



Trial Examination 2019

VCE Accounting Units 3&4

Written Examination

Suggested Solutions

Question 1 (13 marks)**a.****General Journal**

Date 2019	Details	Debit	Credit
21 Sep.	Equipment	500	
	Capital		500
	<i>Owner contributed gaming consoles to the business – Memo 24</i>		
21 Sep.	Advertising	600	
	Inventory		600
	<i>Transferred 20 units of inventory to a store display – Memo 25</i>		

6 marks

*1 mark for each line of General Journal.**Narrations must be descriptive of the transaction.**Second narration must include quantity of inventory.**Both narrations must include document number.***b.**

Explanation
A 'fair value' is used by a business to fairly represent an asset's value to the business. It is used when there is no document available to support the valuation given by the owner for an asset contributed by the owner.
The valuation is expected to be a true representation of the economic value of the asset and the value that asset brings to the business through its capacity to generate revenue for the business.
This satisfies the qualitative characteristic of faithful representation, as the value aims to accurately reflect the real-world economic situation and is free from all bias.

4 marks

*1 mark for reference to 'fair value' representing the value of an asset.**1 mark for reference to no document being available to support valuation.**1 mark for reference to economic value of the asset.**1 mark for link to faithful representation.*

c.

Explanation
Memos are documents prepared by the business to record transactions that are internal to the business and involve no external entity, or occur between the owner and the business and do not involve cash.
As a document, a memo provides verifiable evidence that a transaction has occurred and allows an audit trail to be created between the document, the financial records and the financial reports of the business.
This supports the qualitative characteristic of verifiability, which requires that all transactions be supported by reliable evidence of their occurrence.

3 marks

1 mark for reference to documents being used for internal transactions and transactions between the owner and the business.

1 mark for reference to documents providing verifiable evidence.

1 mark for reference to verifiability as a qualitative characteristic.

Question 2 (13 marks)

a.

Inventory Card

Product: Water Wise Tank		Code No.: WW05			Cost Assignment Method: FIFO					
Date 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 20	350 360	10 350
5 Apr.	Rec. T65				3	350	1 050	6 20	350 360	9 300
7 Apr.	Inv. X12				6 3	350 360	3 180	17	360	6 120
11 Apr.	Rec. T82				2	360	720	15	360	5 400
13 Apr.	CN B09	1	360	360				16	360	5 760
14 Apr.	Memo 7				1	60	60	15 1	360 300	5 700

4 marks

1 mark for each line in Inventory Card.

Deduct a maximum of 1 mark if document numbers are not used.

b.

General Journal

Date 2019	Details	Debit	Credit
13 Apr.	Sales Returns	700	
	GST Clearing	70	
	Accounts Receivable – Barnleigh High School		770
	Inventory	360	
	Cost of Sales		360

3 marks

*1 mark for Sales Returns/GST Clearing.**1 mark for Accounts Receivable – Barnleigh High School.**1 mark for Inventory/Cost of Sales.**Note: The amount in the last entry is consequential to the Inventory Card.*

c.

Explanation
As this entry is recorded in the Inventory Card, it suggests that it is the recording of a product cost, such as Freight In.
As such, it is a cost that is incurred in bringing inventory into the business in a condition and position whereby it can be sold to generate revenue. It is added to the invoice price of inventory so the mark-up can be accurately applied to determine selling price.

2 marks

*1 mark for recognition of transaction as a product cost.**1 mark for reference to it adding to the value of inventory as it is linked to bringing inventory into a position for sale.*

d.

Explanation
The principle of the lower of cost and net realisable value states that when the realisable value (selling price) of inventory falls below the cost price of that inventory, the records of the business should reflect that situation and the loss be recorded then so as not to overstate assets or profits.

2 marks

*1 mark for recognition of selling price falling below cost price.**1 mark for recognising loss so as not to overstate assets or profits.*

e.

Explanation
If Identified Cost had been the cost assignment method used then the cost price of each unit of inventory sold on 5 April would have been \$360, not \$350.
This means cost of sales would have been \$30 higher than reported and so the profit of the business would be \$30 lower.

2 marks

*1 mark for recognising that cost price would be \$360, not \$350.**1 mark for recognising that profit would be \$30 lower.*

Question 3 (24 marks)**a.****Inventory**

Date 2019	Cross-Reference	Amount	Date 2019	Cross-Reference	Amount
1 Aug.	Balance	28 480	31 Aug.	Cost of Sales	3 600
31 Aug.	Accounts Payable	9 000		Cost of Sales	6 200
	Cost of Sales	1 000		Drawings	800
	Inventory Gain	400		Advertising	400
				Accounts Payable	1 000
		<u>38 880</u>		Balance	26 880
1 Sep.	Balance	27 880			<u>38 880</u>

8 marks

*1 mark for each entry in account, with each Cost of Sales entry to be awarded 1 mark.**If students combine the two Cost of Sales entries on the credit side of account, there is no penalty imposed and full marks should be awarded**1 mark for completing the account, which includes carrying the balance forward.***GST Clearing**

Date 2019	Cross-Reference	Amount	Date 2019	Cross-Reference	Amount
31 Aug.	Bank	1 170	1 Aug.	Balance	1 170
	Accounts Payable	900	31 Aug.	Bank	720
	Bank	3 970		Accounts Receivable	1 240
	Accounts Receivable	200		Accounts Payable	100
				Balance	<u>3 010</u>
		<u>6 240</u>			<u>3 230</u>
1 Sep.	Balance	3 010			

11 marks

*4 marks for Bank entries totalling \$3 970:**\$3 100 + \$450 (Computer) + \$120 (Customs Duty) + \$300 (Advertising).**1 mark for each other entry in account.**1 mark for completing the account, which includes carrying the balance forward.*

b.

