



Victorian Certificate of Education 2010

ACCOUNTING

Written examination 2

Thursday 4 November 2010

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

Writing time: 12.00 noon to 1.30 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 and 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 13 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 unauthorised electronic devices into the examination room.

Question 1

Greenfinger Nursery

Clive Hanson owns and operates a small business, Greenfinger Nursery, that specialises in the sale of drought-resistant plants and garden accessories. The business uses the double entry accounting system based on the accrual method of accounting. Other features of Greenfinger Nursery's accounting system are as follows.

- The business uses control accounts and subsidiary records for Debtors, Creditors and Stock.
- The perpetual method of stock recording and the FIFO cost assignment method are used.

1.1 On 31 December 2010 the nursery's computer system was reported in the Balance Sheet as follows.

Greenfinger Nursery

Balance Sheet (extract) at 31 December 2010

Non-Current Assets	\$	\$
Computer System	30 000	
Less Accumulated Depreciation – Computer System	<u>16 000</u>	14 000

On 1 January 2011, part of the computer system that had originally been purchased by Greenfinger Nursery for \$5 000 plus \$500 GST on 1 July 2009 was sold. A cheque for \$2 000 was received in full payment for this transaction.

On 1 April 2011 a new computer was purchased for \$4 000 plus \$400 GST. The business paid \$500 deposit with the balance owing to the supplier – Business Computing.

The Computer System is depreciated at 30% per annum on cost.

Required

1.1.1 Calculate the Accumulated Depreciation on the part of the Computer System sold on 1 January 2011.

1 mark

1.1.2 Calculate the Depreciation Expense for the Computer System for the year ended 31 December 2011.

2 marks

1.1.3 Show how the

- Computer System
- Accumulated Depreciation – Computer System
- Disposal of Computer System

accounts will appear in the General Ledger after all entries have been posted.

(You are **not** required to balance the accounts.)

2 + 2 + 3 = 7 marks

1.1.4 Explain why a profit or loss on disposal of a non-current asset occurs.

2 marks

1.1.5 State the effect of depreciation on the

- Cash Flow Statement
- Balance Sheet.

3 marks

1.2 Greenfinger Nursery owns the office building next door to the nursery. The building is rented to a law firm. Payment is made on a monthly basis, in advance, on the last day of each month. The first payment, for July's rent, was made on 30 June 2010. The monthly rent is \$5 000 plus \$500 GST.

Required

1.2.1 Record the Cash Receipts Journal entry for the rent payment received on 31 December 2010.
(Receipt No. 67)

1 mark

1.2.2 Prepare the General Journal entry to record the necessary balance day adjustment for Rent Revenue at 31 December 2010.
(Narration is **not** required.)

2 marks

Towards the end of 2011 the law firm was behind in paying the rent. At 31 December 2011 the payments of rent due on 30 November and 31 December had not been received.

Required

1.2.3 Show how the Rent Revenue account in the General Ledger would appear after completion of the necessary balance day adjustments and closing entries at 31 December 2011.

3 marks

1.2.4 Identify and explain the accounting principle that best supports the reason for preparing balance day adjustments.

1 + 2 = 3 marks

1.3 At 31 December 2011 the accountant of Greenfinger Nursery provided Clive with the following information about the profitability and efficiency of the nursery.

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Return on Assets (ROA)	14%	15%	17%
Asset Turnover (times per period)	1.5	1.3	1.2

Required

1.3.1 Explain the difference between the concepts of 'Profit' and 'Profitability'.

2 marks

1.3.2 Explain how the Return on Assets can increase while the Asset Turnover can decrease.

2 marks

The accountant reported that the Return on Owner's Investment was 12% for the year ended 31 December 2011.

1.3.3 State two benchmarks, other than trend analysis, that could be used when evaluating whether this return is satisfactory or not.

1 + 1 = 2 marks

1.4 At 1 December 2011 the balance of stock held of the 'English Red Rose' was recorded as follows.

Date	Item	Units on Hand	Unit Value (\$)
1 December 2011	English Red Rose (purchased Oct. 2011)	20	12
	English Red Rose (purchased Nov. 2011)	80	15

During December 2011 the following transactions occurred in relation to this stock item.

Document A

GREENFINGER NURSERY			
ABN 78 635 832 708			
		Tax Invoice	GN 456
		Date	12 Dec. 2011
Charge to:	Rolling Hills Golf Club		
For:	50 units of English Red Rose at \$25 each (plus \$2.50 GST)		
Invoice Price:	\$1 250		
Plus GST (10%)	<u>\$ 125</u>		
	<u>\$1 375</u>		
Terms	2/14, n/30		

Document B

GREENFINGER NURSERY			
ABN 78 635 832 708			
		Credit Note	C/N 9
		Date	18 Dec. 2011
Credit:	Rolling Hills Golf Club		
For:	Returning 10 units of diseased English Red Rose		
Invoice Price:	\$250		
Plus GST (10%)	<u>\$ 25</u>		
	<u>\$275</u>		

