



Victorian Certificate of Education 2011

ACCOUNTING

Written examination 2

Friday 11 November 2011

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 10 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

Handy Handbags

Laura Fitzgerald owns and operates a small business, Handy Handbags, which specialises in the sale of leather handbags. The business uses the double entry accounting system based on the accrual method of accounting and uses

- i. control accounts and subsidiary records for Debtors, Creditors and Stock
- ii. the perpetual method of stock recording and the FIFO cost assignment method
- iii. a 12-month reporting period ending 31 December.

1.1 Handy Handbags sells a number of different stock items. Details of one line of stock – the Prestige Bag – are shown below.

Opening balance (1 December 2011) – 20 units at a cost of \$80 each.

Laura provided

- a Stock Card completed up to 14 December 2011
- further transactions and other information for December 2011.

Stock Card: Prestige Bag

Date 2011 Dec.	Details	IN			OUT			BALANCE		
		Qty	Cost \$	Total \$	Qty	Cost \$	Total \$	Qty	Cost \$	Total \$
1	Balance							20	80	1 600
9	Inv. A20	40	90	3 600				20 40	80 90	5 200
14	Inv. H 45–66				20 2	80 90	1 780	38	90	3 420

- i. 16 December – 1 unit sold to J Jones on 14 December was returned due to damage (Credit Note No. 3). This unit was sold for \$130 (plus \$13 GST).
- ii. 19 December – Laura returned this unit of damaged stock to the supplier, Brie's Bags (Credit Note No. C35). It was purchased on 9 December.
- iii. 31 December – A physical stocktake shows 41 units on hand (Memo No. 78).

Required

1.1.1 **Record** the above information in the Stock Card.

3 marks

1.1.2 **Record** the transactions for 16 and 19 December in the General Journal.

Narrations are **not** required.

4 + 3 = 7 marks

1.1.3 **Explain** one way, apart from the identification of a stock gain or loss, how Stock Cards can assist in the management of stock.

2 marks

- 1.2** On 31 December Laura discovers 10 units of the Prestige Bag (cost price \$90 plus \$9 GST each) have been affected by water damage. She thinks the damaged bags will sell for \$70 (plus \$7 GST) each. She will have to spend \$10 (plus \$1 GST) per bag to have them cleaned and repackaged.

Required

- 1.2.1 Calculate** the total value of all the Prestige Bags to be reported in the Balance Sheet at 31 December 2011 if the 'lower of cost and net realisable value' rule is applied.

2 marks

- 1.2.2 Explain** why the 'lower of cost and net realisable value' rule is applied when valuing stock. **Identify** the accounting principle that supports its application.

2 + 1 = 3 marks

- 1.2.3 Prepare** the General Journal entry required to write down the value of the stock of Prestige Bags on 31 December 2011 (Memo No. 79).

Narration **is** required.

3 marks

- 1.3** In November 2011 Handy Handbags also purchased a new stock item known as the Golden Strap bag. It was purchased from the supplier in boxes, each containing 10 bags. Five boxes were delivered in November along with other stock purchases. Other details for the Golden Strap bags are as follows.

	Cost	GST
	\$	\$
• Supplier's invoice price (per bag)	120	12
• Packaging and labelling before sale (per box)	200	20
• Advertising – window display and signage	1 500	150

The November delivery charge of \$180 (plus \$18 GST) from the supplier covered all stock purchased for the month.

After considering this information the cost of each bag was correctly calculated to be \$140.

Required

- 1.3.1 Explain**, with reference to the difference between product and period costs, how the \$140 was calculated.

4 marks

Some of the Golden Strap bags purchased in November were still in stock on 31 December 2011.

Laura's decision to choose between treating packaging and labelling as a product cost or a period cost will affect net profit for the year ending 31 December 2011.

Required

- 1.3.2 Explain** how net profit will be affected.

