



Victorian Certificate of Education 2005

ACCOUNTING

Written examination 1

Monday 6 June 2005

Reading time: 2.45 pm to 3.00 pm (15 minutes)

Writing time: 3.00 pm to 4.30 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 8 pages.
- Answer book of 11 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

Mark's Motorbike City

Mark Munro commences a business called Mark's Motorbike City on 1 January 2005. The business will sell new motorbikes and will operate on a cash and credit basis.

Mark plans to buy all his stock on 30 day credit terms. The business will use the perpetual inventory system and all stock movements will be recorded using the FIFO (First In First Out) method of cost assignment.

1.1 On 1 January 2005, Mark provides his accountant with the following list of assets that he has contributed to the business.

	\$
Cash	40 000
Computer Equipment	4 000 (cost – 15 March 2004)
Motorbike	16 000 (cost – 31 December 2004)

Mark and his accountant determine that the Computer Equipment has a fair value of \$2 500.

The motorbike is a classic model and is to be used for display purposes only. It will be registered in the business name and recorded as a Display Motorbike.

Mark also has \$8 000 in a personal bank account.

Required

1.1.1 Complete the opening journal entries required to establish the new double entry recording system at 1 January 2005.

(A narration is **not** required in the General Journal.)

3 + 1 = 4 marks

1.1.2 Identify one accounting principle that supports your treatment of Mark's personal bank account. **Justify** your answer.

1 + 1 = 2 marks

1.1.3 Identify one qualitative characteristic that supports the value at which you recorded the computer. **Explain** your answer.

1 + 2 = 3 marks

1.2 During January 2005, the following information was provided.

Sales Information

- 14 January – sold 8 units of TriStar on credit (Invoice Nos 1–8)
- 23 January – sold 4 units of TriStar on credit (Invoice Nos 9–12)
- 26 January – sold 2 units of TriStar for cash (Receipt Nos 2–3)

Note: The selling price of the TriStar model is \$4 000 per unit.

Purchases Information

HUNDA BIKES	
ABN 64 218 846 124	
	Tax Invoice 478
	Date 10/01/05
Charge to: Mark's Motorbike City	
Item: Model – TriStar (10 units @ \$2 500 each)	
Amount	\$ 25 000
Total	\$ 25 000
Terms 2/14, n/30	

HUNDA BIKES	
ABN 64 218 846 124	
	Tax Invoice 595
	Date 21/01/05
Charge to: Mark's Motorbike City	
Item: Model – TriStar (15 units @ \$2 800 each)	
Amount	\$ 42 000
Total	\$ 42 000
Terms 2/14, n/30	

YAMOTA BIKES	
ABN 28 964 815 346	
	Tax Invoice 17157
	Date 24/01/05
Charge to: Mark's Motorbike City	
Item: Model – Racer	
Amount (5 units @ \$2 000 each)	\$ 10 000
Total	\$ 10 000
Terms n/30	

The information on page 3 has been entered in the journals below.

Sales Journal

SJ1

Date 2005	Debtor	Post Ref.	Inv. No.	Cost of Sales	Sales
31 January	Totals			30 600	48 000

Cash Receipts Journal

CRJ1

Date 2005	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	Sundries
31 January	Totals			73 520	480	26 000	5 600	8 000	40 000

Purchases Journal

PJ1

Date 2005	Creditor	Post Ref.	Inv. No.	Amount \$
31 January	Totals			77 000

Stocktake details

A stocktake on 31 January 2005 revealed stock on hand of \$38 000 (memo 23) comprising

- 10 units of TriStar model
- 5 units of Racer model.

Required

1.2.1 Complete the Stock Card for the TriStar model for January 2005.

6 marks

1.2.2 Prepare the General Journal entry required to record any stock loss or stock gain.

(A narration is **not** required.)

2 marks

1.2.3 Apart from identifying stock losses or gains, **state** two benefits of using a Stock Card.

2 marks

1.2.4 Explain why the stock on hand of \$38 000 at 31 January 2005 should not be treated as an expense for January.

2 marks

1.2.5 Show how the

- Debtors ledger account
- Stock ledger account

would appear after the information from 1.2 above has been recorded. Balance each account and show appropriate posting references.

