



## Victorian Certificate of Education

# ACCOUNTING

## Written examination 2

**Thursday 7 November 2002**

**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>
3	3	60

- 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 10 pages.

#### **Instructions**

- Write your **student number** in the space provided on the front cover of 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.**

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**Question 1****The Happy Camper**

The Happy Camper is a sole trader business that supplies retail camping shops with camping supplies and equipment. The business uses the perpetual inventory system. Items sold by The Happy Camper are marked up by 50% on cost price, to determine the selling price.

At 31 October 2002 the following debtors schedule was prepared.

<b>Debtor</b>	<b>\$</b>
Mt Buller Supplies	2 900
Mountain Range Gear	2 000
Outdoors Australia	<u>600</u>
Balance per Debtors Control	<u>5 500</u> (Dr)

On 30 November 2002 all transactions for November have been entered into the relevant journals except for the following two documents, which have been forgotten.

**Document 1**

Invoice No: 28	
<b>THE HAPPY CAMPER</b>	
Date:	<i>12 November 2002</i>
Charge to:	<i>Mountain Range Gear</i>
For:	<i>Camping stools</i>
Quantity:	<i>60 stools at \$20 each</i>
Amount:	<i>\$1 200</i>

**Document 2**

Credit Note No: 12	
<b>THE HAPPY CAMPER</b>	
Date:	<i>17 November 2002</i>
Debtor:	<i>Mountain Range Gear</i>
Allowance For:	<i>Faulty stitching</i>
Quantity:	<i>20 stools at \$5 each</i>
Amount:	<i>\$100</i>

**Required**

- 1.1 Record** the information from the above two documents into the appropriate journals of The Happy Camper. Total the journals where appropriate.  
(Narrations are not required.)

2 marks

**Required**

**1.2 Complete and balance** the Debtors Control Account in the General Ledger at 30 November 2002 after posting the journal entries completed in your answer to **1.1 and** from the journals provided below.

3 marks

**CASH RECEIPTS JOURNAL****CRJ1**

<b>Date 2002</b>	<b>Particulars</b>	<b>Rec. No.</b>	<b>Bank \$</b>	<b>Sales \$</b>	<b>Cost of Sales \$</b>	<b>Debtors \$</b>	<b>Disc. Allow.</b>	<b>Sundries \$</b>
30 Nov	Totals		3 350	2 400	1 600	1 000	50	–

**GENERAL JOURNAL****GJ1**

<b>Date 2002</b>	<b>Accounts</b>	<b>Debit \$</b>	<b>Credit \$</b>
30 Nov	Bad Debt Expense	600	
	Debtors Control – Outdoors Australia		600
	Debtor written off		

The Happy Camper maintains a Debtors Subsidiary Ledger in addition to the Debtors Control Account in the General Ledger.

**Required**

**1.3 Identify** two benefits of maintaining both sets of records.

2 marks

Discount Allowed is treated as an expense in the Profit and Loss Statement of The Happy Camper.

**Required**

**1.4 Explain** why Discount Allowed is treated as an expense.

2 marks

At 30 June 2003 Mt Buller Supplies owes \$2 000 to The Happy Camper. The Happy Camper also owes Mt Buller Supplies \$500 for a previous business transaction. The owner asks the accountant to settle this debt by contra.

**Required**

**1.5 Prepare** the General Journal Entry required to settle the debt.  
(A narration is required.)

2 marks

**1.6** On 1 October 2000 The Happy Camper purchased a delivery truck for \$32 000. It was expected to have a useful life of five years and a residual/scrap value of \$7 000. Depreciation is charged using the diminishing balance method at the rate of 25% per annum. The truck was traded in on 30 June 2003 for a new truck costing \$45 000. The trade-in value was \$12 000. Balance day for The Happy Camper is 30 June, each year.

**Required**

**1.6.1** Calculate the balance of the Accumulated Depreciation (truck) account as at 30 June 2003.  
(Show all workings.)

2 marks

**1.6.2** Complete the Disposal of Truck ledger account as at 30 June 2003.

3 marks

At 30 June 2003 land appears in the Balance Sheet of The Happy Camper at its historical cost of \$100 000. The owner has been told that the land should be reported at its current market value of \$80 000.

**Required**

**1.7** State one accounting principle or concept which would support the business revaluing the land to its current market value. Justify your answer.

2 marks

Total 18 marks

**TURN OVER**

**Question 2**

Soap n Suds sells a range of dishwashers to the public. The business uses the perpetual inventory method for the recording of stock. The following information is a summary of the year's operations.

