



Trial Examination 2023

VCE Accounting Units 3&4

Written Examination

Suggested Solutions

Question 1 (8 marks)

a.

Description
A memo is used to verify transactions within a business itself and non-cash transactions between the business and the owner.

1 mark

1 mark for describing the purpose of a memo.

b.

Astonishing Antiques

General Journal

Date 2023	Details	Debit \$	Credit \$
July 1	Cash at Bank	52 000	
	Vehicle	44 000	
	Inventory	18 000	
	Loan		24 000
	Capital – A Radcliffe		90 000
	Owner contributes assets and liabilities to commence operations (Memo 1)		

3 marks

1 mark for debit entries Cash at Bank, Vehicle and Inventory.

1 mark for credit entries Loan and Capital.

1 mark for narration.

c.

Explanation
The value of the vehicle would have been determined as a fair value; that is, it was arrived at based on professional advice from knowledgeable and independent people in the car industry at the date that the vehicle was contributed to the business. It represents the value of future economic benefit that the asset is expected to provide to the business.

2 marks

1 mark for explaining that the value of \$44 000 is the asset's fair value.

1 mark for explaining what the fair value represents.

d.

Description
Amina could install security cameras in the area where the inventory of antiques is stored. This could help protect the inventory from theft and damage while it is being held prior to sale.

2 marks

1 mark for identifying a relevant internal control procedure.

1 mark for describing how the internal control procedure would safeguard the inventory.

Note: Other appropriate internal control procedures include separation of duties and a security/alarm system.

Question 2 (11 marks)

a.

Suggestion
The First-In, First-Out (FIFO) method may not provide the most accurate and detailed information on inventory lines as it is based on the assumption that the first goods purchased are the first goods sold, which is not always true.

1 mark

1 mark for suggesting a relevant limitation of the FIFO method.

Note: Accept other suitable responses; for example, in times of rising prices, the FIFO method can lead to an overstatement of gross profit for the period, which provides misleading information to decision makers.

b.

Inventory Card

Item: Smooth Ride adult scooters					Cost Assignment Method: FIFO					
Code: SR4000										
Supplier: Recharge Electronix										
Location: J4										
Date 2023	Document	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Aug. 1	Balance							2	500	1 000
								6	510	3 060
5	Inv. 666				2	500	1 000	6	510	3 060
12	Inv. 541 / Rec. 38	6	520	3 120				6	510	3 060
								6	520	3 120
20	Cr.N. 50	1	500	500				1	500	500
								6	510	3 060
								6	520	3 120
25	Cr.N. 899				1	500	500	6	510	3 060
								6	520	3 120
30	Memo 90				1	510	510	5	510	2 550
								6	520	3 120

5 marks

1 mark for each entry (per date).

c.

Westerly Scooters**General Journal**

Date 2023	Details	Debit \$	Credit \$
Aug. 15	Accounts Payable – Alltown Motors	4 400	
	Cash at Bank		4 180
	Discount Revenue		220
20	Sales Returns	800	
	GST Clearing	80	
	Accounts Receivable – J Hope		880
	Inventory	500	
	Cost of Sales		500

5 marks

*1 mark for debit entry Accounts Payable.**1 mark for credit entry Cash at Bank and Discount Revenue.**1 mark for debit entry Sales Returns and GST Clearing.**1 mark for credit entry Accounts Receivable.**1 mark for debit entry Inventory and credit entry Cost of Sales.***Question 3 (16 marks)**

a.

Explanation
The \$62 500 value is the carrying value of the delivery vans held by Finch's Florist on 30 June 2023.
It is determined by deducting the accumulated depreciation of the assets on this date from their historical cost, that being all the costs incurred to bring the vans to revenue earning capacity. This amount represents the portion of the vans' value that is yet to be consumed by Finch's Florist plus any residual value.

3 marks

*1 mark for identifying the \$62 000 value as the carrying value.**1 mark for explaining how the value is calculated.**1 mark for explaining what the value represents.*

b.

