

**2020**  
**VCE**  
**Accounting**  
**Units 3 and 4**  
**Trial Examination**  
**Suggested Answers**



**Kilbaha Education**

Quality educational content

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**Question 1 (16 marks)**

a. Sports Warehouse would have chosen the reducing balance method of depreciation as it more accurately matches the depreciation expense incurred to the revenue earned from the computer which ensures that expenses are recorded when incurred according to the accrual basis. As a computer is likely to have a revenue earning pattern that contributes more to earning revenue earlier its life the reducing balance method is the more appropriate method.

**1 mark for accrual basis**

**1 mark for matching expense incurred to revenue earned**

**1 mark for revenue earning pattern**

**3 marks**

b.

Year ended 30/6/2019  
 = \$1 000 + \$200 = \$1 200  
 = \$1 200 \* 20% = \$240/12  
 = 9 months \* \$20  
 = \$180

Year ended 30 June 2020  
 = \$1 020 \* 20% = \$204

**2 marks for Year 1**

**1 mark for Year 2**

**3 marks**

c.

Date	Details	Debit	Credit
30/6	Disposal of Computer	1 200	
	Computer		1 200
	Accumulated Depreciation – Computer	384	
	Disposal of Computer		384
	Computer	150	
	Disposal of Computer		150
	Loss on Disposal of Computer	666	
	Disposal of Computer		666
	Computer	2 850	
	GST Clearing	300	
	Bank		3 150

**6 marks**

d.

**Disposal of Computer**

<b>Date</b>	<b>Cross-reference</b>	<b>Amount (\$)</b>	<b>Date</b>	<b>Cross-reference</b>	<b>Amount (\$)</b>
30/6	Computer	1 200	30/6	Accumulated Depreciation – Computer	384
				Computer	150
				Loss on Disposal of Computer	666
		1 200			1 200

**4 marks**

**Question 2 (10 marks)****a.**

<b>Date</b>	<b>Details</b>	<b>Debit</b>	<b>Credit</b>
31/10	Bank	300	
	Interest Revenue		300

**1 mark each line****2 marks****b.**

<b>Date</b>	<b>Details</b>	<b>Debit</b>	<b>Credit</b>
31/12	Accrued Interest Revenue	200	
	Interest Revenue		200

**1 mark each line****2 marks****c.**

The business has recorded interest earned but not yet received according to the qualitative characteristic of relevance which requires the business to include all information required by the business to make informed decisions.

**1 mark for relevance****1 mark interest that was earned but not yet received****1 mark for making informed decisions****3 marks****d.**

The amount owed would be recorded as a current asset, accrued interest revenue of \$200 as the interest owed is reasonably expected to be converted to cash by the business within 12 months after the end of the reporting period.

**1 mark for current asset of \$200****1 mark for accrued interest revenue****1 mark for definition****3 marks**

**Question 3 (10 marks)**

a.

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**Work at Home**  
**Balance Sheet as at 31 July 2020**

<b>Assets</b>			<b>Equities</b>		
<b>Current Assets</b>			<b>Current Liabilities</b>		
Bank	43 000		Loan – EZE Bank	7 000	
Prepaid Rent Expense	2 500		Accounts Payable	7 700	14 700
Accounts Receivable	2 475				
Inventory	5 500				
GST Clearing	2 475	55 950			
<b>Non Current Assets</b>			<b>Non Current Liabilities</b>		
Van	15 000		Loan – EZE Bank	33 000	33 000
Less Accumulated Depreciation	125				
Shop Fittings	15 000	29 875	<b>Owners Equity</b>		
			Capital	40 000	
			Net Profit	-1 875	
		85 825			85 825

**7 marks**

**c.**

A business would prepare a fully classified balance sheet to ensure that it complies with Understandability. Understandability requires financial information to be comprehensible to users with reasonable knowledge of business and economic activities. To be understandable, information should be presented clearly and concisely. Classifying the balance sheet into current and non-current assets and liabilities will improve the understandability of the balance sheet.

**1 mark for understandability**

**1 mark for definition**

**1 mark for the classifications**

**3 marks**

**Question 4 (14 marks)**

**a.**

<b>Date</b>	<b>Details</b>	<b>Debit</b>	<b>Credit</b>
30/6	Capital	550	
	Sales		500
	GST Clearing		50
	Cost of Sales	250	
	Inventory		250
	Accounts Receivable	550	
	Bank		550
	Rent Expense	2 900	
	Prepaid Rent Expense		2 900
	Wages	1 000	
	Accrued Wages		1 000

**3 marks for first entry**

**2 marks for second entry**

**2 marks for third entry**

**7 marks**

b.