**Soap n Suds Profit and Loss Statement for the Year Ended 31 December 2001**

	\$
Sales	800 000
less Cost of Goods Sold	<u>500 000</u>
Gross Profit	300 000
less Operating Expenses	<u>190 000</u>
Net Profit/(Loss)	<u>110 000</u>

**Soap n Suds Balance Sheets as at: 31 December 2000 31 December 2001**

Current Assets	\$	\$
Bank	45 000	–
Stock	80 000	65 000
Debtors	35 000	34 000
Prepaid Expenses	–	3 500
<b>Non-Current Assets</b>		
Land	–	70 000
Truck	65 000	100 000
Less Accumulated Depreciation – Truck	(12 000)	(16 000)
<b>Total Assets</b>	<b>213 000</b>	<b>256 500</b>
<b>Current Liabilities</b>		
Bank	–	20 500
Creditors	45 000	32 000
Accrued Expenses	–	1 000
<b>Non-Current Liabilities</b>		
Loan	50 000	30 000
<b>Owner's Equity</b>		
Capital	118 000	173 000
<b>Total Equities</b>	<b>213 000</b>	<b>256 500</b>

**Additional information**

- Sales – 70% cash.  
– 30% credit.
- All stock is purchased on credit.
- Bad Debts of \$2 000 have been written off during the year. This was included in the Operating Expense figure.
- The owner contributed \$15 000 cash during the year. Drawings included \$3 000 of stock.
- A truck was purchased on 1 July 2001 for \$35 000.

**Required**

- 2.1 Calculate** the cash received from Debtors during the year.  
(Show all workings.) 2 marks
- 2.2 Calculate** the cash paid to Creditors during the year.  
(Show all workings.) 3 marks
- 2.3 Calculate** the cash paid for Operating Expenses during the year.  
(Show all workings.) 2 marks
- 2.4 Prepare** a Statement of Cash Flows from Operations for Soap n Suds for the year ended 31 December 2001. 2 marks
- 2.5 State** how the capital contribution of \$15 000 would be classified in the Cash Flow Statement. **Justify** your answer. 2 marks

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**2.6** From 1 January 2002 Soap n Suds commenced a service department to install and repair dishwashers. The accountant has partly completed the Profit and Loss Statement for the year ended 31 December 2002.

**Soap n Suds Profit and Loss Statement for the Year ended 31 December 2002**

	<b>Dishwasher Sales</b>	<b>Service Centre</b>	<b>Total</b>
<b>Revenue</b>	\$	\$	\$
Sales/Service Fees	900 000	100 000	1 000 000
Less Cost of Sales/Materials	<u>560 000</u>	<u>27 000</u>	<u>587 000</u>
Gross Profit/Margin on Service	340 000	73 000	413 000

The accountant has also examined details of the other expenses and prepared the following analysis.

<b>Expense Item</b>	<b>Amount \$</b>	<b>Allocation Policy</b>	<b>Comment</b>
Wages	180 000	60%D, 20%S, 20%U	Wage sheet analysis
Advertising	15 000	100%U	Advertising includes both departments – unable to separate
Occupancy	30 000	80%D, 10%S, 10%U	Proportion of floor space
Vehicle Expenses	14 000	30%D, 70%S	Log books
Office/Admin	16 000	100%U	Relates to whole business
Loss on Sale of Vehicle	6 000	100%D	Result of under depreciation

*Note: D = Dishwasher Sales Department expense*

*S = Service Centre expense*

*U = Unallocated (Indirect) expense.*

**Required**

- 2.6.1 Complete** the Profit and Loss Statement to show
- i.** the Contribution Margin for each department
  - ii.** Net Profit

2 + 2 = 4 marks

- 2.6.2** The accountant has treated advertising as an unallocated (indirect) expense. **Explain** how this decision may affect the usefulness of the Contribution Margin as an indicator of departmental performance.

2 marks

- 2.6.3 Explain** the accountant's comment that the Loss on Sale of Vehicle is the 'result of under depreciation'.

2 marks

Total 19 marks



**Question 3**

Mandy Jamieson owns and operates Office Essentials, a small business that sells office furniture. The business uses the perpetual inventory system and assigns cost to stock items using the First In First Out (FIFO) method. The Profit and Loss Statement (Budget, Actual and Variance) for the year ending 30 June 2002 is provided below. The Variance report has not yet been completed.

