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Trial Examination 2020

# **VCE Accounting Units 3&4**

Written Examination

**Suggested Solutions**

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**Question 1** (17 marks)

**a.**

**Collin’s Computers  
General Ledger**

**Inventory**

<b>Date 2020</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2020</b>	<b>Cross-reference</b>	<b>Amount</b>
Jun. 10	Accounts Payable	9 000	Jun. 15	Drawings	100
20	Cost of Sales	50		Cost of Sales	900
			20	Accounts Payable – Ajax Ltd.	50
			30	Balance	<u>8 000</u>
		9 050			9 050
Jul. 1	Balance	8 000			

5 marks

*1 mark for each entry in the account.*

*The account must be balanced, including carrying the balance forward.*

*Deduct 1 mark if the account is not balanced.*

*Deduct 1 mark if dates are incorrect.*

**b.**

**Collin’s Computers  
General Journal**

<b>Date 2020</b>	<b>Details</b>	<b>Debit</b>	<b>Credit</b>
Jun. 1	Bank	45 000	
	Loan – Savings Co.		45 000
	Vehicle	50 000	
	GST Clearing	5 000	
	Bank		55 000

4 marks

*1 mark for Bank (debit entry).*

*1 mark for Loan – Savings Co.*

*1 mark for Vehicle/GST Clearing.*

*1 mark for Bank (credit entry).*

c.

**Working space**

GST clearing: Vehicle purchase \$5 000 + inventory purchase \$900 + GST on sales return \$10 – GST on sales \$180 – GST on purchase return \$5 = \$5 725

Inventory: Purchase \$9 000 – Drawings \$100 – Cost of sales \$900 + Inventory returned to business \$50 – Inventory returned to supplier \$50 = \$8 000

Accounts Receivable: Sales \$1 980 – Returns \$110 = \$1 870

Accounts Payable: Purchases \$9900 – Returns \$55 = \$9 845

**Collin's Computers**  
**Balance Sheet (extract) as at 30 June 2020**

Assets			Equities		
Current Assets	\$	\$	Current Liabilities	\$	\$
Bank	40 000		Loan – Savings Co.	15 000	
GST Clearing	5 725		Accounts Payable – Ajax Ltd.	9 845	24 845
Inventory	8 000				
Accounts Receivable – M Robson	1 870	55 595			

5 marks

*1 mark for Bank and Loan – Savings Co.**1 mark each for all other items in the report extract.**Deduct 1 mark if both sections of report are not totalled.*

d.

<b>Accounting assumption:</b> Liability
<b>Explanation</b>
The loan is considered a liability as it is a present obligation of the business to transfer an economic resource to another entity as a result of a past transaction. It is reported as both a current liability and a non-current liability as one third of the loan will be repaid within 12 months – the obligation will be met within 12 months while the remainder of the loan will be repaid in future periods greater than 12 months.

3 marks

*1 mark for identifying the loan as a liability.**1 mark for recognising that part of the loan is a current liability.**1 mark for recognising that the remainder of the loan is a non-current liability.*

**Question 2** (14 marks)

**a.**

**Inventory Card**

Item: Pike Paper Plate Code: P76 Supplier: Ace Traders		Cost Assignment Method: Identified Cost								
Date 2020	Document	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Aug. 1	Balance							8	30	240
9	Rec. 241				2	30	60	6	30	180
22	Inv. AT97	20	30	600						
	Chq. 483	20	2	40				6	30	180
								20	32	640
27	Inv. AS25				3	30		3	30	90
					5	32	250	15	32	480
31	Memo 9				1	30	30	2	30	60
								15	32	480

4 marks

*1 mark for each entry in the Inventory Card.*

*Re-badging cost must be shown separately but added to the unit cost.*

**b.**

Explanation
The re-badging is a cost of getting the inventory into a condition and position to be sold. As such it is treated as a product cost and added to the cost price of the inventory to allow the business to determine selling price.

