

**Victorian Certificate of Education
2022**

ACCOUNTING
Written examination

Thursday 26 May 2022

Reading time: 2.00 pm to 2.15 pm (15 minutes)

Writing time: 2.15 pm to 4.15 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>
9	9	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 11 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.

Question 1 (7 marks)

Candles Alight commenced operations on 1 March 2022 and will report monthly. The business sells candles. One of its products is the Ruby candle. The business uses the First In, First Out (FIFO) cost assignment method.

Inventory Card

Item: Ruby candle		Cost Assignment Method: FIFO								
Supplier: WixAway		IN			OUT			BALANCE		
Date 2022	Document	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Mar. 1	Inv. 324	25	15	375				25	15	375
4	Inv. 123				14	15	210	11	15	165
8	Inv. 544	30	16	480				11	15	
								30	16	645

Additional information

- 10 March The business sold 15 Ruby candles for \$25 each (plus GST) (Rec. 68).
- 13 March The owner took five Ruby candles from the business to use as gifts for a friend (Memo 6).
- 19 March The business purchased 40 Ruby candles for \$13 each (plus GST). The delivery cost \$40 (plus GST) (Inv. 655).
- 23 March A customer returned six Ruby candles (CrN. 16).
- 31 March A physical stocktake revealed that there were 69 Ruby candles on hand (Memo 7).

- a. Record the additional information in the Inventory Card provided. 5 marks
- b. Justify your treatment of the cost of the delivery on 19 March. 2 marks

Question 2 (17 marks)

Electrix Warehouse reports monthly and uses a 100% mark-up on inventory. All sales and purchases are on credit.

On 1 January 2022, the balance in the Inventory ledger account was \$46 000 dr.

The business has provided the following information for January 2022:

• Purchases	\$260 000 (plus GST)
• Purchase returns	\$7 000 (plus GST)
• Sales	\$500 000 (plus GST)
• Sales Returns	\$12 000 (plus GST)
• Discount Revenue	\$1 250
• Delivery Expense	\$4 500 (plus GST)

Inventory at 31 January 2022:

- \$55 000 (at cost price)
- \$53 000 (at lower of cost and net realisable value)

- State the name of the document that would show evidence of purchase returns. 1 mark
- Record the necessary balance day adjustment required on 31 January in the General Journal.
A narration is **not** required. 2 marks
- Explain why inventory is valued at the lower of cost and net realisable value. 4 marks
- Complete the Inventory ledger account at 31 January 2022. 6 marks
- Prepare an extract of the Income Statement up to and including Adjusted Gross Profit. 4 marks

Question 3 (11 marks)

Fast Cups is a business that sells takeaway coffees to commuters from a coffee stall next to a busy train station:

- Each coffee is sold for \$4.00 (plus GST).
- Each coffee costs \$0.42 to make.
- Each coffee is sold in a single-use plastic cup with a lid, which costs \$0.09 (plus GST).
- The business sells on average 200 coffees per day, seven days a week, 52 weeks a year.

Recently, there have been complaints about single-use plastic cups causing a litter problem around the station. After conducting some research, the accountant has found high-quality recyclable cups with lids that can be imported from New Zealand at a cost of \$0.15 each (plus GST), including delivery.

Fast Cups currently uses imported coffee beans from a producer whose employees are exploited through unfair work practices. They are considering changing to a supplier who sells only fair-trade coffee beans. Employees of fair-trade coffee producers are treated fairly and work in better conditions. This change of supplier would increase the cost of each coffee Fast Cups makes by \$0.05

The accountant tells the owner of Fast Cups that, if the suggestions above were accepted, sales would likely increase by 10% because being more environmentally friendly would be viewed favourably by customers.

The accountant's sister has a business that imports coffee beans and she has offered the accountant a payment of \$2 500 if her business is given the contract to supply the fair-trade coffee beans.

The owner asks the accountant to model the possible effects of these suggestions on gross profit for a 12-month period.

- a.** Complete the tables provided to show the effects of each of the following three scenarios on sales, cost of sales and gross profit:
- Scenario A – Keep using current cups and coffee beans, so sales and cost of sales remain the same.
 - Scenario B – Use recyclable cups with lids and fair-trade coffee, leading to a 10% increase in sales.
 - Scenario C – Use recyclable cups with lids and fair-trade coffee, with no increase in sales. 5 marks
- b.** Using the information provided, discuss the ethical and financial issues. 6 marks

Question 4 (12 marks)

VIMT Furniture sells a range of home furnishings on credit. Credit terms are n/30. The business reports quarterly.

During the January–March quarter, net credit sales were \$400 000. On 31 March 2022, the balance of Accounts Receivable was \$132 000 and the balance in the Allowance for Doubtful Debts was \$8 000 cr.

On 31 March, the business closely examined all Accounts Receivable accounts and decided to write off \$6 600 as uncollectable. The business also decided to make the allowance for doubtful debts equal to 3% of net credit sales (Memo 242).

a. Prepare the General Journal entries required on 31 March to:

- write off the \$6 600
- record the allowance for doubtful debts.

