



# Victorian Certificate of Education 2003

## ACCOUNTING

### Written examination 2

Thursday 6 November 2003

Reading time: 11.45 am to 12.00 noon (15 minutes)

Writing time: 12.00 noon to 1.30 pm (1 hour 30 minutes)

### QUESTION BOOK

#### Structure of book

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
2	2	90

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners, rulers, an approved graphics calculator (memory cleared) and/or 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 10 pages.
- Answer book of 10 pages.

#### Instructions

- Write your **student number** in the space provided on the front page of the answer book.
- Answer both 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 electronic communication devices into the examination room.**

**Question 1**

For this examination, implications of the Goods and Services Tax (GST) are only considered in Questions 1.6 and 1.7.

**Peters Electrical Appliances**

Harriet Peters owns and operates a small trading business called Peters Electrical Appliances. Harriet maintains a perpetual stock recording system. Her accounting system is based on the double-entry accrual system of recording and reporting.

1.1 Creditor balances for Peters Electrical Appliances at 1 June 2003 are as follows.

		\$
C1	Bayside Electrical	7 500
C2	Electron	12 000
C3	GEC	8 200
C4	Sparky Systems	<u>13 500</u>
	Total	<u>41 200 Cr</u>

Journals and documents for June 2003 include the following.

**Purchases Journal**

PJ9

Date 2003	Creditor	Post. Ref.	Invoice No.	Amount
June				
4	Electron		158	1 400
12	Sparky Systems		A206	9 500
23	GEC		48c	<u>3 000</u>
30	Total			<u>13 900</u>

**Cash Payments Journal**

CPJ14

Date 2003	Details	Post. Ref.	Chq. No.	Bank	Disc. Rev.	Creditors	Stock	Wages	Sundries
June									
7	Drawings		258	4 000					4 000
14	Sparky Systems		259	3 500		3 500			
21	Wages		260	2 650				2 650	
28	GEC		261	7 590	610	8 200			
29	Sparky Systems		262	<u>2 000</u>		<u>2 000</u>			
30	Total			<u>19 740</u>	<u>610</u>	<u>13 700</u>	-	<u>2 650</u>	<u>4 000</u>

**SPARKY SYSTEMS**

ABN 92 248 449 257

Credit Note C23

Date 8/6/2003

Credit Account: Peters Electrical Appliances

For: Faulty goods returned

Amount \$ 750

Total Charge \$ 750

**Required**

**1.1.1 Record** the credit note from Sparky Systems in the General Journal.

(Narration is required.)

4 marks

**1.1.2 Show** how the Creditors Control account would appear in the General Ledger after all the above information has been recorded. Balance the account at 30 June 2003.

(You **are** required to use posting references.)

7 marks

**1.1.3 Complete** creditor Sparky Systems account in the Creditors Subsidiary Ledger at 30 June 2003.

(You are **not** required to balance the account.)

4 marks

**1.1.4 Explain** one accounting control procedure Peters Electrical Appliances would use to detect errors in the Creditors Subsidiary Ledger.

2 marks

**1.2** Harriet's creditors all require payment within 30 days from date of invoice. Some offer discounts for early payment. Information about creditors turnover is provided below.

	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Creditors Turnover</b> $\left( \frac{\text{Average Creditors} \times 365}{\text{Credit Purchases}} \right)$	22 days	26 days	35 days

**Required**

**1.2.1 Identify** one positive effect this trend in creditors turnover could have on Peters Electrical Appliances' cash flow position.

1 mark

**1.2.2 Identify** one negative effect this trend in creditors turnover could have on Peters Electrical Appliances' cash flow position.

1 mark

**1.3 Stock Turnover**  $\left( \frac{\text{Average Stock} \times 365}{\text{Cost of Goods Sold}} \right)$  for Peters Electrical Appliances has decreased from 125 days to 112 days in the past 12 months. Harriet believes that this will have a positive effect on profit for the year.

**Required**

**Explain** how this improvement in Stock Turnover could lead to an increase in Gross Profit.

2 marks

**1.4** The current Gross Profit Ratio (Gross Profit/Sales) is 45%.

The industry average is 50%.