**Office Essentials Profit and Loss Statement Year ended 30 June 2002**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	450 000	470 000	20 000
Cost of Sales	<u>250 000</u>	<u>290 000</u>	40 000
Gross Margin on Sales	200 000	180 000	20 000
Stock Loss	<u>4 500</u>	<u>1 500</u>	3 000
<b>Gross Profit</b>	<b>195 500</b>	<b>178 500</b>	<b>17 000</b>
less Expenses			
Wages	55 000	49 000	6 000
Advertising	10 000	10 500	500
Rent	20 000	20 000	–
Office	8 000	7 000	1 000
Depreciation – Vehicle	<u>10 000</u>	<u>7 000</u>	3 000
<b>Total expenses</b>	<b>103 000</b>	<b>93 500</b>	<b>9 500</b>
Operating Profit	<b>92 500</b>	<b>85 000</b>	<b>7 500</b>
Other Revenue			
Profit on Sale of Vehicle	–	<u>9 000</u>	9 000
<b>Net Profit</b>	<b>92 500</b>	<b>94 000</b>	<b>1 500</b>

**3.1** Refer to the Variance column in the Answer Book. **Mark** all Unfavourable Variances for the period with the letter 'U'.

2 marks

**3.2** The owner is pleased that the business has exceeded budget expectations for the period. **Explain** one reason, from the information provided, why the owner should **not** be so pleased with the result.

2 marks

**Question 3** – continued

**TURN OVER**

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**3.3** In planning for the next year, the following estimates were made.

- Sales to increase by \$40 000, over the 2002 Actual figure.
- The Stock Loss is expected to be eliminated.
- The Gross Profit margin (Gross Profit/Sales) will be 40%.
- Wages are to be set at 10% of budgeted sales.
- Advertising is expected to be 3% of budgeted sales.
- A new vehicle will be purchased – Depreciation Expense to be \$11 000.
- Other expenses to remain the same as the 2002 Actual figures.
- Surplus office space will be rented from 1 May 2003. Rent is to be set at \$1 000 per month, payable three months in advance. The first payment is expected to be received in April.

**Required**

**3.3.1 Prepare** a Budgeted Profit and Loss Statement for the Year ended 30 June 2003. No classification of expenses is required beyond Budgeted Gross Profit.

4 marks

**3.3.2 Explain** how this budget should be used by the business during the year.

2 marks

**3.4** The business overdraft has increased over the last 12 months. The owner is concerned that the liquidity of the business is deteriorating. The accountant agrees, and provides the following additional information in support.

**Working Capital Ratio**

(Current Assets/Current Liabilities):1

<b>Office Essentials</b>	
30 June 2001	30 June 2002
2.4 : 1	1.3 : 1

**Required**

**3.4.1 Explain** why the decline in the working capital ratio may indicate a deterioration in the liquidity of Office Essentials.

2 marks

**3.4.2 State** one limitation of using the working capital ratio as an indicator of business liquidity.

1 mark

**3.5** Following a stocktake at the end of July 2002, the following information was determined.

Stock Item	Quantity	Cost Price per unit	Estimated Selling Price per unit	Direct Selling Expenses per unit
		\$	\$	\$
A	400	25	50	0
B	100	16	9	3
C	2 000	8	12	1

**3.5.1** It was decided that Stock Item B should be written down to reflect its net realisable value. **Prepare** the General Journal Entry to write down the value of stock on 31 July. (Narration is not required.)

2 marks

**3.5.2** **Calculate** the appropriate value for stock on hand at 31 July. (Show all workings.)

2 marks

**3.5.3** **Explain** your valuation of Stock Item A.

2 marks

During August 2002 the following stock movements for Stock Item A occurred.

- 7 August – 100 units purchased at \$26 per unit.
- 19 August – 450 units sold at \$50 per unit.
- 23 August – 200 units purchased at \$30 per unit.
- 27 August – owner took 2 units for own use.

A stocktake at 31 August 2002 revealed 240 units on hand.

**3.5.4** **Calculate** the value of Stock Item A on hand at 31 August 2002 assuming the FIFO assignment of cost. (Show all workings.)

2 marks

**3.5.5** **Prepare** a statement to show the Gross Profit (adjusted) on Stock Item A for August 2002.

2 marks

Total 23 marks



# Victorian Certificate of Education 2002

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## STUDENT NUMBER

Figures

Words


Letter

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# ACCOUNTING

## Written examination 2

Thursday 7 November 2002

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 – The Happy Camper****1.1 Extracts from Journals of The Happy Camper**

<b>CREDIT SALES JOURNAL</b>				<b>SJ1</b>
<b>Date 2002</b>	<b>Particulars</b>	<b>Invoice No.</b>	<b>Cost of Sales \$</b>	<b>Sales \$</b>
9 Nov	Outdoors Australia	27	2 000	3 000
	Total			

<b>GENERAL JOURNAL</b>			<b>GJ1</b>
<b>Date 2002</b>	<b>Accounts</b>	<b>Debit \$</b>	<b>Credit \$</b>

2 marks

**1.2 General Ledger (extract only) of The Happy Camper**

<b>DEBTORS CONTROL</b>					
<b>Date 2002</b>	<b>Particulars</b>	<b>Amount \$</b>	<b>Date 2002</b>	<b>Particulars</b>	<b>Amount \$</b>
1 Nov	Balance				

