



Victorian Certificate of Education 2004

ACCOUNTING

Written examination 2

Thursday 4 November 2004

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, 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 9 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.

Instructions

For this examination, implications of the Goods and Services Tax (GST) are only considered in Questions 2.1 and 2.2.

Question 1

Magical Music

Jenny Simpson owns and operates a small trading business called Magical Music, selling musical instruments. Jenny maintains a perpetual stock recording system and all stock movements are recorded using the FIFO (First In First Out) method of cost assignment. Her accounting system is based on the double-entry accrual system of recording and reporting. Jenny maintains Control Accounts for Debtors, Creditors and Stock.

1.1 The following information relates to creditor transactions in December 2004.

Purchases Journal

PJ7

Date 2004	Creditor	Post Ref.	Inv. No.	Amount \$
Dec. 31	Total			23 000

Cash Payments Journal

CPJ11

Date 2004	Details	Post Ref.	Chq. No.	Bank	Disc. Rev.	Creditors	Stock	Wages	Sundries
Dec. 31	Total			48 500	500	18 500	12 000	7 500	11 000

General Journal

GJ3

Date 2004	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit	Credit	Debit	Credit
December 7	Creditors Control Creditor – LG Stock Control <i>Returned damaged stock to supplier – Credit Note A23</i>	201 C3 103	400	400	400	
23	Creditors Control Creditor – Olivetti Debtors Control Debtor – Olivetti <i>Contra entry – Memo 21</i>	201 C4 102 D7	800	800	800	800

The balance of the Creditors Control account at 1 December 2004 was \$24 500.

Required

1.1.1 Show how the Creditors Control account would appear in the General Ledger after all the above information has been recorded. Balance the account at 31 December 2004.

(You are required to use posting references.)

6 marks

1.1.2 Explain the transaction that resulted in the General Journal entry on 23 December 2004.

2 marks

- 1.2 Jenny has been concerned about the cash flow of the business. Her accountant calculated the following performance indicators from her accounting reports.

	2003	2004
Creditors Turnover $\left(\frac{\text{Average Creditors} \times 365}{\text{Credit Purchases}} \right)$	32 days	28 days
Debtors Turnover $\left(\frac{\text{Average Debtors} \times 365}{\text{Credit Sales}} \right)$	44 days	48 days

Required

- 1.2.1 **Explain**, using the above information, why cash flow may be declining.

2 marks

- 1.2.2 **Identify** one non-financial performance indicator that Jenny could use to assess her business relationship with her creditors.

1 mark

- 1.3 Jenny is considering offering discounts to debtors as a means of improving Debtors Turnover.

Required

- 1.3.1 **State** one positive effect on the business of offering discounts to debtors.

1 mark

- 1.3.2 **State** one negative effect on the business of offering discounts to debtors.

1 mark

- 1.4 At 31 January 2005 Jenny provided the following information relating to one of the stock items.

Stock Item 64: Guitars

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
2005 January										
1	Balance							12	150	1 800
3	Rec. 23				3	150	450	9	150	1 350
7	Inv. A45				2	150	300	7	150	1 050

The following transactions relating to Stock Item 64: Guitars had not been entered into the accounting records.

11 January – Purchased 10 units on credit for \$160 each (Invoice J87).

15 January – Jenny withdrew 1 unit for own use (Memo 12).

21 January – Credit Sales of 7 units to A Donald for \$320 each (Invoice A68).

27 January – A Donald returned 1 unit of stock due to damage (Credit Note 3).

Required

- 1.4.1 **Record** the above transactions into the stock card.

4 marks

- 1.4.2 **Record** the transaction on 15 January into the General Journal. (Narration is **not** required.)

2 marks

- 1.4.3 **Record** the transaction on 21 January into the Sales Journal.

2 marks

- 1.4.4 **State** two ways the use of stock cards can assist the business in managing stock.

1 + 1 = 2 marks

Question 1 – continued
TURN OVER

- 1.5** On 1 January 2005 Jenny had prepared a Cash Budget for the forthcoming year. At 31 December 2005 Jenny prepared the following statement comparing actual and budgeted cash flows for the period.