**Required**

**State** two ways by which Harriet can improve Peters Electrical Appliances' Gross Profit Ratio.

1 + 1 = 2 marks

**1.5 Explain** one non-financial key performance indicator that Harriet could use when analysing the overall performance of Peters Electrical Appliances.

2 marks

**Questions 1.6 and 1.7 require consideration of the Goods and Services Tax (GST).**

**1.6** The following is a summary of Goods and Services Tax (GST) transactions recorded in the journals of Peters Electrical Appliances for July 2003.

**Cash Receipts Journal**

GST collected on cash sales	\$8 400
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**Cash Payments Journal**

GST paid to the Australian Tax Office	\$6 500
GST paid on other cash payments	\$4 800

**Sales Journal**

GST charged on credit sales	\$12 500
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**Purchases Journal**

GST charged on purchases	\$7 200
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At 30 June 2003 the GST Clearing Account had a credit (Cr) balance of \$6 500.

**Required**

**1.6.1** Prepare the GST Clearing Account in the General Ledger at 31 July 2003 after all journals have been posted. Balance the account at 31 July 2003.

6 marks

**1.6.2** Show how the following items would be reported and classified at 31 July 2003.

- balance of GST Clearing Account
- payment of \$6 500 to the Australian Tax Office

2 + 2 = 4 marks

**1.7** On 1 August 2003, Peters Electrical Appliances sold a microwave oven (cost price \$250 plus GST of \$25). The relevant sales invoice is shown below.

<b>PETERS ELECTRICAL APPLIANCES</b>		
ABN 90 378 451 376		
	<b>Tax Invoice</b>	195
	<b>Date</b>	1/8/2003
<b>Debit to:</b>	D Bell	
	34 Smith Street	
	Oaklands 3149	
<b>For:</b>	Banko Microwave Oven	
<b>Quantity</b>	1	
<b>Amount</b>	<b>Unit Price</b>	\$370
	<b>GST</b>	<u>\$ 37</u>
<b>Total Charge</b>		<u>\$407</u>

**Required**

**Record** this transaction in the Sales Journal provided in the answer book.

3 marks

- 1.8** In August 2003, Harriet became aware of a new model of television set not yet generally available. Harriet has the opportunity of becoming the Australian distributor of this new television. The cost details of the new television set are

Invoice Price	\$1 000 per unit
Customs Duty	20% of invoiced price
Shipping Agent Fee	\$100 per shipment delivered

In September 2003, Harriet enters a contract to import one shipment of 20 televisions per month. Harriet calculates that the recorded cost of each television in the Stock Card should be \$1 205, calculated as shown below.

Invoice Price	\$1 000
Customs Duty	\$ 200
Shipping Agent Fee	<u>\$ 5</u> (\$100/20)
	\$1 205

Harriet's accountant states the cost should be \$1 200, and that the shipping agent's fee should be treated as a period cost. At 30 September 2003, only 12 of the 20 new televisions have been sold.

### Required

- 1.8.1** Identify one qualitative characteristic that supports the accountant's view that the shipping agent's fee may be treated as a period cost. Justify your answer.

1 + 1 = 2 marks

- 1.8.2** Explain whether the decision to classify the shipping agent's fee as a period cost rather than a product cost will affect reported Net Profit for September 2003.

2 marks

- 1.9** The Stock Card at 1 September 2003 for the old model television sets sold by Harriet is shown below.

#### Televisions: Model XA42

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
2003										
Sept 1	Balance							10	900	9 000

When the new televisions are available Harriet believes she will only be able to sell the old televisions for \$750 each. The advertising cost associated with these sales will be \$30 per television. It was decided to write down the old televisions on 1 September 2003.

### Required

- Prepare the General Journal entry required to record the stock write down.  
(Narration is not required.)

3 marks

Total 45 marks

**TURN OVER**

**Question 2****Sporting Life**

Neddy Norris owns and operates a small trading business, Sporting Life, that sells sports equipment. Neddy maintains a perpetual stock recording system. His accounting system is based on the double-entry accrual system of recording and reporting.

For the year ended 31 December 2003, the accountant has provided the following information about the business.

