



# VCE ACCOUNTING

## 2010

### Practice examination 2

Reading time: 15 minutes  
Writing time: 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 practice examination: 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 8 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 unauthorised electronic devices into the examination room**

### Question 1 Melody's Music

Melody Maclean owns and operates a small business called Melody's Music – selling a range of musical instruments.

Melody maintains a double-entry accrual accounting system. Other features of the businesses accounting system are as follows:

- i. The business uses control accounts and subsidiary records for Debtors, Creditors and Stock.
- ii. The business adopts the perpetual method of stock recording and the FIFO cost assignment method.
- iii. Melody's Music has a 12-month reporting period ending 31 December each year.
- iv. All stock is sold at a mark-up of 100%.

**1.1** At 31 December 2010 the accountant prepared financial reports, from which the following information was extracted:

#### Cash Flow Variance Report at 31 December 2010

	Budgeted \$	Actual \$
Cash Sales	270 000	255 000
Prepaid Sales Revenue	-	2 000
Wages	110 000	130 000
Payments to Creditors	350 000	370 000

#### Profit & Loss Variance Report at 31 December 2010

	Budgeted \$	Actual \$
Sales	840 000	870 000
Wages	113 000	135 000
Depreciation of Vehicles	40 000	60 000

#### Balance Sheet Variance Report at 31 December 2010

	Budgeted \$	Actual \$
Creditors Control	50 000	65 000
Accrued Wages	3 000	5 000

#### Liquidity indicators at 31 December

	2009	2010
Working Capital Ratio	2.2:1	2.4:1
Quick Asset Ratio	1.4:1	1.2:1

**1.1.1 Complete** the Variance Report extracts in the Answer Book.

4 marks

**1.1.2 Explain** one benefit of preparing Variance Reports.

2 marks

**1.1.3 Provide** one reason for the variances in the following items:

- Wages expense
- Cash Sales
- Creditors Control

3 marks

**1.1.4 Explain** what is meant by the term liquidity and **identify** if the liquidity of the business has improved or deteriorated between 2009 and 2010.

2 + 1 = 3 marks

**1.1.5 Identify** and **explain** one reason for the different movements in the Working Capital Ratio and the Quick Asset Ratio.

1 + 2 = 3 marks

**1.1.6 Identify** and **explain** how Prepaid Sales Revenue would have been classified in the Balance Sheet at 31 December 2010.

1 + 2 = 3 marks

**1.2** The Prepaid Sales Revenue occurred when Bass Secondary College paid a deposit on an order of 5 Kwazi keyboards. The keyboards are scheduled to be delivered on 7 January 2011. On 7 January 2011 the stock was delivered and the following invoice was prepared:

Melody's Music Sound Road, Gardenvale A.B.N. 85 421 693 741			
<b>Tax Invoice:</b> MM17			
<b>Charge to:</b> Bass Secondary College Flinders Road Somersland		<b>Date:</b> 7/01/2011	
Quantity	Item	Unit Price	Total Price
5	Kwazi keyboards	1000	5000
	GST (10%)		500
	<b>Invoice total</b>		<u>5500</u>
<b>Less</b>	Deposit (Rec 41)		<u>2000</u>
	<b>Balance owing</b>		<u>3500</u>
<b>Terms:</b> 2/14, n30			

**1.2.1 Record** the information contained in Invoice MM17 in the:

- General Journal; and
- Sales Journal

At 7 January 2011

(**Note:** Narration **is not** required)

6 marks

**1.2.2** On 20 January 2011, Bass Secondary College paid their account (Rec. 57). **Record** this receipt in the Cash Receipts Journal.

