



Trial Examination 2007

VCE Accounting Unit 4

Written Examination

Suggested Solutions

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Question 1

1.1.1

Working Space:

Debtors Control

Date 2008	Cross Reference	\$	Date 2008	Cross Reference	\$
1 Jan	Balance	42 200	31 Mar	Sales Returns	22 000
31 Mar	Credit Sales	682 000		Bad Debts	1 200
				Cash at Bank	661 000
				Balance	40 000
		724 200			724 200

Answer: \$661 000

4 marks

*1 mark for correctly entering sales returns.**1 mark for correctly entering bad debts.**1 mark for correctly entering Credit Sales.**1 mark for correctly entering both balances.**Deduct a maximum of 1 mark for incorrect titles.*

1.1.2

Working Space:

Stock Control

Date 2008	Cross Reference	\$	Date 2008	Cross Reference	\$
1 Jan	Balance	166 000	31 Mar	Cost of Sales	336 000
31 Mar	Creditors	313 100		Drawings	2 000
				Balance	141 100
		479 100			479 100

Creditors Control

Date 2008	Cross Reference	\$	Date 2008	Cross Reference	\$
31 Mar	Balance	125 000	1 Jan	Balance	130 000
	Cash at Bank	318 100	31 Mar	Stock	313 100
		443 100			443 100

Answer: \$318 100

5 marks

*1 mark for correctly crediting Stock Control with Cost of Sales.**1 mark for correctly crediting Stock Control with Drawings.**1 mark for correctly entering both stock balances.**1 mark for correctly entering both creditor balances.**1 mark for correctly crediting Creditors Control with the Stock figure.**Deduct a maximum of 1 mark for incorrect titles.*

1.1.3

Working Space:

Drawings in 2007 = \$18 000

10% greater for 3 months in 2008 = \$19 800

Stock Drawings = \$2 000

\$19 800 – \$2 000 = \$17 800 Cash Drawings

Answer: \$17 800

2 marks

*1 mark for correctly deducting Stock.**1 mark for correctly calculating the figure for the 10% greater drawings in 3 months' time.*

1.1.4

Fashioncentral**Budgeted Cash Flow Statement for the quarter ending 31 March 2008**

Operating Activities	\$	\$
Cash Received from Debtors	661 000	
Cash Paid to Creditors	(318 100)	
Interest Paid	(700)	
Other Expenses	(220 300)	
Net Operating Cash Flow		121 900
Investing		
Net Investing Cash Flow		
Financing		
Drawings of Cash	(17 800)	
Loan Repayment	(3 500)	
Net Financing Cash Flow		(21 200)
Net Increase (Decrease) in Cash		100 700
Cash Bank at 1 Jan 2008		14 700
Budgeted Cash at Bank at 31 March 2008		115 400

4 marks

*1 mark for correctly classifying interest in operating.**1 mark for correctly classifying Loan Repayment in Financing.**1 mark for correctly completing the report i.e. net change in cash + bank at 1 Jan 2008, bank at 31 Mar 2008.**1 mark for correctly classifying both cash received from debtors and cash paid to creditors.**Deduct a maximum of 1 mark for incorrect titles.*

1.2

Explanation:
Decision-making will be improved as Fashioncentral, through budgeting, is able to plan for future expenditure and the inflow of cash. This gives the owner, Yvette, greater control because any expected shortfalls or excesses in cash are planned for and appropriate decisions can be made (e.g. Yvette may decide to invest the budgeted cash excess or buy other assets).

2 marks

*1 mark for correctly inferring planning.**1 mark for correctly inferring control.*

1.3.1

Budgeted Sales	Actual Sales	Favourable or unfavourable variance (\$)
\$682 000	\$490 000	An unfavourable variance of \$192 000.

1 mark

*1 mark for calculating **both** the correct amount in actual sales as well as providing the correct classification of the unfavourable variance.*

1.3.2

Explanation:
Either advertising has decreased or the prices have increased or it is outside the 'season' for designer wear.
E.g. Both Christmas and racing seasons would be expected to have more sales.