	Budget	Actual
	\$	\$
Cash Receipts		
Cash Sales	320 000	290 000
Receipts from Debtors	65 000	50 000
Loan from NCS Bank	–	25 000
	<u>385 000</u>	<u>365 000</u>
Less Cash Payments		
Payments to Creditors	200 000	200 000
Rent	33 000	33 000
Wages	45 000	48 000
Motor Vehicle	–	55 000
Drawings	37 000	35 000
Interest on Loan	–	2 000
Advertising	20 000	19 000
Vehicle Expenses	17 000	22 000
	<u>352 000</u>	<u>414 000</u>
Surplus/Deficit	33 000	(49 000)
Cash Balance at 1 January 2005	<u>(23 000)</u>	<u>(23 000)</u>
Cash Balance at 31 December 2005	<u>10 000</u>	<u>(72 000)</u>

Required

- 1.5.1** Complete the Variance Report in the answer book.

4 marks

Over the same period the business reported Cost of Goods Sold of \$170 000 and a Net Profit of \$60 000.

- 1.5.2** Identify two reasons why Magical Music reported a Net Profit, yet at the same time reported a significant decrease in cash during the period.

1 + 1 = 2 marks

- 1.5.3** State two possible reasons why Cost of Goods Sold was less than Payments to Creditors.

1 + 1 = 2 marks

- 1.5.4** Explain why cash budgets should be prepared more frequently than on a yearly basis.

2 marks

Jenny has been concerned about the debt levels of the business.

- 1.5.5** Explain how high levels of debt can be a problem for profitability and liquidity of Magical Music.

1 + 1 = 2 marks

- 1.5.6** Explain how the gearing ratio (Total Liabilities/Total Assets) will be affected by the information contained in the statement comparing actual and budgeted cashflows in 1.5 above.

2 marks

Jenny is also concerned about the ability of the business to meet short-term financial obligations as they fall due. She provides the following information.

	2004	2005
Working Capital Ratio (Current Assets/Current Liabilities)	1.42:1	1.09:1

Required

1.5.7 Explain, using the above information, why Jenny should be concerned about the ability of the business to meet its short-term financial obligations.

2 marks

1.6 At 31 December 2005, the accountant of Magical Music prepared the following summary of the Statement of Financial Position.

Magical Music

Statement of Financial Position as at 31 December 2005 (summary)

	\$
Current Assets	120 000
Non-Current Assets (Carrying value)	420 000
Current Liabilities	105 000
Non-Current Liabilities	110 000
Capital (at 31 December 2005)	325 000

During the year to 31 December 2006, Jenny plans to

- increase current assets by \$22 000 overall.
- revalue existing non-current assets by \$60 000 and purchase additional non-current assets of \$30 000.
- depreciate non-current assets by \$10 000.
- reduce Working Capital (current assets less current liabilities) by \$8 000.
- decrease non-current liabilities overall by \$30 000.
- earn a net profit of \$87 000.
- withdraw \$40 000 cash and \$5 000 stock during the year for personal use.

Required

Prepare a Budgeted Statement of Financial Position as at 31 December 2006.

6 marks

Total 45 marks

TURN OVER

Question 2**Swan Electrics**

Billy Swan owns and operates a small trading business called Swan Electrics. Swan Electrics sells a range of electrical appliances. Billy maintains a perpetual stock recording system and all stock movements are recorded using the FIFO (First In First Out) method of cost assignment. His accounting system is based on the double-entry accrual system of recording and reporting.

2.1 Refer to the source document below.

Swan Electrics		Tax Invoice 8173
Beach Road		
Mordialloc		23 October 2004
Sold to:	J Barrow	
	7 Hope Street	
	Carrum	
1 68 cm Television		\$1 000
+ GST		<u>\$ 100</u>
	Total	\$1 100
Credit Terms: 2% discount if paid within 14 days, otherwise strictly 30 days net.		

Note: Cost price of the 68 cm television is \$700.

Required

2.1.1 **Record** this invoice in the Sales Journal of Swan Electrics.

2 marks

2.1.2 Barrow paid the account on 9 November. **Record** this transaction in the Cash Receipts Journal. (receipt number 25)

2 marks

2.1.3 **Show** how Barrow's account in the Debtors Subsidiary Ledger would appear after both journals were posted.

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

2 marks

2.2 The following is the GST Clearing Account in the General Ledger of Swan Electrics at 30 November 2004.

Account: 205

GST CLEARING

Date 2004	Cross reference	Post Ref.	\$	Date 2004	Cross reference	Post Ref.	\$
Nov 30	Bank	CPJ1	1 500	Nov 1	Balance		1 500
30	Bank	CPJ1	300	30	Bank	CRJ1	950
	Creditors Control	PJ1	500		Debtors Control	SJ1	1 200

Required

- 2.2.1 State** what the credit entry of \$1 200 in the GST Clearing Account represents. 1 mark
- 2.2.2** The GST owing at 1 November was paid in full during November. **State** the amount of GST paid by the business on cash purchases made during November. 1 mark
- 2.2.3 Balance** the GST Clearing Account at 30 November. 1 mark
- 2.2.4 Show** how items relating to GST would be reported in the
- Statement of Financial Position at 30 November 2004
 - Statement of Cash Flows for the month ending 30 November 2004
- 1 + 2 = 3 marks

- 2.3** A stocktake at 30 November 2004 included the following item.