Working space

Accumulated Depreciation of Delivery Van being disposed of at disposal date of 30 November 2023

= \$40 000 – \$26 244 + 5 months depreciation at 20% per annum using the reducing balance method

$$= \$13\,756 + \left(\$26\,244 \times 0.2 \times \frac{5}{12} \right)$$

= \$13 756 + \$2 187

= \$15 943

loss on disposal of Delivery Van = carrying value at time of disposal – trade in value

$$= (\$40\,000 - \$15\,943) - \$19\,000$$

= \$5 057

Finch's Florist**General Ledger****Delivery Vans**

Date 2023	Cross-reference	Amount	Date 2023	Cross-reference	Amount
July 1	Balance	105 000	Nov. 30	Disposal of Delivery Van	40 000
Nov. 30	Disposal of Delivery Van	19 000			
	Cash at Bank	26 000			

3 marks

*1 mark for debit entry Disposal of Delivery Van.**1 mark for debit entry Cash at Bank.**1 mark for credit entry Disposal of Delivery Van.***Disposal of Delivery Van**

Date 2023	Cross-reference	Amount	Date 2023	Cross-reference	Amount
Nov. 30	Delivery Van	40 000	Nov. 30	Accumulated Depreciation of Delivery Van	15 943
				Delivery Vans	19 000
				Loss on disposal of Delivery Van	5 057

4 marks

*2 marks for credit entry Accumulated Depreciation of Delivery Van.**1 mark for debit entry Delivery Vans and credit entry Delivery Vans.**1 mark for credit entry Loss on disposal of Delivery Van.*

c.

Discussion
Using the straight-line method of depreciation for the new van would assume there is an even revenue-earning pattern over the life of the asset. Under this method, the depreciation expense for each period would be calculated using a set rate of the historical cost figure of \$45 000 that would remain the same across the van's useful life.
In contrast, the reducing balance method assumes the van will help Finch's Florist generate more revenue in the earlier periods of its useful life compared to the later periods. Under this method, the depreciation expense for each period would be calculated at a rate of the van's carrying value. This carrying value would be relatively high in upcoming periods because the asset is early in its useful life.
As a result, if Aaron were to use the straight-line method for the new van, the depreciation expense in upcoming periods would be lower than if he used the reducing balance method. Therefore, Aaron's friend is correct in saying that this will make the business's profit figures look more favourable in these periods.
However, over the life of the van, both methods of depreciation result in the same amount of total depreciation allocated to the asset. This means that while using the straight-line method may make profit figures appear more favourable in upcoming periods, the reverse may happen in later periods as the van ages and its carrying value falls. The depreciation expense under the straight-line method in these periods will be higher than under the reducing balance method, meaning profit figures will appear less favourable.
Aaron should also consider the ethical issues associated with his friend's advice. If the primary objective of using the straight-line method for the new van is to inflate profit figures in upcoming periods, this would not be considered ethical. The role of the accounting process is to provide an unbiased, accurate and relevant appraisal of a business. An important financial decision, such as the choice of depreciation method, should be based on sound economic reasoning, not how favourably a method will impact reports.
Under the accrual basis assumption, the aim of depreciation is to match the revenue an asset helps generate in a period with the expense it creates in the same period. According to this, the revenue-earning pattern of the asset should be the primary consideration when selecting a depreciation method rather than the impact the method will have on profit.

6 marks

1 mark for demonstrating an understanding of the straight-line method of depreciation.

1 mark for demonstrating an understanding of the reducing balance method of depreciation.

2 marks for discussing the financial impacts of using the straight-line method.

2 marks for discussing at least one relevant ethical consideration of using the straight-line method.

Question 4 (17 marks)

a.

Working spaceSales/GST Clearing = $\$250\,000 \times 1.05 = \$262\,500 \times 1.1 = \$288\,750$ Sales Returns/GST Clearing = $\$262\,500 \times 0.02 = \$5\,250 \times 1.1 = \$5\,775$ Net Sales = $\$262\,500 - \$5\,250 = \$257\,250$ Discount Expense = $\$257\,250 \times 0.02 = \$5\,145$ Allowance for Doubtful Debts/GST Clearing = $\$1\,800 \times 1.1 = \$1\,980$ **Accounts Receivable**

Date 2023	Cross-reference	Amount	Date 2023	Cross-reference	Amount
Dec. 1	Balance	47 500	Dec. 31	Sales Returns/GST Clearing	5 775
31	Sales/GST Clearing	288 750		Discount Expense	5 145
				Bank	263 350
				Allowance for Doubtful Debts/GST Clearing	1 980
				Balance	60 000
		336 250			336 250

Receipts from Accounts Receivable	263 350
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6 marks

*1 mark for opening debit and closing credit balance entries.**1 mark for debit entry Sales/GST Clearing.**1 mark for credit entry Sales Returns/GST Clearing.**1 mark for credit entry Discount Expense.**1 mark for credit entry Allowance for Doubtful Debts/GST Clearing.**1 mark for credit entries Bank and Receipts from Accounts Receivable.*

b.

