



Victorian Certificate of Education 2004

ACCOUNTING

Written examination 1

Monday 7 June 2004

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 11 pages.
- Answer book of 12 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**Ruby's Rugs**

Ruby Whelan owns and operates Ruby's Rugs, a small business selling both local and imported floor rugs. Ruby sells her rugs for cash and also offers 30 day credit terms to reliable customers.

Ruby buys her stock both on cash and 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.

1.1 At 30 June 2004 Ruby provides you with her journals for the month.

Cash Receipts Journal

CRJ9

Date 2004	Details	Post Ref.	Rec. No.	Bank	Discount Expense	Debtors	Sales		Sundries*
							Cost Price	Sales Price	
30 June	Totals			44 300	700	25 000	12 000	20 000	-

Cash Payments Journal

CPJ11

Date 2004	Details	Post Ref.	Chq. No.	Bank	Discount Revenue	Creditors	Stock	Drawings	Wages	Sundries*
30 June	Totals			37 700	1 300	27 000	4 000	4 000	3 000	1 000

* Sundries comprise the following items.

\$

- Freight In 300 (paid 11 June)
- Advertising 500 (paid 16 June)
- Interest on Loan 200 (paid 30 June)

Sales Journal

SJ8

Date 2004	Debtors	Post Ref.	Invoice No.	Sales	
				Cost Price	Selling Price
30 June	Totals			20 000	39 000

Purchases Journal

PJ9

Date 2004	Creditors	Post Ref.	Invoice No.	Amount \$
30 June	Totals			30 000

General Journal

GJ3

Date 2004	Particulars	Post Ref.	Debit \$	Credit \$
7 June	Drawings	302	500	
	Stock	103		500
	<i>Withdrew 1 rug for own use (Memo 22)</i>			
24 June	Advertising	502	2 000	
	Stock	103		2 000
	<i>Adjustment: 4 rugs used for display purposes (Memo 23)</i>			

Required

- 1.1.1 Post** the above journals to the General Ledger accounts provided.
(Posting references **are** required.)
(You are **not** required to balance the accounts.)

9 marks

- 1.1.2 State** one benefit of using Posting References in the recording process.

1 mark

The following memo, from the accountant, relates to the General Journal entry on 24 June 2004.

<p>Ruby's Rugs</p> <p>Dear Ruby</p> <p><i>The 4 rugs that you took from stock, for display purposes, should be recorded as an advertising expense. My inspection indicates that the rugs are worn out and we will not be able to sell them. I have made a General Journal entry about these 4 rugs.</i></p> <p>Bob</p>	<p>Memo: No. 23</p> <p>From: Bob Smith</p> <p>24/06/2004</p>
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Required

- 1.1.3 Explain**, with reference to the definition of an expense, why the stock referred to in Memo 23 should be treated as an expense.

2 marks

- 1.2** The following journals provide summaries of all cash transactions for July 2004.

Cash Receipts Journal

CRJ10

Date 2004	Details	Post Ref.	Rec. No.	Bank	Discount Expense	Debtors	Sales		Sundries*
							Cost Price	Sales Price	
31 July	Totals			76 000	1 000	35 000	13 000	22 000	20 000

* Sundries comprise the following items.

- | | |
|-----------------------------------|--------|
| | \$ |
| • Loan – BCA Bank | 10 000 |
| • Proceeds from Sale of Equipment | 6 000 |
| • Capital | 4 000 |

Cash Payments Journal

CPJ12

Date 2004	Details	Post Ref.	Chq. No.	Bank	Discount Revenue	Creditors	Stock	Drawings	Wages	Sundries*
31 July	Totals			85 700	1 300	37 000	4 000	7 000	3 000	36 000

* Sundries include the following items.

- | | |
|---------------------|---|
| | \$ |
| • Equipment | 30 000 |
| • Prepaid Insurance | 6 000 (12 month policy beginning 1 July 2004) |

The bank balance at 31 July 2004 was \$10 500 (overdraft). The business has negotiated an overdraft limit of \$12 000.

Required

1.2.1 Prepare a classified Statement of Cash Flows for July.

7 marks

1.2.2 State why the owner had to contribute additional capital of \$4 000 during July.

1 mark

1.2.3 The business reported a profit of \$11 000 for July. **Explain**, giving two examples from the above information, how a business can report a net profit despite a significant fall in cash during the same period.

