

**Victorian Certificate of Education
2018**

ACCOUNTING
Written examination

Friday 9 November 2018

Reading time: 3.00 pm to 3.15 pm (15 minutes)

Writing time: 3.15 pm to 5.15 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>
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 book of 11 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 (11 marks)

Aaron's Auto sells a range of car parts. Goods are bought and sold for both cash and credit. There is a 100% mark-up on cost. Aaron's Auto was closed for most of January 2018 and recorded only four transactions for that month. The documents relating to these transactions are shown below.

On 1 January 2018, the GST Clearing account had an opening balance of \$500 cr.

Aaron's Auto	
Date:	27/01/18
Invoice No.:	330
Supplied:	10 gearboxes
Account:	Brabham
	Amount: \$4 100
	plus GST: \$410
	Total: \$4 510
Credit terms 2/10, n/30	

Aaron's Auto	
Date:	28/01/18
Invoice No.:	331
Supplied:	20 steering wheels
Account:	Hamilton
	Amount: \$1 800
	plus GST: \$180
	Total: \$1 980
Credit terms 2/10, n/30	

Aaron's Auto	
Date:	29/01/18
Credit Note No.:	32
Item:	1 gearbox
Account:	Brabham
	Amount: \$410
	plus GST: \$41
	Total: \$451

Gap Suppliers	
Date:	30/01/18
Credit Note No.:	81
Item:	1 engine
Account:	Aaron's Auto
	Amount: \$2 200
	plus GST: \$220
	Total: \$2 420
Goods damaged in transit	

- a. Prepare the General Journal entry to record the transaction on 30 January 2018.
A narration is **not** required. 3 marks
- b. Calculate the balance of the GST Clearing account at 31 January 2018. 2 marks
- c. Explain the relationship between the Creditors Control ledger account and the Schedule of Creditors. 3 marks
- d. Explain how Sales Returns meets the definition of **one** specific accounting element. 3 marks

Question 2 (9 marks)

The Sports Store sells cricket equipment. Reports are prepared annually on 30 June. At 30 June 2018, two stock cards were incomplete as the following transactions and information had not been recorded:

- 28 June 2018 Twelve Test Cricket balls were sold to Wales Cricket Club for \$60 each plus GST (Invoice 2224).
- 29 June 2018 Six Test Cricket balls were returned to Carlson Ltd from the delivery on 5 June (Credit Note 45).

Additional information

- After these transactions were taken into account, a stocktake on 30 June 2018 showed the following:
 - Test Cricket balls – there was no stock loss or gain
 - Power Plus cricket bats – 18 were on hand, including five that were damaged (Memo 61)
- The selling price of the five damaged bats will be reduced to \$150 each plus GST. A bat cover (cost \$10 each plus GST) will be provided free of charge with each damaged bat sold. (Memo 62)

a. Complete the Stock Cards. 5 marks

b. The owner of the store comments that the Power Plus cricket bats are selling very well, so the undamaged bats should be valued at the current selling price of \$400 each because ‘that is what they are worth to the business’.

Explain why this would not be an appropriate method for valuing the Power Plus cricket bats. Justify your answer with reference to **one** accounting principle. 4 marks

Question 3 (20 marks)

Dynamic Traders is preparing its Cash Flow Statement for the year ended 30 June 2018.

The Income Statement for the year ended 30 June 2018 showed the following:

- Sales were \$480 000 with a Gross Profit of \$180 000.
- Net Profit was \$61 520 after the following expenses:

Wages	\$87 000
Insurance Expense	8 000
Depreciation of Equipment	4 000
Bad Debts	1 500
Discount Expense	800
Interest Expense	2 000
Advertising Expense	10 800
Loss on Disposal of Shop Fittings	4 380

Dynamic Traders
Balance Sheet as at 30 June

	2017	2018
Current Assets		
Cash at Bank	4 100	8 400
Debtors Control	37 000	40 000
Prepaid Insurance	2 000	1 000
Stock Control	95 000	101 000
Non-Current Assets		
Shop Fittings	9 000	4 620
Equipment	240 000	250 000
Less Accumulated Depreciation of Equipment	(45 000)	(49 000)
Total Assets	342 100	356 020
Current Liabilities		
Creditors Control	50 500	55 100
Accrued Wages	2 500	3 000
GST Clearing	2 000	14 620
Loan	4 000	5 000
Non-Current Liabilities		
Loan	40 000	51 000
Total Liabilities	99 000	128 720
Owner's Equity		
Capital	243 100	227 300
Total Equities	342 100	356 020

