



Trial Examination 2019

# VCE Accounting Units 3&4

Written Examination

## Question Booklet

Reading time: 15 minutes

Writing time: 2 hours

Student's Name: \_\_\_\_\_

Teacher's Name: \_\_\_\_\_

### Structure of booklet

| <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 correction fluid/tape.

### Materials supplied

Question booklet of 10 pages

Answer booklet of 13 pages

### Instructions

Write your **name** and your **teacher's name** in the space provided on the front cover of the answer booklet.

Answer all questions in the answer booklet.

All written responses must be in English.

### At the end of the examination

You may keep this question booklet.

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

Students are advised that this is a trial examination only and cannot in any way guarantee the content or the format of the 2019 VCE Accounting Units 3&4 Written Examination.

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**Question 1** (13 marks)

Levi Bovalina owns and operates a small business selling computer games. To improve the experience of his customers he has decided to install two gaming consoles in his store to allow customers to try games before they buy.

To facilitate this, Levi made the following transactions:

- On 21 September 2019 he transferred ownership of his two personal gaming consoles to the business. These consoles cost a total of \$850 plus GST when purchased new in 2016. They have an agreed value of \$500 (Memo 24).
- On the same day he took 20 games from inventory for customers to use in the in-store gaming consoles. These items had a total cost price of \$600 plus GST in total and are generally sold at a mark-up of 200% (Memo 25).

- a.** Record these transactions in the General Journal.

Narrations **are** required.

6 marks

- b.** Explain what is meant by 'fair value' in relation to the gaming consoles and explain how this satisfies the qualitative characteristic of faithful representation.

4 marks

- c.** Explain, with reference to a qualitative characteristic, the need for memos.

3 marks

**Question 2** (13 marks)

Mark Waters owns and operates Waterworld – a small business selling commercial and domestic water tanks and garden watering systems.

The business currently uses the First In, First Out (FIFO) cost assignment method. The following inventory card and transactions were provided for a line of water tank:

**Inventory Card**

| Product: Water Wise Tank |          |     | Code No.: WW05 |       |     | Cost Assignment Method: FIFO |       |         |            |        |
|--------------------------|----------|-----|----------------|-------|-----|------------------------------|-------|---------|------------|--------|
| Date<br>2019             | Details  | IN  |                |       | OUT |                              |       | BALANCE |            |        |
|                          |          | Qty | Cost           | Total | Qty | Cost                         | Total | Qty     | Cost       | Total  |
| 1 Apr.                   | Balance  |     |                |       |     |                              |       | 9       | 350        | 3 150  |
| 4 Apr.                   | Inv. 843 | 20  | 340            | 6 800 |     |                              |       |         |            |        |
|                          | Chq. 685 | 20  | 20             | 400   |     |                              |       | 9<br>20 | 350<br>360 | 10 350 |
| 5 Apr.                   | Rec. T65 |     |                |       | 3   | 350                          | 1 050 | 6<br>20 | 350<br>360 | 9 300  |

- 7 April – sold 9 units to Barnleigh High School on credit for \$700 each plus GST (Invoice X12)
  - 11 April – cash sale of 2 units for \$700 each plus GST (Receipt T82)
  - 13 April – Barnleigh High School returned 1 unit as they found it had been damaged. They were granted a full credit (Credit Note B09).
  - 14 April – the owner determined that the unit returned was still saleable as the damage was minor. To facilitate selling this unit the owner has decided to reduce the selling price to \$300 plus GST (Memo 7).
- a. Record these transactions in the Inventory Card provided. 4 marks
  - b. Record the transaction dated 13 April 2019 in the General Journal.  
A narration is **not** required. 3 marks
  - c. Explain the nature of the transaction in Cheque 685. 2 marks
  - d. Explain the principle of lower of cost and net realisable value as it applied to the transaction in Memo 7. 2 marks
  - e. A friend of Mark Waters uses the Identified Cost method of assigning a cost price to inventory. Using this method, Mark determines that the inventory sold on 5 April came from the purchase on 4 April.  
Explain the effect on profit if this transaction had been recorded using the Identified Cost assignment method rather than FIFO. 2 marks

**Question 3** (24 marks)

A summary of transactions for Otto's Autospares for the month of August 2019 revealed the following information:

- Cash Sales \$7 200 (excluding GST)
- Credit Sales \$12 400 (excluding GST)
- Sales Returns \$2 200 (including GST)
- Credit purchase of inventory \$9 900 (including GST)
- Inventory Gain \$400
- Drawings \$7 600 (including \$800 worth of inventory)
- Customs Duty \$1 200 (plus GST)
- Advertising \$3 400 (including \$400 of inventory) plus GST
- Other Cash Expenses \$44 200 (GST paid on these expenses was \$3,100)
- Cash purchase of a new computer system \$4 500 plus GST
- Payment to the ATO \$1 170
- Inventory is sold at a mark-up of 100%.
- All inventory returned by customers is returned to suppliers.