1 + 1 + 2 = 4 marks

The new equipment, purchased on 1 July 2004, had an estimated useful life of five years and estimated residual (scrap) value of \$7 000. The accountant was unsure about which method of depreciation should be used. It was finally decided to depreciate the equipment using the Straight Line method.

Required

1.2.4 Calculate the depreciation expense for the year ended 30 June 2005.

1 mark

1.2.5 Prepare the General Journal entry at 30 June 2005 to record the depreciation expense for the year.

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

2 marks

1.2.6 If the business used the Reducing Balance method of depreciation, at 25% per annum, instead of the Straight Line method, **state** the effect on profit for the year ended 30 June 2005.

2 marks

1.2.7 The owner stated 'we can change to the Reducing Balance method next year if we want to'. **State** the qualitative characteristic that would be breached if this action was taken. **Justify** your answer.

2 marks

1.3 At 30 June 2006, the following items required adjusting entries.

- A three month advertising contract, costing \$1 200, was paid in advance and recorded on 1 May 2006. The contract commenced on 1 June 2006.
- A \$500 payment on 15 May 2006 for electricity expense was incorrectly posted to the telephone expense account.
- Wages owing at 30 June 2006 were \$600.

Required

1.3.1 Record the necessary adjustments in the General Journal at 30 June 2006.

(Narrations are **not** required.)

2 + 2 + 2 = 6 marks

The next date for payment of wages is 12 July 2006 when \$1 500, which includes the wages owing, will be paid.

Required

1.3.2 Show how the wages expense account would appear in the General Ledger after the following entries have been posted.

- adjusting entry on 30 June 2006
- closing entry on 30 June 2006
- the payment on 12 July 2006

3 marks

1.3.3 State the effect on Liabilities at 30 June 2006 if the adjustment to wages was **not** made.

2 marks

1.3.4 State the source document that would be used to verify the \$500 payment for electricity on 15 May 2006.

1 mark

Prepaid Advertising was reported as an asset in the Statement of Financial Position at 30 June 2006.

Required

1.3.5 State two characteristics that should be present before an item is reported as an asset.

2 marks

Total 45 marks

TURN OVER

Question 2**Tinkler Toys**

Matt Habster owns and operates Tinkler Toys. The business sells toys on a cash basis only.

Tinkler Toys purchases its stock from a range of suppliers, all on 60 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.

At 30 June 2004 Matt provides the following account details.

ACCOUNT NUMBER	ACCOUNT	DR. \$	CR. \$
103	Stock	600 000	
104	Stock of Stationery (1/07/03)	2 400	
151	Buildings (cost)	750 000	
151A	Accumulated Depreciation – Buildings (includes depreciation expense for year ended 30 June 2004)		60 000
303	Asset Revaluation Reserve		50 000

Questions 2.1, 2.2 and 2.3 relate to the above accounts.

2.1 A stocktake on 30 June 2004 revealed the following details relating to the stock of Fire Engine: model 4XE.

- Quantity per Stock Card 200 units
- Quantity as per stocktake 205 units
- Unit cost (FIFO) \$80 per unit
- Selling price \$150 per unit

Required

2.1.1 State whether a stock loss or a stock gain has occurred and **calculate** the amount.

1 + 1 = 2 marks

2.1.2 Assuming the stocktake was correct, **identify** one possible reason for the stock loss or stock gain.

1 mark

2.1.3 It was agreed to adjust the Stock account for the stock loss or stock gain (Memo No. 76). **Prepare** the General Journal entry required to record this adjustment.

(A narration is required.)

2 + 1 = 3 marks

2.1.4 Complete the Stock Card for Fire Engine: model 4XE.

2 marks

2.2 Stationery used during the year was \$1 600.

Required

2.2.1 **Calculate** the value of Stock of Stationery on hand at 30 June 2004.

1 mark

2.2.2 **Prepare** the General Journal entry to record the Stationery Expense at 30 June 2004.
(A narration is **not** required.)

2 marks

2.2.3 Included in the Stationery Expense of \$1 600 was \$15 for a stapler that could not be located. **State** the qualitative characteristic that allows the stapler to be treated as a Stationery Expense rather than being reported separately. **Explain** your answer.

1 + 2 = 3 marks

2.3 The buildings were independently valued at \$600 000 during June 2004. The accountant recommends revaluing the buildings at 30 June 2004.

