

**Victorian Certificate of Education
2019**

ACCOUNTING
Written examination

Friday 8 November 2019

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

Writing time: 12.00 noon to 2.00 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>
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 book of 10 pages
- Answer book of 23 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 (13 marks)

MaxxGames sells a wide range of video games and game consoles. The business uses the Identified Cost inventory cost assignment method and all inventory is marked up by 50%.

Inventory Card

Item: Racing Plus video game					Cost Assignment Method: Identified Cost					
Code: RP2018										
Supplier: XA Imports										
Date 2019	Document	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Mar. 1	Balance							10	45	450
								5	47	235
3	CrN. 23	1	45	45				11	45	495
								5	47	235
6	Inv. 564				3	45	135	8	45	360
					2	47	94	3	47	141
12	Memo 43				8	20	160			
					3	22	66	11	25	275

- a. Record the following transactions in the Inventory Card provided:
- 14 March A cash purchase of three copies of the Racing Plus video game for \$20 (plus GST) was made at a trade show (Chq. 355).
 - 22 March The owner withdrew two copies of the Racing Plus video game to use as gifts for his friends (Memo 46). These were from the copies that were valued at \$25.
 - 30 March A physical stocktake revealed that there were 13 copies of the Racing Plus video game on hand (Memo 47). This included the three copies purchased on 14 March. 3 marks
- b. Describe the transactions that have led to the entries in the Inventory Card on:
- 3 March
 - 12 March. 2 marks
- c. Label the ledger accounts and prepare the ledger entries to record Memo 43. 2 marks
- d. Describe the effects that Memo 43 would have on the financial reports of MaxxGames. 3 marks

- e. The owner of MaxxGames is becoming concerned about the liquidity of the business. The following data has been provided for the year ended 30 June.

	2017	2018	2019
Inventory Turnover	29 days	35 days	45 days
Working Capital Ratio	1.5:1	1.1:1	0.8:1
Quick Asset Ratio	2.3:1	2.3:1	2.3:1

The owner does not understand how the Working Capital Ratio can be declining while the Quick Asset Ratio is not.

Provide an explanation to the owner.

3 marks

Question 2 (18 marks)

Freja's Furniture reports every three months. The business is preparing its Cash Flow Statement for the three months ended 31 December 2019. The business provides the following information.

Freja's Furniture**Balance Sheet (extract) as at**

	30 September 2019	31 December 2019
Accounts Receivable	\$28 000	\$18 000
Inventory	22 000	25 000
Prepaid Advertising	–	4 500
Accounts Payable	60 000	65 000
GST Clearing	22 000 cr	7 000 cr
Accrued Wages	1 000	800

Details for the three months ended 31 December 2019

Sales (80% cash)	\$400 000
Cost of Sales	\$210 000
Wages Expense	\$55 000
Advertising Expense	\$15 000
Drawings (cash)	\$8 000
Inventory Loss	\$4 000

Additional information

- All purchases of inventory were on credit terms 5/10, n/30. The discount was always taken.
 - Purchases Returns were \$6 000 (plus GST).
 - GST received from cash sales was \$32 000.
 - A payment of \$31 350 was made to the Australian Taxation Office (ATO) in December 2019 as a GST settlement.
- a.** Reconstruct the following ledger accounts for the three months ended 31 December 2019:
- Accounts Receivable – to identify the cash received from accounts receivable
 - Accounts Payable and Inventory – to determine the payments to accounts payable 7 marks
- b.** Calculate the amount of GST paid on cash payments. 1 mark
- c.** Prepare the operating section of the Cash Flow Statement for the three months ended 31 December 2019. 6 marks
- d.** Explain, giving **two** examples, how the Net Cash Flow from Operations can be higher than the Net Profit for the same period. 4 marks

Question 3 (7 marks)

Going321 has concerns about its liquidity. The business is examining its Budgeted Cash Flow Cover because it is concerned about its increasing level of Current Liabilities. The formula for calculating the Cash Flow Cover is

$$\frac{\text{Net Cash Flow from Operating Activities}}{\text{Average Current Liabilities}}$$

The following Budgeted Cash Flow Cover is provided.

	April	May	June
Budgeted Cash Flow Cover (times per period)	7	4	0.6

- a. Describe the effect that the trend shown in the table above will have on Going321's liquidity. 2 marks
- b. Suggest **two** possible reasons for this trend in the Budgeted Cash Flow Cover. 2 marks
- c. Explain and justify **one** strategy to improve the Cash Flow Cover and to avoid achieving this Budgeted Cash Flow Cover. 3 marks

TURN OVER

Question 4 (18 marks)

Klapper Bikes sells customised motorcycles.

The business commenced operations on 1 June 2019 and will report monthly.

