



Victorian Certificate of Education 2005

ACCOUNTING

Written examination 2

Thursday 3 November 2005

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, an approved graphics calculator (memory cleared) and/or 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 9 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

Wazza's Tent World

Warren Walker owns and operates a small trading business called Wazza's Tent World. It sells camping equipment. His accounting system is based on the double-entry accrual system of recording and reporting. Warren maintains a perpetual stock recording system and control accounts for Debtors, Creditors and Stock.

1.1 The following account balances were taken from the Trial Balance on 5 December 2005.

	\$
Stock Control	36 000 Dr
Debtor Control	9 800 Dr

The Debtors Schedule at this date showed:

Hurley Sports Club	4 900
North Park Primary	2 600
Alan Johnson	<u>2 300</u>
	<u>9 800</u>

The following Journals have been prepared for the week ending 12 December 2005.

Sales Journal

SJ23

Date 2005	Debtor	Post Ref.	Inv. No.	Cost Price	Selling Price
9 Dec	North Park Primary		64	450	880
10 Dec	A Franklin		65	330	590
12 Dec	Hurley Sports Club		66	950	1 680
	TOTAL			1 730	3 150

Purchases Journal

PJ15

Date 2005	Creditor	Post Ref.	Inv. No.	Amount
12 Dec	TOTAL			6 300

General Journal

GJ8

Date 2005	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit	Credit	Debit	Credit
December 10	Sales Returns		880			
	Debtors Control			880		
	Debtor – North Park Primary					880
	Stock Control		450			
	Cost of Sales			450		
	Customer returns damaged stock – Credit Note A11					

The following information relates to the week ending 12 December 2005 and has not yet been recorded.

Cash Receipts

Receipt 83 – Cash Sale on 7 December for \$1 320 (cost price \$780).

Receipt 84 – North Park Primary settled their account on 8 December, taking full advantage of a 4% discount.

Receipt 85 – Cash Sale on 11 December for \$940 (cost price \$460).

Receipt issued as follows.

Wazza's Tent World	Receipt No. 86
Glenferrie Road	
Malthorn	12 December 2005
Received from: Hurley Sports Club	
	12 Sport Parade
	Fitnessville
Payment of Invoice No. 37	<u>\$2 250</u>
Total	<u>\$2 250</u>

Memo

Wazza's Tent World	Memo 31
Glenferrie Road	
Malthorn	12 December 2005
Comment: Debtor, Alan Johnson, has been declared bankrupt. He is also currently a creditor of ours who is owed \$900.	
Action: Prepare the necessary contra entry. Write off the balance of the account.	
Signed:	

Required

1.1.1 Record the **four** receipts above in the Cash Receipts Journal.

(**Total** the Cash Receipts Journal.)

4 marks

1.1.2 Prepare the General Journal entry to record the information contained in Memo 31.

(Narration is **not** required.)

4 marks

1.1.3 Show how the Debtors Control account would appear in the General Ledger after all the above information has been recorded. Balance the account at 12 December 2005.

(You **are** required to use posting references.)

7 marks

1.1.4 Show how North Park Primary's account in the Debtors Subsidiary Ledger would appear after all the above information has been recorded.

(You are **not** required to use posting references or balance the account.)

3 marks

1.1.5 Show how the Stock Control account would appear in the General Ledger after all the above information has been recorded.

(You are **not** required to use posting references or balance the account.)

4 marks

1.1.6 Explain how the use of the Debtors Control account and Debtors Subsidiary Ledger assists in managing debtors.

2 marks

1.2 Warren plans to introduce a new type of tent. Purchases will be made in lots of approximately 50 units from an existing supplier.

Other details are as follows.

	\$
• Selling price (per unit)	880
• Suppliers invoice price (per unit)	460
• Waterproofing of tents before sale (per unit)	30
• Advertising costs for new tent (per 50 units)	600
• Packaging costs before sale (per unit)	10
• Delivery out (optional) (per unit)	15

The delivery of tents from the supplier will be part of a larger, monthly delivery. Cost of each delivery is \$800 and is treated as a period cost.

Required

1.2.1 Explain why the \$800 delivery cost is treated as a period cost.

2 marks

1.2.2 State the cost at which the new tents should be recorded in the stock cards.

3 marks

1.2.3 Justify your treatment of the

- Packaging costs
- Advertising costs.

In your answer, you must distinguish between period and product costs.

2 + 2 = 4 marks

1.2.4 State the effect on reported Net Profit, of treating the delivery cost of \$800 as a period cost, if all stock has not been sold by the next reporting date.

Explain your answer.

1 + 2 = 3 marks

1.3 At 31 December 2005 the accountant provided the following information relating to stock.

		2004	2005
Stock turnover	$\frac{\text{Average Stock} \times 365}{\text{Cost of Goods Sold}}$	61 days	74 days

Required

Explain how the change in stock turnover could have a

- negative effect on liquidity
- positive effect on Net Profit.

