



Victorian Certificate of Education 2006

ACCOUNTING

Written examination 2

Thursday 2 November 2006

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 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 10 pages.
- Answer book of 13 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.

Instructions

For the purposes of this examination, implications of the Goods and Services Tax (GST) are only required to be considered in Question 2.1.

Question 1

Plentiful Plants

Simone Baxter owns and operates a trading business called Plentiful Plants, a small nursery specialising in the sale of garden products. The accounting system is based on the double-entry accrual system of recording and reporting. The business maintains a perpetual stock recording system and uses control accounts for Debtors, Creditors and Stock.

1.1 Debtor balances for Plentiful Plants at 1 December 2006 are as follows:

	\$
01 J Easton	3 300
02 Bob's Plant Care	14 000
03 Yarra SC	2 200
04 F Richards	<u>1 500</u>
Total	<u>21 000</u> Dr

Journals and documents for December 2006 include the following:

Sales Journal

SJ9

Date 2006	Debtor	Post Ref.	Inv. No.	Cost Price	Selling Price
Dec 2	F Richards		123	300	800
6	J Easton		124	1 400	3 200
14	Bob's Plant Care		125	3 000	6 500
21	Yarra SC		126	1 000	2 000
31	Total			5 700	12 500

Cash Receipts Journal

CRJ14

Date 2006	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	Sundries
Dec 7	Sales		crr	13 500			8 000	13 500	
14	Capital		68	20 000					20 000
21	Sales		crr	12 000			7 500	12 000	
22	J Easton		69	3 135	165	3 300			
24	Yarra SC		70	2 200		2 200			
28	Sales		crr	4 000			1 500	4 000	
	Totals to date			54 835	165	5 500	17 000	29 500	20 000

Note: crr = Cash Register Receipt

Plentiful Plants Heidelberg Road Fairfield ABN 82 157 346 387	
	Credit Note C28 Date 16 December 2006
Credit Account:	J Easton
For:	4 cracked pots (150 cm) @ \$250 each returned by customer
Amount:	<u>\$1 000</u>
Total Credited:	<u>\$1 000</u>

Note: Pots (150 cm) – cost price \$120 each

McCoppin Wholesale Gardeners Lower Plenty Road Heidelberg ABN 64 435 226 981	
	Credit Note 105 Date 24 December 2006
Credit Account:	Plentiful Plants
For:	4 cracked pots (150 cm) returned by customer @ \$120 each
Amount:	<u>\$480</u>
Total Credited:	<u>\$480</u>

Plentiful Plants Heidelberg Road Fairfield ABN 82 157 346 387	
	Receipt No. 71 Date 29 December 2006
To:	Bob's Plant Care
For:	Payment of November account
Amount:	\$ 14 000
Less Discount (5%)	<u>\$ 700</u>
Total Received:	<u>\$ 13 300</u>

Plentiful Plants Heidelberg Road Fairfield	Memo 12 31 December 2006
<p>Comment: We have received \$1000 from debtor F Richards (Receipt 72). This is a final payment as he has been declared bankrupt.</p>	
<p>Action: Record the receipt and write off the balance of the account.</p>	
<p>Signed:</p>	

Plentiful Plants Heidelberg Road Fairfield	Memo 13 31 December 2006
<p>Comment: In November we received \$15 000 from a customer for specially ordered plants to be supplied in December and January – it was recorded as Prepaid Revenue. \$10 000 of this order has now been delivered (cost \$4 000).</p>	
<p>Action: Adjust accounts as necessary.</p>	
<p>Signed:</p>	

Required

1.1.1 Record the above documents into appropriate journals. **Total** the Cash Receipts Journal.

Narrations are **not** required in the General Journal.

Posting references are **not** required.

5 + 2 + 1 + 3 + 4 = 15 marks

1.1.2 Show how

- the Debtors Control and Cost of Sales accounts would appear in the General Ledger
- the debtor (F Richards) account would appear in the Debtors Subsidiary Ledger, after all relevant entries have been posted.

You are **not** required to balance the accounts.

4 + 4 + 2 = 10 marks

1.1.3 State two control procedures that Plentiful Plants could implement to improve the management and control of Debtors.

