VICTORIAN CURRICULUM AND ASSESSMENT AUTHORITY

Victorian Certificate of Education
2014

ACCOUNTING
Written examination

Monday 10 November 2014

Reading time: 11.45 am to 12.00 noon (15 minutes)
Writing time: 12.00 noon to 2.00 pm (2 hours)

QUESTION BOOK

Structure of book

Number of questions	*Number of questions to be answered*	*Number of marks*
12	12	100

- 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 book of 11 pages.
- Answer book of 17 pages.

Instructions
- Write your **student number** in the space provided on the front cover of the answer book.
- Answer all 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 (14 marks)

Ocean Blue sells a range of boat fittings. Stock is purchased on credit and sold for both cash and credit with a 100% mark-up on cost. The following information relates to February 2014.

Debtors balances at 1 February 2014 were:

J Bennett	$2 500
D Edger	$3 400
T Wilson	$4 300
	$10 200

Sales Journal

Date 2014	Debtor	Invoice Number	Cost of Sales	Sales	GST	Debtors Control
2 Feb.	J Bennett	324	1 600	3 200	320	3 520
6 Feb.	D Edger	325	1 200	2 400	240	2 640
15 Feb.	J Bennett	326	500	1 000	100	1 100
17 Feb.	T Wilson	327	1 550	3 100	310	3 410
23 Feb.	F Smith	328	1 250	2 500	250	2 750
28 Feb.	Totals	–	**6 100**	**12 200**	**1 220**	**13 420**

Cash Receipts Journal

Date 2014	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sundries	GST
1 Feb.	Cash Sales	610	14 300			6 500	13 000		1 300
4 Feb.	J Bennett	611	1 650	50	1 700				
6 Feb.	Cash Sales	612	10 450			4 750	9 500		950
7 Feb.	D Edger	613	2 000	50	2 050				
16 Feb.	Loan – XYZ Bank	614	10 000					10 000	
19 Feb.	T Wilson	615	1 000		1 000				
24 Feb.	Cash Sales	616	13 640			6 200	12 400		1 240
28 Feb.	Totals	–	**53 040**	**100**	**4 750**	**17 450**	**34 900**	**10 000**	**3 490**

Additional information

16 February — D Edger received a credit of $660 (including GST) for stock returned from the sale on 6 February (Credit Note 21).

27 February — T Wilson has been declared bankrupt and will not be able to pay the outstanding balance (Memo 58).

Question 1 – continued

a. Record the additional information in the General Journal provided.
Narrations are **not** required. 5 marks

b. With reference to **one** accounting principle, explain why the entry on 27 February 2014 needs to be made. 3 marks

c. Complete D Edger's account in the Debtors Subsidiary ledger for February 2014 and prepare this account for the next reporting period. 3 marks

d. Prepare a Schedule of Debtors as at 28 February 2014. 3 marks

Question 2 (5 marks)

The Stock Control ledger account for VH Glassworks is shown below. The business uses a mark-up of 100% on cost and reports on a monthly basis. The business buys and sells stock on a credit basis only.

Stock Control

Date 2014	Cross-reference	Amount	Date 2014	Cross-reference	Amount
1 March	Balance	13500	31 March	Cost of Sales	12000
31 March	Creditors Control	4650		Creditors Control	500
	Cost of Sales	1300		Balance	6950
		19450			19450
1 April	Balance	6950			

Show how the Cost of Sales entry on the debit side of the account would affect items in the Income Statement for the month ended 31 March 2014 and the Balance Sheet at 31 March 2014.

Question 3 (7 marks)

In January 2014, the owner of Metro Cosmetics was provided with the following information.

	2013 (Actual)	2014 (Budget)
Stock Turnover	90 days	80 days
Creditors Turnover	28 days	37 days

a. The owner believes that improving Stock Turnover should lead to an increase in gross profit.

