

2019

VCE

Accounting

Trial Examination



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VICTORIAN CERTIFICATE OF EDUCATION 2019

ACCOUNTING

Trial Written 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>
8	8	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 9 pages.
- Answer book of 11 pages.

Instructions

- Write your **student number** in the space provided on the front page 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 (15 marks)

Simon is the owner of Smash Sports, a sporting supplies store that prepares its reports on a six-monthly basis. He has decided to replace the shelving in the store. The original shelving was purchased on 1 November 2015 for \$20 000 (plus GST) and has a carrying value of \$4 000. He has negotiated to buy the new shelving from AA Fitouts for \$25 000 (plus GST) on 31 December 2019. AA Fitouts have agreed to a trade in of \$2 000 for the old shelving.

Smash Sporting supplies will use a loan from TB Bank to pay the balance.

The residual value of the shelving is expected to be \$2 000 and the useful life is expected to be five years.

- a. Prepare the General Journal entries required on 31 December 2019.

Narrations are not required.

10 marks

- b. Referring to an accounting assumption, explain why Smash Sports would choose to use the straight-line method to depreciate its shelves.

3 marks

- c. Referring to a qualitative characteristic, explain why Smash Sports would not change depreciation methods each year.

2 marks

Question 2 (12 marks)

Gorgeous Gifts operates from its Williamstown warehouse. Samantha has operated this store since she opened it in 2015.

The business purchases all inventory on credit and sales are both cash and credit.

All inventory is sold using a 100% markup.

Samantha has estimated the following for the month ended 30 June 2019

- Sales are estimated to be \$30 000 (plus GST)
- 50% of sales will be cash sales.
- Credit purchases of inventory will be 40% of total sales
- Discount revenue will be \$200
- Discount expense will be 1% of credit sales
- Sales returns are expected to be \$1 000 (plus GST)
- Inventory returned from customers will be returned to the supplier on the same day.
- Gorgeous Gifts reports on a monthly basis

Accounts Payable at 31 May 2019 are \$15 000 and are expected to be \$20 000 on 30 June 2019.

Accounts Receivable at 31 May 2019 are \$19 000 and are expected to be \$17 000 on 30 June 2019

- a. Reconstruct the accounts payable general ledger account to determine the budgeted payments to accounts payable for June 2019.

4 marks

- b. Reconstruct the accounts receivable general ledger account to determine the budgeted receipts from accounts receivable for June 2019.

4 marks

- c. Explain how the accounts payable general ledger account would be reported in the Balance Sheet of Gorgeous Gifts as at the 31 May 2019

2 marks

- d. Explain how reconstructing the accounts receivable account could impact on the decisions relating to the liquidity of Gorgeous Gifts.

2 marks

Question 3 (6 marks)

Dave owns and operates MugShopz a business that sells custom made Coffee Mugs. The following document was issued to a customer, Suite Hotels, on 28 August 2019:

Document A

<i>MugShopz</i>		TAX INVOICE
ABN: 23 334 445 653		Receipt Number: 7
To: Suite Hotels 15 Airport Drive, Essendon Fields		
Date 2019	Details	Amount Received
28 August	Deposit for 200 Coffee Mugs	\$1 000

Additional information:

- Each Mug is purchased from an overseas supplier at a cost price of \$11 (including GST) and sold to customers at a selling price of \$20 (plus GST).
- Import duties of 10% are charged in addition to the cost price of each Mug.
- On 4 October 2019, MugShopz delivered 100 Coffee Mugs to Suite Hotels (Inv 11).
- On 31 October 2019 the remaining Mugs were delivered to Suite Hotels (Inv 22)
- MugShopz offers credit terms of n30.

Required

Record the transactions on the 28/8, 4/10 and the 31/10 in the General Journal of MugShopz.

6 marks

Question 4 (24 marks)

Cameron is the owner and operator of Captureit. The business sells photography supplies to professional photographers around Australia. They prepare their reports on a quarterly basis.

