

VCE Accounting

PRACTICE EXAMINATION

Introduction

This Examination relates to Unit 4 in VCE Accounting.

Time allowed Reading time: 15 minutes

Writing time: 90 minutes

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 take into the examination room pens, pencils, highlighters, erasers, sharpeners, rulers and one scientific calculator.
- Students are NOT permitted to take into the examination room: blank sheets of paper and/or white out liquid/tape.
- There are TWO questions, each worth 45 marks.
- Answer BOTH questions in the Answer Booklet.
- ALL written responses must be in English.

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

NOTE: This examination has no official status and is only an indication of the type of questions that the VCAA Examiners may set.

NAME:

Task

Question 1

Sam operates a toy store called *Fun4Kidz* in a suburban shopping strip. The store sells high quality toys and play equipment to toy libraries, kindergartens and the public. All purchases of stock are on credit. Toy sales are a mixture of cash and credit sales. The business maintains a double-entry accrual accounting system. It uses a perpetual inventory recording system with the FIFO (First In First Out) cost assignment method.

FUN4Kidz	
Credit Note #116	28/7/09
To: Southern Kindergarten	
Details:	
2 Kits missing parts - Model #32 (cubby house)	
Amount:Eight hundred dollars	
+ GST	\$80
	\$ 880.00

The two incomplete cubby houses were then returned to the manufacturer, Cubbies4U on 29 July 2009 for a full refund (Credit Note No. 21).

Required

1.1.1 Record the Credit Note #116 and Credit Note No. 21 in the stock card.

2 marks

1.1.2 Record the information in Credit Note #116 in the General Journal of *Fun4Kidz*.
A narration **is** required.

7 marks

1.1.3 Show the effect of Credit Note #116 on the accounting equation of *Fun4Kidz*.

3 marks

Required

1.2 State two disadvantages for *Fun4Kidz* when goods are defective and need to be returned by a customer.

2 marks

Task

- 1.3** *Fun4Kidz* decided to do a major update on its computers. Computers were bought on 1 July 2006 for a cost of \$20000, plus GST of \$2000. They were depreciated at a rate of 20% using the straight-line method with a zero residual value. At 30 June 2009 there was accumulated depreciation of \$12000.

On 1 October 2009 it was decided to purchase new computers at a cost of \$35000, plus GST of \$3500. The purchase was evidenced by Invoice #213. Additional costs associated with the purchase of these computers were delivery and installation, \$2000, plus GST of \$200 and a 12 months service contract costing \$4800, plus GST of \$480. ACME Computers allowed a trade of \$3000 on the old computers. A discount of 1% for payment with 7 days was offered by ACME Computers.

Required

- 1.3.1** **Record** in the General ledger the entries for the

- disposal of the existing computers;
- calculation of the profit or loss on disposal of the existing computers.

8 marks

- 1.3.2** **Record** in the General Journal the purchase of the new computers.

Narration **not** required.

6 marks

The total amount owing to ACME Computers was paid by Cheque #456 on 12 October 2009.

Required

- 1.3.3** **Record** this payment to ACME Computers by *Fun4Kidz* in the Cash Payments Journal.

2 marks

- 1.3.4** **Complete** the table to show how the details of the payment would appear in the Cash Flow Statement for the month ending 31 October 2009.

4 marks

Sam claimed 'the profit or loss on the disposal of the computer system only happened because depreciation had been calculated incorrectly'.

Required

- 1.3.5** **Discuss** the validity of this statement.

2 marks

- 1.4** One stock item, 'SupaSwings' cost \$50 per 5 sets for delivery to Sam, in addition to the unit cost of \$450. Other costs incurred with the 'SupaSwings' were modification costs of \$20 per unit to meet Australian Safety Standards and advertising of \$1000. In the three months to September 2009 *Fun4Kidz* sold 20 'SupaSwings' with a mark up of 100% on cost.

Task

Required

1.4.1 Calculate the cost price of each set of the ‘SupaSwings’.

3 marks

1.4.2 Explain, with reference to a Qualitative Characteristic the importance of accurately calculating the cost price of the ‘SupaSwings’.