Additional information**GST Clearing**

Date	Cross-reference	Amount	Date	Cross-reference	Amount
30/6/18	Bank	2 780	1/7/17	Balance	2 000
	Creditors Control	30 600	30/6/18	Debtors Control	48 000
	Bank	2 000			
	Balance	14 620			
		50 000			50 000

- All sales and purchases of stock were on credit.
- Old shop fittings were thrown out in June. They were not replaced.
- All drawings were cash. No additional contributions were made by the owner.
- The scheduled loan repayments were made during the year. An additional loan was taken out on 30 June 2018.

a. Reconstruct the following ledger accounts:

- Debtors Control
- Stock Control
- Creditors Control

8 marks

b. Prepare a Cash Flow Statement for the year ended 30 June 2018.

12 marks

TURN OVER

Question 4 (10 marks)

The Muso's Shop sells musical instruments. The business buys and sells stock on credit (credit terms for both are n/30). Recently, the owner of the shop stated, 'Sales and profit are both up this year but I seem to be short of cash all the time – so what's going wrong?'

The following data was extracted from the accounting reports.

	2017	2018
Working Capital Ratio	2.4 times	3.1 times
Quick Asset Ratio	1.7 times	1.5 times
Debtors Turnover	58 days	52 days
Stock Turnover	91 days	111 days
Creditors Turnover	27 days	23 days

- a. Using the data above, discuss why the business may be experiencing a shortage of cash every month. 6 marks
- b. Suggest and justify **two** strategies to improve Stock Turnover for The Muso's Shop. 4 marks

Question 5 (20 marks)

DC Computing sells computer products for cash and on credit. All stock is marked up by 100% on cost. The business reports on a monthly basis. The Balance Sheet as at 31 August 2018 is provided below.

DC Computing
Balance Sheet as at 31 August 2018

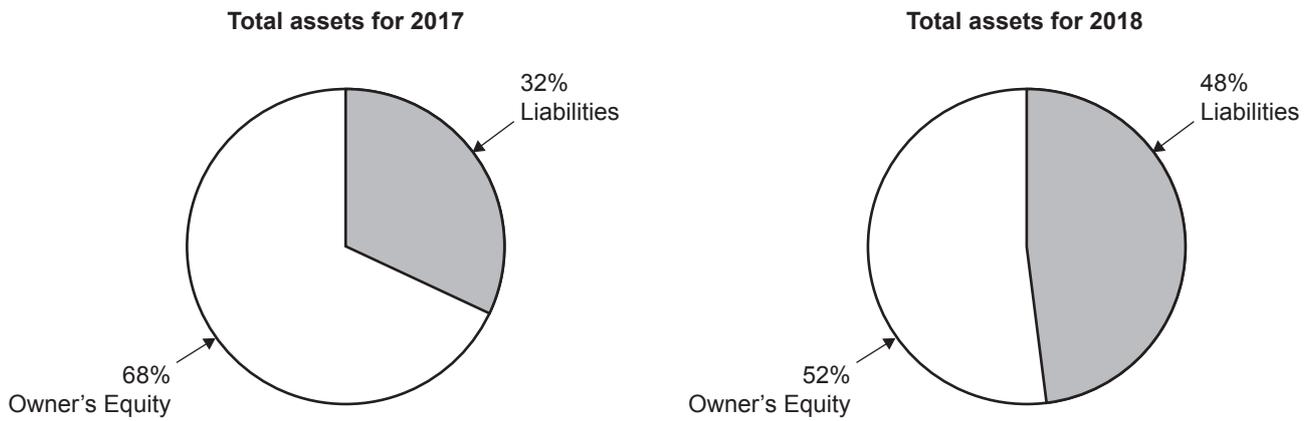
Current Assets			Current Liabilities		
Cash at Bank	2 400		Creditors Control	7 500	
Debtors Control	6 600		GST Clearing	2 100	
Stock Control	32 700		Prepaid Sales Revenue	500	
Prepaid Advertising	800	42 500	Accrued Wages	1 300	11 400
Non-Current Assets					
Office Equipment		4 300	Owner's Equity		
Van	45 000		Capital		51 600
Less Accumulated Depreciation of Van	(28 800)	16 200			
Total Assets		\$63 000	Total Equities		\$63 000