Otto's Autospares
Income Statement (extract) for the month ending 31 August 2019

	\$	\$
Revenue		
Cash Sales	7 200	
Credit Sales	12 400	
Less Sales Returns	<u>(2 000)</u>	17 600
Less Cost of Goods Sold		
Cost of Sales	8 800	
Customs Duty	<u>1 200</u>	<u>10 000</u>
Gross Profit		7 600
Add Inventory Gain		<u>400</u>
Adjusted Gross Profit		<u>8 000</u>

5 marks

*1 mark for Cash Sales/Credit Sales.**1 mark for Sales Returns.**1 mark for Cost of Sales.**1 mark for Customs Duty.**1 mark for Inventory Gain.**Deduct a maximum of 1 mark if headings and/or formatting are missing/incorrect.***Question 4 (5 marks)**

Discussion
An ethical consideration in this instance is whether the businesses involved in this program are using the government scheme to fund the business expenses that, under normal circumstances, they would have to pay themselves.
In addition, the businesses may be denying existing workers the opportunity to take additional shifts that would increase their weekly pay – something these businesses may not normally be able to do. In this case the workers may have an opportunity to take these extra shifts due to busier shopping periods around Christmas and other employees taking holidays.
However, a business could counter these arguments by saying that the scheme allows them to offer jobs – most likely temporary – to people who have not had work for some time. These jobs will allow them to earn additional money and give them skills they may not currently have, which they could use in their resumés or in future jobs.
There is also the possibility that while undertaking the internships a job opportunity may arise, which could lead to ongoing employment. While the businesses will also benefit through the \$10 000 bonus, it is the new employee who benefits most, as they have a job, improved self-esteem and greater income.

5 marks

*Mark globally.**Students must provide arguments covering both viewpoints – how involvement in the program may be ethical and how it may be unethical.**Arguments do not need to be balanced for both sides but a counterargument must be presented for full marks to be awarded.*

Question 5 (18 marks)**a.**

Explanation
A Trial Balance is prepared at the end of an accounting period prior to report preparation as a means of ensuring that the debit entries balance with the credit entries recorded.
If they do not balance, this suggests an error in recording has occurred and the business needs to identify the error and correct it before moving on.

2 marks

*1 mark for reference to ensuring debit entries equal credit entries.**1 mark for reference to identification and correction of some recording errors.***b.****General Journal**

Date 2019	Details	Debit	Credit
30 Jun.	Depreciation – Equipment	4 500	
	Accumulated Depreciation – Equipment		4 500
	Inventory Loss	600	
	Inventory		600
	Wages	1 450	
	Accrued Wages		1 450
	Rent Expense	37 000	
	Prepaid Rent Expense		37 000
	Bad Debts	92	
	Allowance for Doubtful Debts		92
	Accrued Interest Revenue	100	
	Interest Revenue		100
	Advertising	350	
	GST Clearing	35	
	Drawings		385

13 marks

*1 mark for Wages/Accrued Wages entry.**1 mark for Advertising/GST Clearing entry.**1 mark for each other line in the General Journal.*

c.

Explanation
Balance day adjustments are needed so the business is able to accurately calculate and report their profit for the period. Profit is revenue earned less the expenses incurred in earning that profit.
Balance day adjustments allow items that have been incurred but not yet paid to be reported as expenses or revenue so an accurate profit is determined. This conforms to the period assumption, which requires that reports reflect the period in which events occurred.

3 marks

*1 mark for reference to accurate calculation of profit for a period.**1 mark for reference to revenue earned less expenses incurred.**1 mark for reference to the period assumption.**Students may refer to the accrual basis assumption instead of the period assumption and be awarded full marks if the response addresses the following:*

- revenue reported in the period in which it is earned*
- expenses recognised when they are incurred*

Question 6 (12 marks)**a.**

Mary's Market
Cash Flow Statement (extract) for six months ended 30 June 2019

	\$	\$
Cash Flows from Operating Activities		
Cash Sales	204 000	
GST Collected	20 400	
GST Refund	<u>5 200</u>	
Receipts from Accounts Receivable	<u>127 700</u>	357 300
Payments to Accounts Payable	(160 000)	
Purchases of Inventory	(18 000)	
Wages	(39 700)	
Interest	(6 000)	
Prepaid Rent Expense	(48 000)	
GST Paid	(13 240)	
Customs Duty	(6 400)	
Administration Expenses	(28 000)	
Advertising	<u>(7 000)</u>	<u>(326 340)</u>
Net Cash Flow from Operating Activities		<u>30 960</u>

6 marks

*1 mark for Cash Sales/GST Collected.**1 mark for Accounts Receivable/Accounts Payable.**1 mark for GST Refund/GST Paid.**1 mark for Inventory/Wages.**1 mark for Customs Duty/Interest/Administration Expenses.**1 mark for Prepaid Rent Expense/Advertising.**Deduct 1 mark if report extract is not finished.*

b.

