

**Victorian Certificate of Education
2021****ACCOUNTING
Written examination****Thursday 27 May 2021****Reading time: 2.00 pm to 2.15 pm (15 minutes)****Writing time: 2.15 pm to 4.15 pm (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>
11	11	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 book of 9 pages
- Answer book of 20 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 (16 marks)

Seville Sports sells specialist sports cameras and accessories. The business reports monthly and uses the First In, First Out (FIFO) inventory cost assignment method. Its bestselling product is the GPlus Action (GPA) camera, which it purchases from Supa Optix and which it sells for \$400 (plus GST).

On 1 January 2021, there were 50 GPA cameras on hand for \$210 each (plus GST).

During January, the following transactions occurred:

- 12 January Purchased 40 GPA cameras at \$194 each (plus GST) (Invoice 1254)
Delivery was \$120 (plus GST).
- 25 January Purchased 15 GPA cameras at \$200 each (plus GST) (Invoice 2875)
Delivery was \$260 (plus GST) (Cheque 143). This delivery included a range of other cameras and accessories that were purchased.
- 28 January Returned three GPA cameras from the purchase on 25 January due to faulty lens covers (Credit Note 64)

a. Explain how the delivery costs on 12 January and 25 January should each be treated. 3 marks

b. Prepare the General Journal entry to record the transaction on 28 January.
A narration is **not** required. 2 marks

On 31 January 2021, a physical stocktake showed 20 GPA cameras on hand. No stock losses or gains were identified.

c. Calculate the total cost to be assigned to the 20 GPA cameras at 31 January. 1 mark

The owner decides to reduce the selling price of the GPA cameras on hand to \$150 each (plus GST) as a new model has been released. To encourage sales, a waterproof carry case, which sells for \$15 (plus GST), will be included with each GPA camera sold.

d. Calculate the net realisable value of the 20 GPA cameras on hand at 31 January 2021. 2 marks

e. Explain how the 20 GPA cameras should be valued at 31 January 2021. 2 marks

f. Prepare the General Journal entry arising from **part d**.
A narration is **not** required. 2 marks

g. The owner is concerned about possible fraud and is reviewing internal control procedures relating to the payment of accounts. Currently, the bookkeeper receives invoices from suppliers, checks the discount terms and due date for payment, and prepares a cheque or makes an electronic funds transfer (EFT) payment on the appropriate day.

Analyse Seville Sports' current process and suggest **two** procedures that could be implemented to strengthen internal control over the payment of accounts. 4 marks

Question 2 (8 marks)

Sporting Look sells high-fashion sports clothing. It operates in a highly competitive market and sells its products from a shopfront for cash and credit.

The manager always buys inventory in bulk and uses cash whenever possible. The business's motto is 'sell it soon and sell it cheap'. A mark-up of 30% on cost is applied to all inventory.

Inventory is purchased from a wide range of suppliers. At times, inventory has been purchased at local craft markets and, therefore, some products do not have appropriate official licensing and may not be branded. However, this unbranded inventory has proven to be quite popular with customers.

The layout of the store is disorganised, with inventory spread over many tables and racks, and handwritten price tags on each item.

Customers are given credit at the discretion of the manager, who believes he is a 'good judge of character'. Credit terms are 30 days and the Accounts Receivable Turnover is currently 48 days.

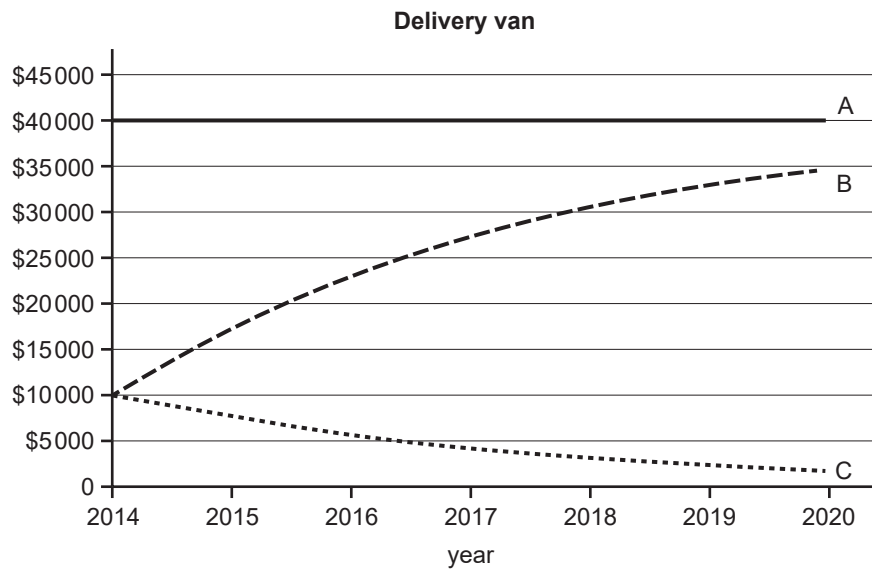
Financial reports over the last three years show inconsistent sales, high levels of inventory on hand, inventory loss that is above the industry average and regular net losses.