- a. Taking into account the information above, record the following transactions in the journals provided. Narrations are **not** required.
- 3 September Wages paid \$4 500 (Cheque 314)
 - 5 September Accepted legal advice that Debtor B Smith will only be able to pay 20 cents in every dollar of the \$1 200 owing (Memo 300)
 - 6 September Customer who had previously paid the deposit of \$500 for a sale of \$4 000 plus GST paid the remaining balance and collected the goods (Receipt 345)
- 10 marks
- b. Explain the effects on the accounting equation if the transaction on 5 September was not recorded.
- 3 marks
- DC Computing has replaced its van with a new van. The old van was traded in for \$10 000 on 30 September 2018. The new van was purchased on credit for \$55 000 plus GST from Nifty Vans (Invoice 240X).
- c. Calculate the depreciation on the old van for September 2018, using the reducing balance method at 40% per annum.
- 1 mark
- d. Prepare the General Journal entries required to record the sale of the old van and the purchase of the new van.
- Narrations are **not** required.
- 6 marks

TURN OVER

Question 6 (4 marks)

The change in the Debt Ratio for Spark's Electrics for the last two years can be determined from the graphs below.



Explain the implications for business profitability and liquidity of the change in the Debt Ratio shown in the graphs.

Question 7 (8 marks)

Katy's Cakes sells made-to-order cakes. The business reports monthly.

On 15 September 2018, the business paid \$2400 plus GST for a three-month social media advertising campaign that commenced on 1 September 2018.

The balance of the Prepaid Advertising at 30 September 2018 is \$1900.

- a.** Complete the Prepaid Advertising and Advertising Expense accounts at 30 September 2018. You are required to balance or close the accounts, as appropriate. 5 marks
- b.** With reference to **one** accounting principle, explain why it is necessary to close one of these accounts. 3 marks

Question 8 (18 marks)

Peter Patterson owns and operates a small trading business called Peter's Pots. The following journal summaries relate to September 2018.

Cash Receipts Journal (summary)

Date 2018	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sundries	GST
30 Sep.	Totals	–	101 700	3 000	27 400	34 000	68 000	2 500	6 800

The item in the 'Sundries' column was capital contribution.

Cash Payments Journal (summary)

Date 2018	Details	Chq. No.	Bank	Disc. Rev.	Creditors Control	Stock Control	Wages	Sundries	GST
30 Sep.	Totals	–	82 670	1 300	19 200	36 000	8 000	16 000	4 770

The items in the 'Sundries' column were:

- Drawings \$1 500
- Advertising \$3 500
- Prepaid Rent (for October and November) \$5 200
- Customs duty \$3 000
- GST Clearing \$2 800.

Purchases Journal (summary)

Date 2018	Creditor	Invoice Number	Stock Control	GST	Creditors Control
30 Sep.	Totals	–	25 000	2 500	27 500

