



VCE ACCOUNTING UNIT 3

2019

Examination

Reading time: 15 minutes

Writing time: 2 hours

QUESTION BOOK

Structure of book

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
7	7	100

Directions to students

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 10 pages.
- Answer book of 14 pages.

Instructions

- Answer all questions in the Answer book.
- All written responses must be in English.

At the end of the examination

- Please submit both this Question book and the Answer book at the end of the examination.

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

Question 1 – Leo’s Lighting (13 marks)

On 1 January 2019 Leo Wang started his own business called Leo’s Lighting.

On the same day, the follow events occurred.

- Leo opened a business bank account with an electronic transfer of \$15 000 from his personal account.
- Leo transferred his Van to the business. He purchased the Van in 2016 for \$34 990 plus GST. Leo decided that the Van’s fair value was \$16 000.
- Leo’s Lighting borrowed \$40 000 from MNC Bank and arranged a \$5 000 overdraft limit. Loan repayments of \$500 will be made to MNC Bank on a monthly basis commencing 15 February 2019.
- Inventory costing \$9 900 including GST was purchased on credit. Include a name here who purchased on credit from?
- Cheque 1 was used to purchase Equipment for \$8 580 including GST.

- a.** Prepare the Current Asset and Current Liability extracts from the classified Balance Sheet for Leo’s Lighting as at 1 January 2019.

5 marks

- b.** Referring to two qualitative characteristics, explain why fair values should be used when non-cash assets are contributed to the business by an owner.

4 marks

- c.** Referring to the definition of a liability, explain how the loan balance owing to MNC Bank would be treated differently to the bank overdraft limit on the Balance Sheet of Leo’s Lighting as at 1 January 2019.

4 marks

Question 2 – Fiona’s Frames (17 marks)

Fiona Owens owns and operates Fiona’s Frames, a small business that offers her customers credit terms of 2/7, n/30.

The following transactions for February 2019 have not been recorded.

09/02	Purchased 20 ‘Macklin’ frames from McGowan’s for \$3 200 plus GST (Invoice 1976).
16/02	Fiona’s Frames made a credit sale to a new customer – Murphy Motel. Invoice 219 was issued for the sale of \$5 000 plus GST. These items cost Fiona’s Frames \$2 000.
17/02	Sold 5 ‘Crow’ frames to Kevin Nguyen for \$80 plus GST each (Receipt 324). These frames originally cost Fiona’s Frames \$35 each.
19/02	The Murphy Motel returned some of the frames sold on 16 February. Fiona decided to give them a credit of \$1 100 including GST. (Credit Note 7) These frames original cost Fiona’s Frames \$400.
20/02	Returned 4 ‘Macklin’ frames to McGowan’s and received a full credit of \$704 including GST. (Credit Note 116)
21/02	The Murphy Motel were issued receipt 328 when they paid their outstanding account balance.

Prepare the General Journal entries required to record each transaction.

Narrations are **not** required.

Question 3 – Bert's Books (8 marks)

Bert Bryant owns and operates Bert's Books.

The following source document was received from Bert's Books' only credit supplier – Williams Publishing.

Williams Publishing 1200 Straight Street FLEMINGTON VIC 3031 STATEMENT OF ACCOUNT Account Name: Bert's Books 14 Hayes Road CAULFIELD VIC 3162 Date: 31 March 2019				
Date	Details	Debit	Credit	Balance
01/03	Balance			7 150 DR
03/03	Payment Received		7 007	143 DR
03/03	Discount Allowed		143	Nil
11/03	Invoice 498	10 670		10 670 DR
14/03	Credit Note 27		418	10 252 DR
29/03	Payment Received		3 000	7 252 DR

- a.** Show how Williams Publishing's account would appear in the General Ledger of Bert's Books as at 31 March 2019.

You **are** required to balance the account.

6 marks

- b.** Explain how the Statement of Account could assist internal control for Bert's Books.

