

**Victorian Certificate of Education
2017**

ACCOUNTING
Written examination

Friday 10 November 2017

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 12 pages
- Answer book of 18 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 (19 marks)

YZ Sportz sells a range of sporting gear, including off-road bikes and accessories. The XT100 BMX bike is sold for \$380 plus GST.

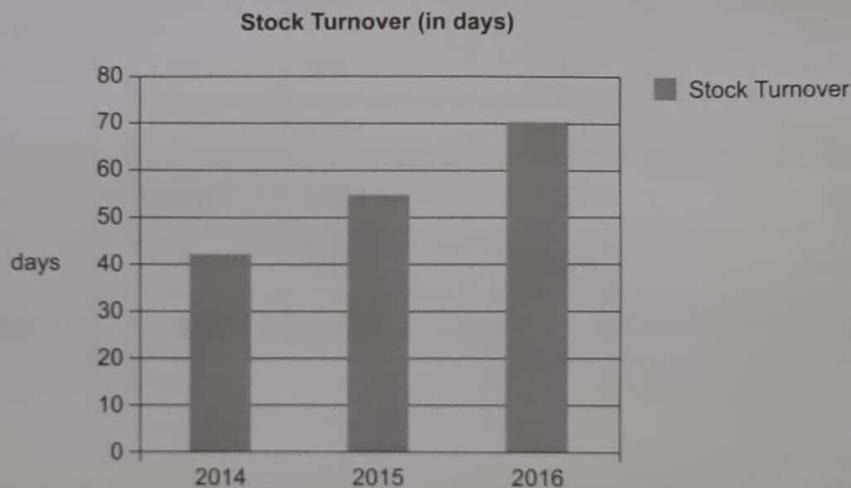
Stock Card

Product: XT100 BMX bike				Cost Assignment Method: FIFO						
Date 2017	Details	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 March	Balance							10	160	1 600
3 March	Inv. 234				4	160	640	6	160	960
9 March	Inv. 242				2	160	320	4	160	640

Additional information

- 12 March A delivery of XT100 BMX bikes arrived. Invoice 670 contained the following details:
 - 10 bikes at a cost of \$170 each (plus GST)
 - a total delivery charge of \$50 (plus GST)
- 16 March A customer, B West, returned one XT100 BMX bike (CrN. 243).
- 20 March Seven bikes were sold for cash (Rec. 9877):
 - two XT100 BMX bikes for \$380 (plus GST) each
 - five BV400 mountain bikes for \$520 (plus GST) each
- 23 March The supplier released an updated XT100 BMX bike with built-in bluetooth data sharing. YZ Sportz now expects to sell the remaining XT100 BMX bikes for \$140 (plus GST) each to clear as much of this older stock as possible (Memo 122).

- a. Complete the Stock Card using the additional information provided. 4 marks
- b. Justify your treatment of the delivery charge on 12 March. 2 marks
- c. Record the transaction on 16 March in the General Journal provided.
A narration is **not** required. 3 marks
- d. With reference to **one** accounting principle, explain your treatment of the transaction on 23 March. 3 marks
- e. Calculate the net sales revenue for XT100 BMX bikes during March. 2 marks
- f. 'Stock Cards are a waste of time', said the first-time business owner of YZ Sportz to the accountant. 'If I want to keep a check on stock, I will go and count it!'
Explain the benefits of using Stock Cards. 3 marks
- g. The following information is provided for YZ Sportz.



The trend in Stock Turnover could be caused by either positive or negative factors.

Provide **one** positive factor and **one** negative factor that may have led to the trend in Stock Turnover shown above.

2 marks

Question 2 (13 marks)

Best Chemist is a pharmacy in a large regional town in Victoria. It purchases stock on credit from a variety of suppliers and uses a control account for creditors. Sales are largely on a cash basis.

Creditors balances at 1 April 2017 were as follows:

PharmaC	\$4 400
MM Health	6 600
Vitaworld	11 000
Westco	3 630
Global Pills	<u>13 200</u>
Balance in Creditors Control	\$38 830

Purchases Journal

Date 2017	Creditor	Invoice Number	Stock Control	GST	Creditors Control
Apr. 3	Salon Supplies	4710	1 650	165	1 815
5	Westco	1230	850	85	935
12	Healthtabs	A265	1 400	140	1 540
14	MM Health	1741	2 650	265	2 915
18	Westco	1259	1 200	120	1 320
22	PharmaC	BG45	560	56	616
30	Total		\$8 310	\$831	\$9 141

Cash Payments Journal

Date 2017	Details	Chq. No.	Bank	Disc. Rev.	Creditors Control	Wages	Sundries	GST
Apr. 1	Wages	145	8 000			8 000		
8	PharmaC	146	4 100	300	4 400			
12	Westco	147	1 800		1 800			
15	Wages	148	8 000			8 000		
18	Drawings	149	2 000				2 000	
30	Total		\$23 900	\$300	\$6 200	\$16 000	\$2 000	

At 30 April the following two documents had not been recorded.

