

Victorian Certificate of Education
Year

ACCOUNTING
Written examination

Day Date

Reading time: *.*.* to *.*.* (15 minutes)

Writing time: *.*.* to *.*.* (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>
11	11	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.

Question 1 (17 marks)

Harry operates his store, Fair to You, in Northside. The business specialises in selling jewellery produced overseas by businesses that pay fair wages. Fair to You uses the First In, First Out (FIFO) inventory cost assignment method. Harry has only a small number of suppliers and operates an individual account for each supplier.

Harry has provided the following source documents.

Rosie's Jewellery 18 Bracelet St Melbourne Vic 3000		Invoice: RR99 Date: 1 Dec. 2019 Credit terms: 2/7, n/30	
Charge to: Fair to You			
Product details	Qty	Unit price (\$)	Total (\$)
Bracelets – blue	100	4	400
Bracelets – orange	100	4	400
Subtotal			800
GST			80
Total			880

Finn's Couriers		Tax Invoice Date: 1 Dec. 2019 Receipt: 118	
Sale to: Fair to You			
Details			\$
Delivery of 200 bracelets			200
GST			20
Total			220

The selling price of each bracelet is \$16 (plus GST).

Each bracelet purchased comes in a gift box that costs Rosie's Jewellery \$2 (plus GST) per box.

Fair to You is offering all customers the opportunity to have their name engraved on their bracelet for \$4 (plus GST) per bracelet.

- Calculate the cost price of one blue bracelet. 1 mark
- Record the source documents provided in the General Journal of Fair to You.
Narrations are **not** required. 4 marks
- Record the purchase of the blue bracelets in the Inventory Card. 1 mark

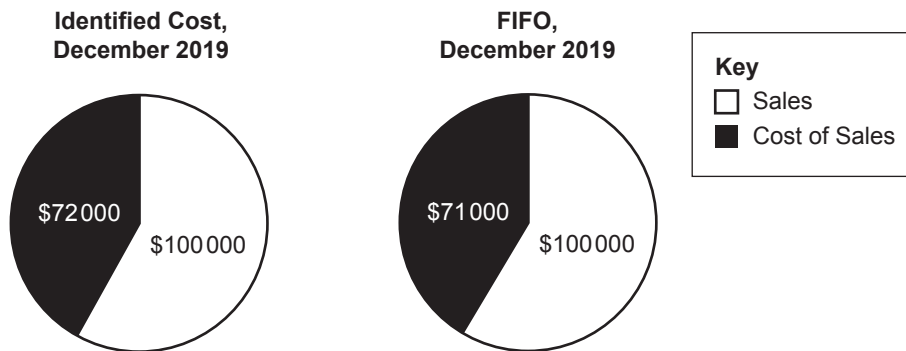
- d. Harry had been convinced by the supplier to try the orange bracelets with the shipment of 1 December, but they have not been a success. On 31 December 2019, the selling price of the orange bracelets is reduced to \$5 each (plus GST) because Fair to You has not sold any of the orange bracelets. The business will include free engraving on each orange bracelet, which normally costs the business \$2 per bracelet.

Record the journal entry required for the orange bracelets on 31 December 2019 in the General Journal of Fair to You (Memo 18).

A narration is required.

3 marks

- e. During December, Harry trialled using the Identified Cost inventory cost assignment method in addition to the FIFO inventory cost assignment method. The following graphs were prepared at the end of the month.



Explain how the graphs above can show different results while using the same transactions.

4 marks

- f. Harry has been approached by a new supplier who has offered to sell him similar jewellery at around 75% of his current cost price and who has also offered him 60-day payment terms. As Fair to You has been having significant cash flow issues recently, which has made it difficult to pay employees on time, Harry is considering using the new supplier for some of his inventory purchases. As the majority of this business inventory will still come from businesses paying fair wages, he does not believe that he needs to highlight the change in inventory to his customers.

Analyse the ethical considerations of Harry’s decision not to inform his customers of the change in inventory.

4 marks

Question 2 (18 marks)

Pip's Plumbing is a plumbing supplies store that has recently set up an online store. In order to prepare for the increase in deliveries, the business decided to dispose of its old delivery van and purchase a new one. The business had purchased its old delivery van on 1 September 2016 for \$20 000 (plus GST). The new delivery van was purchased from Smooth Cars on 31 December 2019 for \$46 200 (plus GST). The purchase price included delivery of \$1 000 (plus GST) and 12 months' insurance of \$1 200 (plus GST).

Smooth Cars agreed to a trade-in of \$8 000 for the old delivery van, with the balance being paid from a loan received from TNS Bank.

