

Trial Examination 2023

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>
9	9	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 11 pages

Answer booklet of 15 pages

Instructions

Write your **name** and your **teacher's name** in the space provided above and 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 2023 VCE Accounting Units 3&4 Written Examination.

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Instructions

Answer **all** questions in the answer booklet provided.

Question 1 (8 marks)

Amina Radcliffe commences a business on 1 July 2023, trading as Astonishing Antiques. She contributes the following assets to the business on that day (Memo 1).

- \$52 000 Cash at Bank
- \$44 000 Vehicle
- \$18 000 Inventory

Amina purchased the vehicle using a bank loan two years ago. There is currently \$24 000 owing on the loan, which will now become the responsibility of the business. It is an interest-only loan, charged at 6% per annum.

- | | | |
|-----------|---|---------|
| a. | Describe the purpose of a memo as a source document. | 1 mark |
| b. | Prepare the required opening entry in the General Journal.
A narration is required. | 3 marks |
| c. | Explain how Amina would have determined the value of \$44 000 for the vehicle. | 2 marks |
| d. | Describe one internal control procedure that Amina could use to safeguard her inventory of antiques. | 2 marks |

Question 2 (11 marks)

Vincent is the owner of Westerly Scooters, a shop in Melbourne's western suburbs that sells electric scooters. He uses the First-In, First-Out (FIFO) method to value inventory and uses a 60% mark-up.

During August 2023, the following transactions were made.

- 5 August – sold 2 Smooth Ride adult scooters to J Hope for \$800 each (plus GST) (Inv. 666)
 - 9 August – purchased 10 Glow Bright kids scooters from Alltown Motors for \$400 each (plus GST) on credit terms 5/10, n/40 (Inv. AM25)
 - 12 August – purchased 6 Smooth Ride adult scooters from Recharge Electronix for \$510 each (plus GST) on credit terms n/30 (Inv. 541). These were delivered at a cost of \$60 (excluding GST) on Rec. 38. No other items were part of this delivery.
 - 15 August – paid Alltown Motors in full settlement of Invoice AM25 (EFT 400)
 - 20 August – J Hope returned one Smooth Ride adult scooter due to damage (Cr.N. 50)
 - 25 August – returned the damaged Smooth Ride adult scooter to Recharge Electronix for a full refund of \$550 (including GST) (Cr.N. 899)
 - 30 August – physical stocktake showed 11 Smooth Ride adult scooters on hand (Memo 90)
- a. Suggest **one** limitation of Westerly Scooters using the FIFO method to value inventory. 1 mark
- b. Record the necessary transactions for August 2023 in the Inventory Card for Smooth Ride adult scooters. 5 marks
- c. Record the following transactions in the General Journal.
- 15 August
 - 20 August
- Narrations are **not** required. 5 marks

Question 3 (16 marks)

Aaron owns and operates a flower delivery business, Finch's Florist. He prepares his reports semi-annually (twice a year) and has provided the following extract from the business's most recent Balance Sheet at 30 June 2023.

Non-current Assets	\$	\$
Delivery Vans	105 000	
Less Accumulated Depreciation of Delivery Vans	42 500	62 500

On 30 November 2023, one delivery van, which was originally purchased for \$40 000 (excluding GST), was traded in for \$19 000. This van had a carrying value of \$26 244 on 30 June 2023.

A new delivery van was purchased from Volcom Vehicles for \$45 000 (excluding GST) using a bank loan that was taken out on 29 June 2023.

Aaron has always depreciated his delivery vans using the reducing balance method at 20% per annum and intends to continue doing so.

- a. Explain what the \$62 500 value in the Balance Sheet (extract) above represents. 3 marks
- b. Prepare the Delivery Vans and Disposal of Delivery Van accounts in the General Ledger, showing all transactions related to the disposal of the old delivery van and purchase of the new delivery van.
You are **not** required to close or balance the accounts. 7 marks
- c. Aaron's friend has been looking over the business's accounting records and suggests that Aaron should use the straight-line method of depreciation for the new delivery van, as he believes this will enable the business to report more favourable profit figures in upcoming periods.
Discuss this suggestion, with reference to both financial and ethical considerations. 6 marks

Question 4 (17 marks)

E+ Supplies is an electrical supplies store. It has provided the following estimates for December 2023.