8 + 1 + 1 = 10 marks

1.2.6 State what is meant by the terms '2/14' and 'n/30' as shown on the invoices on page 3.

1 mark

1.3 After all transactions for the first 6 months were recorded, a Trial Balance was prepared at 30 June 2005.

**MARK'S MOTORBIKE CITY
TRIAL BALANCE AS AT 30 JUNE 2005**

ACCOUNT NUMBER	ACCOUNT	DR \$	CR \$
101	Bank	19 300	
102	Debtors	41 200	
103	Stock	81 000	
104	Prepaid Rent	8 400	
151	Display Motorbike	16 000	
153	Computer Equipment	2 500	
201	Creditors		67 300
251	Loan (due 30 June 2008)		20 000
301	Capital		58 500
302	Drawings	12 000	
401	Sales		280 000
402	Discount Revenue		200
501	Cost of Sales	191 000	
502	Administration Expenses	7 000	
503	Advertising	6 200	
504	Discount Expense	2 600	
505	Stock Loss	2 800	
506	Wages	36 000	
	TOTALS	426 000	426 000

The following items require adjusting entries to be made.

- (i) A stocktake at 30 June 2005 revealed \$81 000 worth of stock on hand.
- (ii) Depreciation of Display Motorbike and the Computer Equipment are to be calculated at 20% p.a. on cost.
- (iii) Rent is \$1 200 per month, paid in advance.
- (iv) The wages expense is \$1 500 per five day working week. At 30 June 2005 three days wages are owing.
- (v) Mark withdrew \$500 during May for personal use. This payment was incorrectly posted to the Administration Expenses account.

Required

1.3.1 **Enter** each adjustment into the worksheet provided.

1 + 1 + 2 + 2 + 1 = 7 marks

1.3.2 **Explain** the purpose of preparing balance day adjustments.

2 marks

1.3.3 **Explain** why discount received from Creditors is treated as a revenue item in the Statement of Financial Performance.

2 marks

1.3.4 **Prepare** the General Journal entry required to close the Revenue accounts at 30 June 2005.

(A narration is **not** required.)

2 marks

Total 45 marks

TURN OVER

Question 2

Port's Book Supplies

Annette Port owns and operates Port's Book Supplies, a small business selling books to students, schools and universities. The business operates mainly on a cash basis but offers 14 day credit terms to larger customers.

Port's Book Supplies buys stock on 30 day credit terms. The business uses the perpetual inventory system and all stock movements are recorded using the FIFO (First In First Out) method of cost assignment.

2.1 At 30 June 2005, Annette provides you with the following details of Non-Current Assets.

Account Number	Account	\$
151	Fixtures and Fittings	12 000
151A	Accumulated Depreciation – Fixtures and Fittings	500
152	Delivery Vehicle	30 000
152A	Accumulated Depreciation – Delivery Vehicle	6 000
153	Computer Equipment	3 000
153A	Accumulated Depreciation – Computer Equipment	2 000
154	Buildings	200 000
154A	Accumulated Depreciation – Buildings	20 000

- Depreciation for both the Computer Equipment and the Buildings has been calculated and recorded for the year ended 30 June 2005.

Other depreciation details are as follows.

- The Fixtures and Fittings were purchased on 1 January 2004 for \$12 000. They are expected to have a useful working life of 10 years and a residual value of \$2 000. The Fixtures and Fittings are depreciated using the straight line method.
- The Delivery Vehicle was purchased on 1 July 2003 for \$30 000. It is expected to have a useful working life of 5 years and a residual value of \$10 000. Depreciation is 20% p.a. based on the reducing balance method.

Required

2.1.1 **Calculate** the depreciation expense for Fixtures and Fittings for the year ended 30 June 2005.

1 mark

2.1.2 **Explain** why the straight line method of depreciation may be an appropriate method of depreciation for Fixtures and Fittings, but not for the Delivery Vehicle.

2 marks

2.1.3 **Calculate** the depreciation expense for the Delivery Vehicle for the year ended 30 June 2005.

2 marks

2.1.4 **Show** the effect on the amount of depreciation expense reported for the years ended 30 June 2004 and 30 June 2005 if the straight line method of depreciation had been used for the Delivery Vehicle instead of the reducing balance method.