3 marks

*1 mark for recognising that the re-badging is a cost of getting inventory into a position and condition for sale.*

*1 mark for recognising that the re-badging is treated as a product cost.*

*1 mark for identifying that the cost is added to the cost price.*

c.

**Halibut Stores****General Journal**

<b>Date 2020</b>	<b>Details</b>	<b>Debit</b>	<b>Credit</b>
Aug. 27	Accounts Receivable – Dunbarton Ltd.	550	
	Sales		500
	GST Clearing		50
	Cost of Sales	250	
	Inventory		250
	<i>Credit sale of 8 Pike Paper Plates – Inv. AS25</i>		

4 marks

*1 mark for Accounts Receivable – Dunbarton Ltd.**1 mark for Sales/GST Clearing.**1 mark for Cost of Sales/Inventory.**1 mark for narration as shown.*

d.

<b>Qualitative characteristic:</b> Verifiability
<b>Explanation</b>
A narration is a statement that details the transaction that has taken place. Included in the narration is reference to the document that relates to that transaction. Documents provide evidence that the transaction has occurred by providing part of the audit trail that is created between the document, the financial records and the financial reports of the business.
This supports the qualitative characteristic of verifiability, which requires that all transactions be supported by reliable evidence of their occurrence.

3 marks

*1 mark for providing a definition of narration.**1 mark for identifying that the documents provide evidence.**1 mark for recognising verifiability as the qualitative characteristic.*

**Question 3** (8 marks)

**a.**

**McCulloch Mowers**

**General Ledger**

**Wages**

Date 2020	Cross-reference	Amount	Date 2020	Cross-reference	Amount
Jul. 11	Bank	1 700	Jul. 31	Profit and Loss Summary	8 100
25	Bank	4 200			
31	Accrued Wages	<u>2 200</u>			
		<u>8 100</u>			<u>8 100</u>

3 marks

*1 mark for both Bank entries.*

*1 mark for Accrued Wages entry.*

*1 mark for Profit and Loss Summary entry.*

*Deduct a maximum of 1 mark if the totals of both sides are not provided.*

**b.**

**McCulloch Mowers**

**General Journal**

Date 2020	Details	Debit	Credit
Jul. 11	Accrued Wages	2 300	
	Wages	1 700	
	Bank		4 000

2 marks

*1 mark for both debit entries.*

*1 mark for credit entry.*

**c.**

<b>Accounting assumption:</b> The period assumption
<b>Explanation</b>
The period assumption requires expenses incurred for a period to be matched against the revenue earned for the period to determine an accurate profit. In this way, wages expense may be different to wages paid as some of the wages expense has been incurred in this period but will not be paid until a future period – this is the wages owing at the end of the period. They will be reported this period but will not be paid until the next period.

3 marks

*1 mark for identifying the period assumption.*

*1 mark for stating that the wages are incurred but not yet paid.*

*1 mark for referencing the amount that will be paid in a future period.*

**Question 4** (12 marks)

a.

**Classification:** Investing activity inflow

1 mark

*Award mark for response as shown; response must refer to inflow.*

b.

**OfficeStuff****General Ledger**

Date 2020	Cross-reference	Amount	Date 2020	Cross-reference	Amount
Apr. 1	Delivery Van	40 000	April 1	Accumulated Depreciation – Delivery Van	32 000
				Bank	6 000
				Loss on Disposal of Delivery Van	2 000
		40 000			40 000

4 marks

*1 mark for each entry in account.**Deduct 1 mark if the account is not balanced.*

c.

	Income Statement	Cash Flow Statement
<b>Classification of the Loss on Disposal of Delivery Van</b>	other expense	not reported

2 marks

*1 mark for each correct classification.*

d.

