



# Victorian Certificate of Education 2006

## ACCOUNTING

### Written examination 1

**Monday 5 June 2006**

**Reading time: 2.45 pm to 3.00 pm (15 minutes)**

**Writing time: 3.00 pm to 4.30 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 9 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****Fi's Sports**

Given Fiona McInerney's love of sport, she decided to open a small sports shop. The business trades under the name of Fi's Sports. Her accounting system is based on the double entry accrual system of recording and reporting and she maintains a perpetual stock recording system using the FIFO (First In First Out) cost assignment method.

- 1.1 The business commenced trading on 1 January 2006 and the following opening journal entries were prepared to commence double entry records.

**GENERAL JOURNAL****GJ 1**

<b>Date 2006</b>	<b>Accounts</b>	<b>Post Ref.</b>	<b>Debit \$</b>	<b>Credit \$</b>
1 Jan	Computer equipment	151	3 000	
	Land	152	100 000	
	Buildings	153	220 000	
	Capital	301		323 000
	Assets contributed by owner (Memo 1)			

**Cash Receipts Journal****CRJ 1**

<b>Date 2006</b>	<b>Details</b>	<b>Post Ref.</b>	<b>Rec. No.</b>	<b>Bank</b>	<b>Disc. Exp.</b>	<b>Debtors</b>	<b>Cost of Sales</b>	<b>Sales</b>	<b>Sundries</b>
1 Jan	Capital	301		5 000					5 000

**Required**

- 1.1.1 **Explain** the use of the Post Referencing column in the General Journal above, and **state** the source of the account numbers shown in this column.

2 + 1 = 3 marks

- 1.1.2 **Identify** one accounting principle which is reflected in the above Cash Receipts Journal entry.

1 mark

1.2 The only other transactions for the month of January were as follows.

Purchase on 26 January from A1 Sports Supplier

	\$
• 100 tennis racquets at \$60 each	6 000
• 50 cricket bats at \$80 each	4 000
• 40 baseball bats at \$50 each	<u>2 000</u>
	<u>12 000</u> (Invoice No. 76)

Sale on 28 January (this transaction has been entered into the Sales Journal – SJ1)

- City Secondary College for 15 baseball bats at \$70 each and 10 tennis racquets at \$110 each (Invoice No. 1)

### Required

1.2.1 **Record** the purchase into the Purchases Journal.

1 mark

1.2.2 **Show** how the

- Stock ledger account
- Sales ledger account

would appear in the General Ledger on 31 January, after all journals have been posted for the month.

(Ledgers do **not** have to be balanced.)

3 marks

1.2.3 **Complete** the Stock Card for 'baseball bats' for January 2006.

2 marks

1.3 On 31 March 2006, Fiona decided to replace the computer equipment by trading in the old computer for a new one. Details of the trade-in and purchase of the new computer are shown on the following invoice.

<b>Computers For You</b>		<b>Tax Invoice</b>	134
ABN 95 254 369 741		<b>Date</b>	31/03/2006
<b>Charge to:</b> Fi's Sports			
<b>Item:</b> Model PC 28Z			
<b>Cost of new computer equipment</b>	6 000		
<b>Less trade-in allowance</b>	500		
<b>Cash deposit *</b>	<u>1 000</u>	<u>1 500</u>	
<b>Balance owing</b>		<u>4 500</u>	
Terms 30 days			

\* Note: Cash deposit \$1 000 (Cheque No. 1224)

### Other Information

- Depreciation of old computer equipment to 31 March – \$150 (Memo 2)

**Required**

**1.3.1 Prepare** the Journal entries required to record

- depreciation of the old computer equipment
- the disposal of the old computer equipment
- the purchase of the new computer equipment.

(Narrations are **not** required.)

1 + 2 + 3 = 6 marks

**1.3.2 Prepare** the extract to show how the transactions in **1.3.1** above would be reported in the Statement of Financial Performance for the quarter ended 31 March 2006.