WESTCO	Credit Note No. 711
Nelson Cr	26 April 2017
Perth	
To: <u>Best Chemist</u>	
For: Return of damaged goods	\$310
	GST <u>\$31</u>
	Total \$341

PJ Cabinets	Invoice No. 2568
Martin Street	
Melbourne	28/4/17
<u>Supplied to Best Chemist</u>	
Display cabinets	\$4 750
Installation	<u>\$400</u>
	\$5 150
	plus GST \$515
Invoice Total	\$5 665

- a. Record the two documents in the General Journal provided.
Narrations are **not** required. 4 marks
- b. Show how Westco's account would appear in the Creditors Subsidiary Ledger after all journals have been posted.
You are required to balance the account. 4 marks

The owner recently advised her accountant, 'Don't pay the creditors too quickly. They can wait a bit longer than the credit terms. They want our business!'

- c. State **two** ways creditors might respond if the owner's advice were followed. 2 marks
- d. Justify why Best Chemist maintains a Subsidiary Ledger for creditors but not for debtors. 3 marks

Question 3 (7 marks)

Matua Mowers sells the Maxi Mowers brand of lawnmowers. The business sells for cash and credit. Documents relating to all transactions for the month of July 2017 are shown below.

Matua Mowers	
Date: 6 July 2017	
Receipt No. 137	✓
Supplied: 14 Maxi Mowers	
For: Cash sales	
Amount: \$4 200	
plus GST: ?	

Matua Mowers	
Date: 9 July 2017	
To: Agly Insurance	
For: Insurance	
This cheque: \$1 430 (GST included)	✓
Cheque No. 988	

Matua Mowers	
Date: 15 July 2017	
Invoice No. 605	✓
Supplied: 9 Maxi Mowers	
Account: Mike's Mowing	
Amount: \$2 700	
plus GST: ?	

Matua Mowers	
Date: 20 July 2017	
Credit Note No. 21	✓
Returned: 1 Maxi Mower	
Account: Mike's Mowing	
Amount: \$300	
plus GST: ?	

Cals Computers	
Date: 22 July 2017	
Invoice No. 445	✓
Supplied: Computer equipment	
Account: Matua Mowers	
Amount: \$5 600	
plus GST: ?	

Victory Mowers	
Date: 23 July 2017	
Invoice No. 121	✓
Supplied: 20 Maxi Mowers	
Account: Matua Mowers	
Amount: \$4 000	
plus GST: ?	

Matua Mowers	
Date: 31 July 2017	
Memo 333	
Accountant – Please pay outstanding GST to the Australian Taxation Office (ATO) at the end of the month.	
Signed: M Matua	

Complete the GST Clearing account for the month of July.

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

Question 4 (3 marks)

The following financial indicators are provided for two separate businesses.

	Business A	Business B
Return on Assets	24%	24%
Return on Owner's Investment	28%	42%

Explain how the Return on Assets can be identical for each business yet the Return on Owner's Investment is significantly different.

Question 5 (22 marks)

CLU Lipsticks is a small business that sells quality lipsticks. Reports are prepared annually on 30 June. The accountant has provided the following extract from a Pre-adjustment Trial Balance as at 30 June 2017.

CLU Lipsticks
Pre-adjustment Trial Balance (extract) as at 30 June 2017

Account	Debit	Credit
Accumulated Depreciation – Vehicle		5 634
Advertising	3 900	
Bank Term Deposit (matures 30 June 2020)	12 000	
Cash at Bank	18 400	
Cost of Goods Sold	78 000	
Debtors Control	14 620	
Discount Expense	980	
Drawings	45 000	
GST Clearing		6 930
Interest Expense	1 700	
Loan – BLD Bank		24 000
Prepaid Rent Expense	3 900	
Sales		171 600
Stock Control	22 400	
Vehicle	44 134	
Wages	41 800	

Additional information at 30 June

- The vehicle is depreciated at a rate of 25% p.a. using the reducing balance method. The vehicle has a useful life of four years and an expected residual value of \$4 000.
- Interest on the Bank Term Deposit is 6% p.a. and is received annually. The term deposit was established on 1 October 2016.
- Rent is paid in advance and is paid twice a year on 1 February and 1 August. Rent is \$300 per month (plus GST).
- CLU Lipsticks was advised that debtor Chillo Cosmetics is bankrupt and CLU Lipsticks will receive only 20 cents in the dollar of the \$890 owed. The cash is expected to be received in August 2017.
- A payment for Wages of \$280 was incorrectly recorded as a payment for Drawings.
- The owner donated \$160 of stock to the local kindergarten for its annual fundraiser. The owner had not recognised this entry when conducting the stocktake.
- The stocktake showed \$21 860 of stock on hand.

