



VCE ACCOUNTING

2010

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 12 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 Melody's Music

Melody Maclean owns and operates a small business called Melody's Music – selling a range of musical instruments.

Melody maintains a double-entry accrual accounting system. Other features of the businesses accounting system are as follows:

- i. The business uses control accounts and subsidiary records for Debtors, Creditors and Stock.
- ii. The business adopts the perpetual method of stock recording and the FIFO cost assignment method.
- iii. Melody's Music has a 12-month reporting period ending 31 December each year.
- iv. All stock is sold at a mark-up of 100%.

- 1.1** At 31 December 2010 the accountant prepared financial reports, from which the following information was extracted:

Cash Flow Variance Report at 31 December 2010

	Budgeted	Actual
	\$	\$
Cash Sales	270 000	255 000
Prepaid Sales Revenue	-	2 000
Wages	110 000	130 000
Payments to Creditors	350 000	370 000

Profit & Loss Variance Report at 31 December 2010

	Budgeted	Actual
	\$	\$
Sales	840 000	870 000
Wages	113 000	135 000
Depreciation of Vehicles	40 000	60 000

Balance Sheet Variance Report at 31 December 2010

	Budgeted	Actual
	\$	\$
Creditors Control	50 000	65 000
Accrued Wages	3 000	5 000

Liquidity indicators at 31 December

	2009	2010
Working Capital Ratio	2.2:1	2.4:1
Quick Asset Ratio	1.4:1	1.2:1

- 1.1.1 Complete** the Variance Report extracts in the Answer Book.

4 marks

- 1.1.2 Explain** one benefit of preparing Variance Reports.

2 marks

- 1.1.3 Provide** one reason for the variances in the following items:

- Wages expense
- Cash Sales
- Creditors Control

3 marks

1.1.4 Explain what is meant by the term liquidity and **identify** if the liquidity of the business has improved or deteriorated between 2009 and 2010.

2 + 1 = 3 marks

1.1.5 Identify and **explain** one reason for the different movements in the Working Capital Ratio and the Quick Asset Ratio.

1 + 2 = 3 marks

1.1.6 Identify and **explain** how Prepaid Sales Revenue would have been classified in the Balance Sheet at 31 December 2010.

1 + 2 = 3 marks

1.2 The Prepaid Sales Revenue occurred when Bass Secondary College paid a deposit on an order of 5 Kwazi keyboards. The keyboards are scheduled to be delivered on 7 January 2011. On 7 January 2011 the stock was delivered and the following invoice was prepared:

Melody's Music Sound Road, Gardenvale A.B.N. 85 421 693 741			
Tax Invoice:	MM17		
Charge to:	Bass Secondary College Flinders Road Somersland	Date:	7/01/2011
Quantity	Item	Unit Price	Total Price
5	Kwazi keyboards	1000	5000
	GST (10%)		500
	Invoice total		5500
Less	Deposit (Rec 41)		2000
	Balance owing		3500
Terms:	2/14, n30		

1.2.1 Record the information contained in Invoice MM17 in the:

- General Journal; and
- Sales Journal

At 7 January 2011

(**Note:** Narration **is not** required)

6 marks

1.2.2 On 20 January 2011, Bass Secondary College paid their account (Rec. 57). **Record** this receipt in the Cash Receipts Journal.

2 marks

1.2.3 Explain the effect of offering discounts to customers on:

- Efficiency
- Profitability

2+2 = 4 marks

- 1.3** At 31 December 2011 the business's Balance Sheet showed the following Non-Current Assets:

Balance Sheet as at 31 December 2010 (extract)

Non-Current Assets

Equipment	\$50 000	
Accumulated Depreciation	<u>(\$15 000)</u>	\$35 000
Vehicle	\$36 000	
Accumulated Depreciation	<u>(\$16 000)</u>	<u>\$20 000</u>
		\$55 000

Note: All Non-Current Assets are depreciated at 10% per annum.