3 marks

**1.3.3 Complete** the table to show how the transactions in **1.3.1** above would be reported in the Statement of Cash Flows for the quarter ended 31 March 2006.

1 mark

**1.4** The old computer equipment had been depreciated using the Straight Line method at 20% per annum on cost. The accountant suggests that it would be better to depreciate the new computer equipment using the Reducing Balance method at 30% per annum.

The accountant produces the following information to illustrate the effect each method will have on reporting the asset in the Statement of Financial Position at 30 June 2006.

**Statement of Financial Position at 30 June 2006 (extracts only)**

	Straight Line method	Reducing Balance method
New Computer Equipment	6 000	6 000
Less Accumulated Depreciation	<u>300</u>	<u>450</u>
	5 700	5 550

**Required**

**1.4.1** Fiona asked to see the effect each method would have for the following financial year. **Calculate** the depreciation expense for computer equipment for the year ended 30 June 2007 using the

- Straight Line
- Reducing Balance

methods of depreciation.

1 + 1 = 2 marks

**1.4.2 State** the effect on Assets and Owner's Equity at 30 June 2007 of the business using the Reducing Balance method of depreciation instead of the Straight Line method.

2 marks

**1.4.3 Explain** whether the choice of depreciation method will have any overall effect on profit over the life of the computer equipment.

2 marks

**1.4.4 Explain** the main factor the accountant should consider when selecting the depreciation method for the computer equipment.

2 marks

**1.4.5** Fiona suggests the business uses the Straight Line method this year and change to the Reducing Balance method in 2007.

**Identify** a qualitative characteristic that may not be met if the business changes depreciation methods, as Fiona suggests. **Explain** the importance of observing this qualitative characteristic.

1 + 2 = 3 marks

**1.5** On 30 June 2006 the following accounts appeared in the General Ledger.

	\$
• Building	220 000
• Accumulated Depreciation – Building	5 000

At 30 June the building was assessed as having a fair value of \$290 000. Fiona agrees to adopt this valuation from 1 July 2006 (Memo 3).

**Required**

**1.5.1 Prepare** the General Journal entries required to record the new valuation of the building at 1 July 2006.

(A narration is **not** required.)

4 marks

**1.5.2 Explain** what is meant by the term ‘fair value’.

2 marks

**1.5.3 State** the qualitative characteristic that supports the valuation of the building at fair value.

1 mark

**1.5.4** The use of fair value may not be in agreement with other qualitative characteristics.

**State** one qualitative characteristic that may not be in agreement with the use of fair value.

**Justify** your answer.

1 + 1 = 2 marks

**1.6** On 1 June 2006, Fiona paid \$9 000 for a six month advertising campaign in a national sporting magazine. The advertisements are to run monthly for six months. The first advertisement will run in June.

**Required**

**1.6.1 Show** how the Prepaid Advertising account would appear in the General Ledger after all entries have been completed at 30 June 2006.

(You are required to balance the account.)

3 marks

**1.6.2 Show** the effect on the Statement of Financial Position at 30 June 2006 if the adjustment had not been made.

2 marks

Total 45 marks

**TURN OVER**

## Question 2

### KB Petrol Supplies

Kenny Bates owns and operates a small trading business called KB Petrol Supplies – a petrol station. Most sales will be by cash or credit card, although local businesses will be offered credit accounts. His accounting system is based on the double entry accrual system of recording and reporting. Kenny maintains a perpetual stock recording system and uses the FIFO (First In First Out) cost assignment method.

**2.1** A stocktake of unleaded fuel on 30 June 2006 revealed the following details.

- Quantity per Stock Card                               20 000 litres
- Quantity per stocktake                                19 600 litres
- Quantity of stock loss                                400 litres
- June purchases were
  - 8 000 litres at 95 cents per litre (8 June 2006)
  - 10 000 litres at \$1.00 per litre (14 June)
  - 10 000 litres at \$1.10 per litre (18 June)
  - 9 000 litres at \$1.05 per litre (23 June).