Document C

WHOLE PLANT WHOLESALERS			
ABN 22 476 217 890			
		Credit Note	X 18
		Date	23 Dec. 2011
Credit:	Greenfinger Nursery		
For:	10 units of diseased English Red Rose (from November purchase)		
Invoice Price:	\$150		
Plus GST (10%)	<u>\$ 15</u>		
	<u>\$165</u>		

Document D

Greenfinger Nursery	
Memo:	14
Date:	31 December 2011
Instruction:	Stocktake revealed 48 units of English Red Rose on hand.
Signed:	

Required

1.4.1 Record the above four documents in the Stock Card for English Red Rose.

4 marks

Upon further inspection of the 48 units on hand at 31 December, it was determined that these units were also diseased but were unable to be returned to the supplier. A special spray will be applied (at a cost of \$1 per unit) that will allow the units to be sold for \$10 each.

1.4.2 Record any necessary stock write-down in the Stock Card (Memo 15).

2 marks

1.4.3 Prepare the General Journal entry to record any stock write-down at 31 December 2011.

(Narration is **not** required.)

2 marks

1.4.4 Explain the method used for valuing closing stock.

2 marks

1.5 On 27 December 2012 a new batch of 1 000 English Red Roses was purchased. Details of the purchase are as follows.

Supplier's invoice price (per unit)	\$20 plus GST \$2.00
Transport and Insurance costs	\$200 plus GST \$20.00
Spray against disease (per unit approximately)	\$1 plus GST \$0.10

The accountant decided to treat the Transport and Insurance and Spray costs as product costs rather than period costs.

Required

1.5.1 Calculate the cost at which each unit will be included in the Stock Card at 27 December 2012.

1 mark

1.5.2 If half of these roses have been sold by 31 December 2012, **explain** the effect on profit for the year ending 31 December if the Transport and Insurance and Spray costs were treated as

- Period Costs
- Product Costs.

2 + 2 = 4 marks

Total 45 marks

TURN OVER

Question 2

Total Towels

Petra Kelly owns and operates a small business, Total Towels, that sells a range of bath, beach and kitchen towels and similar products. The business uses the double entry accounting system based on the accrual method of accounting. Other features of Total Towels' accounting system are as follows.

- The business uses control accounts and subsidiary records for Debtors, Creditors and Stock.
- The perpetual method of stock recording and the FIFO cost assignment method are used.
- Total Towels uses a 12-month reporting period ending 31 December.

For the purposes of Question 2.1, you are not required to consider GST.

2.1 In December 2010 Petra begins planning for 2011. Her accountant asks her to provide an estimate of sales for the following year. These are as follows.

	\$
• Cash Sales	135 000
• Credit Sales	55 000

Based on these figures, the accountant provided the following estimates.

Relevant Account Balances	1 January 2011 (actual)	31 December 2011 (expected)
Cash at Bank	\$ 3 000	not provided
Prepaid Advertising	\$ 1 000	\$ 2 500
Creditors Control	\$ 6 000	\$ 4 000
Stock on Hand	\$23 000	\$29 000
Accrued Wages	nil	\$ 2 400
Debtors Control	\$ 8 500	\$ 4 200
Loan – ABC Bank	\$21 000	\$23 000

Additional information (expected during 2011)

- Payments to Creditors \$60 000
- Advertising Expense \$12 000
- Wages Paid \$38 000
- Drawings \$35 000 (including \$1 200 drawings of stock)
- Cash Purchases of Stock \$30 000
- Other Cash Expenses \$19 000
- Depreciation Expense \$ 4 000
- Loan Repayment \$ 6 700 (including interest – \$700)
- Credit Purchase Returns \$ 1 000
- Fixtures & Fittings with a carrying value of \$1 300 will be sold for \$1 500 cash. New Fixtures & Fittings will be purchased for \$5 000 cash.
- Stock Loss is estimated at 0.5% of Total Sales.
- Bad Debts are estimated to be 1% of Credit Sales.
- Discount Expense is estimated to be 1.5% of Credit Sales.
- The existing loan will be increased during the year.

Required

2.1.1 Reconstruct the Creditors Control Account and the Stock Control Account to **calculate** budgeted Cost of Sales for the year.

6 marks

2.1.2 Reconstruct the Debtors Control Account to **calculate** budgeted cash received from Debtors.

3 marks

2.1.3 Prepare the Budgeted Cash Flow Statement for the year ended 31 December 2011.

10 marks

2.1.4 Prepare the Budgeted Profit and Loss Statement for the year ended 31 December 2011.

6 marks

2.1.5 Explain how budgets can be used to facilitate control during the budget period.

2 marks

2.1.6 Explain why the accountant requested Sales estimates before starting to prepare the budgets.

2 marks

2.2 Petra is concerned that the business's cash flow and liquidity are deteriorating and her accountant has provided some information regarding the business's short-term financial position.

Indicator	2008	2009	2010
Working Capital Ratio	2.15:1	2.25:1	2.79:1
Quick Asset Ratio	1.42:1	1.05:1	0.79:1
Creditors Turnover	17 days	16 days	15 days
Stock Turnover	58 days	79 days	98 days
Debtors Turnover	47 days	44 days	42 days

Total Towels' credit terms have been 2/14, n/30 since 2007.