The owner of the business has accepted this situation to date because they believe that things will turn around as the business becomes better known.

- a. Outline **one** ethical issue relating to the inventory practices of the business. 2 marks
- b. Discuss strategies that Sporting Look could use to improve its inventory management. 6 marks

Question 3 (7 marks)

The following graph represents different values relating to a delivery van that a business purchased in 2014.



- a. State what each line, A, B and C, on the graph represents. 3 marks
- b. The business is planning to purchase a new delivery van in 2021. It is deciding between Option 1, a petrol delivery van, and Option 2, an electric delivery van (hybrid). The business has secured a loan of up to \$55 000 to purchase the delivery van. The business provides the following estimates for each option.

	Option 1 – Petrol delivery van	Option 2 – Electric delivery van
Delivery van	\$42 000	\$56 000
Van fittings	\$2 000	\$2 000
Trade-in	\$3 000	\$2 000
Estimated residual value	\$6 000	\$11 000
Registration and insurance (per year)	\$2 500	\$2 500
Fuel (per year)	\$16 000	\$6 000
Servicing (per year)	\$3 000	\$7 000

The business plans to keep the new delivery van for three years before replacing it. It plans to use the delivery van consistently during this time and depreciate it using the straight-line method.

Complete the table provided and, using all the information, recommend which option the business should choose and justify your recommendation.

4 marks

Question 4 (11 marks)

Bean Bazaar purchased a coffee machine on 1 February 2020 for \$13 200 (including GST). The coffee machine will be depreciated at 25% per annum using the straight-line method for four years, after which it will be replaced. The residual value is expected to be zero. The business reports every 12 months at 30 June.

- a. Calculate the depreciation expense at 30 June 2020. 1 mark
- b. Complete the Budgeted Balance Sheet extract as at 30 June 2021. 2 marks
- c. The owner unexpectedly decided to replace the coffee machine on 31 December 2020. It was sold for \$4 000 cash. A new coffee machine was purchased on the same day for \$15 400 (including GST). It was financed through a loan of \$10 000 from BLD Bank on 1 December 2020 with the balance paid in cash.

Prepare the General Journal entries to record the following:

- depreciation expense as at 31 December 2020
- the disposal of the old coffee machine
- receipt of the loan and purchase of the new coffee machine

Narrations are **not** required.

8 marks

Question 5 (4 marks)

Appliances Aplenty sells a wide range of household goods and reports on a monthly basis. 60% of sales are on extended credit terms over a 12-month period with no discount offered. There is a high risk of bad debts and the business makes an allowance for doubtful debts equal to 5% of net credit sales.

At 31 March 2021, relevant balances were as follows:

Accounts Receivable	\$770 000	Dr
Allowance for Doubtful Debts	\$5 000	Cr

During April, the following occurred:

Credit sales (net)	\$90 000	(excluding GST)
Accounts receivable written off as bad	\$6 600	
Cash collected from accounts receivable	\$70 000	

- a. Prepare the General Journal entry required to record the Allowance for Doubtful Debts at 30 April 2021.
A narration is **not** required. 2 marks
- b. Show how the Allowance for Doubtful Debts account would appear in the ledger after the adjustment has been made. 2 marks

TURN OVER

Question 6 (12 marks)

Turvel Traders reports monthly and uses a 100% mark-up on its inventory. The business is preparing budgeted reports for June 2021.

The Balance Sheet as at 31 May 2021 showed the following.