2 marks

1.5

Measure of performance	2009	2008
Bank balance at 30 June	(\$27000)	\$21000)
Working Capital Ratio		
Current assets	1.2:1	1:1
Current liabilities		
Quick Asset Ratio		
Current assets-(Stock+prepayments)	0.9:1	2:1
Current liabilities-Bank overdraft		

The accountant of *Fun4Kidz* is worried about the liquidity of the business and has calculated the above measures of performance.

Required

1.5.1 State two reasons why Sam should be concerned about the liquidity of *Fun4Kidz*.

2 marks

1.5.2 Explain why Sam is more worried about the trend in the Quick Asset Ratio than the trend in the Working Capital Ratio.

2 marks

Total: 45 marks

Task

Question 2

Leonie's Sweets is a business that sells high quality chocolates and confectionery to the public and to restaurants. Most of its sales to the public are for cash, whilst the restaurants generally buy on credit. Occasionally special orders are done for valued clients. The business maintains a double-entry accrual accounting system. It uses a perpetual inventory recording system with the FIFO (First In First Out) cost assignment method.

For the purposes of Question 2.1 you are not required to consider GST.

2.1 On 30 June 2009 the following accounting information was presented.

Leonie's Sweets

Profit and Loss Statement for 6 months ending 30 June 2009

Revenue	\$	\$
Sales-credit	180 000	
-cash	<u>370 000</u>	550 000
less Cost of Goods Sold		
Cost of sales		<u>165 000</u>
Gross Profit		385 000
less Stock loss	2 000	
Stock write down	<u>1 500</u>	<u>3 500</u>
Adjusted Gross profit		381 500
less expenses		
Shop rent	90 000	
Shop wages	54 000	
Interest-EZ Finance	4 000	
Bad debts	1 500	
Promotions and advertising	7 500	
Depreciation of Shop fittings	7 000	
Discount expense	400	
Wrapping and boxes	<u>15 200</u>	
Total operating expenses		<u>179 600</u>
Net Profit		\$201 900

Task

Additional information

General ledger	Actual 30 June 2009 \$	Budgeted 31 December 2009 \$
Debtors control	120 000	130 000
Accrued expenses-shop wages	-	4 000
Creditors control	75 000	55 000
Prepaid expense-rent	120 000	30 000
Prepaid expense-wrapping paper and boxes	-	1 500
Cash at Bank	92 000	
Loan-EZ Finance	20 000	
Shop fittings	35 000	
Accumulated depreciation of Shop fittings	12 700	

After a meeting with her accountant and business advisor Leonie came up with the following budget estimates for the next six months:

- mark up on cost price will drop to 25%
- credit sales to increase by 15% and cash sales by 5%
- discount expense will increase to 2% of credit sales
- the shop rent is paid on 1 March each year for the next 12 months and will remain unchanged
- cash payments for wrapping and boxes will be \$15200 in this period
- all other expenses will increase by 5%, with the exception of depreciation of shop fittings which will remain constant. Bad debts will reduce to \$500.
- the loan by EZ Finance is repaid at \$12000 per year on 1 September and 1 February in equal amounts
- cash drawings will be \$5000 per month
- stock purchases will be \$290000 and 30% of these will be for cash
- purchase of a new computer costing \$24000 is planned for 1 August 2009. It is expected to have an economic life of 3 years and a residual of \$2400 when it is sold.

Required

2.1.1 Calculate the budgeted payments to creditors for the six months ending 31 December 2009.

3 marks

2.1.2 Reconstruct the Debtors control account to calculate the budgeted receipts from debtors for the six months ending 31 December 2009.

4 marks

Task

2.1.3 Prepare the Expenses section of the Budgeted Profit and Loss Statement for the six months ending 31 December 2009.

5 marks

2.1.4 Prepare the Operating cash outflows for the Budgeted Cash Flow Statement for the six months ending 31 December 2009.

3 marks

2.1.5 Show how the Non-Current Asset section of the Budgeted Balance sheet would appear on 31 December 2009.

2 marks

2.1.6 The Budgeted Cash Outflows from operating activities exceed the budgeted expenses of Leonie's Sweets. Excluding depreciation and discount expense **identify** and **explain** two reasons for this difference.