Required

2.3.1 **Prepare** the General Journal entries required to record the new valuation of buildings.
(Narrations are **not** required.)

4 marks

2.3.2 In revaluing the buildings the accountant has used the principle of conservatism rather than relying on the principle of historical cost.

- **State** the basis of each principle.
- **Justify**, with reference to one appropriate qualitative characteristic, the accountant's decision.

1 + 1 + 2 = 4 marks

2.4 The following year an Adjusted Trial Balance was prepared.

TINKLER TOYS
ADJUSTED TRIAL BALANCE AS AT 30 JUNE 2005

ACCOUNT NUMBER	ACCOUNT	DR. \$	CR. \$
101	Petty Cash	500	
102	Bank		140 000
103	Stock	400 000	
104	Stock of Stationery	900	
151	Buildings	600 000	
151A	Accumulated Depreciation – Buildings		15 000
152	Vehicle	12 000	
152A	Accumulated Depreciation – Vehicle		1 000
201	Creditors		60 000
202	Accrued Wages		2 400
203	Loan*		100 000
301	Capital		560 000
302	Drawings	65 000	
401	Sales		1 395 000
402	Discount Revenue		5 000
501	Cost of Sales	800 000	
502	Administration Expenses	40 000	
503	Advertising	60 000	
504	Depreciation of Buildings	15 000	
505	Depreciation of Vehicle	1 000	
506	Freight In	4 000	
507	Interest Expense	7 000	
508	Stationery Expense	2 000	
509	Stock Loss	1 000	
510	Wages	270 000	
	TOTALS	2 278 400	2 278 400

* The loan principal is repayable at \$10 000 per year.

Required

2.4.1 Show how the following accounts would appear in the General Ledger at 30 June 2005 after all closing entries have been posted and owner's equity updated.

- Capital account
- Drawings account
- Profit and Loss Summary account

5 marks

2.4.2 Refer to the Capital account provided in the answer book for **2.4.1**.

- **Describe** the transaction recorded on 1 March 2005.
- **Identify** the accounting principle that requires this transaction to be recorded.

1 + 1 = 2 marks

2.4.3 **Explain**, with reference to one accounting principle, why revenue and expense accounts are closed to the Profit and Loss Summary account.

2 marks

2.4.4 **Prepare** an extract of a classified Statement of Financial Performance to show Gross Profit and Adjusted Gross Profit for the year ended 30 June 2005.

(You are **not** required to prepare a complete Statement of Financial Performance.)

4 marks

2.4.5 **Prepare** the Current Liabilities section of the Statement of Financial Position at 30 June 2005.

3 marks

2.5 Matt decides to offer credit terms to customers from 1 May 2006. The following documents relate to the sale of a motorised scooter to customer John Smith.

TINKLER TOYS	
ABN 46 997 218 347	
	Receipt No. 425
	Date 27/5/2006
Received from:	John Smith
For:	Deposit on GT Motorised Scooter (on order)
Amount	\$ 90

TINKLER TOYS	
ABN 46 997 218 347	
	Invoice No. 65
	Date 26/6/2006
Debit Account:	John Smith
For:	GT Motorised Scooter
Amount	\$ 900
Less deposit paid	<u>\$ 90</u>
Balance due	<u>\$ 810</u>

TINKLER TOYS	
ABN 46 997 218 347	
	Receipt No. 528
	Date 12/7/2006
Received from:	John Smith
For:	Balance owing – Invoice 65
Amount	\$ 810

- The scooter was delivered to the customer on 26 June 2006.
- The cost price of the scooter was \$400.

Tinkler Toys may choose to recognise revenue at either the

- Point of Sale, or
- Point of Cash Transfer.

Required

2.5.1 Determine the revenue that would be recognised under each method at 30 June 2006.

2 marks

The accountant decided to use the Point of Sale as the method of revenue recognition for Tinkler Toys.

Required

2.5.2 Explain why the Point of Sale method of revenue recognition is more appropriate for Tinkler Toys.

2 marks

2.5.3 Show the effect of this transaction on Assets and Owner's Equity, at 30 June 2006, assuming Tinkler Toys uses the Point of Sale as their revenue recognition method.

3 marks

Total 45 marks

END OF QUESTION BOOK



**Victorian Certificate of Education
2004**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

Figures											Letter
Words											

ACCOUNTING
Written examination 1

Monday 7 June 2004

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.