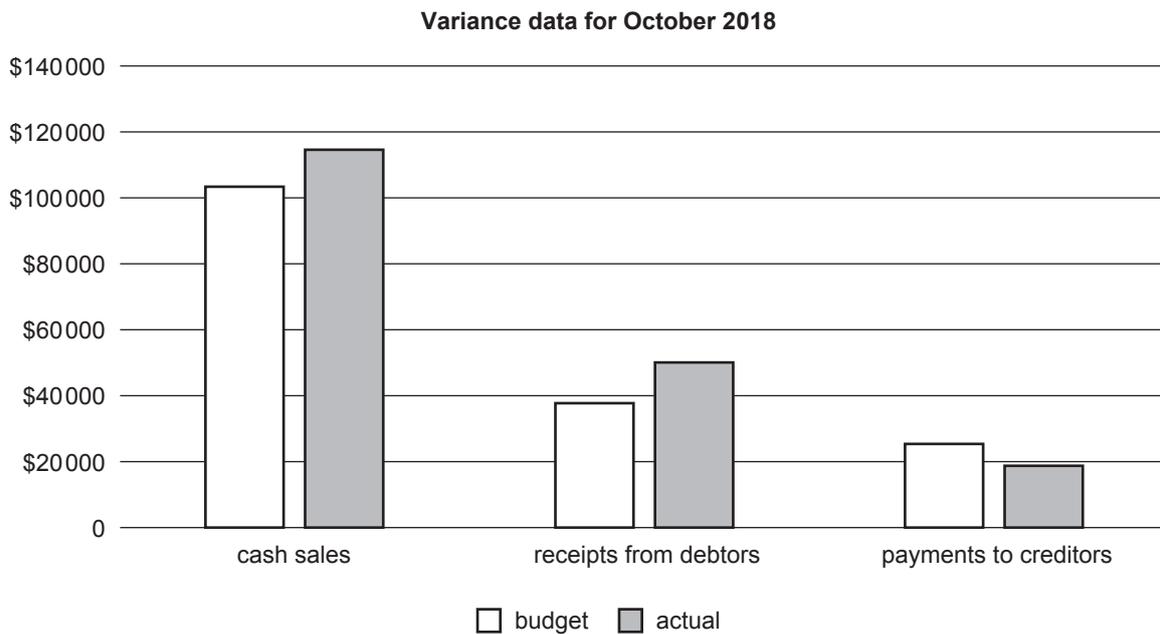
Sales Journal (summary)

Date 2018	Debtor	Invoice Number	Cost of Sales	Sales	GST	Debtors Control
30 Sep.	Totals	–	14 500	29 000	2 900	31 900

Peter also provided the following estimates for October 2018:

- estimated Sales \$138 000, of which 25% is anticipated to be on credit
- Cost of Sales estimated to be 50% of sales
- Sales Returns \$1 800
- a Stock Write-Down for pots \$500
- Discounts from suppliers \$1 200
- Wages Expense \$9 300
- Depreciation of Shop Fittings \$2 800
- Bad Debts expense 5% of Credit Sales from September
- Customs Duty on imported pots \$1 250
- a Loan of \$15 000 expected to commence on 1 October; Peter has planned that in addition to the interest payments of \$100 a month, a further \$200 principal amount will be repaid each month.
- Drawings is estimated to be \$4 500, including \$500 of stock

- a. Prepare a Budgeted Income Statement for the month ending 31 October 2018. 8 marks
- b. Explain how Peter's Pots could use the Budgeted Income Statement for planning and control purposes. 4 marks
- c. A variance report has been prepared for the Cash Flow Statement at 31 October 2018. The information below has been extracted from that report.



Describe the variances and provide a possible reason for each variance.

6 marks

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SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

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Reading time: 3.00 pm to 3.15 pm (15 minutes)

Writing time: 3.15 pm to 5.15 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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TURN OVER

Question 1 (11 marks)

a.

3 marks

Aaron's Auto

General Journal

Date 2018	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit

b.

2 marks

Working space	
Balance of the GST Clearing account at 31 January 2018	\$

c.

3 marks

Explanation

d.**3 marks**

Explanation

TURN OVER

Question 2 (9 marks)

a.

5 marks

Stock Cards

Product: Test Cricket balls					Cost Assignment Method: FIFO					
Date 2018	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 June	Balance							48	30	1 440
5 June	Inv. 816	24	35	840						

Product: Power Plus cricket bats					Cost Assignment Method: FIFO					
Date 2018	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 June	Balance							20	220	4 400

Question 3 (20 marks)

Working space

a.

8 marks

Debtors Control

Date	Cross-reference	Amount	Date	Cross-reference	Amount

Stock Control

Date	Cross-reference	Amount	Date	Cross-reference	Amount

Creditors Control

Date	Cross-reference	Amount	Date	Cross-reference	Amount

Question 3 – continued

b.

4 marks

Strategy 1
Strategy 2

TURN OVER

Question 5 (20 marks)

a.

10 marks

DC Computing

Cash Receipts Journal

Date 2018	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	Sundries	GST

Cash Payments Journal

Date 2018	Details	Chq. No.	Bank	Disc. Rev.	Creditors Control	Wages	Stock Control	Rent Expense	Sundries	GST

General Journal

Date 2018	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit

Question 6 (4 marks)

Explanation

TURN OVER

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TURN OVER

c.

6 marks

Description