2 marks

1.4 Laura's accountant provides the following information about the business's profitability.

Indicator	2010	2011
Gross Profit ratio	40%	30%
Total Sales	\$270 000	\$320 000
Return on Assets	28%	32%
Average Total Assets	\$100 000	\$100 000
Net Profit ratio	11%	10%

Required

1.4.1 **Explain** how Total Sales have increased, yet during the same period the Gross Profit ratio decreased. 2 marks

1.4.2 With reference to the 2010 information, **explain** the significance of Return on Assets as an indicator of business performance. 2 marks

1.4.3 **Explain** why the Return on Assets has increased in 2011. 2 marks

1.4.4 **Calculate** the amount for Other Expenses that would have appeared in the Profit and Loss Statement for the year ending 31 December 2011. 1 mark

1.4.5 **Identify** two benchmarks that may be used when evaluating the business's profitability. 2 marks

1.5 Laura decides to rent out the second floor of her shop to another business. Rent for the first 12 months is \$3000 (plus \$300 GST) per month. The rent is to be received 3 months in advance commencing 1 November 2011.

Required

1.5.1 **Show** how the Prepaid Rent Revenue account would appear in the General Ledger after balance day adjustments were recorded at 31 December 2011.
You **are** required to balance the account. 3 marks

The monthly rent was increased to \$3600 (plus \$360 GST) per month commencing 1 November 2012. It will still be received 3 months in advance.

Required

1.5.2 **Calculate** the rent revenue for the year ending 31 December 2012. 2 marks

1.5.3 **Prepare** the necessary adjusting and closing entries relating to the rent in the General Journal at 31 December 2012.
Narrations are **not** required. 2 marks

1.5.4 **State** the amount of Prepaid Rent Revenue to be reported as a liability in the Balance Sheet at 31 December 2012. 1 mark

The definition of a liability requires the following three characteristics to be met.

- present obligation
- outflow of economic benefit
- arising from a past event

Required

1.5.5 Explain how Prepaid Rent Revenue satisfies any **two** of these characteristics.

2 marks

Total 45 marks

TURN OVER

Question 2**Fine Furniture**

Charles Chambers owns and operates a small business, Fine Furniture. The business uses the double entry accounting system based on the accrual method of accounting and uses

- i. control accounts and subsidiary records for Debtors, Creditors and Stock
- ii. the perpetual method of stock recording and the FIFO cost assignment method
- iii. a 12-month reporting period ending 30 June.

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

- 2.1 To assist in the preparation of budgets for the year ending 30 June 2012, Charles provides the following Profit and Loss Statement and additional information.

**Fine Furniture
Profit and Loss Statement
for the year ending 30 June 2011**

	\$	\$
Revenue		
Cash Sales	200 000	
Credit Sales	100 000	300 000
Less Cost of Goods Sold		
Cost of Sales		150 000
GROSS PROFIT		150 000
Less Other Expenses		
Bad Debts	6 000	
Depreciation – Delivery Vehicle	10 000	
Discount Expense	1 000	
Freight Outwards	8 000	
Interest on Loan	8 400	
Rent Expense	24 000	
Wages Expense	42 800	100 200
NET PROFIT		49 800

Additional information

- Extracted from the Balance Sheet as at 30 June 2011 and estimates as at 30 June 2012

Item	Actual 30 June 2011 \$	Budgeted 30 June 2012 \$
Debtors Control	30 000	35 000
Prepaid Rent Expense	2 000	2 400
Accrued Interest Expense	700	NIL
Creditors Control	28 000	26 000
Loan – ABC Bank	100 000	76 000
Capital	44 200	72 000
Drawings	22 000	25 000*

* Including \$1000 for drawings of stock

- Other relevant information for the budget period
 - Cost of Sales will not change as a percentage of Total Sales.
 - 80% of stock purchases will be on credit, with total purchases expected to be \$500 000. Suppliers do not offer discounts for early payment.
 - Cash Sales, Credit Sales, Discount Expense and Bad Debts are all expected to increase by 15%.
 - Rent is paid monthly in advance. There is a 20% increase expected, commencing with Rent for January 2012.
 - Monthly loan repayments are \$2 700, including interest of \$700 each month.
 - Other expenses are not expected to change.