2 marks

Question 4 – Katie’s Kitchens (13 marks)

Katie Huang owns and operates Katie’s Kitchens, a business that sells kitchen cabinets and benches.

Katie has provided the Bank account from the General Ledger for April 2019.

Bank

Date	Cross-reference	Amount	Date	Cross-reference	Amount
09/04	Cash Sales / GST Clearing	6 160	01/04	Balance	4 110
14/04	Loan – MNC Bank	20 000	03/04	Accounts Payable	8 624
16/04	Cash Sales / GST Clearing	3 520	06/04	Drawings	2 500
17/04	Capital	15 000	07/04	Rent / GST Clearing	1 650
21/04	GST Clearing	1 003	10/04	Inventory / GST Clearing	3 410
24/04	Accounts Receivable	9 900	18/04	Wages	1 900
27/04	Cash Sales / GST Clearing	3 135	19/04	Cartage In / GST Clearing	1 540
			20/04	Van / GST Clearing	29 700
			22/04	Advertising / GST Clearing	880
			25/04	Loan – MNC Bank	1 200
			25/04	Interest	300
			28/04	Wages	1 840

- a.** Prepare the Cash Flow Statement for the month ending 30 April 2019.

10 marks

- b.** Explain to Katie, with the use of an example, how the Cash Flow Statement reported a Net Increase in Cash but the Income Statement can report a Net Loss for April 2019.

3 marks

Question 5 – Gerry’s Garden Supplies (21 marks)

Gerry DeSilva of Gerry’s Garden Supplies uses the perpetual method of inventory recording with the FIFO cost assignment method.

a. Explain why it is necessary for businesses to use a cost assignment method.

2 marks

The following inventory card relates to the ‘Vista’ pot that sells for \$220 including GST each.

Item: ‘Vista’ Pot					Supplier: Pilibersek					
Location: Bayswater					Cost Assignment Method: FIFO					
Date 2019	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
01/05	Balance							4	60	240
03/05	Rec.628				2	60	120	2	60	120
05/05	Memo 47	3	60	180				5	60	300
07/05	Inv.1335	15	70	1 050				5	60	300
								15	70	1 050
13/05	Inv.402				5	60	300	14	70	980
					1	70	70			
14/05	Memo 52				1	70	70	13	70	910
17/05	C/N.14	1	60	60				1	60	60
		2	70	140				15	70	1 050
20/05	C/N.65				3	70	210	1	60	60
								12	70	840
24/05	Rec.653				1	60	60	12	70	840
29/05	Inv.1351	8	75	600				12	70	840
								8	75	600
29/05	Chq.762	8	4	32				12	70	840
								8	79	632

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

- 5 May 2019
- 20 May 2019
- 29 May 2018 Cheque 762

3 marks

Question 5 - continued

- c.** Calculate the net sales revenue for the 'Vista' pots for May 2019.

2 marks

The physical inventory count conducted on 31 May 2019 determined there were 17 'Vista' pots on hand. (Memo 55)

- d.** Prepare the General Journal entry required on 31 May 2019 to record the result of the physical inventory count.

A narration **is** required.

3 marks

Gerry has determined that the net realisable value of 5 of the 'Vista' pots on hand is \$30 each.

- e.** Explain what is meant by the term 'net realisable value'.

2 marks

- f.** State the effect on the accounting equation as a result of the inventory valuation.

3 marks

- g.** Discuss the effect of applying the lower of cost and net realisable value rule on the liquidity of Gerry's Garden Supplies.

4 marks

- h.** Explain why the value of the 'Vista' pot reported in the Balance Sheet may be higher using the FIFO cost assignment method compared to the Identified cost assignment method.

2 marks

Question 6 – Jack’s Jackets (22 marks)

Jack Elliott owns and operates Jack’s Jackets.

Jack has been provided with the following Trial Balance as at 30 June 2019.