Le Crema coffee maker

Quantity	100 @ a cost of \$20 each	\$2 000
	200 @ a cost of \$22 each	<u>\$4 400</u>
		<u>\$6 400</u>

80 units (cost \$20 each) were slightly damaged in a storeroom fire. These damaged units will be sold at a Sunday market for \$12 each. Direct costs of selling these units are estimated at \$2 per unit. All other units are expected to sell for \$55 each.

Swan Electrics values stock on hand using the 'lower of cost and net realisable value' method.

Required

- 2.3.1 Prepare** the General Journal entry to write down the value of the damaged coffee makers at 30 November.
(Narration is **not** required.) 3 marks
- 2.3.2 Calculate** the value of Le Crema coffee makers to be included in Swan Electrics closing stock valuation at 30 November. 3 marks
- 2.3.3 Explain**, with reference to one accounting principle, why it would be inappropriate to value the undamaged units at \$55 each. 3 marks
- 2.3.4 State** what is meant by the term 'net realisable value'. 1 mark

2.4 Swan Electrics plan to introduce a new electric heater imported from New Zealand. The heaters will be delivered in shipments of 100 units. They will be sold under Swan Electrics own brand name. Free delivery is offered to customers. The following details are provided.

Suppliers invoice price	\$45 per unit
Customs duty	\$9 per unit
Freight – to Swan Electrics store	\$800 per shipment
Swan Electrics brand sticker	\$50 per 1 000 stickers
Cost of delivery to customers	\$5 per unit
Insurance of stock in Swan Electrics store	\$1 200 per annum

Required

2.4.1 Calculate the cost price of each heater to be recorded on the stock card.

Show workings.

3 marks

2.4.2 Justify, with reference to one qualitative characteristic, your treatment of the cost of the Swan Electrics brand sticker.

2 marks

2.4.3 Justify your treatment of the cost of delivery to customers.

1 mark

2.4.4 Explain, with reference to the above information, the meaning of the term ‘product cost’.

2 marks

2.5 The accountant provides the following information for Swan Electrics.

	2002	2003	2004
Stock Turnover $\left(\frac{\text{Average Stock} \times 365}{\text{Cost of Goods Sold}} \right)$	81 days	61 days	50 days
Gross Profit Ratio $\left(\frac{\text{Gross Profit}}{\text{Sales}} \right)$	43%	38%	36%

Required

2.5.1 Explain the likely effect the above trends would have on Swan Electrics.

- Gross Profit, and
- Liquidity, over the three year period.

2 + 2 = 4 marks

2.5.2 State one possible reason, other than advertising, for the improvement in stock turnover over the three year period.

1 mark

2.6 On 26 December 2004, a customer paid \$1 000 in advance for a new washing machine (cost \$600) that will come onto the market in January 2005. The new machine was delivered to the customer on 16 January 2005. Total cash receipts for December 2004 were \$30 000.

Required

2.6.1 Show how the relevant General Ledger accounts would appear after the transaction on 26 December has been posted from the Cash Receipts Journal. Insert the name of the second ledger (Account 210) in the answer booklet.

3 marks

2.6.2 Prepare the General Journal entries required on the 16 January after the washing machine has been delivered.

(Narrations are **not** required.)

4 marks

2.7 On 1 February 2005 Swan Electrics invested \$60 000 in a 6 month Bank Term Deposit. This was recorded in the ledger as a current asset, Term Deposit. The interest rate was 5% per annum with interest payable at maturity.

Interest earned to 30 June 2005 was \$1 250. A balance day adjustment was made on 30 June to record this interest. The General Journal entry was as follows.

General Journal

GJ6

Date 2005	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit	Credit	Debit	Credit
June 30	Accrued Interest Revenue		1 250			
	Interest Revenue			1 250		
	<i>Interest owing on Term Deposit</i>					

On maturity at 31 July 2005 a cheque for \$61 500 was received from the bank.

Required

Record the receipt of \$61 500 on 31 July in the Cash Receipts Journal.