Do you agree with the owner? Explain. 3 marks

b. Suggest **two** strategies the business may employ to improve Stock Turnover. 2 marks

c. Identify **one** positive and **one** negative effect that the increase in Creditors Turnover could have on Metro Cosmetics. 2 marks

Question 4 (8 marks)

Chris Stone established a small business, Willow Terrace, to sell outdoor furniture. The business will use control accounts and subsidiary ledgers for both debtors and creditors. The business officially commenced on 1 June 2014 with the following transactions and information:

- A cheque for $40 000 from Chris Stone was paid into the business bank account (Rec. 1).
- A business loan of $20 000 was received from ANY Bank (Rec. 2). The loan is repayable in equal monthly instalments over 24 months. An overdraft of $15 000 was also arranged.
- A three-year rental agreement was signed. Rent of $5 000 was paid for the three months to 31 August (Cheque 001). Willow Terrace paid a security bond of $4 000 (Cheque 002). The security bond will be refunded to Willow Terrace at the end of the rental agreement provided that the premises are in satisfactory condition.
- Chris's own motor vehicle, valued at $24 000, was also contributed to the business. It originally cost $52 000 plus GST (Memo 1).
- Shop fittings that cost $30 000 plus GST were purchased on credit from B Fit (Invoice 386). A deposit of $4 000 was paid (Cheque 003).
- Stock that cost $38 000 plus GST was purchased on credit from Exotic Gardens Ltd (Invoice 65).
- Stock was ordered for $15 000 plus GST from Far East Traders in Singapore (Memo 2). Delivery is scheduled for 25 June.

Prepare the classified Balance Sheet for Willow Terrace as at 1 June 2014.

Question 5 (10 marks)

AX Electronics specialises in portable multimedia equipment. It uses the First In, First Out (FIFO) cost assignment method for stock and prepares reports monthly. All stock is marked up by 100% on cost.

The Portable DVD Player Model XV9 was the only stock item held by the business in July 2014. No stock was withdrawn for personal use during the month.

The Stock Card for the Portable DVD Player Model XV9 for July is shown below.

Product: Portable DVD Player Model XV9								**Cost Assignment Method: FIFO**		
Date 2014	**Details**	**IN**			**OUT**			**BALANCE**		
		Qty	**Cost**	**Total**	**Qty**	**Cost**	**Total**	**Qty**	**Cost**	**Total**
1 July	Balance							46	90	4 140
3 July	Inv. 414				14	90	1 260	32	90	2 880
4 July	Memo 87	5	85	425				32 5	90 85	3 305
5 July	Rec. 490				13	90	1 170	19 5	90 85	2 135
9 July	Inv. 415				12	90	1 080	7 5	90 85	1 055
14 July	CrN. 425				2	90	180	5 5	90 85	875
18 July	Inv. 1212	25	92	2 300				5 5 25	90 85 92	3 175
22 July	Memo 88				3	90	270	2 5 25	90 85 92	2 905
25 July	Rec. 491				2 3	90 85	435	2 25	85 92	2 470
27 July	CrN. 230	1	85	85				3 25	85 92	2 555
31 July	Memo 89				1	85	85	2 25	85 92	2 470

a. Identify the transaction that occurred on each of the following dates:

- 4 July
- 14 July
- 22 July

3 marks

b. Memo 89 refers to an expense – stock loss.

Explain how a stock loss meets the definition of an expense. 3 marks

c. Prepare an extract of the Income Statement for the month ended 31 July 2014, up to and including Adjusted Gross Profit. 4 marks

TURN OVER

Question 6 (3 marks)

The following is an extract of the General Journal for Rustic Timber on 30 June 2014. The business prepares reports monthly.

General Journal

Date 2014	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
30 June	Sales	76 000			
	Profit and Loss Summary		76 000		
	(closing entry)				
30 June	Profit and Loss Summary	78 300			
	Cost of Sales		52 000		
	Depreciation – Van		5 300		
	Rent Expense		3 000		
	Wages		18 000		
	(closing entry)				

Additional information

- The Capital account balance on 1 June 2014 was $51 200 and at 30 June 2014 was $50 350.
- The owner contributed $1 250 cash and a computer valued at $1 000 on 30 June 2014.
- The owner took cash drawings during the month.

Complete the Capital account in preparation for the next reporting period.

Question 7 (6 marks)

Marv Petroleum is an Australian oil company. In 2014, it agreed to run a television advertising campaign during the upcoming cricket season. The business will provide a new car to one lucky viewer at each of five one-day cricket games that will be telecast live in Melbourne.

On 5 October 2014, Marv Petroleum paid MGH Motors $330 000 including GST for five identical sports cars. One car is to be delivered by MGH Motors and awarded to the lucky viewer during the telecast of the game on each of the following dates: 17 October, 24 October, 7 November, 14 November and 6 December 2014.