**Sporting Life****Statement of Financial Performance for Year Ended 31 December 2003**

<u>Revenue</u>		
Cash Sales	210 000	
Credit Sales	80 000	290 000
	<u>          </u>	
Less <u>Cost of Goods Sold</u>		
Cost of Sales		159 000
		<u>          </u>
<b>Gross Profit</b>		131 000
Less stock loss		3 000
		<u>          </u>
<b>Adjusted Gross Profit</b>		128 000
Less <u>Other Expenses</u>		
Advertising	20 000	
Depreciation – Equipment	2 000	
Depreciation – Motor Vehicle	5 000	
Interest on Loan	1 500	
Rent	26 000	
Wages	39 000	93 500
	<u>          </u>	<u>          </u>
<b>Net Profit</b>		<u>34 500</u>

**Sporting Life****Statement of Financial Position for Years Ended 31 December 2002 and 2003**

Account	31 December 2002 \$	31 December 2003 \$
<b>Current Assets</b>		
Bank	3 000	–
Debtors	12 000	18 000
Stock	51 000	47 000
<b>Non-Current Assets</b>		
Motor Vehicle	40 000	40 000
Less Accum. Depreciation	(10 000)	(15 000)
Equipment	40 000	40 000
Less Accum. Depreciation	(28 000)	(30 000)
<b>Total Assets</b>	<b>108 000</b>	<b>100 000</b>
<b>Current Liabilities</b>		
Bank	–	3 300
Creditors	16 000	16 500
Accrued Expenses	400	900
<b>Non-Current Liabilities</b>		
Loan – NCC Bank	16 000	12 000
<b>Owner's Equity</b>		
Capital	75 600	67 300
<b>Total Equities</b>	<b>108 000</b>	<b>100 000</b>

2.1 Neddy is concerned about the decline in the bank balance, considering he has contributed an additional \$10 000 cash as capital into the business during the year. Neddy's accountant indicates that one of the main reasons for the decline in the bank balance is due to the amount of cash drawings taken during the year.

**Required**

2.1.1 **Calculate** the cash drawings for the year ended 31 December 2003. (Assume all drawings were cash.)

3 marks

2.1.2 **List** two factors that Neddy should consider when determining the level of drawings taken throughout the year.

1 + 1 = 2 marks

2.1.3 Excluding drawings, **select** two other items from the Statement of Financial Performance and the Statement of Financial Position that could explain how the business has reported a profit but shown a decline in its bank balance. **Justify** your answers.

2 + 2 = 4 marks

2.2 The Working Capital Ratio for Sporting Life for the past two years is as follows.

	2002	2003
<b>Working Capital Ratio</b>	4.02:1	3.14:1
(Current Assets/Current Liabilities)		

**Required**

**Explain** the effect this trend may have on liquidity.

2 marks

2.3 The Gearing Ratio for Sporting Life for the past three years is as follows.

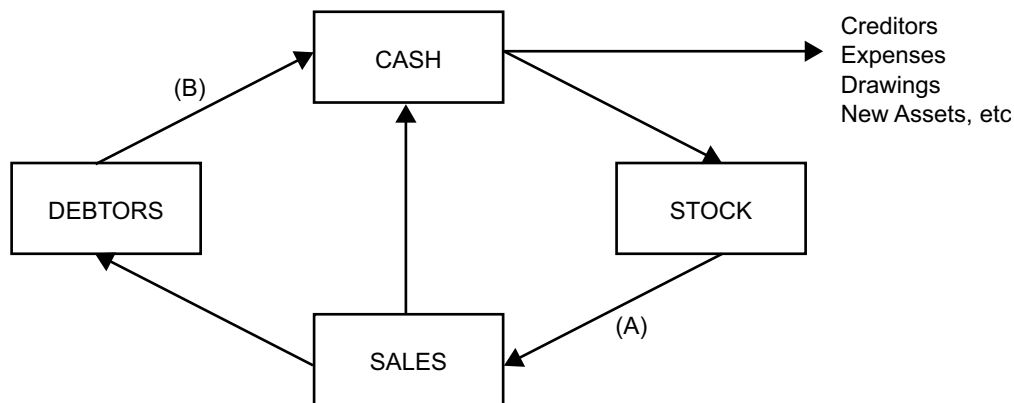
	2001	2002	2003
<b>Gearing Ratio</b>	26%	30%	33%
(Total Liabilities/Total Assets)			

**Required**

**Explain** why the Gearing Ratio is used as an indicator of long-term financial stability.

2 marks

2.4 The accountant has prepared the following diagram for Neddy to explain Sporting Life's cash cycle.



**Required**

2.4.1 **Explain** why it is necessary for a business to manage the length of its cash cycle.