- All sales are made on credit. In December 2022, sales were \$250 000 (plus GST); this is expected to increase by 5% for December 2023. Sales returns are usually 2% of sales.
- E+ Supplies has a loyal customer base who always pay their accounts on time to receive the settlement discount offered for prompt payment. This is expected to total 2% of net sales.
- The business allows for Doubtful Debts as 1.5% of net sales. Bad debts of \$1 800 (excluding GST) are expected to be written off in December 2023.
- Inventory is purchased for cash and is expected to be 40% of net sales, with this amount (plus GST) paid at the start of the month. Cost of Sales is expected to be \$98 400.
- Wages expense for December 2023 is budgeted to be 30% of net sales. In addition to this, at 30 November 2023, \$900 was owing to employees. No accrued wages are expected at the end of December 2023.
- Monthly administration expenses are expected to be \$3 800 (plus GST).
- Yearly rent of \$26 400 (including GST) was paid on 31 August 2023.
- As at 31 December 2023, the balance of Accounts Receivable is expected to be \$60 000, an increase of \$12 500 from the start of the month.
- As at 30 November 2023, the bank balance of E+ Supplies had a credit balance of \$3 400.

- a. Reconstruct the Accounts Receivable account to determine Receipts from Accounts Receivable for E+ Supplies for December 2023. 6 marks
- b. Prepare an extract of the Budgeted Cash Flow Statement, showing Cash Flow from Operating Activities for E+ Supplies for December 2023. 5 marks
- c. Explain **two** factors that would contribute to E+ Supplies generating a higher Net Profit than Net Cash Flow from Operating Activities for December 2023. 4 marks
- d. Show how Prepaid Rent would be reported in the Budgeted Balance Sheet as at 31 December 2023. 2 marks

Question 5 (8 marks)

Suzie owns a small business that sells custom jewellery. The business prepares reports annually on 30 June and uses a 150% mark-up.

On 25 June 2023, Suzie's business received a deposit of \$400 (EFT 300) for an order worth \$6 160 (including GST) that is expected to be finalised and delivered to the customer, L Lockhart, in August 2023.

On 25 June 2023, Suzie recorded the \$400 as Unearned Sales Revenue, as well as a Credit Sale of \$5 600 (plus GST).

- a.** Discuss whether Suzie's recording of these transactions is correct and in accordance with accounting elements and qualitative characteristics. 4 marks

- b.** On 15 August 2023, Suzie delivered the jewellery to L Lockhart, issuing Inv. 0890 on credit terms 2/7, n/30.

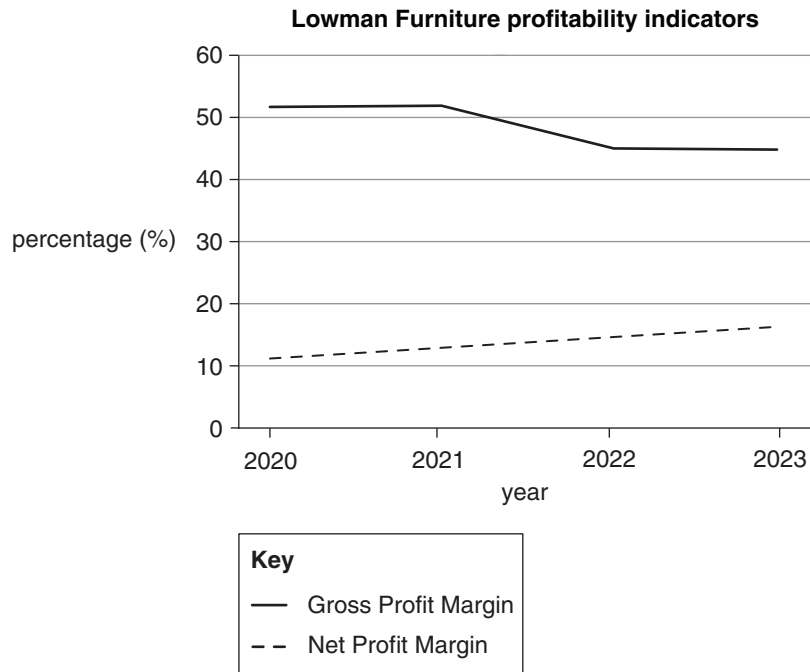
Show how Inv. 0890 should be recorded in the General Journal.

A narration is required. 4 marks

Question 6 (8 marks)

During 2022, Lowman Furniture decided to change suppliers to exclusively purchase from those with environmentally sustainable production processes. This increased the cost prices of inventory but was considered to be in the business's best interests in the long term. At the same time, the business also paid for an advertising campaign to inform the community about its new purchasing strategy.

Lowman Furniture has provided the following information related to its operations for the past four years.