2 marks

1.2 Plentiful Plants has attempted to improve their stock turnover in recent years without reducing their prices. The accountant has prepared the following results:

Year	Stock Turnover	$\left(\frac{\text{Average Stock} \times 365}{\text{Cost of Goods Sold}} \right)$
2004	94 days	
2005	82 days	
2006	65 days	

Required

1.2.1 State two measures the business may have taken to improve Stock Turnover.

2 marks

1.2.2 Explain the impact that the improvement in Stock Turnover would have on the business's Cash Cycle.

2 marks

1.2.3 Explain one possible negative effect of improving the business's Stock Turnover.

2 marks

1.3 In January 2007 the following information related to the stock item, Ceramic Pots (90 cm).

Stock Item: Ceramic Pots (90 cm)

(FIFO)

Date January 2007	Details	IN			OUT			BALANCE		
		Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost
1	Balance							15 30	30 40	1 650
3	Rec. 73				9	30	270	6 30	30 40	1 380
7	Inv. 127				2	30	60	4 30	30 40	1 320
24	C/N C29	6	30	180				10 30	30 40	1 500
26	C/N 56X				6	30	180	4 30	30 40	1 320

A stocktake on 31 January 2007 revealed 34 units on hand.

The owner issued the following memo to the accountant relating to 90 cm Ceramic Pots.

<p>Plentiful Plants Heidelberg Road Fairfield</p>	<p>Memo 14 31 January 2007</p>
<p>Comment: Our supplier has introduced a better designed 90 cm ceramic pot. They cost \$50 and sell for \$100. We need to clear our existing stock – estimated sale price \$35 – but there will be a direct advertising cost of \$3 incurred per unit sold.</p>	
<p>Action: Make any necessary adjustments required to write down the old stock.</p>	
<p>Signed:</p>	

Required

- 1.3.1 **State** how the transaction on 3 January is different from the transaction on 7 January. 1 mark
- 1.3.2 **Explain** the likely relationship between the transactions on 24 January and 26 January. 2 marks
- 1.3.3 **Define** the term 'net realisable value'. 2 marks
- 1.3.4 **Calculate** the value of Ceramic Pots (90 cm) on hand on 31 January, applying the appropriate stock valuation method. 2 marks
- 1.3.5 **Record** the stock write down (Memo 14) in the General Journal.
A narration is **not** required. 2 marks
- 1.3.6 **Explain** why stock may sometimes be valued at net realisable value. **Identify** one relevant accounting principle that supports your answer. 2 + 1 = 3 marks

2 + 1 = 3 marks

Total 45 marks

TURN OVER

Note: For the purposes of this examination, implications of the Goods and Services Tax (GST) are only required to be considered in Question 2.1.

Question 2

Forbes Furnishings

Noel Forbes owns and operates a small trading business called Forbes Furnishings. The accounting system is based on the double-entry accrual system of recording and reporting. The business maintains a perpetual stock recording system and uses control accounts for Debtors, Creditors and Stock. Noel has a strong accounting background and completes most of the accounting work himself.

2.1 The following journals and documents were generated in January 2007.

Cash Receipts Journal

CRJ 8

Date 2007	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries
31 Jan	Sub totals			55 600	800	22 400	16 000	30 000	3 000	1 000
	Total									

Sales Journal

SJ 6

Date 2007	Debtor	Post Ref.	Inv. No.	Cost Price	Selling Price	GST	Total Debtors
31 Jan	Sub totals			24 000	50 000	5 000	55 000
	Total						

Cash Payments Journal

CPJ 12

Date 2007	Details	Post Ref.	Cheq. No.	Bank	Disc. Rev.	Creditors	Stock	GST	Sundries
31 Jan	Total			51 000	400	28 400	14 000	2 000	7 000

Purchases Journal

PJ 6

Date 2007	Creditor	Post Ref.	Inv. No.	Amount	GST	Total Creditors
31 Jan	Total			32 000	3 200	35 200

Forbes Furnishings	
Simpsons Road	
Benalla	
ABN 92 248 449 257	
	Receipt No: 125
	Date: 31/1/2007
Credit Account:	Debtor – J Moore
For:	November a/c
Amount	\$ 1 000
Discount	<u>\$ 20</u>
Total Received	<u>\$ 980</u>

At 31 December 2006 the GST Clearing Account had a credit balance of \$4 000.

Forbes Furnishings	
Simpsons Road	
Benalla	
ABN 92 248 449 257	
	Tax Invoice No: 342
	Date: 31/1/2007
Credit Account:	L Fitzgerald
For:	Sale of 3 seater couch (Model – Sierra)
Amount	\$ 1 200
GST	<u>\$ 120</u>
Invoice total	\$ 1 320
Term 2%/30 days	

Note: Cost price of the goods sold – \$800

Required

- 2.1.1 Record** the above documents into the Cash Receipts Journal and Sales Journal.
Total both journals.

