

Trial Examination 2007

VCE Accounting Unit 4

Written Examination

Question Booklet

Reading time: 15 minutes
Writing time: 1 hour 30 minutes

Structure of Booklet

Number of questions	Number of questions to be answered	Number of marks
2	2	90

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 white out liquid/tape.

Materials supplied

Question booklet of 9 pages.

Answer booklet of 10 pages.

Instructions

Write your **name** and your **teacher's name** in the space provided on the front page of the answer booklet.

Answer both questions in the answer booklet.

All written responses must be in English.

At the end of the examination

You may keep this question booklet.

Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the examination room.

Students are advised that this is a trial examination only and cannot in any way guarantee the content or the format of the 2007 VCE Accounting Unit 4 Written Examination.

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Instructions for Students

For the purposes of this examination, implications of the Goods and Services Tax (GST) are not considered in Question 1 in relation to the preparation of budgets.

Question 1

Fashioncentral, owned and operated by Yvette Madden, sells designer women's clothing. The shop opened in August 2007. She provides the following information:

Fashioncentral Balance Sheet as at 31 December 2007

	\$	\$	\$		\$	\$	\$
Current Assets				Current Liabilities			
Cash at Bank		14 700		Creditors Control		130 000	
Debtors Control		42 200		Loan from Igaloo Bank (due April 2008)		3 500	
Stock Control		166 000					
Total Current Assets			222 900	Total Current Liabilities			133 500
Non-Current Assets				Non-Current Liabilities			
Fixtures and Fittings	24 000			Loan from Igaloo Bank (due April 2012)			32 500
Less accumulated depreciation	9 600	14 400					
Vehicle	32 000			Owner's Equity			
Less accumulated depreciation	20 000	12 000		Capital: Yvette Madden		71 300	
Total Non-Current Assets			26 400	Add Net Profit		30 000	
						101 300	
				Less Drawings		18 000	83 300
Total Assets			249 300	Total Equities			249 300

Fashioncentral Budgeted Profit and Loss Statement for three months ended 31 March 2008

	\$
Sales	682 000
Less Sales Returns	22 000
Net Sales	660 000
Less Cost of Sales	336 000
Gross Profit	324 000
Less Operating Expenses (including \$700 interest, Vehicle and Fixtures depreciation \$7 800, and bad debts \$1 200)	230 000
Net Profit	94 000

Yvette has provided the accountant with the following budgeted information for the quarter ended 31 March 2008:

- All sales are on credit.
- All purchases of stock are on credit.
- Debtors Control balance is \$40 000.
- Creditors Control balance is \$125 000.
- Stock Control balance will be 15% lower than the 31 December 2007 balance.
- Drawings for the quarter will be 10% greater than in 2007 and consist of \$2 000 stock. Remaining drawings will be for cash.
- The loan for the **current** quarter, including interest, will be paid in cash.
- All other expenses are for cash.

Required:

1.1 Using the above information:

1.1.1 Calculate the cash received from debtors.

4 marks

1.1.2 Calculate the cash paid to creditors.

5 marks

1.1.3 Calculate the cash drawings.

2 marks

1.1.4 Prepare a Budgeted Cash Flow Statement for the quarter ended 31 March 2007.

4 marks

1.2 **Explain** how the preparation of a Budgeted Cash Flow Statement can improve Yvette's decision-making.

2 marks

1.3 During the quarter ended 31 March 2008, **actual** sales were \$490 000.

Required:

1.3.1 **Calculate** the sales variance for Fashioncentral and **label** it as favourable or unfavourable.

1 mark

1.3.2 **State** one reason to explain this variance.

1 mark

- 1.4** Yvette decides to establish another business called Fashionsamples for the purpose of selling the clothing from Fashioncentral which is slow to sell.

Yvette decides to rent out floor space above Fashioncentral to Fashionsamples.

On 1 May 2008 Fashionsamples pays 6 months' rent in advance to Fashioncentral at \$200 plus \$20 GST per month.

For Fashioncentral, the receipts for the month ended 31 May are \$5 035. Special journals are posted to the General Ledger at the end of each month.

