

**Victorian Certificate of Education  
2021**

**ACCOUNTING**  
**Written examination**

**Friday 5 November 2021**

**Reading time: 3.00 pm to 3.15 pm (15 minutes)**

**Writing time: 3.15 pm to 5.15 pm (2 hours)**

**QUESTION BOOK**

**Structure of book**

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
8	8	100

- 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 correction fluid/tape.

**Materials supplied**

- Question book of 14 pages
- Answer book of 19 pages

**Instructions**

- Write your **student number** in the space provided on the front cover of the answer book.
- Answer all 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.**

### Instructions

Answer **all** questions in the answer book provided.

#### Question 1 (18 marks)

Garden Leaf sells gardening products. The business uses a 100% mark-up and reports monthly. The Inventory Card below shows details about large pots during February 2021.

#### Inventory Card

Item: Large pots		Cost Assignment Method: FIFO								
Supplier: Gourmet Gardening		IN			OUT			BALANCE		
Date 2021	Document	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Feb. 1	Balance							12	150	1 800
2	Inv. 123				8	150	1 200	4	150	600
3	Inv. W07	11	160	1 760				4	150	
								11	160	2 360
5	Memo E4				3	150	450	1	150	
								11	160	1 910
20	EFT 57892				1	150				
					4	160	790	7	160	1 120

- a. Describe the transactions that led to the entries on:
- 5 February
  - 20 February.
- 2 marks

- b. Explain **two** reasons why the First In, First Out (FIFO) inventory cost assignment method is used by businesses.
- 4 marks

The colour on the seven remaining large pots had faded badly. The owner decided that these pots would be discounted to a price of \$100 each (plus GST) at the end of February. A watering can (cost \$10 plus GST) would be given away with every large pot sold. Free delivery of these seven pots would cost Garden Leaf (Memo E5) a total of \$105 (plus GST).

- c. Calculate the total value of the large pots at 28 February 2021 after applying the lower of cost and net realisable value rule.
- 2 marks
- d. Record the necessary adjustment to the Inventory Card on 28 February 2021.
- 1 mark

In early March, the owner decided to introduce a new product line of medium pots.  
On 3 March, Garden Leaf purchased 10 medium pots. The invoice is provided below.

<b>Gourmet Gardening</b> 123 Garden Street, Melbourne, VIC 3000		<b>TAX INVOICE</b> <b>Date:</b> 3 March 2021 <b>Invoice No.:</b> 215	
Sold to: Garden Leaf 455 Leafy Lane Melbourne, VIC 3000			
Item	Qty	Unit price	\$
Medium pot	10	110	1 100
Cartage in		150	150
<b>Total – before GST</b>			<b>1 250</b>
GST			125
<b>Credit terms: 4/7, n/30</b>			
<b>TOTAL</b>			<b>\$1 375</b>

- e. With reference to **one** qualitative characteristic, explain the importance of recording from source documents. 3 marks
- f. Calculate the cost price of one medium pot. 1 mark
- g. Justify your treatment of cartage in. 2 marks
- h. On 6 March, Garden Leaf paid Invoice 215 (Chq. 381).  
Prepare the General Journal entry to record the payment of Invoice 215.  
A narration is required. 3 marks

**TURN OVER**

**Question 2** (20 marks)

Radar Medical Supplies reports annually on 30 June. The following financial reports are provided.

**Radar Medical Supplies**  
**Balance Sheet as at 30 June 2021**

	2020	2021
	\$	\$
<b>Assets</b>		
Cash at Bank	18 000	50 600
Accounts Receivable	100 000	120 000
Inventory	180 000	150 000
Prepaid Advertising	3 000	4 000
Motor Vehicles	60 000	110 000
Less Accumulated Depreciation – Motor Vehicles	(36 000)	(48 000)
<b>Total Assets</b>	<b>325 000</b>	<b>386 600</b>
<b>Liabilities</b>		
Accounts Payable	70 000	78 000
GST Clearing	22 000	15 800
Loan	59 000	53 000
<b>Total Liabilities</b>	<b>151 000</b>	<b>146 800</b>
<b>Owner's Equity</b>		
Capital – J Rayner	<b>174 000</b>	<b>239 800</b>
<b>Total Equities</b>	<b>325 000</b>	<b>386 600</b>