2 + 2 = 4 marks

- 2.1.2 Show** how the GST Clearing Account in the General Ledger would appear at 31 January 2007 after all journals have been posted. **Balance** the account.

4 marks

- 2.1.3 Explain** the effect of GST on the calculation of profit for Forbes Furnishings for January.

2 marks

- 2.1.4 State** how the GST Clearing Account would be classified in the Statement of Financial Position at 31 January 2007. **Justify** your answer.

1 + 1 = 2 marks

2.2 In preparing budgets for the quarter ending 30 June 2007, Noel provided the following information:

Forbes Furnishings

Statement of Financial Performance

For the quarter ended 31 March 2007

			Budget estimates for next quarter
Revenue			
Cash sales	140 000		Up 10%
Credit sales	<u>60 000</u>	200 000	Up 20%
Less Cost of Goods Sold			
Cost of Sales		<u>100 000</u>	Use same % mark up
Gross Profit		100 000	
Less Other Expenses			
Discount Expense	600		1% of credit sales
Depreciation on Fittings	4 000		Straight line method
Bad debts	2 000		None
Interest on loan	3 000		\$2 500
Advertising	9 000		Up 5%
Wages	18 000		Up 5%
Rent	<u>12 000</u>	<u>48 600</u>	Rent – see below
Net Profit		<u><u>51 400</u></u>	

Additional information

Relevant Account Balances	Actual	Expected
(1)	31 March	30 June
Debtors Control	\$22 000	\$25 000
Creditors Control	\$27 000	\$29 000
Wages Owing	\$1 000	\$2 000
Prepaid Advertising	–	\$1 400

- (2) A \$5 000 contra entry will be made during the quarter.
- (3) Purchases of stock for the quarter are expected to be \$120 000. 80% of purchases are on credit.
- (4) Rent of \$24 000 was last paid on 1 January 2007. This represented six months rent paid in advance for the period 1 January to 30 June 2007.
- (5) Drawings for the quarter – \$14 000 cash and \$2 000 stock.
- (6) The business has a bank loan of \$130 000 – principal repayments are \$5 000 per quarter.
- (7) At 30 June, the bank balance is expected to be \$40 000 debit.
- (8) There are no other prepayments or accruals at 30 June 2007.

Required

- 2.2.1 Calculate** estimated payments to Creditors for the quarter ended 30 June 2007. 2 marks
- 2.2.2 Calculate** estimated receipts from Debtors for the quarter ended 30 June 2007. 3 marks
- 2.2.3 Prepare** the Cash Payments section of the Cash Budget for the quarter ended 30 June 2007. 6 marks
- 2.2.4 Prepare** the Other Expenses section of the Budgeted Statement of Financial Performance for the quarter ended 30 June 2007. 4 marks
- 2.2.5 Prepare** the Current Liability section of the Budgeted Statement of Financial Position as at 30 June 2007. 2 marks
- 2.2.6 Explain** how Noel should use these budgets during the quarter ended 30 June 2007. 2 marks

- 2.3** In September 2007, the business invested \$80 000 in an on-line, high interest investment account. Interest on the account is credited at 30 June each year or when the account is closed. Details were as follows:
- At 31 December 2007 \$1 400 interest had been earned.
 - The account was closed in March 2008 and the final balance was transferred electronically to the business bank account.
 - The 31 March 2008 Bank Statement showed the credit of \$82 400 received on closing the account.

Required

- 2.3.1 Record** the Balance Day Adjustment required to record the Interest Revenue for the year ended 31 December 2007.
A narration is required. 2 + 1 = 3 marks
- 2.3.2 Record** the credit entry of \$82 400 from the March Bank Statement into the Cash Receipts Journal at 31 March 2008. 3 marks

- 2.4** Forbes Furnishings has been in operation for two years. Noel provides the following information relating to the profitability of the business.

	2006	2007	Industry Average
Return on Assets $\left(\frac{\text{Net Profit before deducting Interest}}{\text{Average for Total Assets}} \right)$	12%	10%	15%
Sales (Asset) Turnover $\left(\frac{\text{Sales}}{\text{Average for Total Assets}} \right)$	40%	44%	45%

Required

- 2.4.1 Explain** the significance of Sales Turnover as an indicator of profitability.

2 marks

- 2.4.2 Explain** how the Return on Assets can decrease in 2007 despite a significant increase in the Sales Turnover.