- a. Complete the following General Ledger accounts using the information above. 19 marks

- Inventory
- GST Clearing

- b. Prepare an extract of an Income Statement to show Adjusted Gross Profit for the month ended 31 August 2019. 5 marks

**Question 4** (5 marks)

The Federal Government developed an internship program titled PaTH, which was designed to reduce youth unemployment figures by offering employees \$200 on top of their Centrelink payments. Businesses joining the program earn \$1 000 and will receive an additional \$10 000 for every intern they eventually hire on a full-time, ongoing basis.

Some members of society have expressed concern over this program, believing some businesses may use the 'cheap' labour to lower costs by denying full-time workers additional shifts and having many of their expenses funded by the Government.

Discuss the ethical issues for a business considering joining this program.

**Question 5** (18 marks)

At 30 June 2019 the bookkeeper of Callum's Custom Cabinets prepared the following Trial Balance:

**Callum's Custom Cabinets**  
**Trial Balance for year ended 30 June 2019**

| Account                              | Debit          | Credit         |
|--------------------------------------|----------------|----------------|
| Accounts Payable                     |                | 18 560         |
| Accounts Receivable                  | 9 200          |                |
| Accumulated Depreciation – Equipment |                | 9 000          |
| Advertising                          | 4 200          |                |
| Bad Debts                            | 2 000          |                |
| Bank                                 | 3 120          |                |
| Capital                              |                | 140 810        |
| Cash Sales                           |                | 153 600        |
| Cost of Sales                        | 117 750        |                |
| Credit Sales                         |                | 86 400         |
| Discount Expense                     | 3 200          |                |
| Discount Revenue                     |                | 2 200          |
| Drawings                             | 56 000         |                |
| Equipment                            | 45 000         |                |
| GST Clearing                         |                | 4 750          |
| Insurance Expense                    | 1 800          |                |
| Interest Expense                     | 2 400          |                |
| Interest Revenue                     |                | 150            |
| Inventory                            | 39 800         |                |
| Investment Account                   | 10 000         |                |
| Loan – ASD Ltd                       |                | 32 000         |
| Office Expenses                      | 7 500          |                |
| Prepaid Rent Expense                 | 59 400         |                |
| Prepaid Sales Revenue                |                | 3 000          |
| Sales Returns                        | 4 500          |                |
| Wages                                | 84 600         |                |
| <b>Totals</b>                        | <b>450 470</b> | <b>450 470</b> |

As at 30 June 2019 the following information required attention:

- Equipment is to be depreciated at a rate of 10% per annum using the straight-line method.
  - Inventory on hand found via a physical stocktake was \$39 200.
  - Wages owing is \$1 450.
  - The Prepaid Rent Expense account includes a payment of \$38 400 (plus GST) for 12 months rent covering the period 1 February 2019 to 31 January 2020.
  - The owner has been advised to create an allowance for doubtful debts at a rate of 1% of the balance of accounts receivable.
  - The Investment account was opened on 1 February 2019 and earns interest at a rate of 6% per annum, paid every 3 months on 1 May, 1 August, 1 November and 1 February each year.
  - An entry for the payment of Advertising for \$350 plus GST was incorrectly recorded as Drawings.
- a.** Explain the purpose of this Trial Balance. 2 marks
- b.** Prepare the General Journal entries necessary to record the information above.  
Narrations are **not** required. 13 marks
- c.** Explain, with reference to an accounting assumption, why it is necessary to record balance day adjustments. 3 marks

**Question 6** (12 marks)

The following summary of transactions for Mary's Market for the six-months ended 30 June 2019 has been provided by the owner of the business, who is concerned about the performance of her business.