4 marks

2.2 Leonie produced a Cash Flow Statement Variance Report for the first three months of the year from 1 January 2009 to 31 March 2009.
Some of the significant amounts were as follows.

Item	Actual \$	Budgeted \$	Variance \$	F/U
Sales	95 000	?	25 000	U
Receipts from debtors	96 000	84 000	?	?

Required

2.2.1 Complete the extract of the Cash Flow Variance Report by filling in the shaded boxes.

2 marks

2.2.2 Suggest one possible reason why there might have been a significant variance in the Budgeted Receipts from debtors compared to the Actual receipts from debtors.

1 mark

2.3 Leonie has tried to improve the stock turnover of the business over the last two years without lowering its prices.

Year	Stock turnover rate
2008	59 days
2007	71 days

Required

2.3.1 Outline two methods the business may have used to improve stock turnover.

2 marks

Task

2.3.2 Outline one negative effect and one positive effect of the improving stock turnover rate.

2 marks

2.4 Leonie has read that non-financial indicators can be important in looking at the performance of a business.

Required

2.4.1 Explain what is meant by the term 'non-financial performance indicator'.

1 mark

2.4.2 State two non-financial performance indicators that Leonie could use when assessing her relationship with her customers.

2 marks

2.5 *Leonie's Sweets* also sells soft-felt toys in the shop. The manufacturer gives the business a 10 % commission on all sales. On 31 December 2009 the shop had sold \$2200 worth of soft-felt toys. The commission is to be paid on 1 March 2010. A cheque for \$308 including \$28 GST was received from Fuzzy Toys for the commission owing, plus another \$66 for January and February 2010 including \$6 GST (Rec. #39)

Required

2.5.1 Show the General Journal entry to record the Commission revenue earned for the period ending 31 December 2009. A narration is **not** required.

2 marks

2.5.2 Record Receipt #39 in the Cash Receipts Journal.

2 marks

2.6 Leonie had bought a range of boxed chocolate products from a sales representative. The range had sold well for a while. The manufacturer had problems with the printing on the boxes and sales fell off dramatically due to the poor appearance of the boxes. On 31 December 2009 there were still 45 boxes on hand at a cost price of \$25. The boxed chocolates were originally sold by Leonie at \$40 per box, plus GST of \$4. She estimated that they could only be sold in the bargain bin for \$20, plus GST of \$2 if they were repackaged at a unit cost of \$3 plus GST of 30¢.

Required

2.6.1 Calculate the stock write down amount. **Show** the General Journal entry to record the stock write-down (Memo #22). **No** narration is required.

2 marks

Task

- 2.6.2** Using an accounting principle **explain** the use of the 'lower of cost or net realisable value' rule in the valuation of stock.

1+2=3 marks

- 2.7** *Leonie's Sweets* received a large order for \$3000, plus GST of \$300, of specially boxed chocolates with a company logo on the box. Leonie received a deposit of \$1000, plus GST of \$100 with the balance payable on delivery. An outside company does the printing of the logo and boxing of the chocolates. The complete order will have a cost price of \$1200.

Required

- 2.7.1** **Complete** the table in the Answer Book to show the effect of the deposit on the Accounting equation.

3 marks

- 2.7.2** **Outline** one *advantage* and one *disadvantage* of *Leonie's Sweets* receiving revenue in advance.

2 marks

Total: 45 marks

END OF QUESTION BOOKLET

Answer Book

Question 1

1.1.1

Item – Model #32 Cubby houses					Min Number-2					
Supplier: Cubbies4U					Costing - FIFO					
Contact: Ali 96519034										
Date	Details	IN			OUT			BALANCE		
2009		Units	Cost	Total	Units	Cost	Total	Units	Cost	Total
Jul 1	Balance							6	200	1200
7	Rec. No 278				4	200	800	2	200	400
12	Invoice 890	6	220	1320				2	200	400
								6	220	1320
18	Invoice #101				2	200	400			
					3	220	280	3	220	660

2 marks

1.1.2

General Journal

Date	Particulars	General ledger		Subsidiary ledger	
2009		Debit	Credit	Debit	Credit