Both Marv Petroleum and MGH Motors report on a monthly basis.

a. Prepare the General Journal entry to record the balance day adjustment required by Marv Petroleum on 31 October 2014.
A narration is **not** required. 2 marks

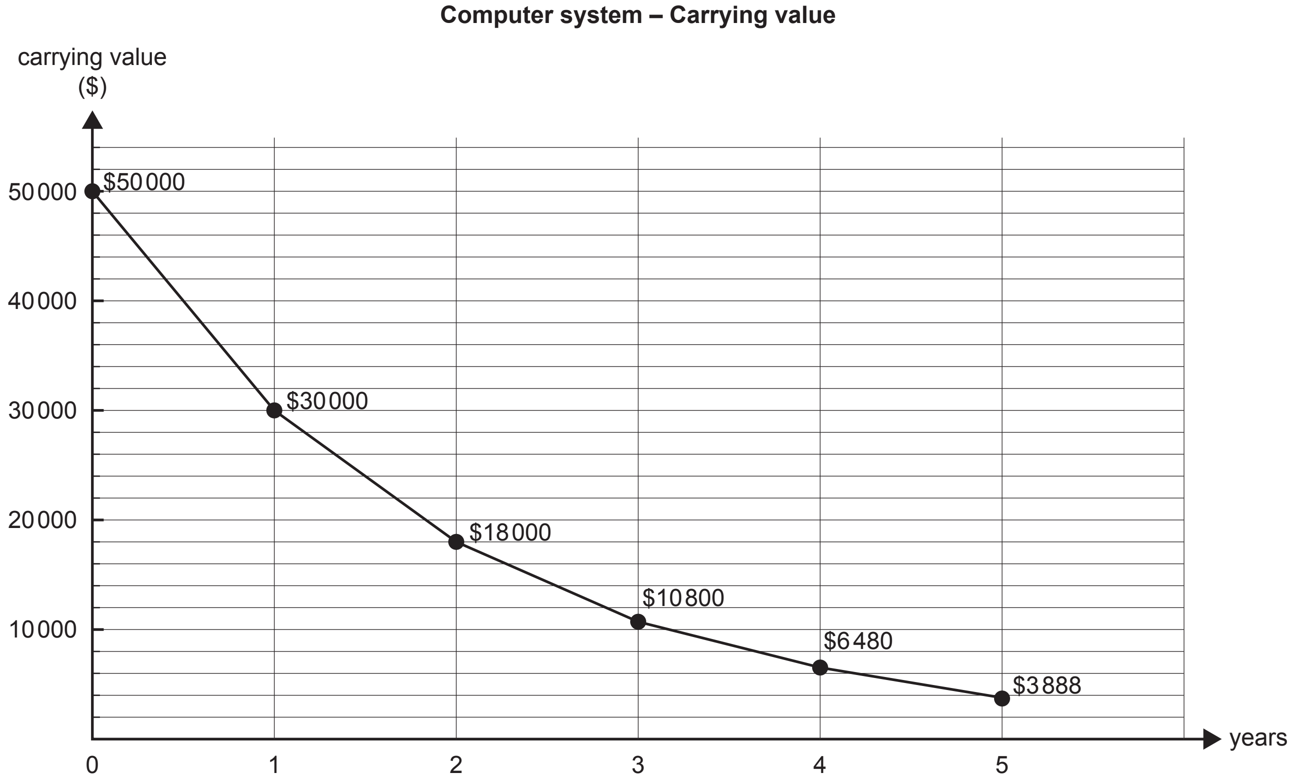
b. Prepare the General Journal entry to record the balance day adjustment required by MGH Motors on 31 October 2014.
A narration is **not** required. 2 marks

c. Prepare the Prepaid Advertising Expense ledger account for Marv Petroleum at 31 October 2014.
You are **not** required to balance the account. 2 marks

Question 8 (6 marks)

Onemax Logistics reports annually on 30 June each year. On 1 July 2013, the business purchased a new computer system with an expected useful life of five years. The accountant decided to depreciate the computer system using the reducing balance method.