**Radar Medical Supplies**  
**Income Statement for the year ended 30 June 2021**

	\$	\$
<b>Revenue</b>		
Sales		1 100 000
Less Cost of Sales		450 000
<b>Gross Profit</b>		<b>650 000</b>
<b>Less Other Expenses</b>		
Advertising	34 000	
Wages	473 000	
Vehicle expenses	7 000	
Interest expense	3 000	
Depreciation – Motor Vehicles	12 000	529 000
<b>Net Profit</b>		<b>121 000</b>

**Additional information**

- All sales and purchases were on credit. Credit terms were n/30.
  - A cash payment of \$65 000 was paid to the Australian Taxation Office (ATO) for GST.
  - Other GST payments for the year totalled \$9 200. There were no GST cash receipts.
  - Cash drawings were taken. There were no capital contributions by the owner.
  - A motor vehicle was purchased for cash.
  - A loan repayment was made.
- a. Reconstruct the following accounts to determine the relevant amounts for the Cash Flow Statement for the year ended 30 June 2021:
- Accounts Receivable
  - Inventory
  - Accounts Payable
  - Capital
- 12 marks
- b. Prepare the Cash Flow Statement for the year ended 30 June 2021.
- 8 marks

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**Question 3** (9 marks)

The Book Wall sells technical books and magazines to schools, universities and public libraries. The business uses a 100% mark-up and reports on a quarterly basis. Purchases and sales are made on a credit basis.

The following document and Inventory Card relate to a university textbook called *Future Accounting*.

<b>The Book Wall</b>			
			<b>Date:</b> 13/03/21
			<b>Invoice No.:</b> 323
<b>Sold to:</b> Birk Library			
Central Avenue			
Melbourne Vic 3000			
<b>Item</b>	<b>Quantity</b>	<b>Unit price</b>	<b>Total</b>
Future Accounting	5	\$90	\$450
			GST \$45
			<b>Total \$495</b>
<b>Credit terms:</b> 5/10, n/30			

**Inventory Card**

<b>Item: Future Accounting</b>		<b>Cost Assignment Method: FIFO</b>								
<b>Supplier: Tekni Publishing</b>										
<b>Date</b> 2021	<b>Document</b>	<b>IN</b>			<b>OUT</b>			<b>BALANCE</b>		
		<b>Qty</b>	<b>Cost</b>	<b>Total</b>	<b>Qty</b>	<b>Cost</b>	<b>Total</b>	<b>Qty</b>	<b>Cost</b>	<b>Total</b>
Mar. 1	Balance							10	45	450
13	Inv. 323				5	45	225	5	45	225
17	Inv. 1568	10	35	350				5	45	
								10	35	575