7 marks

Answer Book

1.1.3

Element	Increase/Decrease/No effect	\$
Assets		
Liabilities		
Owner's equity		

3 marks

1.2

Disadvantage 1 _____

Disadvantage 2 _____

2 marks

1.3.1

Computers					
2009	Cross reference	\$	2009	Cross reference	\$

Accumulated depreciation of computers					
2009	Cross reference	\$	2009	Cross reference	\$

Answer Book

Disposal of computers					
2009	Cross reference	\$	2009	Cross reference	\$

2009	Cross reference	\$	2009	Cross reference	\$

8 marks

1.3.2

General Journal

Date	Particulars	General ledger		Subsidiary ledger	
		Debit	Credit	Debit	Credit
2009					

6 marks

Answer Book

1.3.3

Cash Payments Journal

[illegible]

2 marks

1.3.4

Cash Flow category	Item	Inflow/ Outflow	Amount \$
Operating activity			
Investing activity			
Financing activity			

4 marks

1.3.5

Explanation_____

2 marks

1.4.1

	\$
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3 marks

Answer Book

1.4.2

Qualitative characteristic _____

Explanation _____

2 marks

1.5.1

Reason 1 _____

Reason 2 _____

2 marks

1.5.2

Explanation _____

2 marks

Total: 45 marks

Answer Book

Question 2

2.1.1

Budgeted payments to creditors	\$
--------------------------------	----

3 marks

2.1.2

Debtors control					
2009	Cross reference	\$	2009	Cross reference	\$

Budgeted receipts from debtors	\$
--------------------------------	----

4 marks

Answer Book

2.1.3

	\$	\$
<i>Less expenses</i>		

5 marks

2.1.4

	\$	\$
<i>Less operating cash outflows</i>		

3 marks

Answer Book

2.1.5

	\$	\$
<i>Non-current assets</i>		

2 marks

2.1.6

Reason 1 _____

Explanation _____

Reason 2 _____

Explanation _____

4 marks

2.2.1

Item	Actual \$	Budgeted \$	Variance \$	F/U
Sales	95 000		25 000	U
Receipts from debtors	96 000	84 000		

2 marks

**Answer
Book****2.2.2**

Reason _____

*1 mark***2.3.1**

Method 1 _____

Method 2 _____

*2 marks***2.3.2**

Negative effect _____

Positive effect _____

*2 marks***2.4.1**

Explanation _____

*1 mark***2.4.2**

Indicator 1 _____

Indicator 2 _____

2 marks

Answer Book

2.5.1

General Journal

Date	Particulars	General ledger		Subsidiary ledger	
		Debit	Credit	Debit	Credit
2009					

2 marks

2.5.2

Cash Receipts Journal

Date 2010	Details	Rec. No.	Bank	Debtors	Cost of sales	Sales	GST	Sundries

2 marks

2.6.1

Calculation space

1 mark

Answer Book

General Journal

Date	Particulars	General ledger		Subsidiary ledger	
		Debit	Credit	Debit	Credit
2009					

1 mark

2.6.2

Accounting principle _____

Explanation _____

1+2=3 marks

2.7.1

	Name of General Ledger account	Increase \$	Decrease \$
Assets			
Liabilities			

3 marks

2.7.2

Advantage _____

Disadvantage _____

2 marks

Total: 45 marks

END OF ANSWER BOOK

Solution Pathway

INSTRUCTIONS TO TEACHERS

The Victorian Curriculum and Assessment Authority (VCAA) publishes the *VCE Accounting Assessment Handbook 2007-2010*. It contains assessment information for both school-based assessment, examinations and general VCAA administrative procedures. Updates to this handbook will be published on the VCAA website. Further information on VCE assessment is published annually in the *VCE and VCAL Administrative Handbook* and each month in the *VCAA Bulletin VCE, VCAL and VET*

The solution to the examination is a suggested solution and is by no means the only answers that may be accepted.