- a. Explain the purpose of preparing a Pre-adjustment Trial Balance. 2 marks
- b. Record the additional information in the General Journal provided.
Narrations are **not** required. 14 marks
- c. It can be argued that the inclusion of depreciation in the Income Statement breaches a qualitative characteristic. It can also be argued that the inclusion of depreciation in the Income Statement is supported by another qualitative characteristic and an accounting principle.
Discuss. 6 marks

Question 6 (9 marks)

Puddles Pizza purchased a gas-operated pizza oven for the business on 1 August 2016 for \$7 500 (plus GST). The installation cost was a further \$1 500 (plus GST). The business reports annually on 30 June. The pizza oven is depreciated using the straight line method. The life of the pizza oven is estimated at five years. The accountant advised the owner to include a zero residual value.

On 31 August 2017 the business sold the pizza oven for \$5 400 cash.

- a. Complete the Disposal of Pizza Oven account in the General Ledger. 4 marks

- b. Explain why a difference occurred between the sale price and the carrying value on 31 August 2017. 3 marks

- c. Explain why a zero residual value for the pizza oven would be appropriate. 2 marks

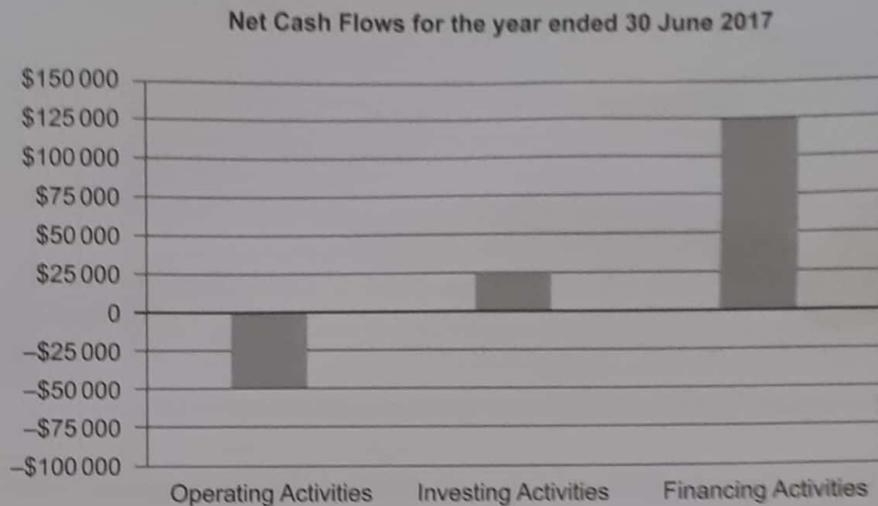
Question 7 (12 marks)

D&B Traders has been experiencing difficult trading conditions over the last two years. The business has reported successive losses and the bank ledger account at 1 July 2016 showed a credit balance of \$46 000.

From 1 July 2016, the business began offering credit to customers, resulting in increased sales and a small profit.

During the year ended 30 June 2017, the owner contributed a further \$60 000 cash and did not take any drawings for the year. The owner believes the cash position has improved and that the business is now operating satisfactorily.

The following graph shows Net Cash Flows for the year ended 30 June 2017.



- a. Calculate the:
- i. net increase/decrease in cash position for the year ended 30 June 2017 1 mark
 - ii. Cash at Bank ledger balance at 30 June 2017. 1 mark
- b. Using the information and data provided above, discuss the owner's belief that the business is now operating satisfactorily. 6 marks
- c. Justify **two** strategies the business could consider to improve its liquidity. 4 marks

Question 8 (15 marks)

Tippy Toys is a new business that will commence trading in July 2018. Sales will be on a cash basis while stock purchases will be on credit. Credit terms are 5/14, n/30.

The owner has provided the following estimates for the six months ending 31 December 2018:

- Sales (all excluding GST) are expected to be \$25 000 per month from July to October, then \$45 000 in November and \$65 000 in December.
- The business will use a mark-up of 100% on cost.
- Stock purchases are budgeted to be \$130 000 (plus GST).
- Creditors are to be paid promptly and the discount will always be taken. The Creditors Control balance at 31 December 2018 is estimated to be \$15 000.
- Wages expense is expected to be \$7 000 per month, payable fortnightly. An accrual of \$144 will be required for wages on 31 December 2018.
- Advertising of \$2 000 (plus GST) will be paid in July 2018. A further \$9 000 (plus GST) will be paid in November for a three-month advertising campaign commencing 1 December 2018.
- Insurance for the first year will be \$8 400 (plus GST), to be paid on 1 July 2018.
- Shop rent is \$2 000 (plus GST) per month, payable four months in advance, with payments due on the first day of July, November and March each year.
- Shop fittings costing \$45 000 (plus GST) will be purchased on credit (Inv. Z243) and ready for use by 1 October 2018. The shop fittings are expected to have a useful life of five years and a residual value of \$15 000. The shop fittings will be depreciated using the straight line method.

- a. Calculate the estimated Discount Revenue for the six months ending 31 December 2018. 1 mark
- b. Prepare the Budgeted Income Statement for the six months ending 31 December 2018. 8 marks

At 31 December 2018, the Bank account and the GST Clearing account in the General Ledger will both have credit balances.

- c. Prepare the Current Assets section of the Budgeted Balance Sheet as at 31 December 2018. 4 marks
- d. Explain how budgeting improves control within a business. 2 marks