2 marks

Noel is concerned that the business's Return on Assets is well below industry average. His accountant says that, particularly for new businesses, the comparability of the Return on Assets with other businesses can be affected by accounting principles.

- 2.4.3 Explain** how this may be the case. Refer to one relevant accounting principle in your answer.

2 + 1 = 3 marks

- 2.4.4 State** one other limitation of ratio analysis.

1 mark

Total 45 marks



**Victorian Certificate of Education
2006**

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STUDENT NUMBER

Figures											Letter
Words											

ACCOUNTING
Written examination 2

Thursday 2 November 2006

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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TURN OVER

Question 1 – Plentiful Plants

1.1.1

GENERAL JOURNAL

GJ6

Date 2006	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$
16-Dec						
24-Dec						
31-Dec						
31-Dec						

CASH RECEIPTS JOURNAL**CRJ14**

Date 2006	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	Sundries
Dec 7	Sales		crr	13 500			8 000	13 500	
14	Capital		68	20 000					20 000
21	Sales		crr	12 000			7 500	12 000	
22	J Easton		69	3 135	165	3 300			
24	Yarra SC		70	2 200		2 200			
28	Sales		crr	4 000			1 500	4 000	
	Totals to date			54 835	165	5 500	17 000	29 500	20 000
31	Totals								

Note: crr = Cash Register Receipt

5 + 2 + 1 + 3 + 4 = 15 marks

1.1.2

105

DEBTORS CONTROL (General Ledger)

Date 2006	Particulars	Post Ref.	\$	Date 2006	Particulars	Post Ref.	\$
1 Dec	Opening Balance		21 000				

501

COST OF SALES (General Ledger)

Date 2006	Particulars	Post Ref.	\$	Date 2006	Particulars	Post Ref.	\$

105D4

DEBTOR – F Richards (Subsidiary Ledger)

Date 2006	Particulars	Post Ref.	\$	Date 2006	Particulars	Post Ref.	\$
1 Dec	Opening Balance		1 500				

4 + 4 + 2 = 10 marks

1.1.3

First control procedure
Second control procedure

2 marks

1.2.1

First measure
Second measure

2 marks

1.2.2

Explanation

2 marks

1.2.3

Explanation

2 marks

1.3.1

State

1 mark

1.3.2

Explanation

2 marks

1.3.3

Definition

2 marks

1.3.4

Calculation
\$

2 marks

1.3.5

GENERAL JOURNAL

GJ7

Date 2007	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$

2 marks

1.3.6

Explanation
Principle

2 + 1 = 3 marks

Total 45 marks

Question 2 – Forbes Furnishings**2.1.1****CASH RECEIPTS JOURNAL****CRJ 8**

Date 2007	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries
31 Jan	Sub totals			55 600	800	22 400	16 000	30 000	3 000	1 000
	Total									

SALES JOURNAL**SJ 6**

Date 2007	Debtor	Post Ref.	Inv. No.	Cost Price	Selling Price	GST	Total Debtors
31 Jan	Sub totals			24 000	50 000	5 000	55 000
	Total						

2 + 2 = 4 marks

2.1.2**310****GST CLEARING ACCOUNT**

Date 2007	Particulars	Post Ref.	\$	Date 2007	Particulars	Post Ref.	\$
				31 Dec 2006	Balance C/F		4 000

4 marks

2.1.3

Explanation

2 marks

2.2.3

Forbes Furnishings
Cash Budget (extract) for the Quarter Ended 30 June 2007

Cash Payments	\$

6 marks

2.2.4

Forbes Furnishings
Budgeted Statement of Financial Performance (extract) for the Quarter Ended 30 June 2007

Other Expenses	\$

4 marks

2.2.5

Forbes Furnishings
Budgeted Statement of Financial Position (extract) as at 30 June 2007

Current Liabilities	\$

2 marks

Question 2 – continued
TURN OVER

2.2.6

Explanation

2 marks

2.3.1

GENERAL JOURNAL

GJ 12

Date 2007	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit	Credit	Debit	Credit
			\$	\$	\$	\$

2 + 1 = 3 marks

2.3.2

Cash Receipts Journal

CRJ 4

Date 2008	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries
31 Mar										

3 marks

2.4.1

Explanation

2 marks

2.4.2

Explanation

2 marks

2.4.3

Explanation

2 + 1 = 3 marks

2.4.4

State

1 mark

Total 45 marks