2 + 2 = 4 marks

- 1.4 Warren has been concerned about the 'profitability' of his business. His accountant however says that profitability has been improving and provides him with the following information.

	Year Ended 30/6/2005		Quarter Ended 30/9/2005	
	\$	%	\$	%
Sales	220 000	100	66 000	100
Cost of Sales	<u>88 000</u>	<u>40</u>	<u>24 000</u>	<u>36</u>
Gross Profit	132 000	60	42 000	64
Expenses	<u>44 000</u>	<u>20</u>	<u>13 000</u>	<u>20</u>
Net Profit	<u>88 000</u>	<u>40</u>	<u>29 000</u>	<u>44</u>

Required

- 1.4.1 **Explain** what is meant by the term profitability.

2 marks

- 1.4.2 **Identify** two possible reasons for the improvement in profitability.

2 marks

- 1.4.3 **State** one reason why Warren should be happy with the level of sales for the quarter.

1 mark

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

Bed Sitters

Belinda Lane owns and operates a small trading business called Bed Sitters. It sells bed linen and mattresses. Her accounting system is based on the double-entry accrual system of recording and reporting. Belinda maintains a perpetual stock recording system and control accounts for Debtors, Creditors and Stock.

2.1 The following information relates to transactions in December 2005.

Cash Receipts Journal

CRJ5

Date 2005	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries
31 Dec	TOTAL			68 200	500	17 000	24 000	47 000	4 700	0

Cash Payments Journal

CPJ7

Date 2005	Details	Post Ref.	Chq. No.	Bank	Disc. Rev.	Creditors	Stock	GST	Sundries
31 Dec	TOTAL			59 000	300	26 300	8 000	2 000	23 000

Sales Journal

SJ8

Date 2005	Debtor	Post Ref.	Inv. No.	Cost Price	Selling Price	GST	Total Debtors
31 Dec	TOTAL			11 000	23 000	2 300	25 300

Purchases Journal

PJ7

Date 2005	Creditor	Post Ref.	Inv. No.	Amount	GST	Total Creditors
31 Dec	TOTAL			29 000	2 900	31 900

At 30 November 2005 the GST Clearing Account had a debit balance of \$600.

Required

2.1.1 **State** how the GST Clearing Account would be classified in the Statement of Financial Position at 30 November 2005. **Justify** your answer.

1 + 1 = 2 marks

2.1.2 **Prepare** the GST Clearing Account in the General Ledger at 31 December 2005 after all journals have been posted. Balance the account at 31 December 2005.

(You are **not** required to use posting references.)

5 marks

2.1.3 **Explain** why the GST on sales is not treated as revenue in the Statement of Financial Performance.

2 marks

- 2.2** Belinda has provided the accountant with the following estimates for the 3 months (quarter) ending 31 March 2006.
- Bank ledger account balance at 1 January 2006 is \$16 000 (credit).
 - Sales for the quarter are expected to be \$230 000, of which 30% will be on credit.
 - Cost of Sales will be 50% of sales.
 - Stock purchases for the quarter are expected to be \$150 000. 80% of stock purchases are on credit.
 - Creditors are owed \$40 000 at 1 January 2006 and the expected balance at 31 March is \$30 000.
 - The Debtors balance at 1 January 2006 is \$24 000. This balance is expected to increase by \$10 000 over the quarter.
 - Expenses are budgeted to be 20% of total sales for the quarter.
These expenses include
 - Depreciation expense on Fixtures and Fittings of \$4 000
 - Bad Debts expense of \$2 000
 - Customs Duty on stock purchases of \$1 000
 - Interest on Loan and Bank Overdraft of \$6 000
 - Wages paid of \$29 300 (Accrued wages at 1 January 2006 are \$800 and at 31 March 2006 are \$500)
 - Office expenses of \$4 000.
 - Apart from wages, there are no other prepayments or accruals.
 - In addition to the interest payments, a further \$5 000 is repaid each month from an existing loan.
 - Drawings for the quarter are expected to be \$22 000 (cash) and \$2 000 (stock).

Required

- 2.2.1** Prepare a Cash Budget for the quarter ended 31 March 2006.

8 marks

- 2.2.2** Prepare a Budgeted Statement of Financial Performance, for the quarter ended 31 March 2006, which shows budgeted gross profit and budgeted net profit.

6 marks

- 2.3** The accountant is concerned about the liquidity of the business and has prepared the following performance indicators for discussion with Belinda.

Liquidity	31 December 2004	31 December 2005
Cash balance	(\$14 000)	(\$16 000)
Working Capital Ratio		
<u>Current Assets</u>	1:1.42	1:1.45
Current Liabilities		
Quick Asset Ratio		
<u>Current Assets – (Stock + Prepayments)</u>	1:1.07	1:0.70
Current Liabilities – Bank Overdraft		

Required

- 2.3.1** Apart from the increasing overdraft, **explain** why the accountant is concerned about business liquidity.
- 2.3.2** **Explain** why stock and prepayments are excluded from the calculation of the Quick Asset Ratio.
- 2.3.3** Excluding the ratios shown in **2.3**, **identify** two other ways of monitoring business liquidity.

