



# VCE ACCOUNTING

## 2009

### Practice examination 2

Reading time: 15 minutes  
Writing time: 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 practice examination: 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 book of 8 pages.
- Answer book of 10 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**

## Question 1

### Budget Sports

Paula Roberts operates a small business, Budget Sports, selling a range of sporting equipment and clothing. Paula uses a double-entry accrual accounting system with the perpetual inventory system of recording stock and the FIFO (First In First Out) cost assignment method.

She has also been using control accounts for Debtors, Creditors and Stock and appropriate subsidiary records.

The business prepares reports annually on 31 December each year.

**1.1** On 7 December 2009 the following invoice was received by the business for a new range of stock items:

| <div>Helmet Sports<br/>23 Lineacred Road<br/>Belmont<br/>ABN: 25 265 987 138</div> |     |            |               |        |
|------------------------------------------------------------------------------------|-----|------------|---------------|--------|
| Invoice: HS341                                                                     |     |            | Date: 7/12/09 |        |
| Credit to: Budget Sports<br>7 Spring Drive<br>Williamville                         |     |            |               |        |
| Item                                                                               | Qty | Unit Price | GST           | Total  |
| Blaze Cricket bats                                                                 | 20  | \$80       | \$8           | \$1760 |
| Buckley Footballs                                                                  | 25  | \$40       | \$4           | \$1100 |
| Xtreme Basketballs                                                                 | 25  | \$20       | \$2           | \$550  |
| Gilson Netballs                                                                    | 30  | \$30       | \$3           | \$990  |
| Freight per item                                                                   |     | \$1        | \$0.10        | \$110  |
| Invoice Total                                                                      |     |            |               | \$4510 |

**1.1.1 Explain** how the business should record the Freight. In your answer, **identify** whether Freight is a product or period cost.

2 + 1 = 3 marks

**1.1.2 Explain** how treating Freight as a product cost may result in a higher Net Profit.

2 marks

**1.1.3 Record** the details contained in the Invoice in the:

- Purchases Journal
- Stock Card for Gilson Netballs

1 + 1 = 2 marks

Upon closer inspection, it was found that the Xtreme Basketballs were damaged, 4 of the basketballs were so badly damaged they were returned to the supplier [CN BS7]. The remaining stock were still saleable, but at a reduced price [\$18 per unit, less \$1 per unit selling costs – Memo 11]

**1.1.4 Record** the transactions affected by CN BS7 and Memo 11 in the General Journal on 13 December 2009.

[Narrations **are** required]

2 + 2 + 2 = 6 marks

**1.1.5 Explain** what is meant by the term 'Net Realisable Value'.

2 marks

On 15 December 2009 the business sold 15 Buckley Footballs to Diamond High School for \$70 per unit (plus \$7 GST per unit) on credit - Inv. BS61.

**1.1.6 Record** the above transaction in the Sales Journal.

2 marks

**1.1.7 Show** how the Stock Control ledger account would appear after all the above transactions had been posted.

(You **do not** need to balance the account.)

4 marks

**1.2** At 1 January 2009 an extract from the Balance Sheet showed information on the following Non-Current Assets

| <u>Non-Current Assets</u> | <u>\$</u> |
|---------------------------|-----------|
| Vehicles                  | 40 000    |
| Accumulated Depreciation  | (12 000)  |
| Equipment                 | 45 000    |
| Accumulated Depreciation  | (9 000)   |

During the current reporting period the business

- Purchased equipment - \$5 000 (plus \$500 GST) on credit from Ace Equipment [Inv AE720] on 1 July 2009.
- Purchased a new Vehicle on 30 September 2009 for \$25 000 (plus \$2 500 GST) on credit from Xenon Motors (Inv X21).
- Traded in one of the old Vehicles [Cost \$20 000 with a carrying value at 1 January 2009 of \$12 000] on the purchase of the new vehicle on 30 September 2009. The trade-in value was \$10 000.