| Item                                                 | \$      | Other information                                                                                    |
|------------------------------------------------------|---------|------------------------------------------------------------------------------------------------------|
| Sales                                                | 340 000 | Cost of sales are 50% of sales.                                                                      |
| Sales Returns                                        | 4 000   | Sales are 60% cash and 40% on credit.<br>All returns are returned to the supplier for a full credit. |
| GST Collected and Charged on Sales                   | 34 000  |                                                                                                      |
| Receipts from Accounts Receivable (before discounts) | 132 800 | Discounts totalled \$5 100.                                                                          |
| Payments to Accounts Payable (before discounts)      | 168 500 | Discounts totalled \$8 500.                                                                          |
| Purchases of Inventory                               | 180 000 | Inventory is purchased 90% on credit and 10% for cash.                                               |
| Wages                                                | 42 000  | This includes wages owing at end of \$2 300.                                                         |
| GST Paid                                             | 13 240  |                                                                                                      |
| Capital                                              | 25 000  |                                                                                                      |
| Drawings                                             | 65 000  | Includes drawings of inventory of \$5 000.                                                           |
| Loan – ANB                                           | 18 000  |                                                                                                      |
| Inventory Loss                                       | 4 000   |                                                                                                      |
| Interest Expense                                     | 6 000   |                                                                                                      |
| GST Refund                                           | 5 200   |                                                                                                      |
| Equipment                                            | 25 000  |                                                                                                      |
| Customs Duty                                         | 6 400   |                                                                                                      |
| Administration Expenses                              | 28 000  |                                                                                                      |
| Advertising                                          | 7 700   | Includes inventory valued at \$700 being used as a store display.                                    |
| Prepaid Rent Expense                                 | 48 000  | Paid on 1 January 2019 for 12 months.                                                                |

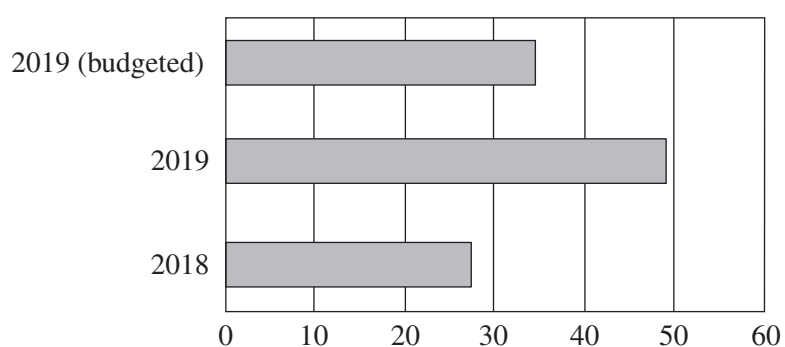
Cash at 1 January 2019 was \$8 100 Dr.

- a. Prepare an extract of the Cash Flow Statement for the six months ended 30 June 2019 to show net cash flow from operating activities. 6 marks
- b. The owner is delighted with the result shown in the report extract prepared above and believes it should be replicated in the Income Statement.  
Analyse the owner's expectation. 4 marks
- c. The owner is looking to improve the business' performance in terms of cash management.  
Explain how budgeting may assist her. 2 marks



**Question 7** (6 marks)

At 31 December 2019 the accountant provided the following information:

**Accounts Receivable Turnover**

|                                               | 2018 | 2019 | 2019<br>(budgeted) |
|-----------------------------------------------|------|------|--------------------|
| Accounts Receivable Turnover<br>(no. of days) | 27   | 49   | 34                 |

- a. Explain what is shown by the graph. 3 marks
- b. Explain what may have caused the trend shown in the graph and provide a possible strategy to improve performance. 3 marks

**Question 8** (9 marks)

On 1 October 2019 Tom's Toys purchased a new vehicle to carry out deliveries for the business. The vehicle cost \$48 000 plus GST and was financed by a loan from Car Finance Ltd. after the business paid \$5 000 cash as a deposit.

It has been the practice of the business to depreciate non-current assets at a rate of 10% per annum on cost using the straight-line method. Tom's accountant has suggested that using the reducing balance method (at a rate of 25% per annum) may be more appropriate for this asset.

- a. Evaluate the accountant's statement. In your response, outline the implications of using the reducing balance method of depreciation on profit for the next two reporting periods.

Note: The business prepares reports annually on 31 December each year.

6 marks

- b. Prepare the General Journal entry necessary to record the purchase of the vehicle.

A narration is **not** required.

3 marks

**END OF QUESTION BOOKLET**