Analysis
The owner should not be entirely justified in their optimism. While the cash flow from operating activities is positive, it is not the full picture. The investing and financing activities have not yet been considered, and once they are, it could mean that the business has a negative cash flow for the period.
In addition, there are differences between cash flow and profit, as these are two different resources.
Some items of revenue are not cash and not all expenses are paid for in cash.
Therefore, while receipts from accounts receivable may be high, credit sales may be lower, meaning that there is a greater impact on cash flow rather than profit. In addition, expenses such as discount expense, inventory loss and depreciation can decrease profit but have no impact on the cash position of the business.

4 marks

1 mark for reference to the Cash Flow Statement not being complete and all areas should be considered.

1 mark for recognition of cash and profit being different resources.

2 marks for explaining how cash and profit are different.

c.

Explanation
Budgeting involves using past reports to estimate events in the future. This process can assist management to plan expenditures, identify issues with cash flow and generally gain more information about how cash moves through the business.

2 marks

1 mark for reference to using past events to predict the future.

1 mark for reference to planning for events and gaining information.

Question 7 (6 marks)**a.**

Explanation
Accounts Receivable Turnover is a measure of how quickly the business' accounts receivable settle their accounts.
The graph shows that over the three-year period the accounts receivable are taking on average 22 days longer to settle their accounts – moving from an average of them paying every 27 days to now paying every 49 days.
This suggests a problem for the business as its cash flow is deteriorating while it may be that accounts payable and other expenses may still need to be paid.

3 marks

1 mark for reference to how quickly the business' accounts receivable pay.

1 mark for reference to trend in indicator.

1 mark for reference to problem resulting from trend.

b.

Explanation
Accounts receivable may no longer pay quickly because the business has withdrawn or altered their credit terms – removing the discounts they previously offered to credit customers. This means there is no real incentive for the customers to settle their accounts in a timely manner.
A strategy the business could implement is to reinstate the discounts offered to customers, though not necessarily at the same rate, as this may have been the issue for the business. A discount will encourage some accounts receivable to settle their accounts earlier.

3 marks

*1 mark for reference to removal of discounts.**1 mark for reference to there being no incentive for customers to pay.**1 mark for strategy provided.*

Question 8 (9 marks)**a.**

Evaluation
The accountant provides a valid point in their statement to the owner. The reducing balance method of depreciation is one where there is more depreciation charged in the early years of an asset's life, as the asset is more efficient and productive in its early years and therefore contributes more to revenue-earning.
The straight-line method allocates depreciation at the same amount each period regardless of how well the asset has performed in terms of generating revenue.
The vehicle is an example of an asset that is more productive when new – it does not break down as often, nor does it require as much servicing and repairs. Vehicles also become secondhand once used and can be damaged – they may need to be replaced earlier than expected and so writing off more depreciation in the early years is sound business practice.
In using the reducing balance method instead of the straight-line method there will be an impact on the profit figures reported for the next two accounting periods – the depreciation expense will be \$1 800 higher in the period ending 31 December 2019 and \$6 450 higher in the year ended 31 December 2020 – an overall negative impact on profit of \$8 250.
<i>Straight-line method:</i>
$48\,000 \times 0.1 = \frac{4800}{12} = 400 \times 3 = \$1\,200$ for year ended 31 December 2019
31 December 2020: $48\,000 \times 0.1 = \$4\,800$
<i>Reducing balance method:</i>
$48\,000 \times 0.25 = \frac{12\,000}{12} \times 3 = \$3\,000$ for year ended 31 December 2019
31 December 2020: $48\,000 - 3\,000 = 45\,000 \times 0.25 = \$11\,250$
While this may cause the owner to reconsider the accountant's suggestion, it must be pointed out that the overall impact over the life of the asset of using the reducing balance method is negligible – except for rounding, both methods are expected to depreciate the asset by the same amount over the life of the asset and so no overall effect on profit occurs.

6 marks

*Mark globally.**Assess students' responses according to depth of understanding of the concepts involved and of the depreciation methods explained.**Students must provide figures relative to depreciation amounts and effect on profit.*

b.

General Journal

Date 2019	Details	Debit	Credit
1 Oct.	Vehicle	48 000	
	GST Clearing	4 800	
	Bank		5 000
	Loan – Car Finance Ltd.		47 800

3 marks

*1 mark for Vehicle/GST Clearing.**1 mark for Bank.**1 mark for Loan – Car Finance Ltd.*