Working space

$$\text{Inventory} = \$257\,250 \times 0.4 = \$102\,900$$

$$\text{Wages} = \$257\,250 \times 0.3 = \$77\,175$$

$$\begin{aligned} \text{GST Paid} &= \$10\,290 \text{ (GST on Inventory)} + \$380 \text{ (GST on Administrative Expenses)} \\ &= \$10\,670 \end{aligned}$$

E+ Supplies**Budgeted Cash Flow Statement (extract) for December 2023**

	\$	\$
Cash Flow from Operating Activities		
Receipts from Accounts Receivable		263 350
Inventory	(102 900)	
Wages Expense	(77 175)	
Accrued Wages	(900)	
Administrative Expenses	(3 800)	
GST Paid	(10 670)	(195 445)
Net Cash Flow from Operating Activities		67 905

5 marks

*1 mark for Receipts from Accounts Receivable and Administrative Expenses.**1 mark for Inventory.**1 mark for Wages Expense and Accrued Wages.**1 mark for GST Paid.**1 mark for Net Cash Flow from Operating Activities.**Note: Consequential on answer to **Question 4a**.*

c.

Explanation
The fact that wages paid (totalling \$78 075) exceeds wages expense (\$77 175) would be a factor that contributes to a higher Net Profit than Net Cash Flow from Operating Activities. This would mean that wages expense would lower profit by a lesser amount than wages paid would lower the Net Cash Flow from Operating Activities.
The fact that the business expects to pay \$102 900 for inventory during December but has Cost of Sales of \$98 400 is another factor. This cash flow would lower Net Cash Flow from Operating Activities by a higher amount than the corresponding expense would lower Net Profit.

4 marks

*1 mark for each factor identified.**1 mark for each factor explained in terms of how they lead to a higher Net Profit than Net Cash Flow from Operating Activities.*

d.

E+ Supplies**Budgeted Balance Sheet (extract) as at 31 December 2023**

	\$	\$
Current Assets		
Prepaid Rent		16 000

2 marks

*1 mark for sub-heading Current Assets and item Prepaid Rent.**1 mark for finding the Prepaid Rent amount.*

Note: Prepaid Rent on 1 September 2023 was \$26 400 (including GST), which is \$24 000 (excluding GST). Therefore, the monthly rent expense is \$2 000. After four months, at 31 December 2023, \$8 000 has been consumed, with \$16 000 remaining prepaid.

Question 5 (8 marks)

a.

Discussion
Suzie correctly recorded the receipt of \$400 on 25 June 2023 as Unearned Sales Revenue, which would be reported in the Balance Sheet as a Current Liability. The \$400 represents a present obligation of the business to provide custom jewellery to the customer within 12 months (expected to occur in August). In doing this, Suzie has adhered to the relevance characteristic, in that she has included useful information in her reports that can make a difference to decision-making. However, the recording of the credit sale of \$5 600 plus a \$560 increase in the GST Clearing liability before the goods were provided to the customer is incorrect. Suzie breached the faithful representation characteristic. The value of revenue (Sales Revenue) and assets (Accounts Receivable) reported by the business for the year ending 30 June 2023 would have been overstated, meaning the reports would not provide a faithful representation of the real-world economic event that occurred. At this date, Suzie only received a deposit; no sale took place as the goods had not been exchanged yet.

4 marks

*1 mark for stating that Suzie's treatment of the deposit was correct.**1 mark for justification with reference to an appropriate element and/or characteristic.**1 mark for stating that Suzie's treatment of the credit sale was incorrect.**1 mark for justification with reference to an appropriate element and/or characteristic.**Note: Responses may also refer to the definition of revenue not yet being met. Responses may also refer to verifiability; however, these responses would need to be careful in doing so because there is source document evidence of a transaction, but not of a credit sale.*

b.