### Required

**2.1.1 Calculate** the value of unleaded fuel to be included in the Statement of Financial Position at 30 June 2006.

2 marks

**2.1.2 Calculate** the value of the stock loss.

1 mark

**2.1.3** Excluding theft, **identify** two possible reasons for the stock loss.

1 + 1 = 2 marks

- 2.2 After all transactions for the following year were recorded, a Trial Balance was prepared at 30 June 2007.

**KB PETROL SUPPLIES**  
**TRIAL BALANCE AS AT 30 JUNE 2007**

<b>ACCOUNT NUMBER</b>	<b>ACCOUNT</b>	<b>DR \$</b>	<b>CR \$</b>
101	Bank	22 000	
102	Debtors	5 800	
103	Stock	85 000	
104	Prepaid Rent Expense	28 000	
151	Equipment	100 000	
151A	Accumulated Depreciation – Equipment		7 600
201	Creditors		35 000
251	Bank Loan *		50 000
301	Capital – K Bates		98 900
302	Drawings	57 000	
401	Sales		555 000
500	Discount Expense	700	
501	Cost of Sales	350 000	
502	Administration Expenses	10 000	
503	Interest Expense	2 000	
504	Wages	86 000	
	<b>TOTALS</b>	<b>746 500</b>	<b>746 500</b>

\* Note: The Bank Loan is repayable in five equal yearly instalments commencing 31 July 2007.

The following items require balance day adjustments to be made.

- (i) Stock of Fuel on hand at 30 June 2007 was \$86 400.
- (ii) Depreciation on Equipment 15% per annum Straight Line. There have been no purchases or sales of equipment during the year.
- (iii) A payment of \$1 000 for Drawings was incorrectly posted to the Interest Expense account.
- (iv) Wages owing, \$1 200.
- (v) \$4 000 rent is still prepaid at 30 June.

**Required**

**2.2.1 Enter** each adjustment into the 6 column worksheet as at 30 June 2007 and prepare the Adjusted Trial Balance.

(You are **not** required to total the adjusted Trial Balance columns.)

2 + 2 + 1 + 1 + 2 = 8 marks

**2.2.2 Explain**, with reference to one accounting principle, why balance day adjustments are required.

2 + 1 = 3 marks

**2.2.3 Prepare** a classified Statement of Financial Performance for the year ended 30 June 2007.

5 marks

**2.2.4 Explain** why Discount Expense is treated as an expense item in the Statement of Financial Performance.

2 marks

**2.2.5 Prepare** the Current Liabilities section of the Statement of Financial Position at 30 June 2007.

3 marks

**2.3** On 1 July 2007 the Stock Card for unleaded petrol revealed the following opening balance.

- 12 000 litres @ \$1.00 per litre (purchased 22 June)
- 15 000 litres @ \$1.05 per litre (purchased 28 June)

During July 2007 the following transactions occurred.

- (i) 2 July – Cash sales (Receipts 22–151) 7 000 litres @ \$1.10 per litre
- (ii) 3 July – Cash sales (Receipts 152–246) 6 500 litres @ \$1.15 per litre
- (iii) 4 July – Kenny filled up the family car with 40 litres of unleaded petrol and filled the business car with 60 litres of unleaded petrol (Memos 16 and 17)
- (iv) 5 July – Purchased 20 000 litres on credit from Caltel Ltd @ \$1.10 per litre (Invoice C47)
- (v) 6 July – Credit sales (Invoices 64–85) 9 500 litres @ \$1.15 per litre

**Required**

**2.3.1 Record** the above transactions in the Stock Card.

5 marks

**2.3.2 Explain** how the two transactions on 4 July will be reported at 30 June 2008.

2 + 2 = 4 marks

**2.4** Kenny is concerned that some sales are being recognised before cash is received. He asks his accountant to consider ignoring credit sales until the cash is received.