Pip's Plumbing prepares its accounting reports annually on 31 December and depreciates its assets at 20% per annum using the reducing balance method.

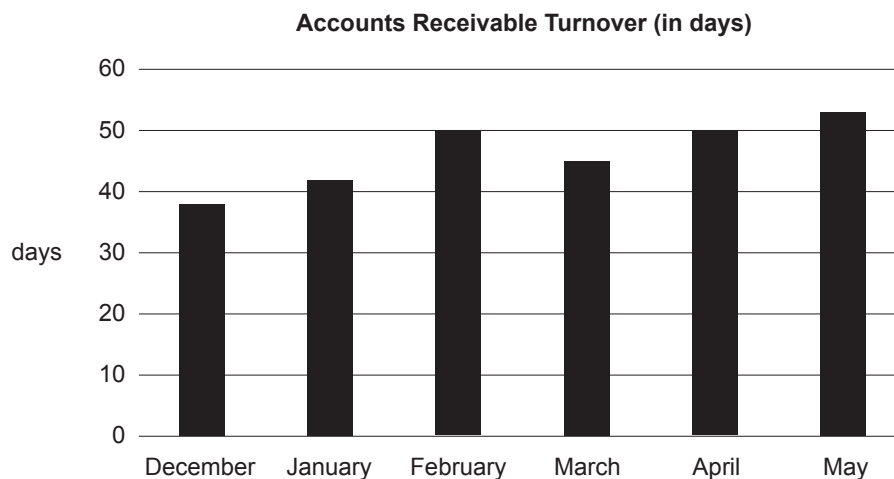
- a. Prepare the General Journal entries required on 31 December 2019.
Narrations are **not** required. 10 marks
- b. Explain the effect on the accounting equation if Pip's Plumbing had not depreciated the old delivery van for the year ended 31 December 2019. 3 marks
- c. Explain why Pip's Plumbing would report a loss on the disposal of the delivery van. 2 marks
- d. Referring to a qualitative characteristic, explain why Pip's Plumbing depreciates the delivery van. 3 marks

Question 3 (15 marks)

AQ Sportz sells a wide range of equipment for water sports. Inventory is sold for both cash and credit. The following information relates to Accounts Receivable for April 2019:

- The Accounts Receivable balance as at 1 April 2019 was \$7 800.
- The Accounts Receivable balance as at 30 April 2019 was \$9 500.
- The Receipts from Accounts Receivable were \$13 400.
- The Discount Expense was \$200.
- The Discount Revenue was \$140.
- The Allowance for Doubtful Debts had a balance of \$1 400 on 1 April 2019.
- \$1 200 was written off as Bad Debts in April.
- The Allowance for Doubtful Debts is 5% of net credit sales.

- a. Using the information above, reconstruct the Accounts Receivable ledger account and determine the Credit Sales for April 2019. 6 marks
- b. Record the General Journal entry required to prepare the Allowance for Doubtful Debts for May 2019 (Memo 67).
A narration is **not** required. 3 marks
- c. The following graph shows the Accounts Receivable Turnover (in days) for AQ Sportz over the six-month period from December 2018 to May 2019.



- Describe the trend in the Accounts Receivable Turnover for AQ Sportz over the six-month period from December 2018 to May 2019. 2 marks

d. AQ Sportz is considering the following strategies to improve its Accounts Receivable Turnover:

- **Strategy 1** – Sending regular automated payment reminders to customers

The accounting software the business currently uses allows it to pay a fee to have automated reminders sent out to customers regularly. This would cost \$240 per year and is predicted to lead to an improvement of 10 days per month in the Accounts Receivable Turnover.

- **Strategy 2** – Implementing a system of credit checks for all new customers who want credit

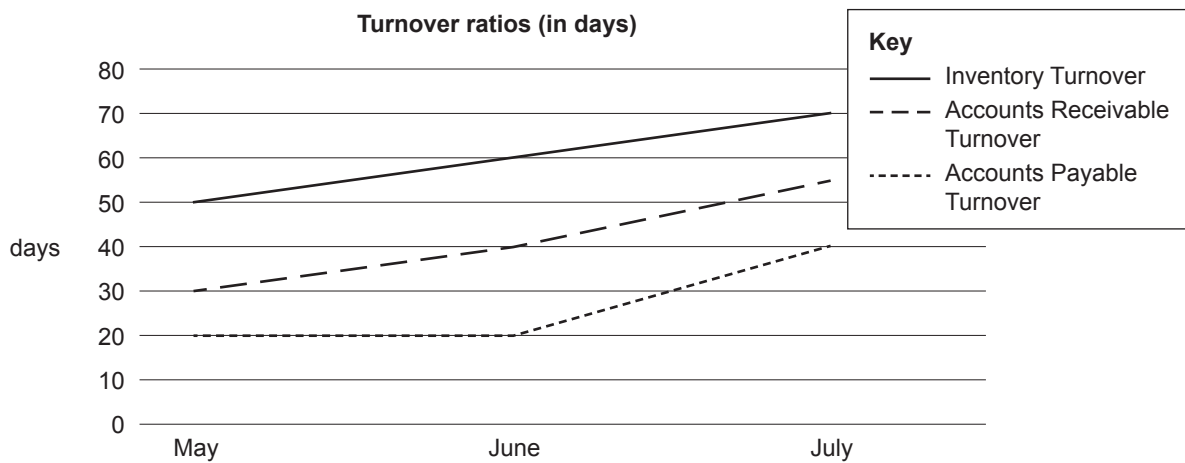
This is likely to increase office expenses by \$1 200 per year and it is likely to decrease Bad Debts by 25%, while improving the Accounts Receivable Turnover by 10%.