2 marks

**1.2.3 Explain** the effect of offering discounts to customers on:

- Efficiency
- Profitability

2+2 = 4 marks

- 1.3** At 31 December 2011 the business's Balance Sheet showed the following Non-Current Assets:

**Balance Sheet as at 31 December 2010 (extract)**

**Non-Current Assets**

Equipment	\$50 000	
Accumulated Depreciation	<u>(\$15 000)</u>	\$35 000
Vehicle	\$36 000	
Accumulated Depreciation	<u>(\$16 000)</u>	<u>\$20 000</u>
		\$55 000

**Note:** All Non-Current Assets are depreciated at 10% per annum.

During 2011 the following transactions relating to Non-Current Assets occurred:

- On 1 March 2011 the business purchased a new Vehicle for \$45 000 (plus \$4 500 GST) on credit from Ace Motors [Inv. A32]. The business paid a deposit [Chq 65] of \$4 500 and traded-in the old vehicle for \$18 000.
- On 1 June 2011 the owner transferred ownership of her personal vehicle to the business. The Vehicle had a current market value of \$30 000.
- The business paid \$3 000 (plus \$300 GST) to have the Vehicle modified for use by the business [Chq 87].
- At the time the Vehicle had 4 months Registration and Insurance still attached to the Vehicle. This was valued at \$360.
- On 1 October 2011 the business purchased an additional \$6 000 (plus \$600 GST) worth of Equipment for cash [Chq 133].

- 1.3.1 Record** the appropriate information into the Cash Payments Journal of the business  
3 marks
- 1.3.2 Calculate** the Depreciation – Vehicles expense to be reported in the Profit and Loss Statement for the year ended 31 December 2011.  
4 marks
- 1.3.3 Show** how the following Ledger Accounts would appear after all appropriate entries had been posted:
- Vehicle
  - Disposal of Asset
- 2 + 4 = 7 marks
- 1.3.4 State** how the deposit paid on the purchase of the new Vehicle would be reported in the Cash Flow Statement for the year ended 31 December 2011.

1 mark

Total 45 marks

## Question 2

### AM Electrical

Anthony McCormack owns and operates a small business called AM Electrical – selling a range of electrical appliances.

Anthony maintains a double-entry accrual accounting system. Other features of AM Electricals' accounting system are as follows:

- i. The business uses control accounts and subsidiary records for Debtors, Creditors and Stock.
- ii. The business adopts the perpetual method of stock recording and the FIFO cost assignment method.
- iii. AM Electrical has 6-month reporting periods ending 30 June and 31 December each year.
- iv. All stock is sold at a mark-up of 100%.

**Note: For the purposes of Questions 2.1 and 2.2, the GST is not to be considered.**

**2.1** At 31 December 2010 the accountant prepared a Cash Flow Statement. An extract of that report is shown below:

**AM Electrical**  
**Cash Flow Statement for 6-months ended 31 December 2010 [Extract]**

<b>Cash Flow from Operating Activities</b>	<b>\$</b>	<b>\$</b>
Cash sales	280 000	
Cash received from Debtors	230 000	<b>510 000</b>
Payments to Creditors	(210 000)	
Wages	(86 000)	
Accrued Wages	(4 000)	
Stock Control	(100 000)	
Prepaid Rent Expense	(30 000)	
Other cash expenses (including Interest Expense)	(60 000)	<b>(490 000)</b>
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>20 000</b>

For the next 6 months the owner expects the following to occur:

- Cash sales to increase 5%
- Credit sales to be \$270,000.
- Debtors at 31 December 2010 were \$28,000. Discount expense is expected to be 2% of Credit Sales, Bad Debts are expected to be 1% of Credit Sales and Sales Returns are expected to be \$2 500. Debtors at End are expected to be \$30,000.

- Payments to creditors are expected to be \$220,000 and the owner expects to receive discounts totaling \$5,000.
- Creditors at 31 December 2010 were \$42,000. The owner hopes to reduce the balance of Creditors by \$6 000 at 30 June 2011.
- Stock Control at 31 December 2010 was \$46 000.
- Drawings of Stock is usually \$500 per month and Stock Loss is expected to be 1% of stock purchases.
- All stock returned by customers is returned to the supplier.
- Cash purchases of Stock are expected to be \$76,000.
- Wages expense is expected to be \$91,000 (including \$3,000 of wages accrued at 30 June 2011)
- Accrued Wages at 31 December 2010 were \$4 000
- Rent is paid 6 months in advance on 1 March and 1 September each year. It is expected that Rent will increase to \$5 500 per month on 1 March 2011.
- Other cash expenses (including Interest expense) are expected to increase 10%.
- Depreciation Expense is expected to be \$12 000
- Loan repayments are \$1 400 per month (excluding interest) and Drawings of cash are expected to be \$35 000
- Cash at Bank at 31 December 2010 was \$6,760 Dr.