3 marks

Total 45 marks

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Question 1 – Magical Music**1.1.1****201****CREDITORS CONTROL**

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

6 marks

1.1.2

Explanation

2 marks

1.2.1

Explanation

2 marks

1.2.2

Identify

1 mark

TURN OVER

1.3.1

Positive effect

1 mark

1.3.2

Negative effect

1 mark

1.4.1

Stock Item 64: Guitars

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
2005 Jan										
1	Balance							12	150	1800
3	Rec. 23				3	150	450	9	150	1350
7	Inv. A45				2	150	300	7	150	1050

4 marks

1.4.2

GENERAL JOURNAL

Date	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$
2005						

2 marks

1.4.3

SALES JOURNAL

Date 2005	Debtor	Post Ref.	Invoice	Cost Price	Selling Price	GST	Total Debtors

2 marks

1.4.4

First way
Second way

1 + 1 = 2 marks

1.5.1

**MAGICAL MUSIC
CASH FLOW VARIANCE REPORT
FOR YEAR ENDING 31 DECEMBER 2005**

	Budget	Actual	Variance	F=Favourable
	\$	\$	\$	U=Unfavourable
Cash Receipts				
Cash Sales	320 000	290 000		
Receipts from Debtors	65 000	50 000		
Loan from NCS Bank	<u>—</u>	<u>25 000</u>		
	385 000	365 000		
Less Cash Payments				
Payments to Creditors	200 000	200 000		
Rent	33 000	33 000		
Wages	45 000	48 000		
Motor Vehicle	—	55 000		
Drawings	37 000	35 000		
Interest on Loan	—	2 000		
Advertising	20 000	19 000		
Vehicle Expenses	<u>17 000</u>	<u>22 000</u>		
	352 000	414 000		
Surplus/Deficit	33 000	(49 000)		
Cash Balance at 1 January 2005	<u>(23 000)</u>	<u>(23 000)</u>		
Cash Balance at 31 December 2005	<u>10 000</u>	<u>(72 000)</u>		

4 marks

**Question 1 – continued
TURN OVER**

1.5.2

Reason 1
Reason 2

1 + 1 = 2 marks

1.5.3

Reason 1
Reason 2

1 + 1 = 2 marks

1.5.4

Explanation

2 marks

1.5.5

Profitability
Liquidity

1 + 1 = 2 marks

1.5.6

Explanation

2 marks

1.5.7

Explanation

2 marks

1.6

MAGICAL MUSIC
BUDGETED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2006

	\$	\$		\$	\$
Current Assets			Current Liabilities		
Non-Current Assets			Non-Current Liabilities		
			Owner's Equity		
			– Capital (1–1–06)	325 000	

6 marks

Total 45 marks

TURN OVER

Question 2 – Swan Electrics

2.1.1

SALES JOURNAL

Date 2004	Debtor	Post Ref.	Invoice	Cost Price	Selling Price	GST	Total Debtors

2 marks

2.1.2 Cash Receipts Journal (extract)

Date 2004	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	GST	Sundries

2 marks

2.1.3 Subsidiary Ledger (extract)

DEBTOR – J Barrow

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

2 marks

2.2.1

Entry	

1 mark

2.2.2

Amount \$	
------------------	--

1 mark

2.2.3

Account: 205

GST CLEARING

Date 2004	Cross reference	Post Ref.	\$	Date 2004	Cross reference	Post Ref.	\$
Nov 30	Bank	CPJ1	1 500	Nov 1	Balance		1 500
30	Bank	CPJ1	300	30	Bank	CRJ1	950
	Creditors Control	PJ1	500		Debtors Control	SJ1	1 200

1 mark

2.2.4

Statement of Financial Position

Amount \$	Classification

Statement of Cash Flows (show classification items and amounts)

Operating
Inflows _____

Outflows _____

1 + 2 = 3 marks

2.3.1

GENERAL JOURNAL

Date 2004	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$

3 marks

2.3.2

Calculation	
	\$

3 marks

2.3.3

Accounting principle
Explanation

3 marks

2.3.4

Meaning

1 mark

2.4.1

Calculation	
	Cost price \$

3 marks

2.4.2

Qualitative characteristic
Justification

2 marks

2.4.3

Justification

1 mark

2.4.4

Explanation

2 marks

2.5.1

Explanation (Gross Profit)
Explanation (Liquidity)

2 + 2 = 4 marks

2.5.2

Reason

1 mark

2.6.1

101

BANK

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

210

(insert account title)

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

3 marks

2.6.2

GENERAL JOURNAL

Date 2005	Particulars	Post Ref.	General Ledger		Subsidiary Ledger	
			Debit \$	Credit \$	Debit \$	Credit \$

4 marks

2.7 Cash Receipts Journal (extract)

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

3 marks

Total 45 marks