Narrations are **not** required.

5 marks

b. Show how Accounts Receivable would be reported in the Balance Sheet as at 31 March 2022. 3 marks

c. Explain **one** benefit and **one** limitation of maintaining an allowance for doubtful debts. 4 marks

Question 5 (21 marks)

Jaimie's Stationery reports monthly. The business buys on credit and sells both for cash and on credit. Credit terms are n/30 for Accounts Receivable and Accounts Payable. The business uses a 100% mark-up on inventory.

The business has provided the following information for March 2022:

- Bank balance at 1 March was \$2 300 cr.
- Cash Sales were \$36 000 (plus GST), Credit Sales were \$54 000 (plus GST) and collections from Accounts Receivable were \$59 000.
- Purchases were \$36 000 (plus GST) and payments to Accounts Payable were \$42 000.
- Wages paid totalled \$26 000. Wages owing were \$1 000 at 31 March.
- A motor vehicle that cost \$48 000 (plus GST) and had Accumulated Depreciation of \$27 000 was sold on 1 March for \$13 000 cash (plus GST).
- On 3 March, a replacement vehicle was purchased for \$50 000 (plus GST). Finance for the new vehicle required a deposit of \$7 000 and a loan of \$48 000 from Nifty Finance.
- Drawings were \$11 000, including \$2 000 of inventory.
- Information about rent was:
 - Prepaid Rent Expense (1 March) was \$39 000.
 - Prepaid Rent Expense (31 March) was \$30 000.
 - Rent Expense was \$15 000.

- a. Prepare the General Journal entry to record the purchase of the new vehicle on 3 March 2022.

A narration is **not** required.

3 marks

- b. Prepare the Cash Flow Statement for the month ended 31 March 2022.

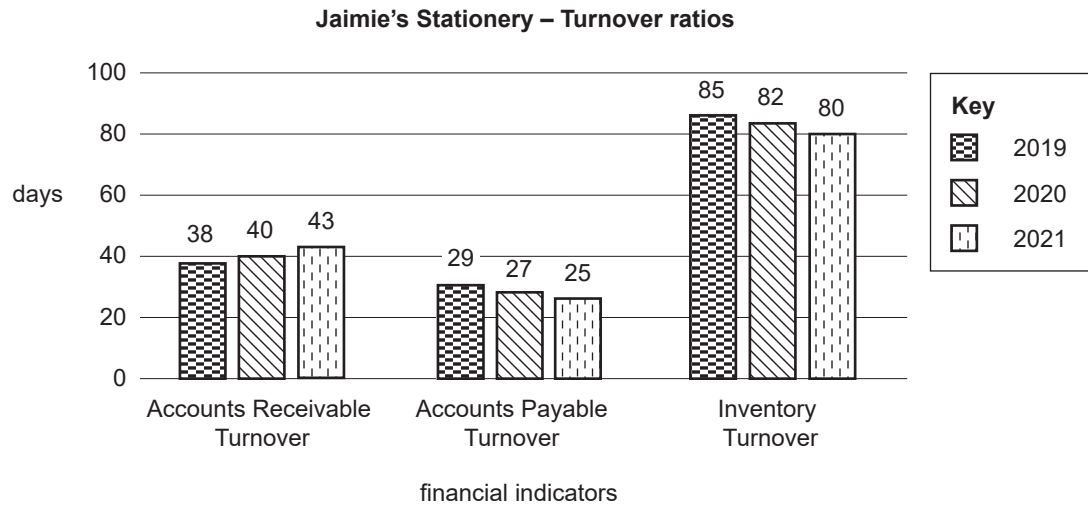
9 marks

Sales in March were lower than expected and the business reported a loss for the month. Even before the Cash Flow Statement was prepared, the accountant had been aware that the bank balance had increased over the month.

- c. Explain how Jaimie's Stationery can record a loss while, during the same period, its bank balance has increased. Give **two** examples from the information above.

4 marks

- d. Consider the information provided in the graph below.



Analyse the likely impact of the trends shown in the graph on Jaimie's Stationery's cash flow. 5 marks

Question 6 (6 marks)

In 2021, Clean Ceramics increased its borrowing in order to expand its range of inventory. It has provided the following financial indicators.