Klapper Bikes
Pre-adjusted Trial Balance as at 30 June 2019

	Debit	Credit
Cash at Bank	300 000	
GST Clearing	71 500	
Vehicles	180 000	
Inventory	70 000	
Prepaid Advertising	15 000	
Accounts Payable		225 000
Sales Revenue		900 000
Term Deposit	240 000	
Cost of Sales	450 000	
Wages	190 000	
Capital		391 500
	\$1 516 500	\$1 516 500

Additional information

- Advertising of \$15 000 (plus GST) was prepaid for six months on 1 June 2019.
- Rent of \$5 500 (plus GST) per month is paid at the end of each month for the following month. Due to an oversight the rent for June will be paid on 7 July 2019.
- On 30 June 2019, wages owing to employees were \$2 000.
- The business has a mark-up of 100% on cost.
- The business invested excess cash in a 12-month term deposit on 15 June 2019, which is earning 3% per annum. The interest is payable annually on 31 December.
- The vehicles were purchased on 1 June and are to be depreciated at 20% per annum using the reducing balance method.

a. Prepare the General Journal entries required on 30 June 2019 to record the additional information.

Narrations are **not** required.

10 marks

b. With reference to **one** accounting assumption, explain why it is necessary to record the additional information.

3 marks

c. Prepare the Income Statement for the month ended 30 June 2019.

5 marks

Question 5 (8 marks)

Outside Climber sells hiking equipment to clubs and the general public. It reports monthly.

For the month ended 30 June 2019, credit sales were \$95 000 and sales returns were \$5 000.

The balance of Accounts Receivable as at 30 June 2019 was \$122 000.

On 30 June 2019, the accountant was concerned about a declining Accounts Receivable Turnover and about possible bad debts, and decided to raise an Allowance for Doubtful Debts equal to 2% of net credit sales (Memo 12).

- a. Prepare the General Journal entry required on 30 June 2019 to record the allowance.

A narration is **not** required.

2 marks

On 18 July, accounts receivable totalling \$2 750 were written off as unrecoverable (Memo 62).

Net credit sales for July were \$110 000 and the balance of Accounts Receivable as at 31 July was \$135 000.

On 31 July, the accountant decided to increase the Allowance for Doubtful Debts to 3% of net credit sales (Memo 68).

- b. Prepare the General Journal entries required on:

- 18 July 2019 to record the write-off
- 31 July 2019 to record the new allowance.

Narrations are **not** required.

4 marks

- c. Show how Accounts Receivable would be reported in the Balance Sheet as at 31 July 2019.

2 marks

Question 6 (12 marks)

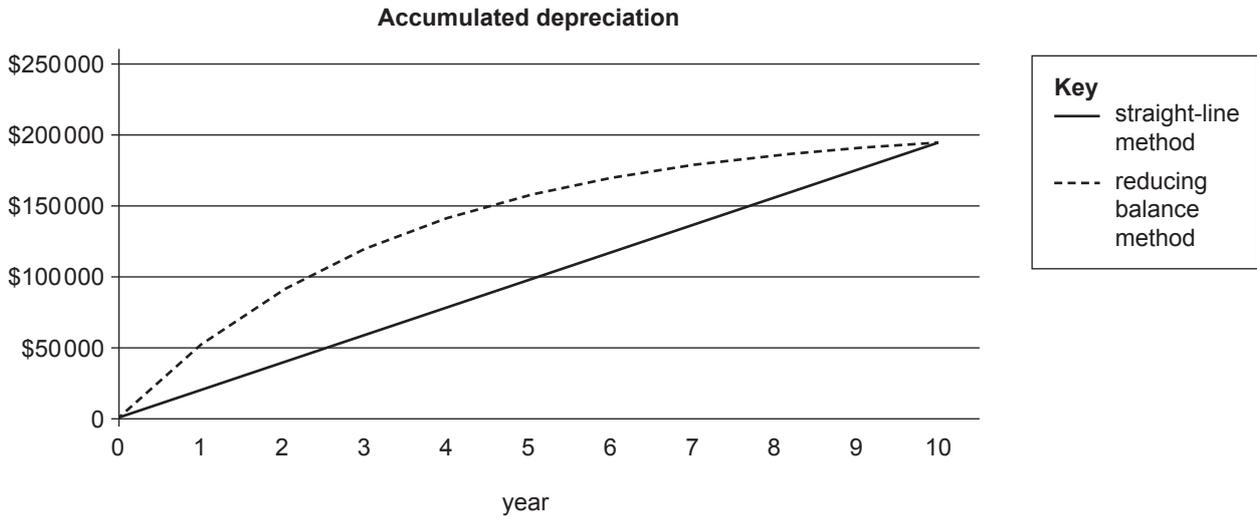
YYY reports annually on 30 June. On 1 April 2019, the business purchased machinery for \$220 000 (incl. GST) (Chq. 4530). Installation of the machinery cost \$6 600 (incl. GST) and was paid on 1 April (EFT 160187). The machinery had an estimated useful life of 10 years and a residual value of \$11 600.

- a. Prepare the General Journal entry or entries to record the transactions on 1 April 2019. Narrations are **not** required. 4 marks

The business is deciding whether to depreciate the machinery using the straight-line method or the reducing balance method at 25% per annum.

- b. Calculate the amount of depreciation that would be recorded at 30 June 2019 using the:
- straight-line method
 - reducing balance method. 4 marks

- c. The accountant recommended the reducing balance method, saying, ‘It doesn’t matter much which method is used, as it all works out the same in the end’, and provided the following chart.