The following graph was prepared to demonstrate the asset's carrying value over its useful life.



a. From the graph, determine:
- the depreciation expense for Year 2
- the estimated residual value of the computer system. 2 marks

b. Justify the decision to use the reducing balance method of depreciation for the computer system instead of the straight line method of depreciation. 2 marks

c. Explain how the Income Statement would differ in Year 5 if the straight line method of depreciation had been used each year instead of the reducing balance method of depreciation. 2 marks

Question 9 (21 marks)

Lou's Lighting reports and budgets on a monthly basis. The business has been preparing its budgets for July 2014 and has completed the Budgeted Balance Sheet and Budgeted Income Statement. Lou's Lighting now wishes to prepare a Budgeted Cash Flow Statement for July 2014.

The following information is provided.

Lou's Lighting		
Balance Sheet	**Actual 30 June 2014**	**Budgeted 31 July 2014**
Current Assets		
Cash at Bank	27 320	–
Debtors Control	32 700	40 000
Prepaid Advertising	–	3 000
Stock Control	72 000	90 000
GST Clearing	2 000	–
Non-Current Assets		
Equipment	37 000	42 000
Less Accumulated Depreciation – Equipment	(19 000)	(7 000)
Total Assets	**152 020**	**168 000**
Current Liabilities		
Cash at Bank (O/D)	–	8 995
Accrued Wages	2 500	1 500
Loan – ABV Bank	3 750	3 750
GST Clearing	–	185
Non-Current Liabilities		
Loan – ABV Bank	22 500	18 750
Total Liabilities	**28 750**	**33 180**
Owner's Equity		
Capital (start of month)	112 270	123 270
Additional capital contributed	3 000	–
Net Profit	52 000	43 550
Drawings	(44 000)	(32 000)
Capital (end of month)	**123 270**	**134 820**
Total Equities	**152 020**	**168 000**

Question 9 – continued

Budgeted Income Statement items for the month ending 31 July 2014

	$
Sales	202 000
Profit on Disposal of Equipment	3 700
Sales Returns	1 500
Cost of Sales	100 250
Stock Write-Down	2 000
Wages	27 000
Advertising	9 300
Depreciation – Equipment	3 200
Discount Expense	1 500
Interest Expense	1 100
Bad Debts	2 200
Other Expenses	14 100
Budgeted Net Profit	**43 550**

Additional information

- All sales are on credit and all purchases of stock are made on a cash basis. Cost of Sales is 50% of sales.
- Equipment costing $25 000 and with a carrying value of $9 800 will be sold for cash. New equipment will be purchased for cash.
- There will be no capital contributions during July and drawings by the owner will include $3 000 stock.
- The loan requires one repayment on 14 July each year.
- The budgeted GST Clearing account for July has been prepared and is shown below. No payments to, or refunds from, the taxation office are expected in July.

GST Clearing (budgeted)

Date 2014	Cross-reference	Amount	Date 2014	Cross-reference	Amount
1 July	Balance	2 000	31 July	Debtors Control	20 200
31 July	Debtors Control	150			
	Bank	17 865			
	Balance	185			
		20 200			**20 200**
			1 Aug.	Balance	185

a. Reconstruct the following General Ledger accounts:
- Debtors Control – to determine cash to be received from debtors
- Stock Control – to determine cash to be paid for stock
- Disposal of Equipment – to determine cash to be received from the sale of equipment 8 marks

b. Prepare a Budgeted Cash Flow Statement for the month ending 31 July 2014. 9 marks

c. Explain, giving **two** examples other than the loan repayment and drawings, how the business can budget for a Net Profit of $43 550 yet have its budgeted bank balance fall. 4 marks

TURN OVER

Question 10 (11 marks)

BTK Traders sells three models of coffee machines online through their website. Selling prices are regularly adjusted to match its competitors. Following a stocktake on 30 June 2014, the accountant provided the following details.

Stock Item Model	Quantity at Stocktake	Quantity on Stock Card	Cost Price per unit ($)	Estimated Selling Price range per unit ($)	Delivery In per unit ($)	Delivery Out per unit ($)
The Queen	45	45	440	550–620	10	20
The Prince	30	32	180	250–290	10	15
The Wiz	60	60	95	70–90	5	10

Additional information

- All costs are shown on a per unit basis and do not include GST.
- Cost Price is the suppliers' invoiced price before delivery charges.
- Delivery Out is paid for by the customer.
- The Wiz model has been superseded and the selling price has been reduced to clear stocks.
- A packet of coffee pods (cost $10 plus GST) is included with every coffee machine sold.

a. Calculate the value at which stock should be reported in the Balance Sheet at 30 June 2014. 3 marks

b. Explain, with reference to the relevant stock valuation rule and an accounting principle, your treatment of The Wiz coffee machines. 4 marks

c. Prepare the two General Journal entries required as a result of the above information. Narrations are **not** required. 4 marks

Question 11 (6 marks)

A business had set a goal of increasing sales by 20% during 2014. At the end of the year, the accountant informed management that, while this goal was achieved, other areas of performance also need to be considered.