2 marks

2 marks

1 + 1 = 2 marks

Question 2 – continued
TURN OVER

2.4 The following information relates to one item of stock.

Stock Item 64: Pillow slips

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost
April 2006										
1	Balance							20	5	100
8	Inv. 2441	12	6	72				20 12	5 6	172
12	Inv. 126				14	5	70	6 12	5 6	102

On 18 April, 3 units from the purchase on 8 April were returned to the supplier (PJ Linen). Credit note 44 was issued.

Required

2.4.1 Record the purchase return in the stock card.

2 marks

2.4.2 Record the purchase return in the General Journal.

(Narration is **not** required.)

3 marks

2.5 At 30 April 2006, the following information was provided about a stock item which had been replaced by a new model.

Stock item	Quantity	Cost	Estimated Selling price	Direct Selling costs
B12 Mattress	14	\$250	\$220	\$20

Required

2.5.1 State the total value of this stock item at 30 April if the 'lower of cost or net realisable value' rule is applied correctly.

1 mark

2.5.2 Prepare the General Journal entry required on 30 April 2006 to adjust the stock records.

(A narration is **not** required.)

2 marks

2.5.3 Complete the table to show the effect on net profit, assets and owner's equity in the

- Statement of Financial Performance for year ended 30 April 2006
- Statement of Financial Position as at 30 April 2006

if the General Journal entry in 2.5.2 was **not** made.

3 marks

2.6 On 1 May 2006, Belinda rented part of her showroom to another business for \$1 000 per month. On 12 May, she received **three** months rent in advance.

Required

Assuming reports are prepared on a monthly basis, prepare the General Journal entry required to be made at 31 May 2006.

(A narration is **not** required.)

2 marks

2.7 Consider the following information.

	31 December 2005	31 December 2006
Gearing Ratio		
$\left(\frac{\text{Total Liabilities}}{\text{Total Assets}} \times \frac{100}{1} \right)$	45%	60%

State whether this change in the gearing ratio indicates an improvement or a deterioration in the long-term financial stability of the business. **Explain** your answer.

1 + 2 = 3 marks

Total 45 marks



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2005**

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STUDENT NUMBER

Figures												Letter
Words												

ACCOUNTING
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ANSWER BOOK

Instructions

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- 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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Question 1 – Wazza’s Tent World**1.1.1****CASH RECEIPTS JOURNAL****CRJ24**

Date 2005	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	Sundries

4 marks

1.1.2**GENERAL JOURNAL****GJ8**

Date 2005	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$

4 marks

1.1.3

104

DEBTORS CONTROL

Date 2005	Cross Reference	Post Ref.	\$	Date 2005	Cross Reference	Post Ref.	\$

7 marks

1.1.4 Subsidiary Ledger (extract)

D2

DEBTOR – North Park Primary

Date 2005	Cross Reference	Post Ref.	\$	Date 2005	Cross Reference	Post Ref.	\$

3 marks

1.1.5

103

STOCK CONTROL

Date 2005	Cross Reference	Post Ref.	\$	Date 2005	Cross Reference	Post Ref.	\$

4 marks

1.2.4

Item	Increase/Decrease
Net Profit	

Explanation

1 + 2 = 3 marks

1.3

Explanation – liquidity
Explanation – Net Profit

2 + 2 = 4 marks

1.4.1

Explanation

2 marks

1.4.2

Reason 1
Reason 2

2 marks

1.4.3

Reason

1 mark

Total 45 marks

TURN OVER

Question 2 – Bed Sitters

2.1.1

Classification
Justification

1 + 1 = 2 marks

2.1.2

203

GST Clearing Account

Date 2005	Cross Reference	Post Ref.	\$	Date 2005	Cross Reference	Post Ref.	\$

5 marks

2.1.3

Explanation

2 marks

2.3.2

Explanation

2 marks

2.3.3

First way
Second way

1 + 1 = 2 marks

2.4.1

Stock Item 64: Pillow slips

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost
April 2006										
1	Balance							20	5	100
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								12	6	172
12	Inv. 126				14	5	70	6	5	102
								12	6	102

2 marks

2.4.2

GENERAL JOURNAL**GJ5**

Date 2006	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$

3 marks

2.5.1

Calculation	
Value of stock	\$

1 mark

2.5.2

GENERAL JOURNAL

GJ5

Date 2006	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$

2 marks

2.5.3

Item	Increase/Decrease	Amount \$
Net Profit		
Assets		
Owner's Equity		

3 marks

2.6

GENERAL JOURNAL

GJ5

Date 2006	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$

2 marks

2.7

Improvement/deterioration
Explanation

1 + 2 = 3 marks

Total 45 marks