2 marks

2.4.2 **Identify** the ratios that measure the length of the cash cycle at lines marked A and B on the diagram above.

1 + 1 = 2 marks

2.5 A debtor, John Door, who owes Sporting Life \$1 500, is unable to pay the debt. Door is also a creditor of Sporting Life and is owed \$1 000. Neddy has agreed to settle part of the debt by contra entry and write off the remaining balance as a bad debt.

**Required**

**Prepare** the General Journal entries required to record the contra entry and the bad debt at 31 December 2003.

(Narrations **are not** required.)

4 + 3 = 7 marks



- 2.6 On 1 January 2004 Neddy prepares a Cash Budget for the forthcoming year. At 31 December 2004 Neddy then prepares a Variance Report. The results are shown below.

**Variance Report at 31 December 2004**

	<b>Budget</b> \$	<b>Actual</b> \$	<b>Variance</b> \$	<b>F/U</b>
<b>Cash Receipts</b>				
Cash Sales	260 000	200 000	60 000	U
Receipts from Debtors	50 000	45 000	5 000	U
Loan from NCC Bank	-	50 000	50 000	F
	<u>310 000</u>	<u>295 000</u>	<u>15 000</u>	<u>U</u>
<b>Less Cash Payments</b>				
Payments to Creditors	150 000	135 000	15 000	F
Rent	26 000	26 000	-	-
Wages	39 000	41 000	2 000	U
Advertising	25 000	14 000	11 000	F
Drawings	40 000	43 000	3 000	U
Equipment	-	70 000	70 000	U
Interest on Loan	1 500	7 000	5 500	<u>U</u>
	<u>281 500</u>	<u>336 000</u>	<u>54 500</u>	<u>U</u>
<b>Surplus/Deficit</b>	28 500	(41 000)	(69 500)	U
<b>Balance at 1 January 2004</b>	<u>(3 300)</u>	<u>(3 300)</u>	-	-
<b>Balance at 31 December 2004</b>	<u>25 200</u>	<u>(44 300)</u>	<u>(69 500)</u>	<u>U</u>

**Required**

- 2.6.1 **Explain** why the variance of \$11 000 for Advertising is shown as Favourable (F) in the above report.
- 2 marks
- 2.6.2 Using information in the Variance Report **explain** one possible unfavourable consequence of the variance in Advertising.
- 2 marks
- 2.6.3 Excluding the reduction in Advertising, **identify** two other ways by which the business has been able to pay for the unplanned purchase of the new equipment.

1 + 1 = 2 marks

- 2.7** On 1 January 2005 Neddy provides the following information for the next quarter (3 months).
- Sales – Cash \$60 000, Credit \$20 000.
  - Debtors at 1 January are \$18 000. Neddy expects debtors to be \$14 000 at 31 March 2005. Discounts given to debtors are expected to be \$500.
  - Payments to creditors are expected to be \$40 000.
  - Wages expense for the quarter to be \$11 000 with \$500 owing at the end of March.
  - Rent to increase to \$2 500 per month payable 6 months in advance. The next payment is due on 1 February 2005.
  - Repayment of the loan to be \$5 000 per month. Interest on the loan to be \$2 300 per quarter. The next interest payment is due in March 2005.
  - Depreciation – Equipment \$2 500 per quarter  
– Vehicle \$1 250 per quarter.
  - Other cash expenses paid for the quarter to be \$10 400, including \$800 prepaid at 31 March 2005.
  - Drawings – \$4 500 cash per month  
– \$250 stock in February.