The business has provided the following Pre-adjustment Trial Balance as at 31 December 2019:

Captureit**Pre-adjustment Trial Balance as at 31 December 2019**

	\$	\$
Accumulated depreciation of shelving		18 500
Bank		5 100
Capital		76 080
Cost of Sales	68 000	
Accounts Payable		59 400
Accounts Receivable	39 400	
Discount revenue		420
Drawings	18 000	
Delivery in	2 100	
GST Clearing	2 000	
Loan – BB Bank		90 000
Prepaid Advertising	12 000	
Prepaid Rent expense	18 000	
Sales		140 000
Sales Returns	4 000	
Shelving	42 000	
Inventory	146 000	
Wages	38 000	
Total	389 500	389 500

Additional information

- Six months rent was paid on 1 July 2019.
- On 1 September 2019 the business paid \$12 000 for 12 monthly advertisements in Click magazine. The first advertisement will run on the October edition.
- Cameron took home a camera that cost \$5 000 (plus GST) but he did not record the drawing.
- Shelving is depreciated at 10% using the reducing balance method.
- A stocktake on 31 December 2019 showed inventory on hand of \$145 000

Question 4 (continued)

- a. Referring to an accounting assumption, justify Cameron's decision to record payments for advertising as prepaid advertising expense.

2 marks

- b. Record the additional information in the General Journal of Captureit.

Narrations are not required

10 marks

- c. Prepare an Income Statement for Captureit for the month ended 31 December 2019.

8 marks

- d. Prepare an extract of the Balance Sheet which shows the current assets of Captureit as at 31 December 2019.

4 marks

Question 5 (9 marks)

Printers Plus sell Office Printers from their Richmond Store. The owner Zee Rox has provided you with the following information. The business uses the FIFO cost assignment method.

The following details were provided as at 31 December 2019

Printer Model	Quantity inventory card	Quantity as per Stocktake	Purchase Price (\$) (Each) (plus GST)	Delivery Costs from supplier (\$) (Each) (plus GST)	Selling Price (\$) (each) (plus GST)
Basic Home	15	15	100	5	200
Super Home	20	20	300	5	600
Business	8	7	1 000	5	2 000

Additional information:

- Sales staff are paid a 10% commission when they sell a printer.
- The Super Home printer has not been selling as well as expected. On 31 December 2019 the sale price was reduced to \$300 (plus GST) (Memo 5).

- a. Calculate the value of closing inventory prior to the calculation of the lower of cost and net realisable value.

1 mark

- b. Explain your treatment of the GST paid on the purchase of the Super Home Printer when determining the cost price.

2 marks

- c. Calculate the value of Super Home printers on hand at 31 December 2019 taking into consideration the lower of cost and net realisable value.

2 marks

- d. Prepare the General Journal entries required on 31 December 2019.

Narrations are not required

4 marks

Question 6 (19 marks)

Greener Garden Nursery sell garden supplies on a credit basis to customers around Melbourne. The owner, Gary, advised you on 1 January 2019 that he was expecting bad debts to be 2% of net credit sales from the previous year. (Memo 18) in the year ended 31 December 2019. Net Credit sales in the year ended 31 December 2018 were \$150 000.

On 29 August 2019 Gary informed you that AA Plants had been declared bankrupt and would not be paying the \$990 including GST owing on Invoice 128 that occurred on 1 November 2018. The business has a \$5 000 debit GST balance 29 August 2019.

There was no allowance for doubtful debts allowance in previous the previous period.

a. Record the General Journal entry required on 1 January 2019.

3 marks

b. Record the General Journal entry required on 29 August 2019. A narration is not required

2 marks

c. Explain the effect on the accounting equation of Greener Garden Nursery of the transaction on 29 August 2019.

3 marks

d. Complete the Accounts Receivable – AA Plants and Bad Debts General Ledger accounts for the year ended 31 December 2019.

4 marks

e. Referring to an accounting element, explain how Allowance for doubtful debts is reported in the Balance Sheet of a business.

2 marks

In your conversations on 1 January 2019, Gary mentions that by excluding bad debts in his financial reports it would improve his profit and make his business more attractive to users of the reports.

f. Referring to ethical considerations, accounting assumptions and qualitative characteristics discuss Gary's comment.

5 marks

Question 7 (8 marks)

Purrfect Pets are a leading pet supplier that specialise in servicing veterinary clinics around Australia. At the start of the 2019 reporting period they introduced online sales for their customers. This has allowed the business to increase its customer base.