Question 1

1.1.1

Item – Model #32 Cubby houses					Min Number-2					
Supplier: Cubbies4U					Costing - FIFO					
Contact: Ali 96519034										
Date	Details	IN			OUT			BALANCE		
2009		Units	Cost	Total	Units	Cost	Total	Units	Cost	Total
Jul 1	Balance							6	200	1200
7	Rec. No 278				4	200	800	2	200	400
12	Invoice 890	6	220	1320				2	200	400
								6	220	1320
18	Invoice #101				2	200	400			
					3	220	660	3	220	660
27	Credit Note #116	2	220	440				5	220	1 100
29	Credit Note #21				2	220	440	3	220	660

1 mark for each correct entry, including date, details and columns

2 marks

Solution Pathway

1.1.2

General Journal

Date	Particulars	General ledger		Subsidiary ledger	
		Debit	Credit	Debit	Credit
2009					
Jul 27	Sales returns	800			
	GST Clearing	80			
	Debtors control		880		
	Debtor-Southern Kindergarten				880
	Stock control	440			
	Cost of sales		440		
	Return of 2 Model #32 due to incomplete kit-Credit Note #116				

1 mark for each correct line (6) and 1 mark for narration

7 marks

1.1.3

Element	Increase/Decrease/No effect	\$
Assets	Decrease	880-440= 440
Liabilities	Decrease	80
Owner's equity	Decrease	800-440= 360

1 mark for each correct line

3 marks

1.2

Disadvantages

- Causes loss of customer goodwill.
- Cost of administrative time in returning goods, recording and possibly storage.
- May mean that the business runs short of stock if they have to replace item out of current stock and wait for new stock.

1 mark for each disadvantage

2 marks

Solution Pathway

1.3.1

Computers					
2009	Cross reference	\$	2009	Cross reference	\$
Sept 1	Balance	20 000	Oct 1	Disposal of Computers**	20 000

Accumulated depreciation of computers					
2009	Cross reference	\$	2009	Cross reference	\$
Oct 1	Disposal of Computers**	13 000	Jun 30	Balance	12 000
			Sep 30	Depreciation of Computers **	1 000
		13 000			13 000

Disposal of computers					
2009	Cross reference	\$	2009	Cross reference	\$
Oct 1	Computer **	20 000	Oct 1	Accumulated Depreciation of Computers **	13 000
			1	Sundry Creditor-ACME Computers **	3 000
			1	Loss on disposal of computers **	4 000
		20 000			20 000

Loss on disposal of computers					
2009	Cross reference	\$	2009	Cross reference	\$
Oct 1	Disposal of Computers **	4 000			

** 1 mark for each of these entries

8 marks

Solution Pathway

1.3.2

General Journal

Date	Particulars	General ledger		Subsidiary ledger	
		Debit	Credit	Debit	Credit
2009					
Oct 1	Sundry Creditor-ACME Computers**	3 000			
	Disposal of computers **		3 000		
1	Computers **	37 000			
	Prepaid Service expense **	4 800			
	GST Clearing **	4 180			
	Sundry Creditor-ACME Computers **		45 980		

** 1 mark for each entry

6 marks

1.3.3

Cash Payments Journal

Date	Details	Chq No.	Bank	Disc. Rev.	Creditors	Expenses	GST	Sundries
Oct 12	Sundry creditor-ACME Computers **	456	42 980				4 180	34 000
12	Prepaid service expense **							4 800

** 1 mark for each entry

2 marks

1.3.4

Cash Flow category	Item	Inflow/ Outflow	Amount \$
Operating activity	Prepaid service expense **	Outflow	4 800
	GST payment **	Outflow	4 180 (3500+200+480)
Investing activity	Computers ** (Alternative: Sundry creditor)	Outflow	34 000
Financing activity	Nil **	Nil	Nil

** 1 mark for each correct entry

4 marks

Solution Pathway

1.3.5

Explanation

Depreciation is the allocation of the cost of a depreciable non-current asset over the period it contributes to revenue.

- The length of the period it contributes to revenue is only estimated. In this case the computer was disposed of 9 months less than its estimated economic life.
- The computer was estimated to have zero residual value, but in fact it received a trade-in of \$3000.
- In the light of these points it cannot be said that the depreciation was incorrectly calculated as some facts were unknown.