During 2011 the following transactions relating to Non-Current Assets occurred:

- On 1 March 2011 the business purchased a new Vehicle for \$45 000 (plus \$4 500 GST) on credit from Ace Motors [Inv. A32]. The business paid a deposit [Chq 65] of \$4 500 and traded-in the old vehicle for \$18 000.
- On 1 June 2011 the owner transferred ownership of her personal vehicle to the business. The Vehicle had a current market value of \$30 000.
- The business paid \$3 000 (plus \$300 GST) to have the Vehicle modified for use by the business [Chq 87].
- At the time the Vehicle had 4 months Registration and Insurance still attached to the Vehicle. This was valued at \$360.
- On 1 October 2011 the business purchased an additional \$6 000 (plus \$600 GST) worth of Equipment for cash [Chq 133].

- 1.3.1 Record** the appropriate information into the Cash Payments Journal of the business
3 marks

- 1.3.2 Calculate** the Depreciation – Vehicles expense to be reported in the Profit and Loss Statement for the year ended 31 December 2011.
4 marks

- 1.3.3 Show** how the following Ledger Accounts would appear after all appropriate entries had been posted:

- Vehicle
- Disposal of Asset

2 + 4 = 7 marks

- 1.3.4 State** how the deposit paid on the purchase of the new Vehicle would be reported in the Cash Flow Statement for the year ended 31 December 2011.

1 mark

Total 45 marks

Question 2

AM Electrical

Anthony McCormack owns and operates a small business called AM Electrical – selling a range of electrical appliances.

Anthony maintains a double-entry accrual accounting system. Other features of AM Electricals' accounting system are as follows:

- i. The business uses control accounts and subsidiary records for Debtors, Creditors and Stock.
- ii. The business adopts the perpetual method of stock recording and the FIFO cost assignment method.
- iii. AM Electrical has 6-month reporting periods ending 30 June and 31 December each year.
- iv. All stock is sold at a mark-up of 100%.

Note: For the purposes of Questions 2.1 and 2.2, the GST is not to be considered.

2.1 At 31 December 2010 the accountant prepared a Cash Flow Statement. An extract of that report is shown below:

AM Electrical
Cash Flow Statement for 6-months ended 31 December 2010 [Extract]

Cash Flow from Operating Activities	\$	\$
Cash sales	280 000	
Cash received from Debtors	230 000	510 000
Payments to Creditors	(210 000)	
Wages	(86 000)	
Accrued Wages	(4 000)	
Stock Control	(100 000)	
Prepaid Rent Expense	(30 000)	
Other cash expenses (including Interest Expense)	(60 000)	(490 000)
NET CASH FROM OPERATING ACTIVITIES		20 000

For the next 6 months the owner expects the following to occur:

- Cash sales to increase 5%
- Credit sales to be \$270,000.
- Debtors at 31 December 2010 were \$28,000. Discount expense is expected to be 2% of Credit Sales, Bad Debts are expected to be 1% of Credit Sales and Sales Returns are expected to be \$2 500. Debtors at End are expected to be \$30,000.

- Payments to creditors are expected to be \$220,000 and the owner expects to receive discounts totaling \$5,000.
- Creditors at 31 December 2010 were \$42,000. The owner hopes to reduce the balance of Creditors by \$6 000 at 30 June 2011.
- Stock Control at 31 December 2010 was \$46 000.
- Drawings of Stock is usually \$500 per month and Stock Loss is expected to be 1% of stock purchases.
- All stock returned by customers is returned to the supplier.
- Cash purchases of Stock are expected to be \$76,000.
- Wages expense is expected to be \$91,000 (including \$3,000 of wages accrued at 30 June 2011)
- Accrued Wages at 31 December 2010 were \$4 000
- Rent is paid 6 months in advance on 1 March and 1 September each year. It is expected that Rent will increase to \$5 500 per month on 1 March 2011.
- Other cash expenses (including Interest expense) are expected to increase 10%.
- Depreciation Expense is expected to be \$12 000
- Loan repayments are \$1 400 per month (excluding interest) and Drawings of cash are expected to be \$35 000
- Cash at Bank at 31 December 2010 was \$6,760 Dr.