Suppliers' credit terms are all n/30.

Required

2.2.1 Explain what is meant by 'liquidity'.

2 marks

2.2.2 Explain how it is possible that the Working Capital Ratio trend is favourable while the Quick Asset Ratio trend is unfavourable.

2 marks

2.2.3 State two strategies, excluding additional advertising, Petra could implement to improve the Stock Turnover (that is, reduce Stock Turnover days) without affecting the Gross Profit margin.

1 + 1 = 2 marks

2.2.4 Explain why the Creditors Turnover trend could be described as unfavourable.

2 marks

2.2.5 State two strategies Petra might have implemented that could account for the improvement in Debtors Turnover.

1 + 1 = 2 marks

- 2.3** On 20 December 2011, Total Towels received an order from Motel Vegas for 100 monogrammed towels. The price quoted for each towel was \$50 plus \$5 GST. A deposit was paid by the motel on the same day of \$400 (Receipt no. 346). On 20 January 2012, the towels were delivered to Motel Vegas accompanied by the following invoice.

TOTAL TOWELS		
ABN 64 475 293 832		
		Tax Invoice 156
		Date 20 Jan. 2012
Charge to:	Motel Vegas	
For:	100 monogrammed towels (\$50 each + \$5 GST)	
Invoice Price:	\$5 000	
Plus GST (10%)	\$ 500	
Less Deposit Paid	<u>\$ 400</u>	
Balance Owing	<u>\$5 100</u>	
Terms	2/14, n/30	

Required

- 2.3.1 Record** the deposit received on 20 December 2011 in the Cash Receipts Journal.

1 mark

- 2.3.2 Show** the journal entries required on 20 January 2012 when the monogrammed towels were delivered and the invoice received by Motel Vegas.

(Narrations are **not** required.)

5 marks

Total 45 marks



**Victorian Certificate of Education
2010**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

Figures

Words

Letter

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ACCOUNTING
Written examination 2

Thursday 4 November 2010

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

Writing time: 12.00 noon to 1.30 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 – Greenfinger Nursery**1.1.1**

Accumulated Depreciation \$

1 mark

1.1.2

Depreciation Expense \$

2 marks

1.1.3**COMPUTER SYSTEM**

Date 2011	Cross reference	\$	Date 2011	Cross reference	\$

ACCUMULATED DEPRECIATION – COMPUTER SYSTEM

Date 2011	Cross reference	\$	Date 2011	Cross reference	\$

DISPOSAL OF COMPUTER SYSTEM

Date 2011	Cross reference	\$	Date 2011	Cross reference	\$

2 + 2 + 3 = 7 marks

1.1.4

Explanation

2 marks

1.1.5

Cash Flow Statement (state effect)
Balance Sheet (state effect)

3 marks

1.2.1 Cash Receipts Journal

Date 2010	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	GST	Sundries

1 mark

1.2.2 GENERAL JOURNAL

Date 2010	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$

2 marks

1.2.3 RENT REVENUE

Date 2011	Cross reference	\$	Date 2011	Cross reference	\$

3 marks

1.2.4

Accounting Principle
Explanation

1 + 2 = 3 marks

1.3.1

Explanation

2 marks

1.3.2

Explanation

2 marks

1.3.3

Benchmark 1
Benchmark 2

1 + 1 = 2 marks

1.4.1 and 1.4.2

Stock Card: English Red Rose

Date 2011	Details	IN			OUT			BALANCE		
		Qty	Cost \$	Total \$	Qty	Cost \$	Total \$	Qty	Cost \$	Total \$
1 Dec.	Balance									

4 + 2 = 6 marks

1.4.3

GENERAL JOURNAL

Date 2011	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$

2 marks

1.4.4

Explanation

2 marks

1.5.1

	Cost per Unit
	\$

1 mark

1.5.2

Period Costs
Product Costs

2 + 2 = 4 marks

Total 45 marks

Question 2 – Total Towels**2.1.1****CREDITORS CONTROL**

Date 2011	Cross reference	\$	Date 2011	Cross reference	\$

STOCK CONTROL

Date 2011	Cross reference	\$	Date 2011	Cross reference	\$

6 marks

2.1.2**DEBTORS CONTROL**

Date 2011	Cross reference	\$	Date 2011	Cross reference	\$

3 marks

2.1.3

Total Towels
Budgeted Cash Flow Statement for Year Ended 31 December 2011

	\$	\$

10 marks

2.1.6

Explanation

2 marks

2.2.1

Explanation

2 marks

2.2.2

Explanation

2 marks

2.2.3

Strategy 1
Strategy 2

1 + 1 = 2 marks

2.2.4

Explanation

2 marks

2.2.5

Strategy 1
Strategy 2

1 + 1 = 2 marks

2.3.1

Cash Receipts Journal

Date 2011	Details	Rec. No.	Bank	Disc. Exp.	Debtors Control	Cost of Sales	Sales	GST	Sundries

1 mark

2.3.2

GENERAL JOURNAL

Date 2012	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$

5 marks

Total 45 marks