Required

2.1.1 Calculate estimated payments to Creditors for the year ending 30 June 2012.

2 marks

2.1.2 Calculate estimated receipts from Debtors for the year ending 30 June 2012.

3 marks

2.1.3 Show how the Operating Outflows would appear in the Budgeted Cash Flow Statement for the year ending 30 June 2012.

You **are** required to total the Operating Outflows.

4 marks

2.1.4 Prepare the Budgeted Profit and Loss Statement for the year ending 30 June 2012.

5 marks

The business expects a positive bank balance at 30 June 2012.

Required

2.1.5 Prepare the Liabilities and Owner's Equity sections of the Budgeted Balance Sheet as at 30 June 2012 from the information provided.

3 marks

- 2.2** The following information has been provided, showing trends in the liquidity of Fine Furniture over recent years.

Indicator	2009	2010	2011
Interest Cover	7 times	6 times	3 times
Cash Flow	3 times	3.5 times	4 times
Creditors Turnover	52 days	55 days	60 days

Required

- 2.2.1 Explain** the meaning of ‘trends in the liquidity’.
2 marks
- 2.2.2 State** why the Cash Flow indicator is used as a measure of liquidity.
1 mark
- 2.2.3 Discuss**, using the information provided in the table above, whether the liquidity of Fine Furniture has improved over the three-year period.
3 marks
- 2.2.4 State** one reason why the change in Creditors Turnover from 2010 to 2011 may not be of benefit to Fine Furniture.
1 mark

Charles is surprised that his accountant has not provided trends in the Working Capital ratio as he believes it is a good indicator of the liquidity of a business. The accountant says ‘the Working Capital ratio can be misleading as an indicator of business liquidity’.

Required

- 2.2.5 Explain** one weakness of using the Working Capital ratio as an indicator of liquidity.
2 marks

- 2.3 On 1 January 2012 the business unexpectedly traded in its delivery vehicle for a new one. Details of the trade-in and purchase are shown on the document below.

King Motors Nuville		Invoice 3761	
1 January 2012			
		To: Fine Furniture 6 The Highway Maytown	
	Cost	GST	Total
	\$	\$	\$
Vehicle #274123	51 000	5 100	56 100
Shelving fitted	4 000	400	4 400
Insurance (12 months)	800	80	880
Total	55 800	5 580	61 380
Less trade-in allowance			10 000
Total due			51 380
Terms: 2/14, n30			

The new delivery vehicle is estimated to have a useful life of 6 years and a residual value of \$13 000. Depreciation will be the straight line method.

Required

- 2.3.1 **Prepare** the General Journal entries required on 1 January 2012 to record the information provided on Invoice 3761.

Narrations are **not** required.

5 marks

- 2.3.2 **Justify** your treatment of the Insurance on the new delivery vehicle.

2 marks

Business records showed details of the old delivery vehicle as follows.

Vehicle VCA111	Purchased	Cost	Depreciation
	1 July 2008	\$50 600 (including \$4 600 GST)	20% per annum on cost

Required

- 2.3.3 **Calculate** the carrying value of the old delivery vehicle being traded in on 1 January 2012.

2 marks

- 2.3.4 **Complete** the Disposal of Delivery Vehicle account in the General Ledger on 30 June 2012.

4 marks

‘The reporting of a profit or loss on disposal of a non-current asset proves that while depreciation expense may be relevant it is not reliable.’

Required

- 2.3.5 **Explain** why this statement is correct.

2 marks

2.4 On 1 October 2011 Fine Furniture invested \$10 000 in a 12-month term deposit with Tech Bank, earning 6% interest per annum.

Interest earned to 31 May 2012 had been received (as per the bank statement) by 30 June 2012.

