

**Victorian Certificate of Education  
2022**

**ACCOUNTING**  
**Written examination**

**Tuesday 8 November 2022**

**Reading time: 2.00 pm to 2.15 pm (15 minutes)**

**Writing time: 2.15 pm to 4.15 pm (2 hours)**

**QUESTION BOOK**

**Structure of book**

<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
11	11	100

- 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 correction fluid/tape.

**Materials supplied**

- Question book of 13 pages
- Answer book of 17 pages

**Instructions**

- Write your **student number** in the space provided on the front cover of the answer book.
- Answer all 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.**

### Instructions

Answer **all** questions in the answer book provided.

#### Question 1 (8 marks)

On 1 January 2022, Furniture Style had five large tables on hand at \$1 200 each (plus GST). The business uses the First In, First Out (FIFO) inventory cost assignment method and it reports monthly.

The business has provided the following documents for January 2022.

<p style="text-align: center;"><b>Barten Imports</b></p> <p><b>Date:</b> 1 January 2022</p> <p><b>Invoice 123</b></p> <p><b>To:</b> Furniture Style</p> <p><b>For:</b> 10 large tables at \$1 300 each (plus GST)</p> <table style="width: 100%; margin-top: 10px;"> <tr> <td style="text-align: right;"><b>Amount:</b></td> <td style="text-align: right;">\$13 000</td> </tr> <tr> <td style="text-align: right;"><b>GST:</b></td> <td style="text-align: right;">\$1 300</td> </tr> <tr> <td style="text-align: right;"><b>Total:</b></td> <td style="text-align: right;">\$14 300</td> </tr> </table>	<b>Amount:</b>	\$13 000	<b>GST:</b>	\$1 300	<b>Total:</b>	\$14 300	<p style="text-align: center;"><b>Furniture Style</b></p> <p><b>Date:</b> 3 January 2022</p> <p><b>Receipt 945</b></p> <p><b>From:</b> PIX Cafe</p> <p><b>For:</b> Sale of 7 large tables at \$1 600 each (plus GST)</p> <table style="width: 100%; margin-top: 10px;"> <tr> <td style="text-align: right;"><b>Amount:</b></td> <td style="text-align: right;">\$11 200</td> </tr> <tr> <td style="text-align: right;"><b>GST:</b></td> <td style="text-align: right;">\$1 120</td> </tr> <tr> <td style="text-align: right;"><b>Total:</b></td> <td style="text-align: right;">\$12 320</td> </tr> </table>	<b>Amount:</b>	\$11 200	<b>GST:</b>	\$1 120	<b>Total:</b>	\$12 320
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<b>GST:</b>	\$1 120												
<b>Total:</b>	\$12 320												
<p style="text-align: center;"><b>Furniture Style</b></p> <p><b>Date:</b> 5 January 2022</p> <p><b>Invoice C86</b></p> <p><b>To:</b> RS Goldberg</p> <p><b>For:</b> Sale of 3 large tables at \$1 600 each (plus GST)</p> <table style="width: 100%; margin-top: 10px;"> <tr> <td style="text-align: right;"><b>Amount:</b></td> <td style="text-align: right;">\$4 800</td> </tr> <tr> <td style="text-align: right;"><b>GST:</b></td> <td style="text-align: right;">\$480</td> </tr> <tr> <td style="text-align: right;"><b>Total:</b></td> <td style="text-align: right;">\$5 280</td> </tr> </table>	<b>Amount:</b>	\$4 800	<b>GST:</b>	\$480	<b>Total:</b>	\$5 280	<p style="text-align: center;"><b>Furniture Style</b></p> <p><b>Date:</b> 7 January 2022</p> <p><b>Credit Note 453</b></p> <p><b>To:</b> RS Goldberg</p> <p><b>For:</b> Return of 1 large table at \$1 600 each (plus GST)</p> <table style="width: 100%; margin-top: 10px;"> <tr> <td style="text-align: right;"><b>Amount:</b></td> <td style="text-align: right;">\$1 600</td> </tr> <tr> <td style="text-align: right;"><b>GST:</b></td> <td style="text-align: right;">\$160</td> </tr> <tr> <td style="text-align: right;"><b>Total:</b></td> <td style="text-align: right;">\$1 760</td> </tr> </table>	<b>Amount:</b>	\$1 600	<b>GST:</b>	\$160	<b>Total:</b>	\$1 760
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- a. Using the information provided, complete the Inventory Card.
5 marks
- b. Calculate the Cost of Sales for the large tables for the first week of January 2022.
1 mark
- c. Describe the effect that Credit Note 453 will have on the Income Statement for the month ended 31 January 2022.
2 marks