1 mark

1 mark for correctly providing any reason which is consistent with a decrease in sales.

1.4.1**General Ledger of Fashioncentral****Cash at Bank**

Date 2008	Cross Reference	\$	Date 2008	Cross Reference	\$
31 May	Total Cash Receipts	5 035			

Prepaid Rent Revenue

Date 2008	Cross Reference	\$	Date 2008	Cross Reference	\$
30 Jun	Rent Revenue	400	31 May	Cash at Bank	1 200

Rent Revenue

Date 2008	Cross Reference	\$	Date 2008	Cross Reference	\$
30 Jun	Profit and Loss Summary	400	30 Jun	Prepaid Rent	400
		400			400

6 marks

1 mark for correctly debiting Cash at Bank by \$5 035.

1 mark for correctly crediting Prepaid Rent Revenue by \$1 200.

1 mark for correctly debiting Prepaid Rent Revenue (\$ amount not included).

1 mark for correctly calculating the Rent Revenue amount of \$400.

1 mark for correctly crediting Rent Revenue (\$ amount not included).

1 mark for correctly closing Rent Revenue to the Profit and Loss Summary in the Rent Revenue account (this must be on the correct side and the correct \$ amount, but allow for consequential errors with the \$ amount).

Deduct a maximum of 1 mark for incorrect titles.

1.4.2

Explanation:
The initial receipt of cash is debited to the Cash at Bank account as it is an asset increasing in value.
The credit entry is to Prepaid Rent Revenue which is classified as a Current Liability because the revenue is not yet earned. It is a future obligation of the business.

2 marks

1 mark for correctly identifying Prepaid Rent Revenue as a Liability.

1 mark for correctly identifying that the revenue is not yet earned, or for identifying that the revenue is a future obligation.

1.4.3

Principle: Going Concern <i>OR</i> Reporting Period.
Justification: It is assumed that the life of the business will continue indefinitely. However, the owner cannot wait this long to determine whether the business is making a profit or loss. As such, Revenue and Expense accounts are closed to the Profit and Loss Summary account at the end of a reporting period in order to calculate the Net Profit or Net Loss for that reporting period.

2 marks

1 mark for the correct principle.

1 mark for a correct explanation of either the Going Concern or the Reporting Period Principle.

1.5.1

General Journal

Date 2008	Particulars	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
30 Jun	Disposal of Vehicle	32 000			
	Vehicle		32 000		
	Accumulated Depreciation of Vehicle	22 400			
	Disposal of Vehicle		22 400		
	Disposal of Vehicle	2 400			
	Profit on Disposal of Vehicle		2 400		
	Sundry Creditor: Kool Auto	12 000			
	Disposal of Vehicle		12 000		
	Vehicle	49 990			
	GST Clearing	4 999			
	Sundry Creditor: Kool Auto		54 989		

9 marks

1 mark for the correct debit to Disposal of Vehicle and the correct credit to Vehicle (\$ amount not included).

1 mark for the correct debit to Accumulated Depreciation of Vehicle and the correct credit to Disposal of Vehicle (\$ amount not included).

1 mark for correctly identifying the amount of \$22 400 as the accumulated depreciation on the vehicle sold.

1 mark for the correct debit to Disposal of Vehicle of \$2 400 and the correct credit to Profit on Disposal of Vehicle account of \$2 400.

1 mark for the correct debit to Sundry Creditor: Kool Auto of \$12 000.

1 mark for the correct credit to Disposal of Vehicle of \$12 000.

1 mark for the correct debit to Vehicle of \$49 990.

1 mark for the correct debit to GST Clearing of \$4 999.

1 mark for the correct credit for Sundry Creditor: Kool Auto of \$54 989.

1.5.2

Working Space:
Sale: Assets increase by \$2 400 [\$12 000 trade-in less \$9 600 (Cost price \$32 000 less Accumulated Depreciation Vehicle \$22 400)]; Owner's Equity increases due to \$2 400 net profit; no effect on Liabilities.
Purchase: Assets increase \$37 990 (purchase price \$49 990 – Trade-in \$12 000); Liabilities increase \$37 990 (\$54 990 – GST \$4 999 – \$12 000 trade-in); no effect on Owner's Equity .
Net effect: Assets increase by \$40 390; Liabilities increase by \$37 990; Owner's Equity increases by \$2 400.