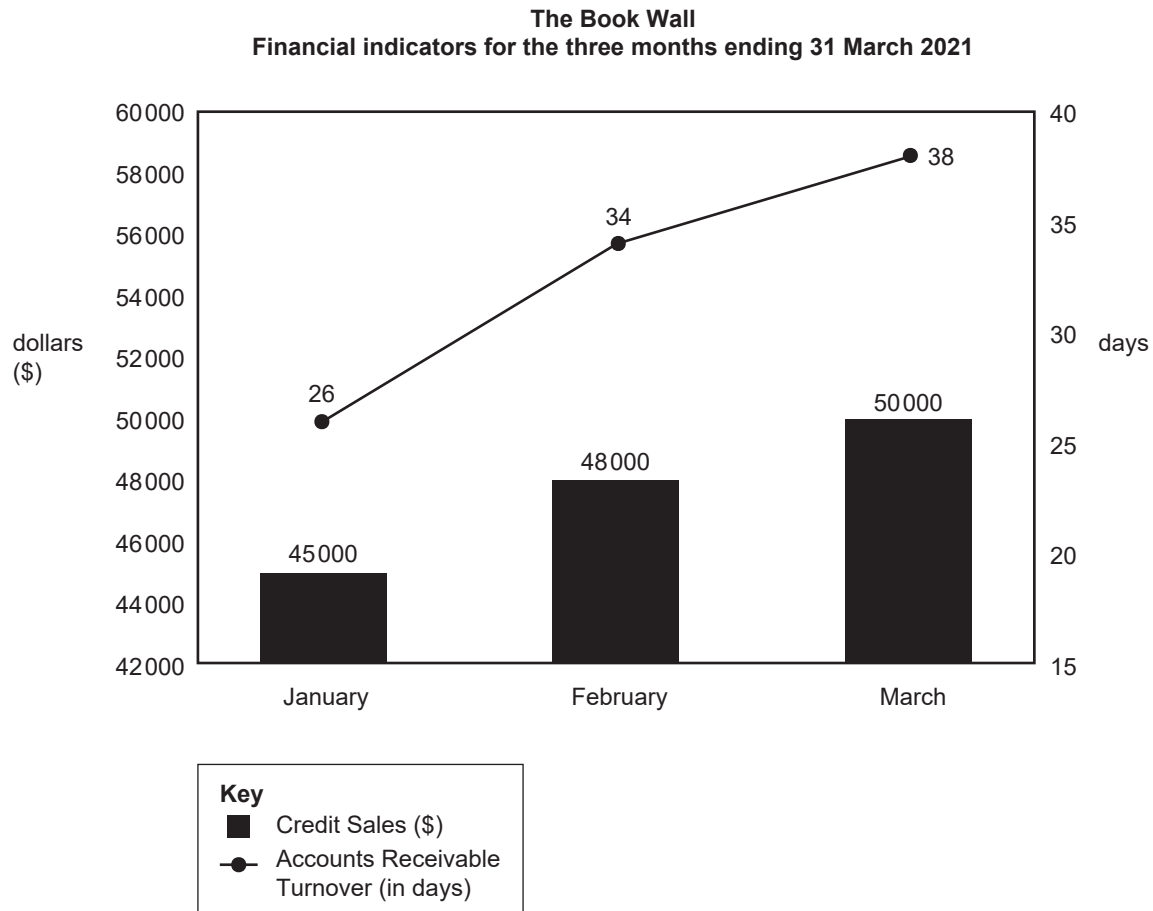
- a. On 18 March 2021, Birk Library returned one copy of *Future Accounting* (CrN. 68).

Record this transaction in the General Journal.

A narration is **not** required.

3 marks

The following graph was produced by the accountant.



- b.** Analyse the information presented in the graph and provide feedback to the owner about the performance of the business. 4 marks
- c.** Explain **one** strategy, other than increasing the discount, that The Book Wall could use to improve its Accounts Receivable Turnover. 2 marks

**TURN OVER**

**Question 4** (9 marks)

Netball House reports on a monthly basis.

**Pre-adjustment Trial Balance (extract) as at 30 June 2021**

Account	Debit	Credit
	\$	\$
Accounts Receivable	110 000	
Allowance for Doubtful Debts		3 000
Credit Sales		90 500
Sales Returns	500	

**Additional information**

- A review of accounts receivable has been completed and the business has decided to write off an account of \$2 750 owed by R Ramsay (Memo 32).
  - Past experience suggests that 4% of net credit sales are unlikely to be collected (Memo 33).
- a. Prepare General Journal entries to record the additional information.  
Narrations are **not** required. 4 marks
- b. Show how Accounts Receivable would be reported in the Balance Sheet as at 30 June 2021. 2 marks
- c. Classify the Allowance for Doubtful Debts account and explain why an allowance is made for doubtful debts. 3 marks



**Question 5** (8 marks)

Sparklers supply electrical products to trade customers. All inventory is bought and sold on credit.

Sparklers has provided the following data for June 2021.