- a. With reference to the information provided, describe the trend in the business's Gross Profit Margin between 2020 and 2023. 2 marks
- b. Evaluate the success of the new purchasing strategy and associated advertising campaign on the business's profitability. 4 marks
- c. State **two** non-financial indicators that could be used by the business to further assess the effectiveness of the new purchasing strategy and associated advertising campaign. 2 marks

Question 7 (9 marks)

Joseph owns and operates Tipping Toys, a small business that sells a range of children's toys. The business reports quarterly and uses the Identified Cost inventory cost assignment method.

The Inventory Card for Colour Play Drum Kits as at 31 March 2023 is shown below. The business uses a 50% mark-up for this item of inventory.

Inventory Card

Item: Colour Play Drum Kits					Cost Assignment Method: Identified Cost					
Code: CPDK20										
Supplier: JT Manufacturing										
Date 2023	Document	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Mar. 31	Balance							9	30	270
								1	32	32

During the first week of April 2023, the warehouse that Tipping Toys uses to store its items experienced a roof leak. Water from the leak caused damage to all 10 Colour Play Drum Kits on hand.

On April 8, Joseph decided that these damaged items could still be sold if they were touched up with some paint. Joseph believed he could do this work himself at an estimated total cost of \$50 (plus GST).

Even with this improvement, Joseph believed he would need to sell the items at a heavily discounted price of \$30 each (plus GST). He noted this in Memo 09.

- Calculate the inventory write-down required for the Colour Play Drum Kits based on the information provided. 3 marks
- Record the required entry in the Inventory Card for 8 April 2023. 2 marks
- Explain the effect on the accounting reports of Tipping Toys if this inventory write-down had not been recorded. 4 marks

Question 8 (14 marks)

PG Garden Furniture is owned by Paul Goldman and sells garden furniture to residential and commercial clients in Melbourne's eastern suburbs. All sales are made on credit terms of 5/10, n/90. The business reports annually and has provided the following information.

Pre-adjusted Trial Balance as at 30 June 2023

Account	Debit \$	Credit \$
Accounts Payable		62 500
Accounts Receivable	44 000	
Bank		2 400
Capital		59 150
Cost of Sales	72 000	
Discount Expense	900	
Drawings	22 000	
Freight In	4 000	
GST Clearing		5 200
Interest Revenue		450
Inventory	203 300	
Loan – BNU Bank		150 000
Sales		130 000
Sales Returns	3 500	
Term Deposit – matures 2026	30 000	
Wages	31 000	
Total	409 700	409 700

The business's accounting department has also received the following source documents that have yet to be recorded.



PG GARDEN FURNITURE

Memo 88

Date: 30 June 2023
 To: Accounting department
 Re: I would like to start providing for doubtful debts at a rate of 2% of net sales.

Signed: *Paul Goldman*



PG GARDEN FURNITURE

Memo 89

Date: 30 June 2023
 To: Accounting department
 Re: Interest on the term deposit is earned at 3% per annum and received semi-annually at the end of April and October.

Signed: *Paul Goldman*



PG GARDEN FURNITURE

Memo 90

Date: 30 June 2023
 To: Accounting department
 Re: A cash purchase of inventory worth \$2 000 (plus GST) during June was incorrectly recorded as a \$2 200 wages payment. Please make the required adjusting entry before we close the books for the year.

Signed: *Paul Goldman*

- a. Record Memo 88, Memo 89 and Memo 90 in the General Journal.
 Narrations are **not** required. 6 marks
- b. With reference to an accounting assumption, justify the owner's decision to create an Allowance for Doubtful Debts in this period, even if no accounts have yet been deemed irrecoverable. 2 marks
- c. Prepare an Income Statement for the year ending 30 June 2023. 6 marks

Question 9 (9 marks)

The following has been taken from the General Ledger of Softest Soap, a business that reports monthly.

Softest Soap**General Ledger****Profit and Loss Summary**

Date 2023	Cross-reference	Amount	Date 2023	Cross-reference	Amount
June 30	Expenses	18 990	June 30	Revenues	17 040

Drawings

Date 2023	Cross-reference	Amount	Date 2023	Cross-reference	Amount
June 12	Bank	1 900			
23	Computer	5 000			

- a. Complete the General Ledger Capital Account as at 30 June 2023. 3 marks
- b. Show how Owner's Equity would be reported in the Balance Sheet as at 30 June 2023. 2 marks
- c. After looking at the Owner's Equity extract of the Balance Sheet as at 30 June 2023, the owner of Softest Soaps states 'based on these results, the business's liquidity is very much struggling'. He decides he will refrain from taking any more drawings until the business's liquidity and profitability has improved.
Explain **one** reason why the owner's statement is incorrect and **one** reason why his solution may not help to resolve the financial issues he is concerned about. 4 marks

END OF QUESTION BOOKLET