**Question 2** (7 marks)

BAX reports monthly. The following ledger account shows details of Accounts Payable for June 2022.

**Accounts Payable**

<b>Date 2022</b>	<b>Cross-reference</b>	<b>Amount</b>	<b>Date 2022</b>	<b>Cross-reference</b>	<b>Amount</b>
June 16	Bank	68 200	June 1	Balance	45 800
22	Inventory/GST Clearing	2 200	12	Inventory/GST Clearing	77 000
30	Balance	52 400			
		<b>122 800</b>			<b>122 800</b>

a. Identify the source document that would be used to verify the entries on:

- 12 June
- 16 June
- 22 June.

3 marks

b. One year ago, on 1 July 2021, BAX had:

- increased its selling price by 5%
- increased the annual advertising budget by 20%
- borrowed \$250 000 to finance a renovation of its premises.

Information from the Income Statements for the years ended 30 June 2021 and 30 June 2022 show the following.

	<b>2021</b>	<b>2022</b>	<b>Change</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
Sales	420 000	462 000	42 000	10%
Gross Profit	220 000	220 000	0	0%
Net Profit	100 000	80 000	(20 000)	(20%)

Analyse the financial information above and provide likely reasons for the lower Net Profit for the year ended 30 June 2022.

4 marks

**Question 3** (9 marks)

Droon Designs sells furniture. The business reports annually on 30 June. The furniture includes lounge suites imported from overseas.

In May 2022, Droon Designs purchased 16 leather lounge suites costing \$64 000 (plus GST).

Delivery costs were \$4 800 (plus GST). The lounge suites were delivered on 30 May.

In June 2022, Droon Designs imported a large quantity of chairs, cushions, rugs and other furniture, costing \$90 000 (plus GST). Delivery costs were \$7 200 (plus GST). These items were delivered together, in a shipping container.

a. Explain how the two delivery costs should be treated. 4 marks

b. After opening the shipping container, the owner finds that, instead of the 50 chairs that were ordered and paid for, 80 chairs have been delivered. The overseas supplier is unaware of the discrepancy and is unlikely to take any legal action in the future. It would be too expensive to return the additional 30 chairs.

The 50 chairs that were ordered cost \$40 each (plus GST) and are expected to be sold in the next few months for \$100 each (plus GST). The owner believes that the additional 30 chairs can be sold but that it will take several months to sell them.

The owner is unsure what to do. The owner's family believes that the chairs should be treated as an unexpected gain, and that no action is required.

Discuss any ethical and financial issues that the owner should consider when deciding how to deal with the additional chairs. 5 marks

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**TURN OVER**

**Question 4** (10 marks)

Wallis Shoes reports annually. The accountant is preparing the Budgeted Cash Flow Statement for 2023. The following information has been provided.