Jack’s Jackets**Trial Balance as at 30 June 2019**

Account	Debit	Credit
Accounts Payable		2 750
Accounts Receivable	1 320	
Advertising	900	
Bank	11 650	
Capital		33 546
Cash Sales		4 080
Cost of Sales	6 320	
Credit Sales		6 270
Discount Expense	143	
Discount Revenue		121
Drawings	2 000	
Equipment	18 400	
Freight Inwards	750	
Freight Outwards	210	
GST Clearing		316
Interest Expense	190	
Inventory	22 000	
Inventory Loss	630	
Inventory Write Down	1 080	
Loan – MNC Bank		40 000
Rent	3 000	
Sales Returns	870	
Shelving	13 600	
Wages	4 020	
Totals	87 083	87 083

Additional information

On 8 June 2019 Jack made a capital contribution of \$15 000.

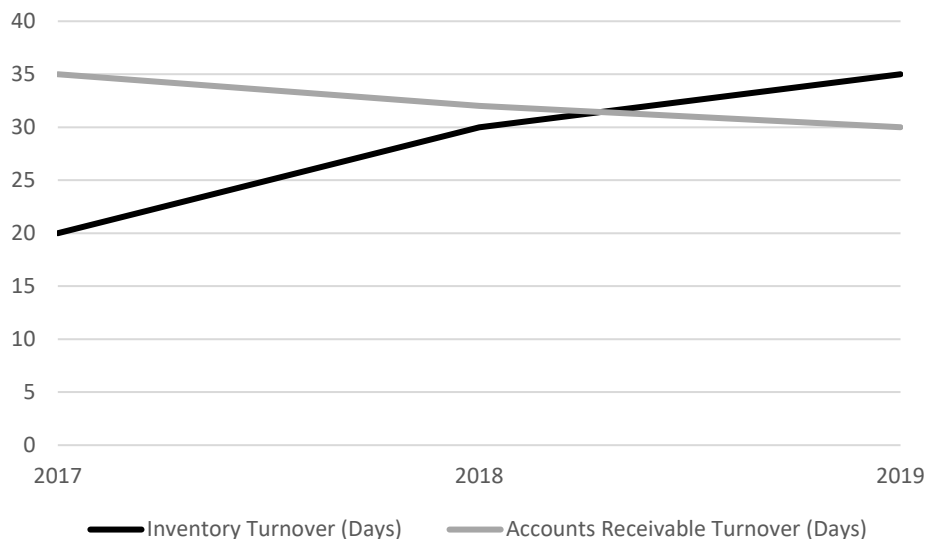
Question 6 – continued

- a.** State one error that will not be detected by the preparation of a Trial Balance. 1 mark
- b.** Prepare the General Journal entry to close the revenue accounts on 30 June 2019.
A narration is **not** required. 3 marks
- c.** State one reason why revenue and expense accounts are required to be closed. 1 mark
- d.** Prepare the Income Statement for the month ended 30 June 2019. 9 marks
- e.** Justify one strategy the business could introduce to reduce Sales Returns occurring in the future. 2 marks
- f.** Show how the Profit and Loss Summary and Capital accounts would appear in the General Ledger after all closing and transfer entries have been made on 30 June 2019.
You are **not** required to balance the Capital account. 6 marks

Question 7 – Susan’s Stationery (6 marks)

Susan Ley owns and operates Susan’s Stationery, a small business that offers credit terms of 2/7,n/21.

Susan has been presented with the following information.



Indicator	2017	2018	2019
Gross Profit Margin	45%	50%	55%

- Explain the importance of credit terms when assessing the Accounts Receivable Turnover of Susan’s Stationery.
2 marks
- State one other benchmark Susan could use to assess her Accounts Receivable Turnover.
1 mark
- Explain the relationship between the trend in the Inventory Turnover and Gross Profit Margin.
2 marks
- State one strategy Susan could introduce to improve the Inventory Turnover without effecting the Gross Profit Margin.
1 mark

Total Exam 100 marks

END OF QUESTION BOOKLET