1 mark for each correct reason

2 marks

1.4.1

Invoiced cost	\$450	**
Delivery	10	**
Modification	20	**
	480 per set	
		\$ 480

** 1 mark for each correct item. Minus 1 mark for an alien

3 marks

1.4.2

Qualitative characteristic: *Relevance*

Explanation

The information needs to be as accurate as possible for decision makers, so they are fully informed when making decisions.

The accurate information about the cost of the product will assist the business to set an appropriate mark-up and evaluate the adequacy of gross profit.

1 mark for qualitative characteristic and 1 mark for explanation

2 marks

Solution Pathway

1.5.1

Reasons

- The Bank overdraft has increased from \$21000 in 2008 to \$27000 in 2009. This means further indebtedness and possibly higher interest payments.
- The Quick Asset Ratio has fallen below 1:1 and this means that the business may not be able to pay its debts as they become due.
- The increase in the Working Capital Ratio could indicate that *Fun4Kidz* has a large amount of stock on hand which would not be able to be quickly converted into cash.

1 mark for each reason to a maximum of two

2 marks

1.5.2

Explanation

- The increase in the Working Capital Ratio whilst the Quick Asset Ratio is falling could indicate that *Fun4Kidz* has a large amount of stock on hand which might not be able to be quickly converted into cash.
- The Quick Asset Ratio is a better measure of the ability of the business to obtain cash quickly to meet debts. This is why Sam may be concerned with this ratio which has fallen below 1:1. This indicates a real possibility that the business may have difficulty in meeting its obligations.
- The business may need to seek other forms of finance in order to pay liabilities as they fall due.

1 mark for the difference between the Working Capital Ratio and the Quick Asset ratio and 1 mark for the problems of the decreasing Quick Asset ratio

2 marks

Question 2

2.1.1

	\$	
Balance at start	75000	**
+Credit purchases	203000	**
	278000	
-Budgeted balance	55000	**
	223000	
Budgeted payments to creditors		\$ 223 000

** 1 mark for each correct amount

3 marks

Solution Pathway

2.1.2

Debtors control					
2009	Cross reference	\$	2009	Cross reference	\$
30 Jun	Balance	120 000	31 Dec	Bad debts **	500
31 Dec	Credit sales **	207 000		Discount expense **	4 140
				Bank **	192 360
				Balance	130 000
		327 000			327 000

Budgeted receipts from debtors	\$ 192 360
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** 1 mark for each correct amount and ledger account title

4 marks

2.1.3

	\$	\$
Less expenses		
Rent **	90 000	
Shop wages **	56 700	
Interest-EZ Finance	4 200	
Bad debts	500	
Depreciation of Shop fittings	7 000	
Depreciation of Computer **	3 000	
Discount expense	4 140	
Promotion and advertising	7 875	
Wrapping and boxes **	<u>13 700</u>	187 115

1/2 mark for each correct entry and sub total for expenses

5 marks

Solution Pathway

2.1.4

	\$	\$
Less operating cash outflows		
Payments to creditors	(223 000)	
Shop wages **	(52 700)	
Interest-EZ Finance	(4 200)	
Stock (cash purchases)	(87 000)	
Promotions and advertising	(7 875)	
Wrapping and boxes **	(13 700)	
Prepaid expense-Wrapping and boxes **	<u>(1 500)</u>	(389 975)

** 1 mark for each correct title and amount

3 marks

2.1.5

	\$	\$
Non-current assets		
Shop fittings	35 000	
less Accumulated depreciation of shop fittings	<u>19 700</u>	15 300
Computer	24 000	
less Accumulated depreciation of computer	<u>3 000</u>	21 000
Total Non-current assets		36 300

1 mark for each correct asset and amount

2 marks

2.1.6

Reasons and explanation

- Wrapping paper and boxes-the operating expense takes into account the prepaid expense at the end of the period, whereas the operating cash outflow takes into account the actual amount paid out during the period.
- Payment to creditors for stock were included in the operating cash outflow but not included as an operating expense.
- Cash purchases of stock are included as an operating cash outflow but not included as an operating expense.