**Required**

- 2.7.1 Calculate** the Receipts from Debtors for the quarter ended 31 March 2005. 3 marks
- 2.7.2 Prepare** the Estimated Cash Payments section of the Cash Budget for the quarter ending 31 March 2005.  
(You **are not** required to prepare a full Cash Budget.) 5 marks
- 2.7.3 Explain** how preparing Cash Budgets quarterly instead of annually may improve the cash control of Neddy's business. 2 marks
- 2.8** On 1 November 2005 the business invested \$6 000 into a 3 month term deposit. The interest rate on the term deposit is 5% per annum payable at the end of the 3 month term. The January Bank Statement showed the total interest earned on the term deposit of \$75 was credited to Sporting Life's bank account on 31 January 2006.

**Required**

- 2.8.1 Prepare** the General Journal entry necessary on 31 December 2005 to record the interest revenue owing.  
(A narration is **not** required.) 3 marks
- 2.8.2 Show** how the receipt of \$75 interest would be recorded in the Cash Receipts Journal on 31 January 2006. 2 marks

Total 45 marks



**Victorian Certificate of Education  
2003**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

**STUDENT NUMBER**

Figures										Letter
Words										

**ACCOUNTING**  
**Written examination 2**

**Thursday 6 November 2003**

**Reading time: 11.45 am to 12.00 noon (15 minutes)**

**Writing time: 12.00 noon to 1.30 pm (1 hour 30 minutes)**

**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.

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

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**Question 1 – Peters Electrical Appliances****1.1.1****General Journal****GJ 2**

Date 2003	Particulars	Post. Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$

4 marks

**1.1.2 General Ledger (extract)****CREDITORS CONTROL****201**

Date 2003	Particulars	Post. Ref.	\$	Date 2003	Particulars	Post. Ref.	\$

7 marks

**1.1.3 Subsidiary Ledger (extract)****CREDITOR – SPARKY SYSTEMS****C4**

Date 2003	Particulars	Post. Ref.	\$	Date 2003	Particulars	Post. Ref.	\$

4 marks

**1.1.4**

<b>Explanation</b>

2 marks

**1.2.1**

<b>Positive effect</b>

1 mark

**1.2.2**

<b>Negative effect</b>

1 mark

**1.3**

<b>Explanation</b>

2 marks

**1.4**

<b>First way</b>
<b>Second way</b>

1 + 1 = 2 marks

**1.5**

<b>Explanation</b>

2 marks

**Question 1** – continued

## 1.6.1

## GST CLEARING ACCOUNT

210

Date 2003	Particulars	Post. Ref.	\$	Date 2003	Particulars	Post. Ref.	\$
				30 June	Opening Balance		6 500

6 marks

## 1.6.2

Item	Report	Classification
Balance of GST Clearing Account		
Payment to Australian Tax Office		

2 + 2 = 4 marks

## 1.7

## Sales Journal

SJ 10

Date 2003	Debtor	Post. Ref.	Invoice No.	Cost Price	Selling Price	GST	Total Debtors

3 marks

**1.8.1**

<b>Characteristic</b>
<b>Justification</b>

1 + 1 = 2 marks

**1.8.2**

<b>Explanation</b>

2 marks

**1.9**

**General Journal**

**GJ 3**

Date 2003	Particulars	Post. Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$

3 marks

Total 45 marks



**Question 2 – Sporting Life****2.1.1**

<b>Calculation</b>	
Drawings	\$

3 marks

**2.1.2**

<b>First factor</b>	
<b>Second factor</b>	

1 + 1 = 2 marks

**2.1.3**

<b>Item 1</b>	
<b>Justification</b>	
<b>Item 2</b>	
<b>Justification</b>	

2 + 2 = 4 marks

**2.2**

<b>Explanation</b>	

2 marks

**2.3**

<b>Explanation</b>	

2 marks

**Question 2 – continued**  
**TURN OVER**

**2.4.1**

<b>Explanation</b>

2 marks

**2.4.2**

<b>Ratio A</b>
<b>Ratio B</b>

1 + 1 = 2 marks

**2.5**

**General Journal**

**GJ 2**

Date 2003	Particulars	Post. Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$

4 + 3 = 7 marks

**2.6.1**

<b>Explanation</b>

2 marks



**2.7.3**

<b>Explanation</b>

2 marks

**2.8.1**

**General Journal**

**GJ 3**

Date 2005	Particulars	Post. Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$

3 marks

**2.8.2**

**Cash Receipts Journal (extract)**

**CRJ 7**

Date 2006	Details	Post. Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries

2 marks

Total 45 marks