All Non Current Assets are depreciated at the rate of 10% per annum on cost

**1.2.1 Record** the above transactions in the General Journal  
(Narrations **are not** required)

10 marks

**1.2.2 Show** how the Equipment would appear in the Balance Sheet at 31 December 2009.

3 marks

**1.2.3** Paula is considering changing the depreciation rate on Vehicles to 15% per annum.

**Explain**, using one accounting principle, why Paula should not change the depreciation rate.

3 marks

**1.2.4 Show** the effect on Net Profit if the change in the depreciation rate was made.

2 marks

**1.3** At 31 December 2009 the following data in relation to stock was provided.

|                                                                                     | <u><b>2008</b></u> | <u><b>2009</b></u> |
|-------------------------------------------------------------------------------------|--------------------|--------------------|
| Gross Profit Rate $\frac{[\text{Gross Profit}]}{\text{Sales}} \times \frac{100}{1}$ | 45%                | 47%                |
| Stock Turnover $\frac{[\text{Cost of Goods Sold}]}{\text{Average Stock}}$           | 64 days            | 61 days            |

**1.3.1** Based on the information provided, **state** whether profitability and efficiency have:

- Improved
- Deteriorated
- Remained unchanged

1 + 1 = 2 marks

**1.3.2 Explain** why profitability improved/deteriorated or remained unchanged as measured by the Gross Profit Rate.

2 marks

**1.3.3** Data provided also showed the Net Profit Rate  $[\text{Net Profit}/\text{Sales} \times 100/1]$  for the business changed from 11% [2008] to 9% [2009]. **Explain** how this may have occurred.

2 marks

**Total 45 marks**

## Question 2

### Chris' Camping

Chris Hargreaves operates a small business, Chris' Camping, selling a wide range of camping equipment. Chris uses a double-entry accrual accounting system with the perpetual inventory system of recording stock and the FIFO (First In First Out) cost assignment method. He has also been using control accounts for Debtors, Creditors and Stock and appropriate subsidiary records. The business prepares reports annually on 30 June each year.

**2.1** At 30 June 2009 a Cash Flow Statement for the business was prepared:

### Chris' Camping

#### CASH FLOW STATEMENT FOR YEAR ENDED 30 JUNE 2009 \$ \$

|                                                   |           |                 |
|---------------------------------------------------|-----------|-----------------|
| <b><i>Cash Flow from Operating Activities</i></b> |           |                 |
| Cash sales                                        | 200 000   |                 |
| Cash received from Debtors                        | 250 000   |                 |
| Payments to Creditors                             | (240 000) |                 |
| Wages                                             | (85 000)  |                 |
| Accrued Wages                                     | (2 000)   |                 |
| Prepaid Rent Expense                              | (36 000)  |                 |
| Other cash expenses (including Interest Expense)  | (49 000)  |                 |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>         |           | <b>38 000</b>   |
| <b><i>Cash Flow from Investing Activities</i></b> |           |                 |
| Equipment                                         |           | (17 500)        |
| <b>NET CASH FROM INVESTING ACTIVITIES</b>         |           | <b>(17 500)</b> |
| <b><i>Cash Flow from Financing Activities</i></b> |           |                 |
| Capital                                           | 30 000    |                 |
| Drawings                                          | (40 000)  |                 |
| Loan                                              | (7 000)   |                 |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>         |           | <b>(17 000)</b> |
| <b>NET INCREASE / (DECREASE) IN CASH</b>          |           | <b>3 500</b>    |
| <b>Cash at Bank (1/07/2008)</b>                   |           | <b>7 500</b>    |
| <b>Cash at Bank (30/06/2009)</b>                  |           | <b>11 000</b>   |

For the next reporting period Chris expects the following to occur:

- Cash sales to increase 10%
- Credit sales to be \$280,000.
- Debtors at 30 June 2009 were \$22,000. It is expected that 92% of all Debtors will pay their account. Discount expense is expected to be 2% of credit sales and Bad Debts are expected to be 1% of Debtors at the start.
- All stock is purchased on credit and payments to creditors are expected to be \$250,000.
- Wages are expected to be \$92,000 (including \$3,000 of wages accrued at 30 June 2009)
- Prepaid Rent is expected to increase by \$6,000.
- Other cash expenses (including Interest expense) are expected to increase 10%.
- Drawings will be \$45,000 of which \$3,000 will be stock
- Loan repayments will be \$1,000 per month
- No assets are expected to be purchased and no Capital contribution is expected to be made.