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Question 1 – Ruby’s Rugs**1.1.1****103****STOCK**

Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross Reference	Post Ref.	\$
1 June	Balance		38 000				

104**DEBTORS**

Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross Reference	Post Ref.	\$
1 June	Balance		32 000				

502**ADVERTISING**

Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross Reference	Post Ref.	\$

9 marks

1.1.2

Benefit

1 mark

1.1.3

Explanation

2 marks

1.2.1

RUBY'S RUGS
STATEMENT OF CASH FLOWS FOR MONTH ENDED 31 JULY 2004

	\$	\$
Cash Flow from Operating Activities		
Cash Flow from Investing Activities		
Cash Flow from Financing Activities		
Net increase (decrease) in Cash		
Cash at Bank (1/07/2004)		
Cash at Bank (31/07/2004)		

7 marks

1.2.2

Reason	

1 mark

1.2.3

Example 1
Example 2
Explanation

1 + 1 + 2 = 4 marks

1.2.4

Calculation	
Depreciation Expense for year	\$

1 mark

1.2.5

GENERAL JOURNAL

GJ7

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

2 marks

1.2.6

	Increase/Decrease	Amount \$
Effect on Profit		

2 marks

1.2.7

Qualitative characteristic
Justification

2 marks

1.3.1

GENERAL JOURNAL

GJ10

Date 2006	Particulars	Post Ref.	Debit \$	Credit \$

2 + 2 + 2 = 6 marks

1.3.2

508

WAGES

Date 2006	Cross Reference	Post Ref.	\$	Date 2006	Cross Reference	Post Ref.	\$
30 June	Balance		37 000				

3 marks

1.3.3

	Overstated/Understated	Amount \$
Effect on Liabilities		

2 marks

1.3.4

Source document	
------------------------	--

1 mark

1.3.5

Characteristic 1
Characteristic 2

2 marks

Total 45 marks

Question 2 – Tinkler Toys**2.1.1**

Stock Loss or Gain	
Amount	\$

1 + 1 = 2 marks

2.1.2

Reason

1 mark

2.1.3**GENERAL JOURNAL****GJ4**

Date 2004	Particulars	Post Ref.	Debit \$	Credit \$

2 + 1 = 3 marks

2.1.4**Stock Card****Fire Engine: model no. 4XE**

Date 2004	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
30 June	Balance							200	80	16 000

2 marks

2.2.1

Calculation	
Stock of Stationery on hand	\$

1 mark

2.2.2

GENERAL JOURNAL

GJ5

Date 2004	Particulars	Post Ref.	Debit \$	Credit \$

2 marks

2.2.3

Qualitative characteristic
Explanation

1 + 2 = 3 marks

2.3.1

GENERAL JOURNAL**GJ6**

Date 2004	Particulars	Post Ref.	Debit \$	Credit \$

4 marks

2.3.2

Conservatism principle
Historical Cost principle
Justification

1 + 1 + 2 = 4 marks

2.4.1

GENERAL LEDGER (extract only) of Tinkler Toys

301

CAPITAL

Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross Reference	Post Ref.	\$
				1 July	Balance		548 000
				2005 1 March	Vehicle	GJ 8	12 000

302

DRAWINGS

Date 2004	Cross Reference	Post Ref.	\$	Date 2004	Cross Reference	Post Ref.	\$
1 July – 30 June 2005	Bank	CPJ	65 000				

304

PROFIT AND LOSS SUMMARY

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

5 marks

2.4.2

Description
Principle

1 + 1 = 2 marks

2.4.3

Explanation

2 marks

2.4.4

TINKLER TOYS
STATEMENT OF FINANCIAL PERFORMANCE (extract only)
FOR YEAR ENDED 30 JUNE 2005

	\$	\$
Revenue		
Adjusted Gross Profit		

4 marks

2.4.5

TINKLER TOYS
STATEMENT OF FINANCIAL POSITION (extract only)
AS AT 30 JUNE 2005

	\$	\$
Current Liabilities		

3 marks

2.5.1

Revenue recognised at 30 June 2006	\$
Point of Sale	
Point of Cash Transfer	

2 marks

2.5.2

Explanation

2 marks

2.5.3

	Assets			Owner's Equity	
Account	Increase/Decrease	\$	Account	Increase/Decrease	\$
Bank			Capital		
Debtor					
Stock					
Overall					

3 marks

Total 45 marks

END OF ANSWER BOOK