3 marks

**1.3**

<b>Benefit 1</b>
<b>Benefit 2</b>

2 marks

Question 1 – continued

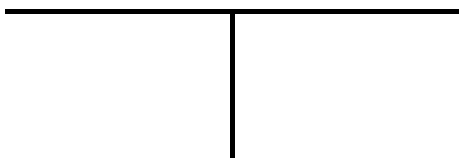
**TURN OVER**



**Question 2 – Soap n Suds**

**2.1**

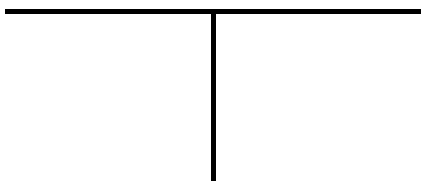
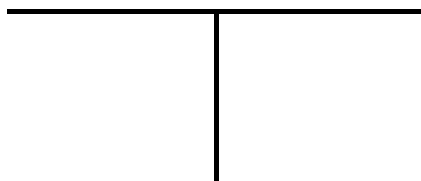
**Calculation**

	
Cash received from debtors	\$

2 marks

**2.2**

**Calculation**

		
	Cash paid to creditors	\$

3 marks

**2.3**

**Calculation**

Cash paid for operating expenses	\$

2 marks

**2.4 Soap n Suds Cash Flow from Operations for Year Ended 31 December 2001**

<b>Inflows</b>		
<b>Outflows</b>		
<b>Net Cash Flow from Operating Activities</b>		

2 marks



2.5

<b>Classification</b>
<b>Justification</b>

2 marks

2.6.1 Soap n Suds Profit and Loss Statement for Year Ended 31 December 2002

	<b>Dishwasher Sales</b>	<b>Service Centre</b>	<b>Total</b>
Sales/Service Fees	900 000	100 000	1 000 000
Less Cost of Sales/Materials	560 000	27 000	587 000
<b>Gross Profit/Margin on Service</b>	<b>340 000</b>	<b>73 000</b>	<b>413 000</b>
<b>Contribution Margin</b>			
<b>Net Profit</b>			

2 + 2 = 4 marks

2.6.2

<b>Explanation</b>

2 marks

2.6.3

<b>Explanation</b>

2 marks

Total 19 marks

**Question 3 – Office Essentials****3.1 Office Essentials Profit and Loss Statement for Year Ended 30 June 2002**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>F/U*</b>
Sales	450 000	470 000	20 000	
Cost of Sales	<u>250 000</u>	<u>290 000</u>	40 000	
Gross Margin on Sales	200 000	180 000	20 000	
Stock Loss	<u>4 500</u>	<u>1 500</u>	3 000	
<b>Gross Profit</b>	<b>195 500</b>	<b>178 500</b>	<b>17 000</b>	
<b>less Expenses</b>				
Wages	55 000	49 000	6 000	
Advertising	10 000	10 500	500	
Rent	20 000	20 000	–	
Office	8 000	7 000	1 000	
Depreciation – Vehicle	<u>10 000</u>	<u>7 000</u>	3 000	
<b>Total Expenses</b>	<b>103 000</b>	<b>93 500</b>	<b>9 500</b>	
Operating Profit	<b>92 500</b>	<b>85 000</b>	<b>7 500</b>	
Other Revenue				
Profit on Sale of Vehicle	–	<u>9 000</u>	9 000	
<b>Net Profit</b>	<b>92 500</b>	<b>94 000</b>	<b>1 500</b>	

\* *F = Favourable U = Unfavourable*

2 marks

**3.2**

<b>Explanation</b>

2 marks

**3.3.1 Office Essentials Budgeted Profit and Loss Statement for Year Ended 30 June 2003**

<b>Gross Profit</b>		
<b>Less Expenses</b>		
<b>Operating Profit</b>		
<b>Other Revenue</b>		
<b>Net Profit</b>		

4 marks

**3.3.2**

<b>Explanation</b>

2 marks

**3.4.1**

<b>Explanation</b>

2 marks

**3.4.2**

<b>Limitation</b>

1 mark

3.5.1

**GENERAL JOURNAL**

<b>Date 2002</b>	<b>Accounts</b>	<b>Debit \$</b>	<b>Credit \$</b>
31 July			

2 marks

3.5.2

<b>Calculation</b>	
Value of stock	\$

2 marks

3.5.3

<b>Explanation</b>

2 marks

3.5.4

<b>Calculation</b>	
Value of stock	\$

2 marks

Question 3 – continued

**TURN OVER**

**3.5.5 Statement of Gross Profit (adjusted) on Stock Item A for August 2002**

	\$	\$

2 marks

Total 23 marks