- Explain the accountant’s comment. 4 marks

Question 7 (9 marks)

Health900 sells health products to a growing market. The owner is considering selling the business and decides that a higher profit is needed. However, the owner does not wish to change the business model, except for changing from using the First In, First Out (FIFO) inventory cost assignment method to using the Identified Cost inventory cost assignment method.

The business purchased much more inventory than it needed during the previous year. Inventory bought early in the year was often more expensive than inventory bought later in the year.

For the current full reporting period, the business deliberately stacked the items bought at the lowest prices at the front of the shelves so that these items would be sold first. By doing this, the business hoped to report a higher profit and greater asset values than would have been possible using the FIFO inventory cost assignment method.

- a. Explain how the owner would achieve a higher profit and greater asset values. 4 marks
- b. Discuss any ethical issues that the owner should consider. Refer to **one** qualitative characteristic that may be breached as a result of inventory being stacked in this way. 5 marks

Question 8 (5 marks)

A business prepared a Trial Balance at the end of June 2019. However, its accountant noticed a cash entry of \$1 000 in the Wages account that should have been recorded as Drawings (Memo X4).

- a. Prepare the General Journal entry to correct this error.
A narration is required. 3 marks
- b. Describe the effects this correcting entry will have on Owner's Equity. 2 marks

Question 9 (10 marks)

A Budgeted Income Statement (and accompanying notes) for 2020 has been presented to the owner of a business. It shows the following information.

	\$	\$	Notes
Revenue			
Sales		700 000	based on sales of 100 000 units at \$7 per unit
less Cost of Sales		<u>315 000</u>	45% of sales
Gross Profit		385 000	55% of sales
Expenses			
Rent	45 000		current premises
Wages	140 000		20% of sales
Advertising	<u>70 000</u>		10% of sales
Total expenses		<u>255 000</u>	
Budgeted Net Profit		130 000	

The owner would like to expand operations and asks the accountant to investigate the following two options:

- Option A – remain in the current premises and increase the sales volume to 120 000 units
- Option B – move to larger premises and increase the sales volume to 140 000 units

The selling price per unit will remain constant.

The accountant provides the following data. Note that all percentages in the table below are percentages of total sales.

	Current budget 100 000 units	Option A 120 000 units	Option B 140 000 units
Revenue			
Sales	100%	100%	100%
less Cost of Sales	45%	43%	40%
Gross Profit	55%	57%	60%
Expenses			
Rent	\$45 000	\$45 000	\$65 000
Wages	20%	22%	25%
Advertising	10%	11%	13%
Budgeted Net Profit	\$130 000		

- a. Complete the table provided to show the financial data for Option A and Option B. 4 marks
- b. Analyse the results and make a recommendation to the owner. Give reasons for your recommendation. 6 marks

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STUDENT NUMBER

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 Letter

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ACCOUNTING
Written examination

Friday 8 November 2019

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

Writing time: 12.00 noon to 2.00 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 (13 marks)

a.

3 marks

Inventory Card

Item: Racing Plus video game			Cost Assignment Method: Identified Cost							
Code: RP2018										
Supplier: XA Imports										
Date 2019	Document	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Mar. 1	Balance							10	45	450
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12	Memo 43				8	20	160			
					3	22	66	11	25	275

b.

2 marks

3 March
12 March

c.

2 marks

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount

d.

3 marks

Description

e.

3 marks

Explanation

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Question 2 (18 marks)

a.

7 marks

Freja's Furniture**General Ledger****Accounts Receivable**

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount

Accounts Payable

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount

Inventory

Date 2019	Cross-reference	Amount	Date 2019	Cross-reference	Amount

d.

4 marks

Explanation

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

2 marks

Description

b.

2 marks

Reason 1
Reason 2

c.

3 marks

Explanation and justification

TURN OVER

Question 5 (8 marks)

Working space

a. 2 marks

Outside Climber

General Journal

Date 2019	Details	Debit	Credit

b. 4 marks

Outside Climber

General Journal

Date 2019	Details	Debit	Credit

c.

2 marks

Outside Climber
Balance Sheet (extract) as at 31 July 2019

Current Assets	\$	\$

TURN OVER

Question 6 (12 marks)

a.

4 marks

YYY

General Journal

Date 2019	Details	Debit	Credit

b.

4 marks

Straight-line method	Reducing balance method
\$	\$

Question 8 (5 marks)**a.**

3 marks

General Journal

Date 2019	Details	Debit	Credit

b.

2 marks

Description

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TURN OVER

Question 9 (10 marks)

a.

4 marks

	Current budget 100 000 units	Option A 120 000 units	Option B 140 000 units
Revenue			
Sales	\$700 000		
less Cost of Sales	\$315 000		
Gross Profit	\$385 000		
Expenses			
Rent	\$45 000		
Wages	\$140 000		
Advertising	\$70 000		
Total expenses	\$255 000		
Budgeted Net Profit	\$130 000		