The accountant has provided the following information.

	2013	**2014**
Sales	$800 000	$960 000
Net Profit Margin	40%	30%
Asset Turnover	0.5 times	0.6 times
Return on Assets	20%	17%

Management has asked why the improvement in sales has not been reflected in the other key indicators provided.

Using the information from the table and the question from management, discuss the profitability of the business.

Question 12 (3 marks)

The following ratios have been calculated for a business for the last two years. Total assets have remained unchanged over this period.

	2013	**2014**
Debt Ratio	42%	48%
Return on Owner's Investment	21%	26%

Explain the relationship between the increase in the Debt Ratio and the increase in the Return on Owner's Investment.

END OF QUESTION BOOK

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Victorian Certificate of Education 2014

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER									Letter

ACCOUNTING

Written examination

Monday 10 November 2014

Reading time: 11.45 am to 12.00 noon (15 minutes)
Writing time: 12.00 noon to 2.00 pm (2 hours)

ANSWER BOOK

Instructions

- A question book is provided with this answer book.
- Answer all questions in the spaces provided in this book.
- Write your **student number** in the space provided above on this page.
- Refer to **Instructions** on the front cover of the question book.

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Question 1 (14 marks)

a. 5 marks

Working space

General Journal

Date 2014	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit

b. 3 marks

Accounting principle
Explanation

Question 1 – continued

c. 3 marks

Debtor – D Edger

Date 2014	Cross-reference	Amount	Date 2014	Cross-reference	Amount

d. 3 marks

Working space

Ocean Blue
Schedule of Debtors as at 28 February 2014

	$

Question 2 (5 marks)

	Item(s)	Increase/Decrease/ No Change	Amount(s)
Income Statement			
Balance Sheet			

Question 3 (7 marks)

a. 3 marks

b. 2 marks

Strategy 1
Strategy 2

Question 3 – continued

c. 2 marks

Positive effect
Negative effect

Question 4 (8 marks)

Working space

Willow Terrace
Balance Sheet as at 1 June 2014

	$	$		$	$

Question 5 (10 marks)

a. 3 marks

4 July
14 July
22 July

b. 3 marks

Explanation

c. 4 marks

Working space

AX Electronics
Income Statement (extract) for the month ended 31 July 2014

	$	$

Question 6 (3 marks)

Capital

Date 2014	Cross-reference	Amount	Date 2014	Cross-reference	Amount
			1 June	Balance	51 200

Question 7 (6 marks)

a. 2 marks

Marv Petroleum

General Journal

Date 2014	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit

b. 2 marks

MGH Motors

General Journal

Date 2014	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit

c. 2 marks

Marv Petroleum

Prepaid Advertising Expense

Date 2014	Cross-reference	Amount	Date 2014	Cross-reference	Amount

Question 8 (6 marks)

a. 2 marks

Depreciation expense for Year 2	$
Estimated residual value of the computer system	$

b. 2 marks

Justification

c. 2 marks

Explanation

Question 9 (21 marks)

a. 8 marks

Debtors Control

Date 2014	Cross-reference	Amount	Date 2014	Cross-reference	Amount
1 July	Balance	32 700			

Stock Control

Date 2014	Cross-reference	Amount	Date 2014	Cross-reference	Amount
1 July	Balance	72 000			

Disposal of Equipment

Date 2014	Cross-reference	Amount	Date 2014	Cross-reference	Amount

b. 9 marks

Working space

Lou's Lighting

Budgeted Cash Flow Statement for the month ending 31 July 2014

	$	$

c. 4 marks

Explanation
Example 1
Example 2

Question 10 (11 marks)

a. 3 marks

Working space	
Value of stock in the Balance Sheet at 30 June	$

b. 4 marks

Stock valuation rule
Accounting principle
Explanation

c. 4 marks

General Journal

Date 2014	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit

Question 11 (6 marks)

Discussion

Question 12 (3 marks)

Explanation

END OF ANSWER BOOK