Which strategy should AQ Sportz adopt? Justify your answer.

4 marks

Question 4 (9 marks)

Walter’s Wheels sells bicycle parts. At the beginning of May 2019, it decided to sell bicycle parts on credit as well as for cash. Accounts receivable are expected to pay within 30 days. Anticipated credit sales in May were \$100 000, but the actual credit sales were only 60% of that amount. This trend continued for the months of June and July, as shown in the graph below.



- a. State the trend in each of the three financial indicators shown in the graph. 3 marks

- b. Explain how performance in collecting outstanding debts and in Inventory Turnover may have an impact on profitability and liquidity. 4 marks

- c. Explain how the trend in Accounts Payable Turnover may be linked to the trend in the other two financial indicators. 2 marks

Question 5 (5 marks)

Flex Furniture sells desks to schools. Northwest High School placed an order for 150 desks at \$60 each (plus GST). The desks were sold at a 50% mark-up.

The following transactions took place in November 2019:

- 21 November – Northwest High School paid a deposit of \$825 (EFT 86).
- 24 November – 100 desks were delivered to Northwest High School (Invoice FF6).

Prepare the General Journal entries required to record these transactions.

Narrations are **not** required.

Question 6 (6 marks)

Swim Up sells swimwear and accessories in Australia and overseas. The business plans to carry out an analysis of reports prepared recently.

The business discloses the following:

- The business reports once a year in June.
- The FIFO inventory cost assignment method is used to determine inventory on hand; the business is aware that using the Identified Cost inventory cost assignment method would result in a different amount.
- It is a relatively small business.
- The business has recently commenced selling inventory on credit. It does not offer discounts, believing it is enough to simply offer good service.
- A number of non-current assets are new. The business uses the reducing balance method of depreciation.
- The business has recently moved to a new location.
- The Australian dollar has fluctuated in value recently.

Discuss the difficulties Swim Up may experience when measuring its performance against past performance and budgets, and against other businesses in the same industry.

Question 7 (4 marks)

A Balance Sheet for a business is shown below.

Balance Sheet as at 31 May 2019

Assets		
Bank	3 100	
Accounts Receivable	18 000	
Inventory	24 000	
Machinery	<u>60 000</u>	
Total Assets		<u>105 100</u>
Liabilities		
Loan		45 000
Owner's Equity		
Capital		<u>60 100</u>
Total Equities		<u>105 100</u>

Additional information

- There may be difficulty in collecting some debts.
- Inventory is an estimate based on current market values.
- The machinery is two years old.
- The loan was taken out several years ago.

Apply the qualitative characteristic of faithful representation to the Balance Sheet and justify how **two** items in the report may fail to reach this standard.

Question 8 (7 marks)

TMU Traders is unsure of the state of liquidity of its business. The operating section of the Budgeted Cash Flow Statement for the month ending 31 May 2019 needs to be prepared. However, it does not have access to cash records and can only provide the following details:

- Inventory is sold for both cash and credit. Total sales for May 2019 are expected to be \$60 000 (plus GST), of which 60% are expected to be cash. 40% of credit sales are paid in the same month as the sale and the remainder is paid in the following month. At the end of April, Accounts Receivable had a balance of \$15 000.
- Drawings for May are anticipated to be \$9 000, of which \$3 000 will be for cash.
- An insurance policy is due in May for \$1 200 (plus GST) cash.
- Other expenses are estimated to be \$16 200 (plus GST), including depreciation of \$3 400.
- A loan for \$4 200 was taken out in February 2019. It is to be repaid in equal instalments over six months commencing March 2019. The interest of \$210 is due in August.
- Accounts Payable is anticipated to increase by \$2 000 from 30 April to 31 May after credit purchases of \$30 000. Cost of Sales is 50% of sales.
- On 30 April the GST balance was \$6 100. This will be settled in May.