Required

2.4.1 Prepare the necessary balance day adjustment in the General Journal at 30 June 2012.

Narration is **not** required.

2 marks

The next receipt of interest is expected on 31 July 2012, for interest earned in June and July 2012.

Required

2.4.2 Show how the receipt of interest (as per the bank statement) on 31 July 2012 would be recorded in the Cash Receipts Journal.

2 marks

Total 45 marks



**Victorian Certificate of Education
2011**

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STUDENT NUMBER

Figures

Words

Letter

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ACCOUNTING
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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 – Handy Handbags

1.1.1

Stock Card: Prestige Bag

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1	Balance							20	80	1 600
9	Inv. A20	40	90	3 600				20 40	80 90	5 200
14	Inv. H45–66				20 2	80 90	1 780	38	90	3 420

3 marks

1.1.2

GENERAL JOURNAL

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

4 + 3 = 7 marks

1.1.3

Explanation

2 marks

1.2.1

Calculation
Value of Stock of Prestige Bags
\$

2 marks

1.2.2

Explanation
Accounting principle

2 + 1 = 3 marks

1.2.3

GENERAL JOURNAL

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

3 marks

1.3.1

Explanation

4 marks

1.3.2

Explanation

2 marks

1.4.1

Explanation

2 marks

1.4.2

Explanation

2 marks

1.4.3

Explanation

2 marks

1.4.4

Calculation
Other Expenses for the year ending 31 December 2011 \$ <input style="width: 150px; height: 20px;" type="text"/>

1 mark

1.4.5

Benchmark 1
Benchmark 2

2 marks

1.5.1

PREPAID RENT REVENUE

Date 2011 Dec.	Cross Reference	\$	Date 2011 Dec.	Cross Reference	\$

3 marks

1.5.2

Calculation	
Rent Revenue for the year ending 31 December 2012	\$ <input style="width: 100%;" type="text"/>

2 marks

1.5.3

GENERAL JOURNAL

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

2 marks

1.5.4

Amount reported	\$ <input style="width: 100%;" type="text"/>
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1 mark

1.5.5

Characteristic 1	
Characteristic 2	

2 marks

Total 45 marks

TURN OVER

Question 2 – Fine Furniture

2.1.1

Calculation	
Estimated payments to Creditors for the year ending 30 June 2012	\$

2 marks

2.1.2

Calculation	
Estimated receipts from Debtors for the year ending 30 June 2012	\$

3 marks

2.1.3

**Fine Furniture
Budgeted Cash Flow Statement (Extract)
for the year ending 30 June 2012**

	\$
Cash Flow from Operating Activities	
Operating Outflows	
Total Operating Outflows	

4 marks

Question 2 – continued

2.1.4

**Fine Furniture
Budgeted Profit and Loss Statement
for the year ending 30 June 2012**

	\$	\$
Revenue		

5 marks

2.1.5

Fine Furniture
Budgeted Balance Sheet (Extract) as at 30 June 2012

Current Liabilities	\$	\$
Non-Current Liabilities		
Owner's Equity		

3 marks

2.2.1

Explanation

2 marks

2.2.2

State

1 mark

2.2.3

Discuss

3 marks

2.2.4

Reason

1 mark

2.2.5

Explanation

2 marks

2.3.1

GENERAL JOURNAL

Date 2012 1 Jan.	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$

5 marks

2.3.2

Justification

2 marks

2.3.3

Calculation	
Carrying value	\$

2 marks

2.3.4

DISPOSAL OF DELIVERY VEHICLE

Date 2012	Cross Reference	\$	Date 2012	Cross Reference	\$

4 marks

2.3.5

Explanation

2 marks

2.4.1

GENERAL JOURNAL

Date 2012 30 June	Particulars	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$

2 marks

2.4.2

Cash Receipts Journal

Date 2012	Details	Rec. No.	Bank	Disc. expense	Debtors	Cost of Sales	Sales	GST	Sundries

2 marks

Total 45 marks

END OF ANSWER BOOK