2.1.1 Reconstruct the Debtors Control account to calculate the receipts from debtors for the budgeted period.

4 marks

2.1.2 Reconstruct the Creditors Control account to calculate credit purchases of stock for the budgeted period.

2 marks

2.1.3 Reconstruct the Stock Control account to calculate the closing balance of the account for the budget period.

6 marks

2.1.4 Prepare the Operating Activities section of the Budgeted Cash Flow Statement for the period ending 30 June 2011.

5 marks

2.1.5 Prepare an extract of the Budgeted Profit & Loss Statement for the period ending 30 June 2011 to calculate Adjusted Gross Profit.

3 marks

2.1.6 Explain, providing two examples from the information above, why the Budgeted Cash Flow from Operations is different from Budgeted Adjusted Gross Profit.

2 + 2 = 4 marks

2.1.7 Explain one benefit of preparing budgets.

2 marks

- 2.2** The budgeted Cash Flow Statement indicates that the balance in the Bank account will increase by \$21 000. Anthony decides he will invest \$15 000 of that surplus in a 12 month Term Deposit Account on 1 August 2011. The interest rate is 6% per annum paid in two instalments on 31 January 2012 and 31 July 2012.

- 2.2.1 Prepare** the General Journal entry necessary on 31 December 2011 to record the Interest Revenue earned.

(Note: A narration is not required)

2 marks

- 2.2.2 Explain** how Accrued Interest Revenue would be reported in the Balance Sheet at 31 December 2011.

2 marks

- 2.2.3 Prepare** the Cash Receipts Journal entries required at 31 January 2012 [Rec. 97].

2 marks

- 2.3** In September 2012 the business had the following:

Stock card: Item – Dysec Vacuum Cleaner

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
2012										
Sep 1	Balance							8	220	1 760

On 3 September 2012 the business received the following Invoice:

Dysec Limited 43 Smith Road Piermont ABN: 45 175 527 078				
Invoice: XL 28		Date: 3/09/2012		
Credit to: AM Electrical 17 Winter Road Samville				
Item	Qty	Unit Price	GST	Total
Dysec Vacuum Cleaners	20	\$220	\$22	\$4840
Dysec Washing Machines	15	\$270	\$27	\$4455
Dysec Toasters	20	\$30	\$3	\$660
Customs Duty	55	\$10	\$1	\$605
Freight charge	1	\$100	\$10	\$110
Invoice Total				\$10,670

2.3.1 Calculate the cost price of each Dysec Vacuum Cleaner purchased on 3 September 2012.

1 mark

2.3.2 Explain the impact on net profit of allocating all the customs and freight charges as period costs if only 10 items are sold during the reporting period.

2 marks

2.4 On 17 September 2012 the business was informed that the Dysec Vacuum Cleaner was being replaced by a new model – the Dysec II. The business still had 23 units on hand: 3 units remaining from the opening balance and all 20 units from the purchase on 3 September 2012.

It was decided to sell the current holdings of stock for \$180 per unit (plus \$18 GST per unit). To do so, the business will conduct an advertising campaign expected to cost \$10 per unit (plus \$1 GST per unit).

2.4.1 Prepare the General Journal entry required to record the stock write down. (A narration **is** required)

4 marks

2.4.2 Explain, with reference to one accounting principle, why the stock write down should be recognised in the reports of AM Electrical,

2 + 1 = 3 marks

2.4.3 Explain the effect this transaction may have on the profitability of the business.

2 marks

2.4.4 Identify one indicator the business could use to assess profitability

1 mark

Total 45 marks