2 marks

- 2.2 The Buildings were independently valued at \$340 000 on 30 June 2005. Annette's accountant issues Memo No. 28, recommending that the independent valuation of 30 June 2005 be accepted.

Required

- 2.2.1 **Prepare** the General Journal entries required to record the new valuation of the Buildings.
(A narration is required.)

4 marks

- 2.2.2 **Show** the effect of the revaluation on the Statement of Financial Position.

3 marks

- 2.3 The Computer Equipment will be shown in the Statement of Financial Position as at 30 June 2005 as follows.

Non-Current Asset	\$	\$
Computer Equipment (at cost)	3 000	
Less Accumulated Depreciation – Computer Equipment	<u>2 000</u>	1 000

Required

- 2.3.1 **Identify** an accounting principle that supports the Computer Equipment being recorded at \$3 000. **Justify** your answer.

1 + 1 = 2 marks

- 2.3.2 **Explain** what the \$1 000 represents.

2 marks

- 2.4 At 1 July 2005, the computer equipment was sold privately to an employee. A new computer was purchased from Computer Works (costing \$5 000). The sale and purchase details are as follows.

	\$
Proceeds from sale of existing computer (Receipt 42)	300
Cash deposit paid on purchase (Cheque 237)	1 000
Amount owing – Computer Works (Invoice 96)	<u>4 000</u>

Required

Prepare the journal entries required to record

- the disposal of the existing computer
- the purchase of the new computer.

(Narrations are **not** required.)

6 + 1 + 1 = 8 marks

- 2.5** During 2006, Annette became increasingly concerned about the business's cash position. The profit reported for the year to 30 June 2006 was \$85 000, yet the bank balance fell by \$60 000 during the year. The accountant has prepared the following summary of cash transactions for the year ended 30 June 2006.

Cash Receipts		Cash Payments	
	\$		\$
Cash Sales	240 800	Vehicle Expenses	3 200
Interest	600	Creditors	160 000
Capital	14 000	Drawings	9 200
Proceeds: Disposal of computer	300	Wages	105 000
Debtors	31 200	Advertising	9 600
	<u>286 900</u>	Computer Equipment (deposit)	1 000
		Administration Expenses	12 300
		Accrued Wages	1 400
		Prepaid Insurance	1 200
		Loan Repayments	44 000
			<u>346 900</u>

Note: The bank account balance at 30 June 2006 was \$29 000 credit.

Required

- 2.5.1** Prepare a classified Statement of Cash Flows for the year ended 30 June 2006.

7 marks

- 2.5.2** State what is meant by the term 'Investing Activities' in the Statement of Cash Flows. Give one example of an Investing Activity inflow.

1 + 1 = 2 marks

- 2.5.3** Explain, giving two examples from the Statement of Cash Flows, how the business can record a Net Profit of \$85 000, yet, at the same time, have the bank balance fall by \$60 000.

2 + 1 + 1 = 4 marks

- 2.6** At 30 June 2006, wages owing to employees was \$1 000.

Required

- 2.6.1** Calculate the amount of Wages Expense for the year ended 30 June 2006.

2 marks

The next date for payment of wages is 5 July 2006 when a total of \$2 200 will be paid.

Required

- 2.6.2** Show how the payment of wages of \$2 200 (Cheque 446) on 5 July 2006 would be recorded in the Cash Payments Journal.

2 marks

- 2.7** Annette's accountant was unsure as to whether to recognise revenue under Point of Sale or Point of Cash Transfer.

Required

- State two factors which the accountant should have considered when making this decision.

