not** required.)

2 marks

2.3.2 Complete the Profit and Loss Variance Report (extract) relating to Rent Revenue for the year ended 31 December.

2 marks

On 31 January 2011, \$4400 was received for the December and January rent (Receipt No. 741).

Required

2.3.3 Record this receipt in the Cash Receipts Journal.

1 mark

2.4 When assessing Slumber City's liquidity the accountant provided the following information.

	2008	2009
Working Capital ratio	1.73:1	1.85:1
Quick Asset ratio	0.55:1	0.56:1
Debtors' turnover	42 days	48 days
Stock turnover	77 days	85 days

Required

2.4.1 State what is meant by liquidity.

1 mark

2.4.2 Discuss, based on the above indicators, whether liquidity improved in 2009.

3 marks

2.4.3 State one other key indicator that could be used when assessing business liquidity.

1 mark

Total 45 marks



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2009**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

Figures

Words

Letter

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ACCOUNTING
Written examination 2

Thursday 5 November 2009

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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Question 1 – Sporting Life**1.1.1****GENERAL JOURNAL**

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

4 marks

1.1.2

	Accumulated Depreciation	\$	
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2 marks

1.1.3**DISPOSAL OF DELIVERY VAN**

Date 2010	Cross reference	\$	Date 2010	Cross reference	\$

4 marks

1.1.4

Explanation

2 marks

1.2.1

Value of Stock of netballs	\$
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3 marks

1.2.2

Accounting principle
Explanation

1 + 2 = 3 marks

1.2.3

GENERAL JOURNAL

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$

2 marks

1.3.1

Cost price of each basketball	\$

3 marks

1.3.2

Explanation – Cost of insurance
Explanation – Cost of Sporting Life logo
Explanation – GST charged by supplier

2 + 2 + 2 = 6 marks

1.4.1

Explanation

2 marks

1.4.2

Reason 1
Reason 2

1 + 1 = 2 marks

Question 1 – continued
TURN OVER

1.4.3

Benchmark
Benchmark

1 + 1 = 2 marks

1.5.1

CASH RECEIPTS JOURNAL

Date 2010	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	GST	Sundries

1 mark

1.5.2

Financial report	Classification

2 + 2 = 4 marks

1.5.3

GENERAL JOURNAL

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$

SALES JOURNAL

Date 2011	Debtor	Inv. No.	Cost of Sales	Sales	GST	Total Debtors

2 + 3 = 5 marks

Total 45 marks

Question 2 – Slumber City**2.1.1**

State

1 mark

2.1.2

State

1 mark

2.1.3**GENERAL JOURNAL**

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

4 + 2 = 6 marks

2.2.1

DEBTORS CONTROL

Date 2010	Cross reference	\$	Date 2010	Cross reference	\$

CREDITORS CONTROL

Date 2010	Cross reference	\$	Date 2010	Cross reference	\$

STOCK CONTROL

Date 2010	Cross reference	\$	Date 2010	Cross reference	\$

RENT REVENUE

Date 2010	Cross reference	\$	Date 2010	Cross reference	\$

4 + 5 + 3 = 12 marks

**2.2.4 Slumber City
Budgeted Cash Flows from Operations (extract) for Year Ended 31 December 2010**

Cash inflows from operations		
Cash outflows from operations		
Net flow from operations		

4 marks

2.2.5

Explanation

2 marks

2.3.1 GENERAL JOURNAL

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$

2 marks

**2.3.2 Slumber City
Profit and Loss Variance Report (extract) for Year Ended 31 December 2010**

Item	Actual	Budgeted	Variance	F/U

2 marks

2.3.3

CASH RECEIPTS JOURNAL

Date 2011	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	GST	Rent Rev.	Sundries

1 mark

2.4.1

State

1 mark

2.4.2

Discuss

3 marks

2.4.3

State

1 mark

Total 45 marks