Required:

- 1.4.1** **Record** the following in Fashioncentral's General Ledger:

- the transaction on 1 May 2008
- the Adjusting entry on 30 June 2008
- the Closing entry on 30 June 2008.

6 marks

- 1.4.2** **Justify** your treatment of the entry made on 1 May 2008.

2 marks

- 1.4.3** **State** and **justify** the accounting principle used by Fashioncentral when the closing entry on 30 June 2008 was recorded in the General Ledger for **1.4.1**.

2 marks

- 1.5** On 30 June 2008 the current vehicle was traded in for a new model from the car dealer Kool Auto costing \$49 990 plus GST of \$4 999. Depreciation on the vehicle sold is 15% p.a. using the straight line method. Profit on the sale of the vehicle was \$2 400.

Required:

- 1.5.1** Show how the **sale** and **purchase** of the vehicles would appear in the General Journal of Fashioncentral at 30 June 2008. Narrations are **not** required.

9 marks

- 1.5.2** Using the table provided in the answer booklet, **state** the net effect of the sale and purchase of the vehicles on the accounting equation.

3 marks

1.6 The following ratios were calculated for Fashioncentral:

		Quarter ended 31 March 2007	Quarter ended 31 March 2008	Industry Average
Debtors Turnover	$\frac{\text{Average Debtors} \times 365}{\text{Credit Sales}}$	35 days	40 days	35 days
Working Capital Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2 : 1	3 : 1	2.5 : 1
Creditors Turnover	$\frac{\text{Average Creditors} \times 365}{\text{Credit Purchases}}$	30 days	33 days	32 days
Stock Turnover	$\frac{\text{Average Stock} \times 365}{\text{Cost of Goods Sold}}$	40 days	32 days	50 days
Net Profit Ratio	$\frac{\text{Net Profit} \times 100\%}{\text{Sales}}$	6%	10%	8%
Gross Profit Ratio	$\frac{\text{Gross Profit} \times 100\%}{\text{Sales}}$	30%	30%	30%

Required:

1.6.1 Explain one reason why the owner should be concerned about the liquidity of the business.

2 marks

1.6.2 State one reason, other than advertising, for the change in the stock turnover for the one-year period.

1 mark

1.6.3 State one disadvantage of using the industry average as a benchmark.

1 mark

Total 45 marks

Question 2

Kennie's Tanks is a small trading business owned and operated by Kennie Shaw. It sells a range of rainwater tanks. Kennie's accounting system is based on the double entry accrual system of recording and reporting. He maintains a perpetual stock recording system and uses the FIFO (First In First Out) cost assignment method. Control accounts and subsidiary ledgers are used for Debtors, Creditors and Stock.

Document 1

Tax Invoice	
Credit Note 54	
Date: 10/6/07	
Kennie's Tanks 24 Riverdiver St. Mentone	
ABN: 444 222 888	
Credit to: C. Phelps	
Model SL02	\$1 000
Faulty Slimline tank returned	
GST	100
Total	\$1 100

**Document 2**

Tax Invoice	
Credit Note X578	
Date: 12/6/2007	
Wholesale Tanks Station Street Princetown	
ABN: 999 444 777	
Credit to: Kennie's Tanks	
Faulty Tanks Slimline	\$700
Model SL 02	
GST	\$70
Total	\$770

2.1 Documents 1 and 2 relate to the same item of stock.

Required:

2.1.1 Record Document 1 in the General Journal. A narration is **not** required.

5 marks

2.1.2 When Document 2 is recorded, **state** which General Ledger accounts would be affected.

3 marks

- 2.2** Kennie records his stock using product costing. At 1 July 2007 stock on hand of Model R01 Round Tanks was:

Units	Cost Per Unit \$	GST \$	Total Cost Per Tank \$
6	480	48	528
17	500	50	550

The following transactions for July 2007 relate to Model R01 Round Tanks.