- 2.1.1 Reconstruct** the Debtors Control account to calculate the receipts from debtors for the budgeted period.  
4 marks
- 2.1.2 Reconstruct** the Creditors Control account to calculate credit purchases of stock for the budgeted period.  
2 marks
- 2.1.3 Reconstruct** the Stock Control account to calculate the closing balance of the account for the budget period.  
6 marks
- 2.1.4 Prepare** the Operating Activities section of the Budgeted Cash Flow Statement for the period ending 30 June 2011.  
5 marks
- 2.1.5 Prepare** an extract of the Budgeted Profit & Loss Statement for the period ending 30 June 2011 to calculate Adjusted Gross Profit.  
3 marks
- 2.1.6 Explain**, providing two examples from the information above, why the Budgeted Cash Flow from Operations is different from Budgeted Adjusted Gross Profit.  
2 + 2 = 4 marks
- 2.1.7 Explain** one benefit of preparing budgets.  
2 marks

**2.2** The budgeted Cash Flow Statement indicates that the balance in the Bank account will increase by \$21 000. Anthony decides he will invest \$15 000 of that surplus in a 12 month Term Deposit Account on 1 August 2011. The interest rate is 6% per annum paid in two instalments on 31 January 2012 and 31 July 2012.

**2.2.1 Prepare** the General Journal entry necessary on 31 December 2011 to record the Interest Revenue earned.

**(Note: A narration is not required)**

2 marks

**2.2.2 Explain** how Accrued Interest Revenue would be reported in the Balance Sheet at 31 December 2011.

2 marks

**2.2.3 Prepare** the Cash Receipts Journal entries required at 31 January 2012 [Rec. 97].

2 marks

**2.3** In September 2012 the business had the following:

**Stock card: Item – Dysec Vacuum Cleaner**

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
2012										
Sep 1	Balance							8	220	1 760

On 3 September 2012 the business received the following Invoice:

<b>Dysec Limited</b>				
43 Smith Road				
Piermont				
<b>ABN: 45 175 527 078</b>				
<b>Invoice: XL 28</b>			<b>Date: 3/09/2012</b>	
<b>Credit to: AM Electrical</b>				
17 Winter Road				
Samville				
Item	Qty	Unit Price	GST	Total
Dysec Vacuum Cleaners	20	\$220	\$22	\$4840
Dysec Washing Machines	15	\$270	\$27	\$4455
Dysec Toasters	20	\$30	\$3	\$660
Customs Duty	55	\$10	\$1	\$605
Freight charge	1	\$100	\$10	\$110
<b>Invoice Total</b>				<b>\$10,670</b>

- 2.3.1 Calculate** the cost price of each Dysec Vacuum Cleaner purchased on 3 September 2012.  
1 mark
- 2.3.2 Explain** the impact on net profit of allocating all the customs and freight charges as period costs if only 10 items are sold during the reporting period.  
2 marks
- 2.4** On 17 September 2012 the business was informed that the Dysec Vacuum Cleaner was being replaced by a new model – the Dysec II. The business still had 23 units on hand: 3 units remaining from the opening balance and all 20 units from the purchase on 3 September 2012.  
It was decided to sell the current holdings of stock for \$180 per unit (plus \$18 GST per unit). To do so, the business will conduct an advertising campaign expected to cost \$10 per unit (plus \$1 GST per unit).
- 2.4.1 Prepare** the General Journal entry required to record the stock write down. (A narration **is** required)  
4 marks
- 2.4.2 Explain**, with reference to one accounting principle, why the stock write down should be recognised in the reports of AM Electrical,  
2 + 1 = 3 marks
- 2.4.3 Explain** the effect this transaction may have on the profitability of the business.  
2 marks
- 2.4.4 Identify** one indicator the business could use to assess profitability  
1 mark

**Total 45 marks**