Classification	Increase/Decrease/No effect	Amount (\$)
Assets	Increase	40 390
Liabilities	Increase	37 990
Owners Equity	Increase	2 400

3 marks

1 mark for correctly identifying the effect and amount for each classification line.

1.6.1

Explanation:
The Creditors Turnover is 33 days compared to the Debtors Turnover of 40 days.
<i>OR</i>
The money received from debtors is slow to come in compared to the industry average (40 days compared to 35 days).

2 marks

2 marks for comparing Creditors Turnover to Debtors Turnover.

OR

2 marks for comparing Debtors Turnover to the industry average.

1.6.2

Reason:
Stock Turnover has improved due to the reduction in Stock on Hand. Stock on Hand was reduced because slow-selling stock was sold upstairs by Fashionsamples. This has the effect of reducing average stock and improving stock turnover.

1 mark

Do not accept an increase in sales or the constraint of advertising.

1.6.3

Disadvantage:
Fashioncentral is a new business and the industry average may not be typical.
<i>OR</i>
Fashioncentral may be in a different location (e.g. country or city) than those businesses that are sampled when the industry average is calculated.

1 mark

Award according to the merit of the answer.

Total 45 marks

Question 2**2.1.1****General Journal**

Date 2007	Particulars	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
10 Jun	Sales Return	1 000			
	GST Clearing	100			
	Debtors Control: C. Phelps		1 100		1 100
	Stock Control	700			
	Cost of Sales		700		

5 marks

*1 mark for each correct line.***2.1.2**

General Ledger Account	Debit/Credit	Amount (\$)
Creditors Control	Debit	770
Stock Control	Credit	700
GST Clearing	Credit	70

3 marks

*1 mark for each correct line.***2.2.1**

Explanation:
Product costing is where any additional costs associated with getting the goods into a position ready for sale are attached on an item-by-item basis to the stock item (e.g. the cartage inwards is \$20 per tank and is added to the invoice price of \$490).

2 marks

*1 mark for a correct definition of product costing.**1 mark for making a link to cartage inwards.***2.2.2**

Explanation:
The same accounting methods should be applied in a consistent manner from one period to the next so that the reports can be compared between reporting periods. Changing to using period cost would make it difficult to tell whether changes that occurred were the result of business performance or because of the change in the accounting procedure.
Accounting Principle: Consistency

3 marks

*1 mark for stating that the principle is Consistency.**2 marks for explanation of the principle.*

2.2.3

Round Tanks Model R01

Date 2007	Details	In			Out			Balance		
		Qty.	Unit Cost \$	Total Cost \$	Qty.	Unit Cost \$	Total Cost \$	Qty.	Unit Cost \$	Total Cost \$
1 Jul	Balance							6	480	2 880
								17	500	8 500
5	CN 73				3	500	1 500	6	480	2 880
								14	500	7 000
8	Inv. A34				6	480	2 880			
					2	500	1 000	12	500	6 000
10	CN K22	2	500	1 000				14	500	7 000
15	Inv. K44/D88	25	510	12 750				14	500	7 000
								25	510	12 750

5 marks

1 mark for each correct transaction. All amounts and details for each date should be correct.

Deduct a maximum of 1 mark for incorrect document(s) in details column.

2.2.4

Explanation:
The cartage inwards can be directly linked to the stock item. Product costing gives a more accurate calculation of the cost price of the stock so this method should be used where possible to ensure relevance in the reports.
The owner would then have better information for decision-making.
Qualitative Characteristic: Relevance

3 marks

1 mark for identifying the qualitative characteristic of relevance.

2 marks for a correct explanation of the qualitative characteristic.

2.3.1

Explanation:
Net Realisable Value is the estimated selling price of an item of stock less any costs incurred in its selling, marketing and distribution.