<b>Analysis</b>
The data provides what appears to be an obvious option for the owner – Option B. The Net Cash
Flow is less than that for Option A and the expenses charged for Option B are also less. This would mean
a reduced impact on the profit of the business and cash flow. However, there are other considerations
to take into account. Option A is a five-year option with the payments and expenses spread out over five
years rather than three years. If the data were prepared per annum, it may have resulted in a different
effect. Secondly, Option A provides an asset that the business may receive cash from when it is disposed
of at the end of its useful life – a factor not considered in Option B. A further consideration is the
expenses that would be involved with the asset – petrol, registration, insurance, servicing and repairs.
These are incurred by the business under Option A, but there is no information regarding this for Option
B and so any decision made would be based on incomplete information.
However, as a recommendation is required, Option B would appear to be the most suitable.

5 marks

*Mark globally.**Each option must be assessed and other factors must be provided.**A recommendation must be provided.*

**Question 5** (18 marks)

**a.**

<b>Working space</b>
Rent: Paid $\frac{18\,000}{12} = 1\,500$ per month $\times 4$ months = \$6 000
Depreciation of equipment: $72\,000 \times 0.1 = \frac{7\,200 \text{ per annum}}{12} = 600$ per month $\times 4$ months = \$2 400
Bad debts: Credit sales ( $105\,000 \times 0.40\% = 42\,000$ ) – sales returns (2 000) = net credit sales \$4 000 $\times 1\% =$ \$400
Inventory gain: $34\,000 - \text{Drawings } 800 = 33\,200$ as per Inventory Card – stocktake \$34 200 = \$1 000 gain

**Baronettes**

**General Journal**

Date 2020	Details	Debit	Credit
Jun. 30	Rent Expense	6 000	
	Prepaid Rent Expense		6 000
	Depreciation – Equipment	2 400	
	Accumulated Depreciation – Equipment		2 400
	Wages	1 200	
	Accrued Wages		1 200
	Bad Debts	400	
	Allowance for Doubtful Debts		400
	Drawings	800	
	Inventory		800
	Inventory	1 000	
	Inventory Gain		1 000

10 marks

*1 mark for Wages/Accrued Wages entries.*

*1 mark for Drawings/Inventory entries.*

*1 mark for each other line in the General Journal.*



b.

**Baronettes**  
**Income Statement (extract) for the year ended 30 June 2020**

	\$	\$
Sales	105 000	
Less Sales Returns	<u>2 000</u>	103 000
<b>Less Cost of Goods Sold</b>		
Cost of Sales	51 500	
Freight In	<u>2 300</u>	53 800
<b>Gross Profit</b>		<u>49 200</u>
Add Inventory Gain		1 000
<b>Adjusted Gross Profit</b>		<u>50 200</u>

5 marks

*1 mark for each item in the Income Statement (extract).  
Deduct a maximum of 1 mark for incorrect or missing titles.*

c.

<b>Explanation</b>
The vehicle was purchased by the owner but, as she transferred it to the business, it needs to be reported as a business asset. As such, it will contribute to the earning of revenue for the business and so any further loss in value of the asset must be reported as an expense. To not depreciate the asset again would overstate its value in the reports of the business and this will lead to a large loss for the business when it is disposed of in the future.

3 marks

*1 mark for recognising that the vehicle is a business asset.*

*1 mark for recognising that the asset depreciates.*

*1 mark for explaining the contribution to revenue or potential future loss when the asset is disposed.*

**Question 6** (6 marks)

<b>Analysis</b>
The business has had mixed results in terms of the indicators provided in the table. Liquidity appears to be good as both Working Capital and Quick Asset Ratios are positive, suggesting the business is able to meet its short-term debts. The large increase in Working Capital Ratio is likely caused by an increasing holding of inventory – either due to larger than normal purchases or a slowing of sales. This is reflected in a slower Inventory Turnover. One issue that the owner may be concerned about is the difference between the Accounts Receivable Turnover and the Accounts Payable Turnover. Accounts Receivable are paying slower, but the business is paying its suppliers quicker – ideally the business should use the cash from customers to pay suppliers. This avoids the risk of going into overdraft in the Bank account. This could be due to buying more inventory for cash (a deal for bulk/cash purchases may help explain the slower Inventory Turnover and faster Accounts Payable Turnover – the business is buying less on credit).