1 mark for each reason and 1 mark for each explanation

4 marks

Solution Pathway

2.2.1

Item	Actual \$	Budgeted \$	Variance \$	F/U
Sales	95 000	120 000	25 000	U
Receipts from debtors	96 000	84 000	12 000	F

1 mark for each correct row

2 marks

2.2.2

Possible Reasons

The business may have:

- been more proactive in collecting amounts owing from debtors
- improved their credit policy, by carrying out credit checks
- invoiced customers more promptly
- sent reminder notices
- refused further credit to slow paying restaurants
- given discounts for prompt payment.

1 mark for any reason

1 mark

2.3.1

- Better stock management by decreasing the level of stock on hand. This could include better ordering practices (just-in-time ordering), replacing slow moving stock items, rotating stock of perishable items, ensuring stock is up to date and improving stock loss and write down.
- Developing ways to improve sales-changing the stock mix, going into complementary products, improved marketing and advertising.

1 mark for each method and explanation

2 marks

2.3.2

Negative effect

- If the improving stock turnover rate has been caused by the business reducing prices it may lead to a decrease in total revenue and possibly profit.
- This rate is an average some specific items of stock may be selling very quickly and others very slowly. This could lead to a build up of out-of-date stock.
- It may mean that the business is holding very low levels of stock and there may be extra costs incurred in constantly buying in stock.

Solution Pathway

Positive effect

- The business may be holding optimum levels of stock and having good stock management.
- if the business is holding the right stock it could maximise revenue as stock does not become out of date or damaged.
- If stock levels are low then there may be reduced storage costs.

1 mark for a negative effect and 1 mark for a positive effect

2 marks

2.4.1

- It is a measure of the performance of a business that cannot be found in the financial statements and is not expressed in dollars and cents.

1 mark for the explanation

1 mark

2.4.2

Any two of: considering reasons and regularity of sales returns, catalogue requests, website hits, brand recognition, customer complaints and feedback, changes in demographic of customers, repeat customers, amount of time spent in shop, enquiries that are turned into sales and telephone enquiries.

1 mark for each non-financial performance indicator

2 marks

2.5.1

General Journal

Date	Particulars	General ledger		Subsidiary ledger	
		Debit	Credit	Debit	Credit
2009					
Dec 31	Accrued commission revenue	220			
	Commission revenue		220		

1 mark for each entry

2 marks

Solution Pathway

2.5.2

Cash Receipts Journal

Date 2010	Details	Rec. No.	Bank	Debtors	Cost of sales	Sales	GST	Sundries
1 Mar	Accrued commission revenue	39	308				22	220
	Commission revenue						6	60

1 mark for each entry

2 marks

2.6.1

Net realisable value= Estimated selling price-Direct selling costs

$$\$20-3=\$17 \text{ per unit}$$

Cost price=\$25

Using Lower of cost or net realisable value rule

$$\$25-17=\$8 \text{ per unit stock write-down}$$

$$\text{Total stock write-down}=\$8 \times 45=\$360$$

1 mark for calculation

General Journal

Date	Particulars	General ledger		Subsidiary ledger	
		Debit	Credit	Debit	Credit
31 Dec	Stock write-down	360			
	Stock control		360		

1/2 mark for each correct line

2 marks

2.6.2

Accounting principle: *Conservatism*

Explanation

- Losses must be recognised as soon as they are identified or probable.
- Assets must not be overstated in the Balance Sheet.

1 mark for correct Accounting principle and 2 marks for explanation

3 marks

Solution Pathway

2.7.1

	Name of General Ledger account	Increase \$	Decrease \$
Assets	<i>Bank</i>	<i>1100</i>	
Liabilities	<i>Prepaid sales revenue</i>	<i>1000</i>	
	<i>GST Clearing</i>	<i>100</i>	

1 mark for each correct entry.

3 marks

2.7.2

Advantage

- The business has immediate cash flow even though it may not have to incur any expense.
- The business may be able to use the cash inflow for buying other stock, reducing liabilities, meeting other expenses or purchasing non-current assets.

Disadvantage

- Means that the business has a future commitment it must fulfil.
- When it has to buy the stock it may have used the deposit for something else.
- When the stock is delivered from the supplier it may cost more than quoted.

1 mark for an advantage and 1 mark for a disadvantage

2 marks