Date	Description	Document	Units	Cost Per Unit \$	GST \$	Total Unit Cost Per Tank \$
5 Jul	Purchase Return	CN 73	3	500	50	550
8 Jul	Delivery of tanks sold on 8 July	Inv. D4	8	100	10	110
15 Jul	Purchase	Inv. K44	25	490	49	539
	Cartage Inwards	Inv. D88	25	20	2	22

The Model R01 Round Tanks are sold for \$800 plus \$80 GST. The following occurred during July.

Date	Description	Document	Units
8 Jul	Sales	Inv. A34	8
10 Jul	Sales Return	CN K22	2

Required:

- 2.2.1 Explain**, with reference to the above information, the meaning of the term “product costing”.
2 marks
- 2.2.2** A competitor has suggested that Kennie should record his stock using the period cost method instead of the product cost method. **Explain**, using an accounting principle (other than Reporting Period) why Kennie should not change the stock recording method.
3 marks
- 2.2.3 Record** the transactions for July in the stock card for Round Tanks.
5 marks
- 2.2.4 Explain**, using a qualitative characteristic, your treatment of the cartage inwards on 15 July.
3 marks

2.3 On 31 August the following balances were obtained from the stock cards:

Model	Type	Number	Cost \$	GST \$	Total \$
Slimline	SL02	15	740	74	814
		10	750	75	825
Round	R01	20	510	51	561

Kennie's Tanks
24 Riverdiver St.
Mentone

ABN 444 222 888

Memo 6

Date: 31 August 2007

Comment: Physical stocktake revealed two damaged round tanks type R01. The current listed selling price of the round tanks is \$1 100 plus \$110 GST. It is estimated that the tanks can now be sold for only \$500 plus \$50 GST after repairs costing \$60 plus \$6 GST are undertaken.

Action: Apply the inventory valuation rule of lower of "cost" or "net realisable value".

Signed: *Kennie Shaw*

Required:

2.3.1 Explain what is meant by the term "Net Realisable Value".

2 marks

2.3.2 Prepare the General Journal entry required on the 31 August 2007 as a result of Memo 6. A narration **is** required.

3 marks

2.3.3 Explain, with reference to one accounting principle, why the details from Memo 6 should be recognised in the accounts of Kennie's Tanks.

3 marks

2.4 On 31 July 2007 \$10 000 was invested at 6% per annum in a two-month Term Deposit with the Kyu Credit Union. The interest and principal will be credited directly to the business' bank account at maturity.

Required:

2.4.1 Prepare the General Journal entry required on 31 August 2007. A narration is **not** required.

3 marks

2.4.2 The September bank statement showed a credit to the account on 30 September for the interest and the maturity of the Term Deposit. **Record** this in the Cash Receipts Journal.

3 marks

2.4.3 Complete the table in the answer booklet to show the effect of this cash receipt on the accounting equation.

2 marks

2.5 The following financial indicators were calculated at 31 December:

		2006	2007
Net Profit Ratio	$\frac{\text{Net Profit} \times 100\%}{\text{Sales}}$	10%	12%
Gross Profit Ratio	$\frac{\text{Gross Profit} \times 100\%}{\text{Sales}}$	30%	35%
Return on Assets	$\frac{\text{Net Profit} \times 100\%}{\text{Average Total Assets}}$	10%	8.5%
Asset Turnover	$\frac{\text{Sales}}{\text{Average Total Assets}}$	1.0 times	0.8 times

Required:

2.5.1 A comparison of the Profit and Loss Statement from 2006 to 2007 showed no change in the total of “Other Expenses” as a percentage of Sales. **Explain** one reason for the change in the Net Profit ratio for 2007 compared to the Net Profit ratio of 2006.

2 marks

2.5.2 **Explain** one reason for the change in the Return on Assets for 2007 compared to the Return on Assets for 2006.

2 marks

2.5.3 **Explain** one measure that the business could implement to improve the profitability of the business.

2 marks

2.5.4 **State** one non-financial key performance indicator and explain how it could be used to analyse the profitability of Kennie’s Tanks.

2 marks

Total 45 marks

END OF QUESTION BOOKLET