**Wallis Shoes**  
**Balance Sheet (extracts)**

	<b>Actual as at 30 June 2022 \$</b>	<b>Budgeted as at 30 June 2023 \$</b>
<b>Current Assets</b>		
Bank	14 300	0
<b>Current Liabilities</b>		
Bank overdraft	0	6 700
Loans	10 000	25 000
<b>Non-Current Liabilities</b>		
Loans	30 000	60 000
<b>Owner's Equity</b>		
Capital	320 000	500 000

**Wallis Shoes**  
**Income Statement (extracts)**

	<b>Actual year ended 30 June 2022 \$</b>	<b>Budgeted year ending 30 June 2023 \$</b>
<b>Net Profit</b>	212 000	178 000

**Additional information**

- A new loan for \$60 000 will be taken out in August 2022. Loan repayments will be made during the year. Interest on the loans for the year ending 30 June 2023 is expected to be \$6 500.
- In September 2022, the owner will contribute \$40 000 cash and a vehicle with a fair value of \$30 000.
- The owner will take cash drawings during the year ending 30 June 2023.

- a. Reconstruct the Capital account to determine the budgeted cash drawings for the year ending 30 June 2023. 5 marks
- b. Prepare the Financing Activities section of the Budgeted Cash Flow Statement (extract) for the year ending 30 June 2023. 4 marks
- c. Calculate the budgeted net increase or decrease in the cash position for the year ending 30 June 2023. 1 mark

**Question 5** (8 marks)

PSF sells kitchen equipment to cafes and restaurants on credit, with 30-day credit terms. It reports on a quarterly basis.

The following balances were taken from the Pre-adjusted Trial Balance.

**Pre-adjusted Trial Balance (extract) as at 30 June 2022**

<b>Account</b>	<b>Debit \$</b>	<b>Credit \$</b>
Accounts Receivable	105 000	
Allowance for Doubtful Debts		3 000
Sales		405 000
Sales Returns	5 000	

- a. With reference to **one** accounting assumption, explain the purpose of the Allowance for Doubtful Debts account. 3 marks
- b. On 30 June 2022, PSF decided to write off a debt of \$3 960 from Forrest Sushi after this restaurant was declared bankrupt (Memo 70).  
Prepare the General Journal entry to write off Forrest Sushi's debt.  
A narration is **not** required. 3 marks
- c. PSF then decided to increase the Allowance for Doubtful Debts to 3% of net credit sales (Memo 74).  
Calculate the amount of bad debts to be recognised in the Income Statement for the quarter ended 30 June 2022. 2 marks

**Question 6** (9 marks)

The accountant for Simply BBQs is preparing the financial reports for the quarter ended 30 June 2022. The accountant is waiting for the owner of Simply BBQs to provide details of the physical count of inventory at the end of the quarter plus the amount of drawings taken by the owner in June. By August 2022, this information has not yet been provided and reports have not yet been finalised.

- a. Explain **one** qualitative characteristic, other than relevance, that is being breached due to this delay in reporting. 3 marks
- b. On 10 August 2022, the accountant received the following email from the owner of Simply BBQs.

**To:** Virtualbooks <Noel@virtualbooks.com.au>

**Sent:** 10 August 2022

**Subject:** Details as requested

Hi Noel,

Sorry for the delay – we were very busy over summer – but here’s the information you wanted.

Physical count:

There are a couple of problems here. The Inventory account balance at 30 June was \$88 500 but we could only find \$85 000 when we did the physical count. We know three of the Baseline BBQs were donated to the local sporting club in May to promote our business. They cost \$700 each (plus GST). This needs to be accounted for because we have not recorded the donation. We are not sure where the rest of the BBQs went but they are not in the store and we need to account for this loss.

Drawings:

Unfortunately, our bookkeeper recorded all my drawings as wages in June. Sorry about that. The total was \$6 000 – all cash. Please correct this and I will send you Memo 35.

PS The bookkeeper is new – we will do better this quarter!

Cheers,

Ash

Simply BBQs

Prepare the General Journal entries that arise from the email above.

Narrations are **not** required.

6 marks



**Question 7** (10 marks)

The accountant provides the following extract from the Adjusted Trial Balance of Mayze's Hardware. It includes all revenue and expense accounts for the year ended 30 June 2022.