	<b>Budget as at 30 June 2021 \$</b>	<b>Actual as at 30 June 2021 \$</b>
<b>Current Assets</b>		
Prepaid Rent	3 000	4 000
Accounts Receivable	23 000	29 000
Inventory	14 000	27 000
	<b>40 000</b>	<b>60 000</b>
<b>Current Liabilities</b>		
Accrued Wages	5 000	10 000
Accounts Payable	20 000	35 000
Loan	15 000	12 000
Bank	10 000	18 000
	<b>50 000</b>	<b>75 000</b>

<b>Financial Indicator</b>	<b>Budget</b>	<b>Actual</b>
Working Capital Ratio (WCR)	0.8:1	0.8:1
Quick Asset Ratio (QAR)	0.46:1	0.39:1

The actual sales for June 2021 were the same as budgeted for.

The accountant states that the data indicates liquidity problems that need to be addressed. The owner disagrees and states that liquidity is satisfactory because the Working Capital Ratio is on budget.

- a. Discuss both the accountant's and the owner's statements. 6 marks
- b. Explain **one** benefit of budgeting on a monthly basis. 2 marks

**TURN OVER**

**Question 6** (12 marks)

On 1 July 2020, Ocean Cuttlefish paid \$540 000 (plus GST) to buy refrigeration equipment. The business reports annually on 30 June. In May 2021, the accountant sent the following email to the owner of the business.

**To:** Ocean Cuttlefish <jamie@oceancuttlefish.com.au>

**Sent:** 15 May 2021

**Subject:** Refrigeration equipment

Hi Jamie,

Thanks for the update about the new equipment.

I will need accurate estimates of the useful life and residual value of the equipment so that we can depreciate it properly. My experience is that most refrigeration equipment has a life of 10 years and a residual value of 10%. We generally use the reducing balance method at a rate of 20% per annum.

Let me know your thoughts.

Regards,

Alex

CQV Accountants

The owner knew that a buyer was interested in purchasing the business and replied with the email below.

**To:** Alex@CQV.com

**Sent:** 21 May 2021

**Subject:** Refrigeration equipment

Hello Alex,

I would like you to use an estimated working life of 15 years and a residual value of \$120 000. I would prefer you to use the straight-line method of depreciation as you do for our fixtures. It will make our profit look much better and the potential buyer will be more interested in purchasing the business.



What do you think?

Regards,

Jamie

Ocean Cuttlefish

- a.** Calculate the depreciation expense for the year ended 30 June 2021 and the carrying value of the equipment as at 30 June 2021 using the:
- reducing balance method at 20% per annum as suggested by the accountant
  - straight-line method using the owner's estimates of a useful life of 15 years and a residual value of \$120 000.
- 4 marks
- b.** State the effect on the Income Statement and Balance Sheet at 30 June 2021 if the straight-line method was used instead of the reducing balance method.
- 3 marks
- c.** Discuss any ethical and accounting issues that the accountant should consider when determining the depreciation method, the estimates of useful life and the residual value for the equipment.
- 5 marks

**Question 7** (18 marks)

Talking Toys has been in business for the past six months. Inventory is marked up by 100%. The owner has been using accounting software to record its financial transactions and to prepare monthly reports. The accounting software produced the following Income Statement for the month ended 31 October 2021.

**Talking Toys****Income Statement for the month ended 31 October 2021**

<b>Revenue</b>	\$	\$
Sales		56 000
<b>Less Cost of Sales</b>		<u>28 000</u>
<b>Gross Profit</b>		<b>28 000</b>
<b>Less Other Expenses</b>		
Wages	8 000	
Advertising	10 000	
Rent	3 400	
Office Expenses	<u>1 000</u>	<u>22 400</u>
<b>Net Profit</b>		<b><u>5 600</u></b>

Talking Toys recently hired an accountant to provide advice on business performance.

The owner showed the Income Statement to the accountant and said, 'We are happy that we made a profit again this month because it means we will have \$5 600 to expand our inventory.'

The accountant replied, 'Cash and profit are not the same under the accrual basis of accounting.'

The owner responded, 'But they are the same, because we only record expenses when they are paid and we only sell for cash.'

- a. Explain what the accountant meant by saying that cash and profit are not the same under the accrual basis of accounting.