**Required**

**Identify** the revenue recognition method currently being used by KB Petrol Supplies.

**Explain** why this method is more appropriate for this business than the cash method suggested by Kenny.

1 + 2 = 3 marks



2.5 Totals from the cash journals for July 2007 are as follows.

**Cash Receipts Journal**

**CRJ12**

Date 2007	Details	Post Ref.	Rec. No.	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	Sundries *
30 July	Totals			104 000	1 000	35 000	50 000	55 000	15 000

\* Sundries consist of the following items.

	\$
• Capital	14 000
• Commission Revenue	1 000

**Cash Payments Journal**

**CPJ8**

Date 2007	Details	Post Ref.	Chq. No.	Bank	Disc. Rev.	Creditors	Stock	Drawings	Wages	Sundries *
30 July	Totals			99 000	700	70 000	–	5 000	7 000	17 700

\* Sundries consist of the following items.

	\$
• Shop Fittings	6 000
• Interest Expense	200
• Prepaid Insurance	1 500
• Bank Loan	10 000

The bank balance at 1 July 2007 was \$22 000.

**Required**

**2.5.1 Complete** the table relating to the Financing Activities section of the Statement of Cash Flows for July 2007.

3 marks

**2.5.2** The business reported a loss of \$2 000 for the month of July. **Explain**, giving two examples from the information in **2.5**, how this business can report a loss but have an increase in cash during the same month.

1 + 1 + 2 = 4 marks

Total 45 marks



**Victorian Certificate of Education  
2006**

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**STUDENT NUMBER**

Figures  
Words


Letter

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**ACCOUNTING**  
**Written examination 1**

**Monday 5 June 2006**

**Reading time: 2.45 pm to 3.00 pm (15 minutes)**

**Writing time: 3.00 pm to 4.30 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.

**Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the examination room.**

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**Question 1 – Fi's Sports****1.1.1**

<b>Explanation</b>
<b>State</b>

2 + 1 = 3 marks

**1.1.2**

<b>Identify</b>
-----------------

1 mark

**1.2.1****PURCHASES JOURNAL****PJ1**

<b>Date 2006</b>	<b>Creditor</b>	<b>Post Ref.</b>	<b>Invoice</b>	<b>Amount \$</b>

1 mark

**1.2.2****103****STOCK**

<b>Date 2006</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>	<b>Date 2006</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>

**401****SALES**

<b>Date 2006</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>	<b>Date 2006</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>

3 marks

**1.2.3**

**Stock Item: Baseball bats**

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
Jan 2006										

2 marks

**1.3.1**

**GENERAL JOURNAL**

**GJ1**

Date 2006	Accounts	Post Ref.	Debit \$	Credit \$

**Cash Payments Journal**

**CPJ 1**

Date 2006	Details	Post Ref.	Chq. No.	Bank	Disc. Rev.	Creditors	Wages	Stock	Sundries

1 + 2 + 3 = 6 marks

## 1.3.2

## FI'S SPORTS

## STATEMENT OF FINANCIAL PERFORMANCE FOR THE QUARTER ENDED 31 MARCH 2006 (extract)

Revenue	\$	\$
Expenses		

3 marks

## 1. 3. 3 STATEMENT OF CASH FLOWS

Item	Classification (Operating/Financing/Investing)	Inflow/ Outflow	Amount \$

1 mark

## 1.4.1 Calculation – Straight Line method

<b>Depreciation Amount =</b>
------------------------------

## Calculation – Reducing Balance method

<b>Depreciation Amount =</b>
------------------------------

1 + 1 = 2 marks

## 1.4.2

<b>Item</b>	<b>Overstated/Understated/No Change</b>	<b>Amount \$</b>
<b>Effect on Assets</b>		
<b>Effect on Owner's Equity</b>		