All sales are made on a credit basis.

The following indicators have been prepared for the Year ended 2018 and 2019.

Indicator	2018	2019
Inventory Turnover	68 days	21 days
Quick Asset Ratio	0.8:1	0.65:1
Net Profit Margin	9%	12%
Working Capital Ratio	2.6:1	1.8:1
Gross Profit Margin	48%	48%
Accounts Receivable Turnover	21 days	31 days
Sales	250 000	260 000
Accounts Payable Turnover	24 days	34 days

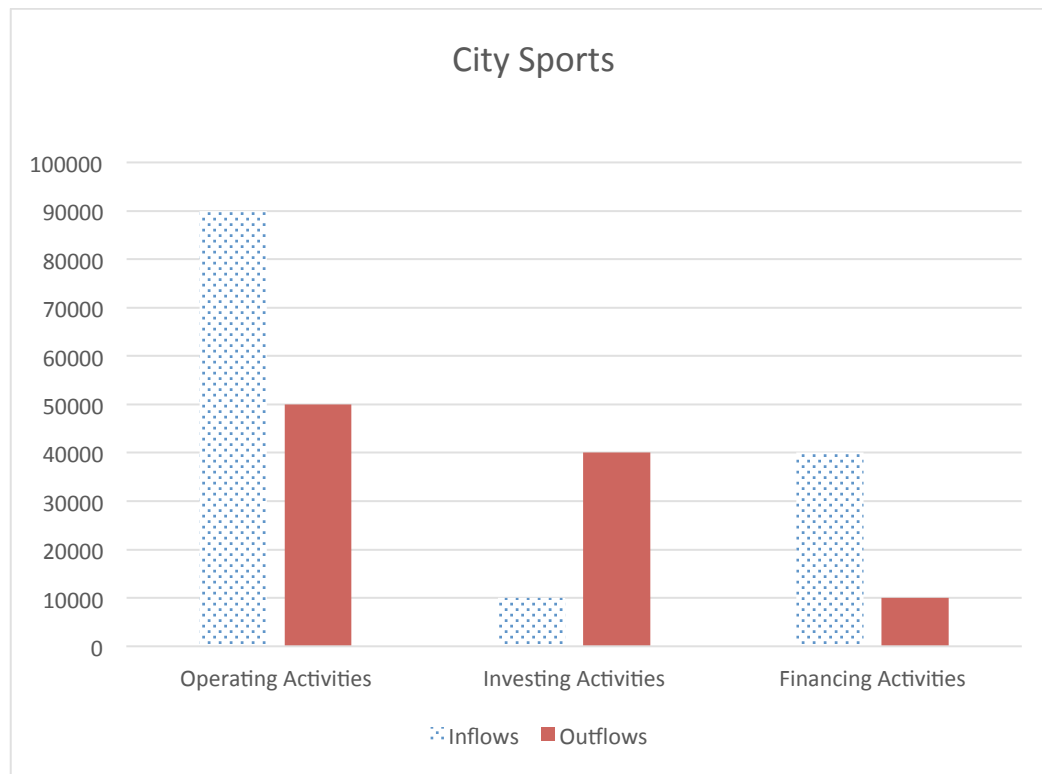
Required

- a. Referring to non-financial implications outline the issues which may occur if the business intends to use industry average as a benchmark
2 marks
- b. Justify the decision to move to online sales after reviewing the financial indicators.
4 marks
- c. Describe one positive and one negative of the change in inventory turnover.
2 marks

Question 8 (7 marks)

Sally is the owner of City Sports. They opened their Melbourne Store on 1 July 2019. You have prepared the following graph of cash flow movements for the quarter ended 30 September 2019.

Sally contributed \$15 000 to commence the business and is concerned that she has had to contribute another \$25 000 despite the business showing a profit of \$28 000 for the quarter.



a. Define the term cash flows from operating activities

1 mark

b. Evaluate the cash performance of the business for the quarter ended 30 September 2019

4 marks

c. Explain how the profit can be \$28 000 despite Sally having to contribute additional cash to the business.

2 marks

End of questions for the 2019 Kilbaha VCE Accounting Trial Examination

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