4 marks

After reviewing the business records, the accountant prepared a list of additional items that needed to be included to ensure that the business was reporting under the accrual basis of accounting:

- Sales included a \$2 000 deposit for toys to be delivered to K's Kinder in November.
- Inventory costing \$500 had been damaged and could no longer be sold.
- The old delivery van was traded in on 1 October for \$600 more than its carrying value.
- On 31 October, wages of \$1 000 were owing.
- Advertising of \$10 000 was paid for a five-month campaign commencing on 1 October.
- Rent and Office Expenses remain unchanged.

**b.** Prepare a revised Income Statement for the month ended 31 October 2021. 8 marks

**c.** On 3 November, wages of \$2 600 were paid (Chq. 65).

Show how the payment would appear in the General Journal.

A narration is **not** required.

2 marks

**d.** On 15 November, the toys were delivered to K's Kinder, which then made the final payment (Rec. 48) on its order of \$4 500 (plus GST).

Record the necessary entries in the General Journal.

Narrations are **not** required.

4 marks

**Question 8** (6 marks)

A bakery supplies local schools and businesses with freshly baked goods. The owner of the bakery is looking at improving the performance of the business and is considering contributing a further \$150 000 cash.

The business has experienced cash flow problems in recent years. It has a bank loan of \$220 000, of which both the principal amount and the interest are being repaid over the next four years.

Key financial indicators include:

Return on Owner's Investment (ROI)	15%
Gross Profit Margin (GPM)	65%
Net Profit Margin (NPM)	22%
Debt Ratio	45%
Quick Asset Ratio (QAR)	0.85:1

The owner is considering two options:

- Option A – expanding inventory lines by redeveloping the kitchen area and employing an extra staff member to assist in the kitchen and with deliveries
- Option B – reducing the bank loan by \$150 000

With reference to the key financial indicators, explain the impact each option would likely have on the performance of the business.

**Victorian Certificate of Education  
2021**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

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**ACCOUNTING**  
**Written examination**

**Friday 5 November 2021**

**Reading time: 3.00 pm to 3.15 pm (15 minutes)**

**Writing time: 3.15 pm to 5.15 pm (2 hours)**

**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 unauthorised electronic devices into the examination room.**

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**Question 1** (18 marks)

a.

2 marks

<b>5 February</b>
<b>20 February</b>

b.

4 marks

<b>Reason 1</b>
<b>Reason 2</b>

c.

2 marks

<b>Working space</b>	
<b>Total value of the large pots at 28 February 2021</b>	\$



g.

2 marks

Justification

h.

3 marks

Garden Leaf

General Journal

Date 2021	Details	Debit	Credit

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**Question 2** (20 marks)

a.

12 marks

**Accounts Receivable**

<b>Date 2021</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2021</b>	<b>Cross-reference</b>	<b>Amount</b>

**Inventory**

<b>Date 2021</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2021</b>	<b>Cross-reference</b>	<b>Amount</b>

**Accounts Payable**

<b>Date 2021</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2021</b>	<b>Cross-reference</b>	<b>Amount</b>

**Capital**

<b>Date 2021</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2021</b>	<b>Cross-reference</b>	<b>Amount</b>

Question 2 – continued





c.

2 marks

Explanation

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**Question 4 (9 marks)**

**Working space**

**a.** 4 marks

**Netball House  
General Journal**

Date 2021	Details	Debit	Credit

**b.** 2 marks

**Netball House  
Balance Sheet (extract) as at 30 June 2021**

Current Assets	\$	\$



c.

3 marks

<b>Classification</b>
<b>Explanation</b>

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**Question 6** (12 marks)

a.

4 marks

<b>Depreciation method</b>	<b>Depreciation expense for the year ended 30 June 2021</b>	<b>Carrying value of equipment as at 30 June 2021</b>
reducing balance		
straight-line		

b.

3 marks

<b>Effect on Income Statement</b>
<b>Effect on Balance Sheet</b>

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c.

5 marks

Discussion

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**Question 7** (18 marks)**a.**

4 marks

<b>Explanation</b>

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c.

2 marks

Talking Toys

General Journal

Date 2021	Details	Debit	Credit

d.

4 marks

Talking Toys

General Journal

Date 2021	Details	Debit	Credit



**Question 8** (6 marks)**Option A**


**Option B**


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