2 marks

## 1.4.3

<b>Explanation</b>

2 marks

## 1.4.4

<b>Explanation</b>

2 marks

## 1.4.5

<b>Identify</b>
<b>Explanation</b>

1 + 2 = 3 marks

1.5.1

**GENERAL JOURNAL****GJ3**

<b>Date 2006</b>	<b>Accounts</b>	<b>Post Ref.</b>	<b>Debit \$</b>	<b>Credit \$</b>

4 marks

1.5.2

<b>Explanation</b>

2 marks

1.5.3

<b>State</b>

1 mark

1.5.4

<b>State</b>

1 + 1 = 2 marks

1.6.1

105

**PREPAID ADVERTISING**

<b>Date 2006</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>	<b>Date 2006</b>	<b>Cross Reference</b>	<b>Post Ref.</b>	<b>\$</b>

3 marks

**Question 1 – continued**  
**TURN OVER**



**1.6.2**

<b>Item</b>	<b>Overstated/Understated/No Change</b>	<b>Amount \$</b>
<b>Effect on Assets</b>		
<b>Effect on Owner's Equity</b>		

2 marks

Total 45 marks

**Question 2 – KB Petrol Supplies****2.1.1 Calculation – Value of Stock (Unleaded Fuel)**

<b>Stock Value =</b>
----------------------

2 marks

**2.1.2 Calculation – Stock Loss (Unleaded Fuel)**

<b>Stock Loss =</b>
---------------------

1 mark

**2.1.3**

<b>First Reason</b>
<b>Second Reason</b>

1 + 1 = 2 marks

## 2.2.1

**KB PETROL SUPPLIES**  
**6 COLUMN WORKSHEET AS AT 30 JUNE 2007**

ACC. NO.	ACCOUNT	Trial Balance		Adjustments		Adjusted Trial Balance	
		DEBIT \$	CREDIT \$	DR \$	CR \$	DR \$	CR \$
101	Bank	22 000					
102	Debtors	5 800					
103	Stock	85 000					
104	Prepaid Rent Expense	28 000					
151	Equipment	100 000					
151A	Accumulated Depreciation – Equipment		7 600				
201	Creditors		35 000				
251	Bank Loan		50 000				
301	Capital – K Bates		98 900				
302	Drawings	57 000					
401	Sales		555 000				
500	Discount Expense	700					
501	Cost of Sales	350 000					
502	Administration Expenses	10 000					
503	Interest Expense	2 000					
504	Wages	86 000					
	TOTALS	746 500	746 500				

2 + 2 + 1 + 1 + 2 = 8 marks

## 2.2.2

<b>Explanation</b>

2 + 1 = 3 marks

## 2.2.3

**KB PETROL SUPPLIES****STATEMENT OF FINANCIAL PERFORMANCE FOR YEAR ENDED 30 JUNE 2007**

	\$	\$
<b>Revenue</b>		
<b>Gross Profit</b>		
<b>Adjusted Gross Profit</b>		
<b>Net Profit</b>		

5 marks

## 2.2.4

<b>Explanation</b>

2 marks

2.2.5

**KB PETROL SUPPLIES**  
**STATEMENT OF FINANCIAL POSITION (extract only)**  
**AS AT 30 JUNE 2007**

	\$	\$
<b>Current Liabilities</b>		

3 marks

2.3.1

**Stock Item: Unleaded Fuel**

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$	Qty	Unit Cost \$	Total Cost \$
July 2007										
1	Balance							12 000	1.00	
								15 000	1.05	27 750

5 marks

2.3.2

<b>Explanation – Memo 16</b>
<b>Explanation – Memo 17</b>

2 + 2 = 4 marks

## 2.4

<b>Identify</b>
<b>Explanation</b>

1 + 2 = 3 marks

## 2.5.1

**KB PETROL SUPPLIES**  
**STATEMENT OF CASH FLOWS – JULY 2007**  
**Financing Activities Extract**

Item	Inflow/Outflow	Amount \$

3 marks

## 2.5.2

<b>Example 1</b>
<b>Example 2</b>
<b>Explanation</b>

1 + 1 + 2 = 4 marks

Total 45 marks