Prepare the operating section of the Budgeted Cash Flow Statement for the month ending 31 May 2019.

Question 9 (7 marks)

A business provides an extract of its GST Clearing ledger account. Note that no non-current assets were purchased by the business during this time.

GST Clearing (extract)

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount
Jan. 2	Bank	5 630	Jan. 1	Balance	2 300
3	Accounts Payable	200	5	Accounts Receivable	7 650

- a. Describe the transactions that have led to each of the entries in the extract of the GST Clearing ledger account. 4 marks
- b. Using the data in the extract of the GST Clearing ledger account, explain why this business should be concerned about its liquidity after the start of the month if this is typical of how it conducts its operations. 3 marks

Question 10 (5 marks)

Dapper Dress-Ups sells costumes and accessories. The following information has been provided for June 2019:

• Accounts Payable	\$19 000
• Accounts Receivable	\$31 000
• Advertising Expense	\$30 000
• Cost of Sales	\$100 000
• Discount Expense	\$320
• Discount Revenue	\$400
• Inventory Control	\$110 000
• Profit on Sale of Equipment	\$1 200
• Sales	\$200 000
• Inventory Gain	\$500
• Wages	\$50 000

Using the information provided, prepare the closing entries in the General Journal to close all revenue and expense accounts and to close the Profit and Loss Summary account.

Narrations are **not** required.

Question 11 (7 marks)

To assist in organising the reports for a business, the owner has prepared the ledger accounts.

Adjusted Trial Balance as at 30 June 2019

Account	Debit	Credit
Accounts Payable		2 400
Accounts Receivable	5 820	
Advertising	3 600	
Bank		4 500
Capital		18 150
Cost of Sales	1 640	
GST Clearing		1 630
Inventory	17 300	
Loan ZYX Bank		12 000
Prepaid Rent (3 months)	600	
Sales		3 280
Shop Fittings	10 000	
Wages	3 000	
	41 960	41 960

Throughout July, the following transactions occurred:

- 5 July Cash sales plus GST \$3 400
- 25 July Credit sales plus GST \$3 700
- 9 July Cash purchases of inventory plus GST \$5 300
- 10 July Credit purchases of inventory plus GST \$7 200

Additional information

- 15 July – The business received half of the amount owing from June from Accounts Receivable.
- 31 July – The business paid an account within the terms offered and received a discount of \$920 (including discount).
- The business applies a 100% mark-up on cost to inventory.

Use the information above to complete the following ledger accounts for July:

- Inventory
- Accounts Payable
- Prepaid Rent Expense

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SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

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Day Date

Reading time: *. to *.** (15 minutes)**

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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 (17 marks)

a.

1 mark

<p>Working space</p> 	
Cost price of one blue bracelet	\$ <input style="width: 80%;" type="text"/>

b.

4 marks

Fair to You

General Journal

Date 2019	Details	Debit	Credit

c.

1 mark

Inventory Card

Item: Blue bracelet				Cost Assignment Method: FIFO						
Supplier: Rosie's Jewellery										
Date 2019	Document	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Dec.	Balance							20 4	4 5	80 20

d.

3 marks

Working space

Fair to You

General Journal

Date 2019	Details	Debit	Credit

e.

4 marks

Explanation

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TURN OVER

Question 2 (18 marks)

a.

10 marks

Working space

**Pip’s Plumbing
General Journal**

Date 2019	Details	Debit	Credit

b.

3 marks

Explanation

c.

2 marks

Explanation

d.

3 marks

Qualitative characteristic
Explanation

Question 3 (15 marks)

a.

6 marks

Accounts Receivable

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount

Credit Sales for April 2019	\$
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b.

3 marks

Working space

AQ Sportz

General Journal

Date 2019	Details	Debit	Credit

c.

2 marks

Description

d.

4 marks

Working space

Strategy
Justification

Question 4 (9 marks)**a.**

3 marks

b.

4 marks

Explanation

c.

2 marks

Explanation

Question 5 (5 marks)

Flex Furniture

General Journal

Date 2019	Details	Debit	Credit

Question 7 (4 marks)

Item 1
Item 2

Question 9 (7 marks)

a.

4 marks

1 January
2 January
3 January
5 January

b.

3 marks

Explanation

Question 11 (7 marks)

Inventory

Date 2019	Details	Amount	Date 2019	Details	Amount

Accounts Payable

Date 2019	Details	Amount	Date 2019	Details	Amount

Prepaid Rent Expense

Date 2019	Details	Amount	Date 2019	Details	Amount