S. Ho Custom Jewellers**General Journal**

Date 2023	Details	Debit \$	Credit \$
Aug. 15	Unearned Sales Revenue	400	
	Accounts Receivable – L Lockhart	5 760	
	Sales Revenue		5 600
	GST Clearing		560
	Cost of Sales	2 240	
	Inventory		2 240
	Custom jewellery delivered to customer following deposit (Inv. 0890)		

4 marks

*1 mark for debit entry Unearned Sales Revenue and debit entry Accounts Receivable.**1 mark for credit entries Sales Revenue and GST Clearing.**1 mark for debit entry Cost of Sales and credit entry Inventory.**1 mark for narration.*

Question 6 (8 marks)**a.**

Description
In 2020, Lowman Furniture was retaining approximately 52 cents of every dollar of sales revenue as Gross Profit; this decreased to approximately 45 cents of the dollar in 2022 and was maintained in 2023. The change in purchasing strategy caused an increase in cost prices relative to selling prices (lower average mark-up), creating an unfavourable trend in the Gross Profit Margin for the business.

2 marks

*1 mark for referring to the information and data.
1 mark for describing the trend as unfavourable.*

b.

Evaluation
While the data shows that the business's Gross Profit Margin has fallen, it also indicates that sales revenue has increased, perhaps due to the favourable impact of the advertising campaign and the willingness of customers to purchase products that have been sourced sustainably.
Even though Lowman Furniture has increased its advertising expense, the trend in its Net Profit Margin is favourable, indicating better expense control overall. In 2020, the business was retaining approximately 11 cents of every dollar of sales revenue as Net Profit; this increased to approximately 16 cents of the dollar in 2023.
Therefore, even though the business is earning less profit per sale made (that is, it has a lower Gross Profit Margin), it is still retaining a higher portion of sales revenue as Net Profit after all expenses have been accounted for. This would indicate that the new purchasing strategy and the associated advertising campaign have been successful.

4 marks

1 mark for identifying the improvement in the Net Profit Margin despite the decrease in the Gross Profit Margin.

1 mark for explaining how this is possible.

1 mark for referring to the data.

1 mark for providing a conclusion to the evaluation.

c.

Indicators
Any two of:
<ul style="list-style-type: none"> • customer satisfaction surveys • number of sales returns • number of website hits • number of customer complaints • number of repeat customers

2 marks

1 mark for each indicator provided.

Note: Responses may provide any relevant non-financial indicator.

Question 7 (9 marks)

a.

Working space	
net realisable value (NRV) of the damaged items = estimated selling price – direct selling expenses	
$= \$30 - \left(\frac{\$50}{10} \right)$	
$= \$25$	
Nine items need to be written-down by \$5 (from \$30 to \$25).	
One item needs to be written-down by \$7 (from \$32 to \$25).	
Therefore, inventory write-down = (9 × \$5) + (1 × \$7) = \$52.	
Inventory write-down	\$52

3 marks

*1 mark for calculating the NRV (either per unit or total).
1 mark for showing the calculation of the inventory write-down.
1 mark for providing the correct inventory write-down amount.*

b.

Inventory Card

Item: Colour Play Drum Kits					Cost Assignment Method: Identified Cost					
Code: CPDK20										
Supplier: JT Manufacturing										
Date 2023	Document	IN			OUT			BALANCE		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Mar. 31	Balance							9	30	270
								1	32	32
Apr. 8	Memo 09				9	5	45			
					1	7	7	10	25	250

2 marks

*1 mark for the date, document and balance entries.
1 mark for the out entries.*

c.

Explanation
If the inventory write-down had not been recorded, there would have been no effect on the Cash Flow Statement as this is a non-cash transaction.
In the Income Statement, Adjusted Gross Profit and Net Profit would be overstated by \$52 because of the lack of reporting Inventory write-down as an expense.
In the Balance Sheet, Assets (Inventory) would be overstated by \$52 from not recognising the reduction in economic benefit provided by the damaged units. Owner's Equity would also be overstated by \$52 from not recognising the effect the expense had on Net Profit.

4 marks

1 mark for stating there would be no impact on the Cash Flow Statement.

1 mark for identifying the impact on the Income Statement.

1 mark for identifying the impact on Assets in the Balance Sheet.

1 mark for identifying the impact on Owner's Equity in the Balance Sheet.

Question 8 (14 marks)**a.****Working space**

Allowance for Doubtful Debts = $0.02 \times (\$130\,000 - \$3\,500) = \$2\,530$

Interest on Term Deposit = $0.03 \times \$30\,000 = \900 per annum

Since 30 April 2023, two months of interest revenue has accrued = $\left(\frac{\$900}{12}\right) \times 2 = \150 .