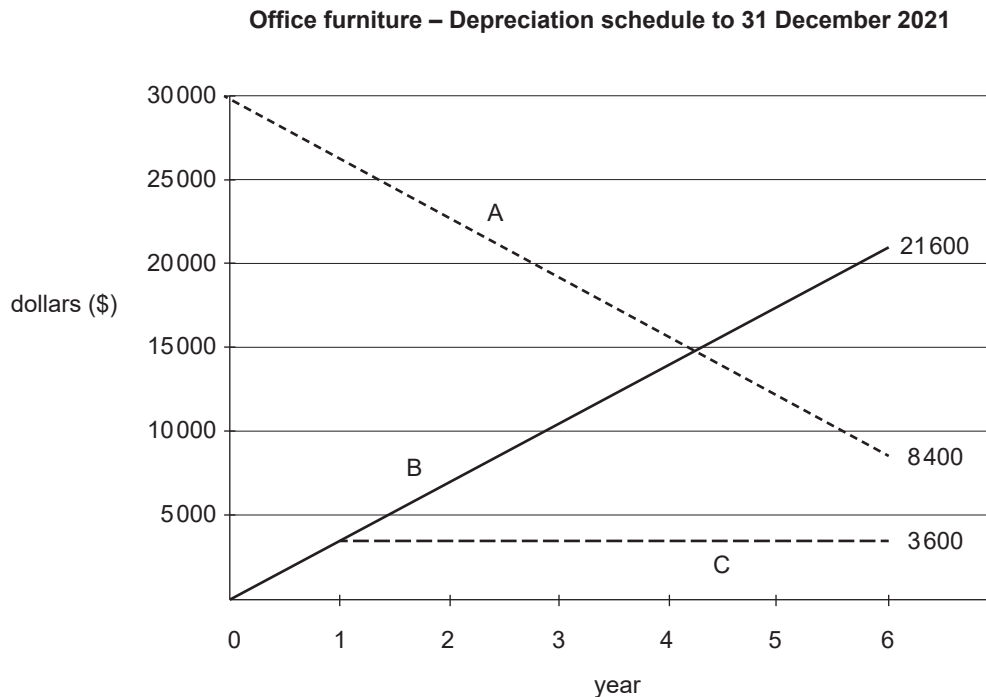
	Clean Ceramics		Industry average
	2020	2021	2021
Return on Assets (ROA)	14%	14%	15%
Return on Owner's Investment (ROI)	15%	21%	19%
Debt Ratio	22%	35%	20%

Using the financial indicators above, discuss the effects the additional borrowing has had on business performance.

Question 7 (15 marks)

GSV Motors has decided to dispose of its office furniture, which the business had purchased six years ago for \$30 000 (plus GST). The office furniture has been depreciated using the straight-line method at 12% per annum.

Details relating to the office furniture and its depreciation over the six years to 31 December 2021 are shown in the graph below.



- a. State what each line, A, B and C, on the graph represents.

3 marks

On 31 January 2022, the business received \$3 500 (Rec. 442) (plus GST) for the old office furniture. The business also purchased new office furniture costing \$23 000 (plus GST) (Chq. 673).

- b. Record the transactions in the General Journal on 31 January for the:

- depreciation of the old office furniture
- disposal of the old office furniture
- purchase of the new office furniture.

Narrations are **not** required.

7 marks

- c. Explain the effects that recording depreciation has on the accounting equation.

2 marks

- d. The owner intends to sell the business and retire in four years' time and asks the accountant to depreciate the new office furniture over the four-year period instead of its estimated useful life of seven years.

Identify and explain **one** accounting assumption that would be breached if the accountant agreed to this request.

3 marks

TURN OVER

Question 8 (5 marks)

Ferdy's Fine Furniture supplies high-quality furniture to customers and uses a 100% mark-up on inventory. Customers pay a deposit when they place an order and the business then purchases from local and overseas suppliers. The outstanding amount is paid on delivery.

Alex Dashley placed an order for a Milanti table and paid a deposit of \$4 000 (Rec. 174). Dashley was later emailed the document shown below.

Ferdy's Fine Furniture			
Tax invoice: 4256			
Date: 14/3/2022			
<i>Customer: Alex Dashley, 12 Ti-Tree Lane, Shady Creek</i>			
Item	Qty	Unit cost (\$)	Amount (\$)
Milanti table	1	9 000	9 000
GST			<u>900</u>
		Total	9 900
		Less deposit paid 14/03/2022	<u>4 000</u>
		Balance to be paid on delivery	5 900

The table was delivered and the account was settled on 15 May 2022.

Prepare the General Journal entries to record:

- the cash received for the deposit
- any entries required on 15 May 2022.

Narrations are **not** required.

Question 9 (6 marks)

Parkes and Wylde sells camping gear to hiking clubs and sporting organisations. The business budgets and reports on a quarterly basis. The accountant has completed the Income Statement Variance Report for the three months ended 31 December 2021 and has provided the extract below.

Parkes and Wylde
Income Statement Variance Report (extract)
for the three months ended 31 December 2021

	Budget (\$)	Actual (\$)	Variance (\$)
Net Sales	131 000	122 000	9 000
Cost of Sales	50 400	50 300	100
Gross Profit	80 600	71 700	8 900
Less Expenses			
Advertising	8 000	5 000	3 000

- a. Complete the Income Statement Variance Report (extract). 2 marks
- b. Analyse the information presented in the Income Statement Variance Report (extract) and provide reasons for the results. 4 marks