Turvel Traders
Balance Sheet as at 31 May 2021

	\$		\$
Current Assets		Current Liabilities	
Bank	8 000	Accounts Payable	22 000
Accounts Receivable	26 400	Accrued Wages	400
Inventory	60 000	GST Clearing	4 000
Prepaid Rent Expense	1 500		
Non-Current Assets		Owner's Equity	
Equipment	126 000	Capital	165 500
Accumulated Depreciation	(30 000)		
Total Assets	\$191 900	Total Equities	\$191 900

Additional information

- 60% of sales are on credit. Credit terms are 2/7, n/20, with 50% of accounts receivable paying within the discount period and the rest paying in the month after sale.

Actual and budgeted sales figures (excluding GST)

May sales (actual) \$40 000

June sales (budgeted) \$50 000

- Purchases of inventory are on credit and paid in the month after purchase. Credit terms are n/30. The inventory balance will remain constant.
- Rent is \$1 500 (plus GST) per month and is paid three months in advance. The last payment was made on 1 March for April, May and June. The next payment will be made on 1 June.
- Other payments in June will be as follows:

Wages	\$4 600
Drawings	\$5 000
Equipment	\$5 280 (including GST)
- Equipment is depreciated at 25% per annum using the reducing balance method. The new equipment will be purchased on 1 June.
- The next GST settlement will be made in July.

- a. Calculate the estimated cash received in June from accounts receivable. 2 marks
- b. Prepare the operating section of the Budgeted Cash Flow Statement for the month ending 30 June 2021. 6 marks
- c. Prepare a Budgeted Income Statement for the month ending 30 June 2021. 4 marks

Question 7 (5 marks)

A business is reviewing its profitability. Details of the Net Profit Margin for the last three years showed the following.

	2018	2019	2020
Net Profit Margin	21%	17%	14%

- a. Describe the implications of the trend shown in the table above for the Net Profit Margin. 2 marks
- b. Identify **one** other relevant financial indicator and explain how it could be used to enhance this business's review of profitability. 3 marks

Question 8 (5 marks)

A business is concerned about its liquidity. Its Cash Flow Cover has decreased from eight times in the three-month period ended 31 December to three times in the three-month period ended 31 March.

The owner is informed that if the Inventory Turnover and the Accounts Receivable Turnover trend to a slower rate, then the Cash Flow Cover may decrease further. Average Current Liabilities are expected to remain constant.

Select **one** of these financial indicators, and explain how it may cause the Cash Flow Cover to decrease and what strategies may be used to improve the Cash Flow Cover.

Question 9 (3 marks)

On 30 January 2021, The Musician Shop received \$800 in advance to supply a custom-made guitar for a local musician. On 2 February, a basic model of the guitar was delivered to The Musician Shop for customisation. On 14 February, the customised guitar was ready and delivered to the customer. An invoice for the final payment of \$520 (plus GST) was sent on 28 February and payment was received on 10 March.

With reference to **one** accounting assumption, explain in which month the revenue should be recognised.

Question 10 (13 marks)

Wood234 sells custom-made dining tables. The tables are made to order and designed to suit each customer. Customers have to prepay in full for the tables when they place their orders.

The business reports monthly and uses a 100% mark-up.

A summary of the cash receipts and cash payments for April revealed the following.

Cash receipts

Date 2021	Item	\$
April 1	Unearned Sales	99 000

Cash payments

Date 2021	Item	\$
April 1	Prepaid Newspaper Advertising	22 000
	Inventory	26 400
15	Cleaning Expense	4 400
30	Wages	30 000

Additional information

- There were no prepaid or accrued expenses as at 31 March 2021.
- All items in the summary above, other than wages, include GST.
- Tables are sold for \$3 000 (plus GST) each. By 30 April 2021, 25 tables had been delivered to customers.
- Newspaper advertising is \$1 000 (plus GST) per advertisement. At 30 April 2021, only 15 advertisements had been published.
- Cleaning expenses for the month are \$5 500 (plus GST).

- a. Record the balance day adjustments for 30 April 2021 in the General Journal provided.

Narrations are **not** required.

6 marks

Wood234 has equipment valued at \$32 000. Depreciation has not been recognised because the manager has said that 'all equipment is so well maintained that depreciation is not necessary'.

- b. With reference to **one** qualitative characteristic, analyse the manager's statement.