1 + 1 = 2 marks

Total 45 marks

END OF QUESTION BOOK





**Victorian Certificate of Education
2005**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

Figures													Letter
Words													

ACCOUNTING
Written examination 1

Monday 6 June 2005

Reading time: 2.45 pm to 3.00 pm (15 minutes)

Writing time: 3.00 pm to 4.30 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 – Mark’s Motorbike City

1.1.1

GENERAL JOURNAL**GJ1**

Date 2005	Particulars	Post Ref.	Debit \$	Credit \$

Cash Receipts Journal**CRJ1**

Date 2005	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	Sundries

3 + 1 = 4 marks

1.1.2

Principle
Justification

1 + 1 = 2 marks

1.1.3

Characteristic
Explanation

1 + 2 = 3 marks

1.2.1

Stock Card

Model: TriStar

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$

6 marks

1.2.2

GENERAL JOURNAL

GJ1

Date 2005	Particulars	Post Ref.	Debit \$	Credit \$

2 marks

1.2.3

First Benefit
Second Benefit

2 marks

1.2.4

Explanation

2 marks

1.2.5

102

DEBTORS

Date 2005	Cross Reference	Post Ref.	\$	Date 2005	Cross Reference	Post Ref.	\$

103

STOCK

Date 2005	Cross Reference	Post Ref.	\$	Date 2005	Cross Reference	Post Ref.	\$

8 + 1 + 1 = 10 marks

1.2.6

2/14
n/30

1 mark

1.3.1

MARK'S MOTORBIKE CITY
WORKSHEET (extract) AS AT 30 JUNE 2005

ACCOUNT NUMBER	ACCOUNT	Trial Balance		Adjustments	
		DR \$	CR \$	DR \$	CR \$
101	Bank	19 300			
102	Debtors	41 200			
103	Stock	81 000			
104	Prepaid Rent	8 400			
151	Display Motorbike	16 000			
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505	Stock Loss	2 800			
506	Wages	36 000			
	TOTALS	426 000	426 000		

1 + 1 + 2 + 2 + 1 = 7 marks

Question 1 – continued

1.3.2

Explanation

2 marks

1.3.3

Explanation

2 marks

1.3.4

GENERAL JOURNAL

GJ2

Date 2005	Particulars	Post Ref.	Debit \$	Credit \$

2 marks

Total 45 marks

TURN OVER

Question 2 – Port’s Book Supplies

2.1.1 Calculation – Fixtures and Fittings

Depreciation Amount	\$
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1 mark

2.1.2

Explanation

2 marks

2.1.3 Calculation – Delivery Vehicle

Depreciation Amount	\$
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2 marks

2.1.4

Item	Increase/ Decrease	Amount \$
Depreciation Expense – 2004		
Depreciation Expense – 2005		

2 marks

2.2.1

GENERAL JOURNAL

GJ7

Date 2005	Particulars	Post Ref.	Debit \$	Credit \$

4 marks

2.2.2

Item	Increase/ Decrease/No Change	Amount \$
Assets		
Liabilities		
Owner's Equity		

3 marks

2.3.1

Principle
Justification

1 + 1 = 2 marks

2.3.2

Explanation

2 marks

2.4

GENERAL JOURNAL

GJ6

Date 2005	Particulars	Post Ref.	Debit \$	Credit \$

Cash Receipts Journal

CRJ1

Date 2005	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	Sundries

Cash Payments Journal

CPJ3

Date 2005	Details	Post Ref.	Chq. No.	Bank	Disc. Rev.	Creditors	Stock	Wages	Sundries

6 + 1 + 1 = 8 marks

2.5.1

PORT'S BOOK SUPPLIES
STATEMENT OF CASH FLOWS FOR YEAR ENDED 30 JUNE 2006

	\$	\$
Cash Flow from Operating Activities		
NET CASH FROM OPERATING ACTIVITIES		
Cash Flow from Investing Activities		
NET CASH FROM INVESTING ACTIVITIES		
Cash Flow from Financing Activities		
NET CASH FROM FINANCING ACTIVITIES		
NET INCREASE/(DECREASE) IN CASH		
Cash at Bank (1/07/2005)		
Cash at Bank (30/06/2006)		

7 marks

Question 2 – continued

2.5.2

Meaning
Example

1 + 1 = 2 marks

2.5.3

Explanation
First Example
Second Example

2 + 1 + 1 = 4 marks

2.6.1 Calculation of Wages Expense

	Amount	\$
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2 marks

2.6.2 Cash Payments Journal

CPJ6

Date 2006	Details	Post Ref.	Chq. No.	Bank	Disc. Rev.	Creditors	Stock	Wages	Sundries

2 marks

2.7

First Factor
Second Factor

1 + 1 = 2 marks

Total 45 marks

END OF ANSWER BOOK