PG Garden Furniture**General Journal**

Date 2023	Details	Debit \$	Credit \$
June 30	Bad Debts Expense	2 530	
	Allowance for Doubtful Debts		2 530
	Accrued Interest Revenue	150	
	Interest Revenue		150
	Inventory	2 000	
	GST Clearing	200	
	Wages		2 200

6 marks

1 mark for finding the Allowance for Doubtful Debts amount.

1 mark for debit entry Bad Debt Expense and credit entry Allowance for Doubtful Debts.

1 mark for finding the Accrued Interest Revenue amount.

1 mark for debit entry Accrued Interest Revenue and credit entry Interest Revenue.

1 mark for debit entry Inventory and debit entry GST Clearing correcting entry.

1 mark for credit entry Wages correcting entry.

Note: To reverse the incorrectly recorded wages payment, Bank is debited \$2 200 and Wages is credited \$2 200. To record the inventory purchase, Inventory is debited \$2 000, GST Clearing is debited \$200 and Bank is credited \$2 200. The Bank entries cancel out, so the correcting entry is what remains.

b.

Justification
If it is common for some of PG Garden Furniture's credit sales to never result in a cash inflow,
it is important that the business creates an Allowance for Doubtful Debts on the balance day of the period
in which the credit sales are made, rather than waiting for the debts to be deemed irrecoverable.
This enables the expected bad debts expense to be taken into account in the period in which the credit
sales relating to those unrecoverable debts are earned. As such, the business matches revenues
earned against expenses incurred in the same period to determine the most useful profit figure
for decision making, as required by the accrual basis assumption.

2 marks

1 mark for justifying the owner's decision by demonstrating understanding of the purpose of an Allowance for Doubtful Debts.

1 mark for referring to the accrual basis assumption.

c.

PG Garden Furniture

Income Statement for the year ending 30 June 2023

	\$	\$
Revenue		
Sales	130 000	
Less Sales Returns	3 500	126 500
Less Cost of Goods Sold		
Cost of Sales	72 000	
Freight In	4 000	76 000
Gross Profit		50 500
Plus Other Revenue		
Interest Revenue		600
Less Other Expenses		
Discount Expense	900	
Bad Debts Expense	2 530	
Wages	28 800	32 230
Net Profit		18 870

6 marks

1 mark for Sales, Sales Returns and Net Sales.

1 mark for Cost of Sales and Freight In.

1 mark for Gross Profit.

1 mark for Interest Revenue.

1 mark for Discount Expense, Bad Debts Expense and Wages.

1 mark for Net Profit.

Question 9 (9 marks)**a.****Softest Soap****General Ledger****Capital**

Date 2023	Cross-reference	Amount	Date 2023	Cross-reference	Amount
June 30	Drawings	6 900	June 1	Balance	57 600
	Profit and Loss Summary	1 950	18	Bank	1 000
	Balance	49 750			
		58 600			58 600
			July 1	Balance	49 750

3 marks

*1 mark for debit entry Drawings.**1 mark for debit entry Profit and Loss Summary.**1 mark for balancing the General Ledger.***b.****Softest Soap****Balance Sheet (extract) as at 30 June 2023**

	\$	\$
Owner's Equity		
Capital	58 600	
Drawings	(6 900)	
Net Loss	(1 950)	49 750

2 marks

*1 mark for Capital.**1 mark for Drawings and Net Loss.*

c.

Explanation
One reason the owner's statement is incorrect is that liquidity, which is the ability of a business to pay short-term debts as they fall due, cannot be evaluated using the Owner's Equity section of the Balance Sheet alone. For this to be evaluated, both current assets and current liabilities would need to be considered.
Even though the business has incurred a Net Loss and seen a reduction in capital in this period, it is still possible that its liquidity is sound; for example, the business may have many current assets that can be easily turned into cash or may have few current liabilities. The owner's decision to refrain from taking drawings is unlikely to have much of an effect on the business's liquidity because most of the drawings were of a computer (a non-current asset), rather than cash.
In fact, the owner contributed \$1 000 cash during the period and withdrew \$1 900, meaning this aspect of his drawings had an even more minimal effect on the business's bank balance.
Furthermore, drawings is not an expense, so it has no effect on the business's profitability. Therefore, this is not a viable solution to address concerns about profitability.

4 marks

*1 mark for demonstrating an understanding of liquidity.**1 mark for explaining why liquidity cannot be assessed using the information provided.**1 mark for explaining why reducing drawings is unlikely to improve liquidity.**1 mark for explaining why reducing drawings will not improve profitability.*