**Profit and Loss Summary**

<b>Date</b>	<b>Cross-reference</b>	<b>Amount (\$)</b>	<b>Date</b>	<b>Cross-reference</b>	<b>Amount (\$)</b>
30/6	Expenses	69 350	30/6	Revenues	86 500
30/6	Capital	17 150			
		86 500			86 500

**Capital**

<b>Date</b>	<b>Cross-reference</b>	<b>Amount (\$)</b>	<b>Date</b>	<b>Cross-reference</b>	
30/6	Sales/GST Clearing	550	1/1	Balance	50 600
30/6	Drawings	900	1/6	Bank	500
30/6	Balance	66 800	30/6	Profit and Loss Summary	17 150
		68 250			68 250
			1/7	Balance	66 800

**7 marks**

**Question 5 (12 marks)**

**a.**

Profitability refers to the ability of a business to generate a profit compared to a based such as sales, assets or owners equity.

TV Choice is a small TV retailer and therefore it needs to be considered whether the industry average is a fair representation if it is dominated by larger retailers.

The return on owners investment is significantly higher than the industry average, however, the business has a higher debt ratio than the industry average which would inflate the return on investment.

**This question requires Global marking with students needing to show they have considered both sides of the discussion**

**6 marks**

**b.**

The owner could consider the number of sales returns or customer satisfaction surveys.

**1 mark for each non-financial indicator**

**2 marks**

**c.**

Liquidity refers to the ability of a business to meet its short-term debts as they fall due. The business is collecting its accounts receivable slower than the industry average and is taking longer than the industry average to pay its accounts payable. The accounts payable are being paid significantly more slower and indicate that the business is potentially in financial stress. TV Choice has not provided credit terms and the would be required in order to complete an accurate analysis.

**1 mark for liquidity definition**

**3 marks for explanation**

**4 marks**



**Question 6 (18 marks)****a.**

Item: Elite Register		Location: Row 19								
Code: ER1		Supplier: Techsperts								
Date 2020	Details	IN			OUT			BALANCE		
		Qty	Unit Cost	Value	Qty	Unit Cost	Value	Qty	Unit Cost	Value
31 Dec	Balance							9	200	1 800
								20	250	5 000
31 Dec	Memo 5				1	200	200			
								8	200	1 600
								20	250	5 000
31 Dec	Memo 6				2	50	100	2	150	300
								6	200	1 200
								20	250	5 000

**6 marks****b.**

Date	Details	Debit	Credit
31/12	Inventory Loss	200	
	Inventory		200
	Inventory Writedown	100	
	Inventory		100

**2 marks for each entry****4 marks****c.**

If Josh did not adjust for the damaged cash register it would result in assets being overstated by \$100 due to inventory being overstated by \$100, owner's equity being overstated by \$100 due to inventory writedown being understated by \$100 and there would be no effect on liabilities.

**1 mark for each element****3 marks**

**d.**

The decision to inform customers about the damaged goods will have implications on the balance sheet and income statement of the business. Assets would be overstated, potentially resulting in the business providing financial reports that do not faithfully represent the financial position and performance of the business as there would be no inventory writedown required if the selling price was not reduced. It could, however, be argued that the decision not to writedown the inventory would not have a material impact on the decision making of the users of the financial reports.

The business must also consider the ethical implications of selling damaged inventory to customers and then making sales returns difficult by implying the goods were damaged by the freight business.

**This question should be marked globally**

**5 marks****Question 7 (14 marks)****a.**

<b>Date</b>	<b>Details</b>	<b>Debit</b>	<b>Credit</b>
1/9	Bank	500	
	Unearned Sales Revenue		500
10/9	Unearned Sales Revenue	500	
	Accounts Receivable	1 150	
	Sales		1 500
	GST Clearing		150
	Cost of Sales	750	
	Inventory		750
14/9	Accounts Receivable	550	
	Sales		500
	GST Clearing		50
	Cost of Sales	250	
	Inventory		250
20/9	Bank	1 689	
	Discount expense	110	
	Accounts Receivable		1 700

**2 marks for the first entry****2 marks for the second entry****2 marks for the third entry****2 marks for the fourth entry****8 marks**

**b.**

Unearned sales revenue is a current liability as it is an obligation of the entity that is reasonably expected to be settled within 12 months after the end of the reporting period when the amount owing is collected from the customer.

**1 mark for current liability**

**1 mark for definition**

**1 mark for link**

**3 marks**

**c.**

The impact of the accounting equation of the transaction on the 20<sup>th</sup> of September 2020 is a decrease in assets of \$11 as bank will increase by \$1 689 and accounts receivable will decrease by \$1 700, owners' equity will decrease by \$11 due to the decrease in net profit and there is no effect on liabilities.

**1 mark for each element**

**3 marks**

**Question 8 (6 marks)**

**a.**

Freight would be recorded as a period cost as it is a cost incurred to get the inventory into condition and location ready for sale that can't be logically allocated to individual lines of inventory. The office desks and the student's desks are not identical and therefore freight may not be allocated equally per desk.

**1 mark for period cost**

**1 mark for explanation**

**2 marks**

**b.**

$$60 + 10 = \$70$$

**1 mark for each amount**

**2 marks**

**c.**

The desk lamp is not a cost to get incurred to get inventory into condition and location ready for sale. The lamps are used to reduce the Net Realisable Value.

**1 mark for not being part of getting inventory into condition and location ready for sale**

**1 mark for reducing NRV**

**2 marks**

**End of suggested answers**

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