**2.1.1 Reconstruct** the Debtors Control account to determine the Debtors Control balance at 30 June 2010.

4 marks

**2.1.2 Prepare** a budgeted Cash Flow Statement for the year ended 30 June 2010.

6 marks

**2.1.3** Chris is disappointed with the expected result shown in the budgeted Cash Flow Statement. He believes this will cause a decrease in net profit. **Explain using two examples**, why this may not be the case.

2 + 2 = 4 marks

**2.1.4 Explain** to Chris why net cash from Operating Activities may be a better indicator of profit.

2 marks

**2.2** At 30 June 2010 a Cash Variance report was prepared. An incomplete extract is below:

| Item                  | Budget<br>\$ | Actual<br>\$ | Variance<br>\$ | F/U |
|-----------------------|--------------|--------------|----------------|-----|
| Cash Sales            | 220 000      | 230 000      |                |     |
| Payments to Creditors | 250 000      |              | 15 000         | U   |
| Equipment             | -            | 20 000       | 20 000         | U   |
| Drawings              | 42 000       | 35 000       |                |     |
| Capital               | -            | 40 000       |                |     |

**2.2.1 Complete** the extract from the Cash Variance Report.

2 marks

**2.2.2 Provide** an explanation for the variances in Capital and Drawings.

2 marks

**2.2.3 Explain** one benefit of preparing a Cash Variance Report

2 marks

**2.2.4** The owner is thinking about preparing reports every quarter. **Explain** one benefit of preparing interim reports once a budget has been prepared.

2 marks

**2.3** The following information relates to the business's dealings with a customer - W.Woods Camping during August 2010

- 1 August the business received an order (Order No 43) for 10 tents (cost price \$500 + \$50 GST each, selling price \$1050 + \$105 GST each)
- 10 August the business received a deposit of \$1000 (Rec 890) after confirming that the order was being processed

- 15 August the goods were delivered and an invoice supplied (Inv B90) to W. Woods Camping. The invoice stated the terms of payment as 2/7,n30 on the full value of the goods supplied.  
21 August W. Woods Camping paid their account in full (Rec 898)

**Required**

**Record** the transactions into the appropriate journals 6 marks

- 2.4** On 1 October 2010 the business deposited \$10 000 in a 12 month fixed term Investment account. Interest is earned at 8% interest per annum and is payable in two equal instalments – 31 March 2011 and 30 September 2011.

- 2.4.1 Calculate** the amount of interest revenue to be reported at 30 June 2011. 2 marks

- 2.4.2 Show** how the Interest Revenue account would appear at 30 June 2011. You **are** required to close/balance the account. 3 marks

- 2.4.3 Show** the entry in the Cash Receipts Journal on 30 September 2011 to record the receipt of interest and the original investment amount (Rec No. 23). 3 marks

- 2.5** On 1 November 2010 the business borrowed \$60 000 from Wartook Finance Co. The loan was to be repaid \$2 000 (principal) and \$300 (interest) per month.

- 2.5.1 Explain** the effect this transaction would have on the
- Liquidity; and
  - Profitability
- of the business over the next reporting period. 2 + 2 = 4 marks

- 2.6** Chris has been concerned about the performance of his business in relation to other businesses.

- 2.6.1 Identify** one financial and one non-financial indicator Chris could use to assist him in assessing the performance of his business. 1 + 1 = 2 marks

- 2.6.2 Explain** one strategy Chris could adopt to assist him in improving the performance of his business. 2 marks

**Total 45 marks**