4 marks

- c. Explain how Unearned Sales meets the definition of an accounting element.

3 marks

Question 11 (16 marks)

On 31 March 2021, the owner of a business found the following source documents had not been recorded. The business reports monthly.

1 March 2021	Cheque #25
To: Busi Rent	
For: Rent for the 12 months commencing 1 March 2021	\$9 600
	GST: \$960
	Amount: \$10 560

	15 March 2021
To: Cre8	
For: Advertising for March	\$1 800
	GST: \$180
	Amount: \$1 980
	EFT 1347

Additional information

- Revenue for March totalled \$44 600.
 - Expenses prior to the recording of the documents above totalled \$19 200.
 - On the last day of the month, the owner withdrew \$7 000 worth of inventory. This had not been recorded.
- a. Record the source documents and any necessary balance day adjustments in the General Ledger accounts provided, and close or balance the accounts in readiness for the next month. 9 marks
- b. Complete the General Ledger accounts provided:
- Profit and Loss Summary
 - Capital 4 marks
- c. With reference to **one** accounting assumption, explain why it is necessary to close revenue and expense accounts at the end of the reporting period. 3 marks

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STUDENT NUMBER

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Letter

ACCOUNTING
Written examination**Thursday 27 May 2021****Reading time: 2.00 pm to 2.15 pm (15 minutes)****Writing time: 2.15 pm to 4.15 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 (16 marks)

a.

3 marks

Explanation

b.

2 marks

Seville Sports

General Journal

Date 2021	Details	Debit	Credit

c.

1 mark

Working space	
Total cost to be assigned to the 20 GPA cameras at 31 January	\$

d.

2 marks

Working space	
Net realisable value of the 20 GPA cameras	\$

e.

2 marks

Explanation

f.

2 marks

Seville Sports

General Journal

Date 2021	Details	Debit	Credit

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g.

4 marks

Analysis

TURN OVER

Question 2 (8 marks)

a.

2 marks

Outline

b.

6 marks

Discussion

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Question 3 (7 marks)**a.**

3 marks

A
B
C

b.

4 marks

Working space

	Option 1 – Petrol delivery van	Option 2 – Electric delivery van
Depreciation expense (per year)		
Total other van expenses (per year)		

Recommendation
Justification

TURN OVER

Bean Bazaar General Journal

[illegible]

TURN OVER

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Question 5 (4 marks)**a.**

2 marks

Appliances Aplenty**General Journal**

Date 2021	Details	Debit	Credit

b.

2 marks

Allowance for Doubtful Debts

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount

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TURN OVER

Question 6 (12 marks)

a.

2 marks

Working space	
Estimated cash received in June	\$

b.

6 marks

Turvel Traders
Budgeted Cash Flow Statement (extract) for the month ending 30 June 2021

	\$	\$

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c.

4 marks

Turvel Traders**Budgeted Income Statement for the month ending 30 June 2021**

	\$	\$

TURN OVER

Question 7 (5 marks)

a.

2 marks

Description

b.

3 marks

Financial indicator
Explanation

Question 8 (5 marks)

Financial indicator
Explanation

Question 9 (3 marks)

Accounting assumption
Explanation

TURN OVER

Question 10 (13 marks)**a.**

6 marks

Wood234**General Journal**

Date 2021	Details	Debit	Credit

b.

4 marks

Qualitative characteristic
Analysis

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c.

3 marks

Explanation

TURN OVER

Question 11 (16 marks)**a.**

9 marks

Bank

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
March 1	Balance	42 890	March 1	Accounts Payable	19 500
3	Sales/GST Clearing	13 200		Inventory/GST Clearing	8 800
12	Capital	2 000			
30	Accounts Receivable	17 500			
	Loan – Bell Bank	20 000			

GST Clearing

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
March 1	Bank	800	March 1	Balance	6 370
	Accounts Payable	2 550	3	Bank	1 200
			17	Accounts Receivable	3 260

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Inventory

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
March 1	Balance	62 000			

Drawings

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount

Prepaid Rent Expense

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount

Advertising Expense

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount

b.

4 marks

Profit and Loss Summary

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount

Capital

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
			March 1	Balance	46 300
			12	Bank	2 000

c.

3 marks

Accounting assumption
Explanation