2 marks

1 mark for identifying that the estimated selling price is part of the calculation.

1 mark for identifying that the selling costs are deducted from the estimated selling price.

2.3.2

Working Space:

Cost \$510

Net Realisable Value = \$500 – \$60 = \$440

70 x 2 = \$140

General Journal

Date 2007	Particulars	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
31 Aug	Stock Write-down	140			
	Stock Control		140		
	Stock write-down of 2 round tanks Memo 6				

3 marks

*1 mark for each line of the General Journal.**1 mark for a correct narration which includes the document Memo 6.**Deduct 1 mark for an incorrect calculation of the amount.*

2.3.3

Explanation:

An estimated future loss should be recognised as soon as it is anticipated. Although the stock has not yet been sold, the anticipated loss due to the damage is recognised immediately.

Accounting Principle: Conservatism

3 marks

*1 mark for identifying the accounting principle of Conservatism.**2 marks for a correct explanation of the principle.*

2.4.1

Working Space: $\$10\,000 \times 6\% = \$600 \text{ per annum}/12 = \50 per month **General Journal**

Date 2007	Particulars	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
31 Aug	Accrued Interest Revenue	50			
	Interest Revenue		50		

3 marks

*1 mark for each correct entry in the General Journal.**1 mark for calculation of the correct amount.*

2.4.2

Cash Receipts Journal

Date 2007	Details	Rec. No.	Bank \$	Debtors \$	Cost of Sales \$	Sales \$	GST \$	Sundries \$
30 Sep	Accrued Interest Revenue	BS	10 100					50
	Interest Revenue							50
	Term Deposit							10 000

3 marks

1 mark for each correct line.

2.4.3

Classification	Increase/Decrease/No effect	Amount (\$)
Assets	Increase	50
Liabilities	No effect	
Owners Equity	Increase	50

2 marks

*1 mark for Assets line correct.**1 mark for Owners Equity line correct.*

2.5.1

Explanation:
The Net Profit Ratio has increased favourably by 2%. This is because the Gross Profit Ratio has improved by 5%.
The Gross Profit Ratio could also have improved because of either a higher selling price (which may be in response to an increase in the demand for water tanks because of the drought) or a lower cost of the tanks from suppliers.

2 marks

*1 mark for recognising that the Gross Profit Ratio has improved.**1 mark for giving a reason why the Gross Profit Ratio has increased.*

2.5.2

Explanation:
The unfavourable decrease in the Return on Assets by 2.5 % is because the Asset Turnover has decreased.
Although the Net Profit rate has increased, the Asset Turnover decreased by proportionally more. The assets have not been used as productively as they could have been in order to generate revenue.

2 marks

*1 mark for identifying that the reason was because of a decrease in the Asset Turnover.**1 mark for identifying the reason why the Asset Turnover has decreased.*

2.5.3

Explanation:
<i>Any one of the following:</i>
• Improve the control of expenses (e.g. review the spending on advertising to ensure that it has been effective). • Review the performance of assets in order to improve their effectiveness in earning sales revenue. • Unproductive assets should be sold. • Improve the mark-up on products sold. Find a cheaper supplier or increase prices.

2 marks

1 mark for stating one of the above measures.

1 mark for explaining how the measure would improve profitability.

2.5.4

Explanation:
<i>Any one of the following:</i>
• The state of the economy. The drought should have resulted in an increase in the demand for water tanks and increased the level of sales and therefore improved profitability. • The number of customer complaints. This would indicate the likelihood of customers returning and therefore further improving sales. • A customer survey. A customer survey can be used to provide feedback on the degree of satisfaction with products and service. • Staff turnover. The rate of staff turnover can be an indicator of the degree of employee satisfaction. Staff turnover can have an impact on staff enthusiasm for generating sales and improving profitability. • The state of the economy (e.g. the level of inflation would be relevant when assessing the ability to control expenses and would therefore influence profitability).

2 marks

1 mark for stating the financial indicator.

1 mark for explanation of how the indicator would help in the analysis of profitability.

Total 45 marks