*Mark globally.*

*Assess response based on the depth of analysis; consider how many links have been made between the indicators to explain the performance of the indicators.*

**Question 7** (7 marks)

a.

**Lighting Paradise**

**General Journal**

Date 2020	Details	Debit	Credit
May 17	Bank	500	
	Unearned Sales		500
Jun. 3	Unearned Sales	500	
	Accounts Receivable – Norwood Hotels	6 100	
	Sales		6 000
	GST Clearing		600
	Cost of Sales	4 500	
	Inventory		4 500

4 marks

*1 mark for the first General Journal entry.*

*1 mark for Unearned Sales/Sales entry.*

*1 mark for GST Clearing and Accounts Receivable – Norwood Hotels.*

*1 mark for Cost of Sales/Inventory entry.*

**b.**

<b>Explanation</b>
The delivery costs are an expense for Lighting Paradise and will be reported as an Other Expense in the Income Statement. This is because they cannot be considered a product or period cost as they do not relate to getting inventory into a position for sale. As they are incurred after a sale has been made, they must be treated as an Other Expense.

3 marks

*1 mark for identifying that the delivery costs are reported as an Other Expense.**1 mark for identifying that they are not product/period costs, as they do not relate to buying inventory.**1 mark for identifying that the costs are incurred after a sale.***Question 8 (5 marks)**

<b>Analysis</b>
The issue the owner is likely referring to is the excess of cash that the business has. A high Cash Flow Cover suggests low Current Liabilities and/or very high levels of Cash Flows from Operations.
In this situation, it is likely the business has a large debit balance in the business Bank account; this can be seen as an issue as it is an asset that is not generating revenue for the business.
A possible strategy would be to invest the excess cash into a term deposit where higher than normal interest could be earned, generating income for the business. If the term were for 12 months then the business would have access to the money should the need arise and the cash would be safe if deposited in a bank or reputable financial institution.

*Mark globally.**Identification of the issue and one strategy linked to the issue must be provided.**This suggested response is valid as it can be supported by data in the table – all responses must be valid based on the information provided. There are other acceptable responses; teacher judgement should be exercised when marking student responses.*

**Question 9** (13 marks)**Working space**

GST on inventory: \$4 000  
 GST on advertising: \$1 200  
 GST on prepaid rent: \$1 800  
 GST on office expenses: \$300  
 GST on insurance: \$120  
 GST on customs duty: \$500

**Jungle Jim****General Ledger****Accounts Receivable**

<b>Date 2020</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2020</b>	<b>Cross-reference</b>	<b>Amount</b>
<b>Jan. 1</b>	<b>Balance</b>	<b>17 200</b>	Dec. 31	Sales Returns/GST Clearing	6 600
Dec. 31	Sales/GST Clearing	165 000		Allowance for Doubtful Debts/GST Clearing	1 100
				Discount Expense	3 000
				Bank	153 600
				Balance	18 500
		182 200			182 200

*1 mark for Sales/GST Clearing.*

*1 mark for Sales Returns/GST Clearing.*

*1 mark for Allowance for Doubtful Debts/GST Clearing.*

*1 mark for Discount Expense.*

*1 mark for Balance.*

**GST Clearing**

<b>Date 2020</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2020</b>	<b>Cross-reference</b>	<b>Amount</b>
Dec. 31	Bank	5 600	<b>Jan. 1</b>	<b>Balance</b>	<b>5 600</b>
	Accounts Receivable	600	Dec. 31	Bank	10 780
	Bank	7 920		Accounts Receivable	15 000
	Accounts Payable	9 000		Accounts Payable	300
	Accounts Receivable	100			

*1 mark for each item on the credit side of the account (3 marks).*

*1 mark for Bank \$5 600 and Accounts Payable on the debit side of the account (1 mark).*

*1 mark for every two items correctly calculated to determine Bank \$7 920 on the debit side of the account (3 marks).*

*1 mark for Accounts Receivable entries on the debit side of the account (1 mark).*