**Adjusted Trial Balance (extract) as at 30 June 2022**

Account	Debit \$	Credit \$
Advertising	14 000	
Allowance for Doubtful Debts		9 000
Bad Debts	7 500	
Cost of Sales	320 000	
Depreciation – Equipment	6 500	
Discount Revenue		1 500
Drawings	23 000	
Interest Revenue		2 500
Prepaid Advertising	2 000	
Sales		584 000
Sales Returns	8 000	
Wages	112 000	

- a. Prepare General Journal entries to:
- close the revenue and expense accounts
  - transfer the accounts required to update the Capital account.

Narrations are **not** required.

7 marks

- b. With reference to **one** accounting assumption, explain why revenue and expense accounts need to be closed at the end of each reporting period.

3 marks

**TURN OVER**

**Question 8** (9 marks)

Kitch Equip has recently entered the catering supplies industry and reports monthly. The business provided the following data for August 2022.

	<b>Kitch Equip</b>	<b>Industry average</b>
Return on Assets	21%	21%
Return on Owner's Investment	45%	23%
Debt Ratio	80%	20%

- a. Explain why Kitch Equip's Return on Owner's Investment is significantly higher than the industry average. 4 marks
- b. Describe the risk associated with a high Debt Ratio. 2 marks
- c. On 28 September 2022, Kitch Equip was paid a \$30 000 deposit on catering supplies to be delivered in the first week of October. This amount was credited to the Sales account. The accountant said that a balance day adjustment would have to be made on 30 September.
- Explain why this adjustment is necessary. 3 marks

**Question 9** (15 marks)

E-Sortz sells a wide range of computer gaming products. It reports monthly.

E-Sortz offers free delivery on orders over \$200 and a delivery charge of \$10 for all other orders. While these charges do not cover the delivery costs to the business, home delivery is popular with customers and attracts a lot of sales. Feedback from customers indicates that home delivery is the reason why many customers choose to buy from E-Sortz.

The business has been using a van for delivering packages but the van has high maintenance costs and needs replacing.

The Balance Sheet as at 31 May 2022 showed the following.

	\$	\$
Van	45 000	
Less Accumulated Depreciation of Van	(37 000)	8 000

Depreciation of the van is 30% per annum using the reducing balance method.

On 1 July 2022, E-Sortz sold the van for \$5 000 (plus GST) (Rec. 365).

- a. Complete the Disposal of Van account. 5 marks

Before selling the van, the business had considered the best way to replace it.

The owner estimated that on average 500 packages would be delivered each month:

- 100 free deliveries
- 400 deliveries charged to customers at \$10 each

The accountant has provided three options to consider:

Option 1 – Purchase two vans, each with the capacity to deliver 250 packages per month. They would cost \$25 000 each (plus GST). Van expenses (including depreciation) were estimated to be \$1 800 per van per month. Wages would double to \$6 000 per month to allow for a second driver.

Option 2 – Use the national postal service for all 500 deliveries each month. A 24-month lock-in contract would cost \$20 (plus GST) per package.

Option 3 – Purchase one van for \$25 000 (plus GST), with the capacity to deliver 250 packages per month. Van expenses (including depreciation) and wages were estimated at \$4 800 per month. A local carrier, Deliv'r Today, would be used for the other packages, without a lock-in contract at a charge of \$18 per delivery.

- b. Complete the table provided to show the estimated delivery cost per month for each option. 5 marks
- c. Recommend the option that you think E-Sortz should select. Justify your recommendation. 5 marks

**Question 10** (11 marks)

Crackles is an emerging business in the electronics industry. The business reports monthly and uses a 100% mark-up on inventory. Inventory is sold both for cash and on credit, and is purchased on credit.

Crackles has provided the following data for April 2022.

	\$	\$
<b>Cash receipts</b>		
Cash Sales	30 000	
Accounts Receivable	80 400	
GST Collected	<u>3 000</u>	113 400
<b>Cash payments</b>		
Wages	14 000	
Prepaid Advertising	7 500	
Accounts Payable	51 900	
GST Paid	<u>750</u>	74 150

**Additional information**

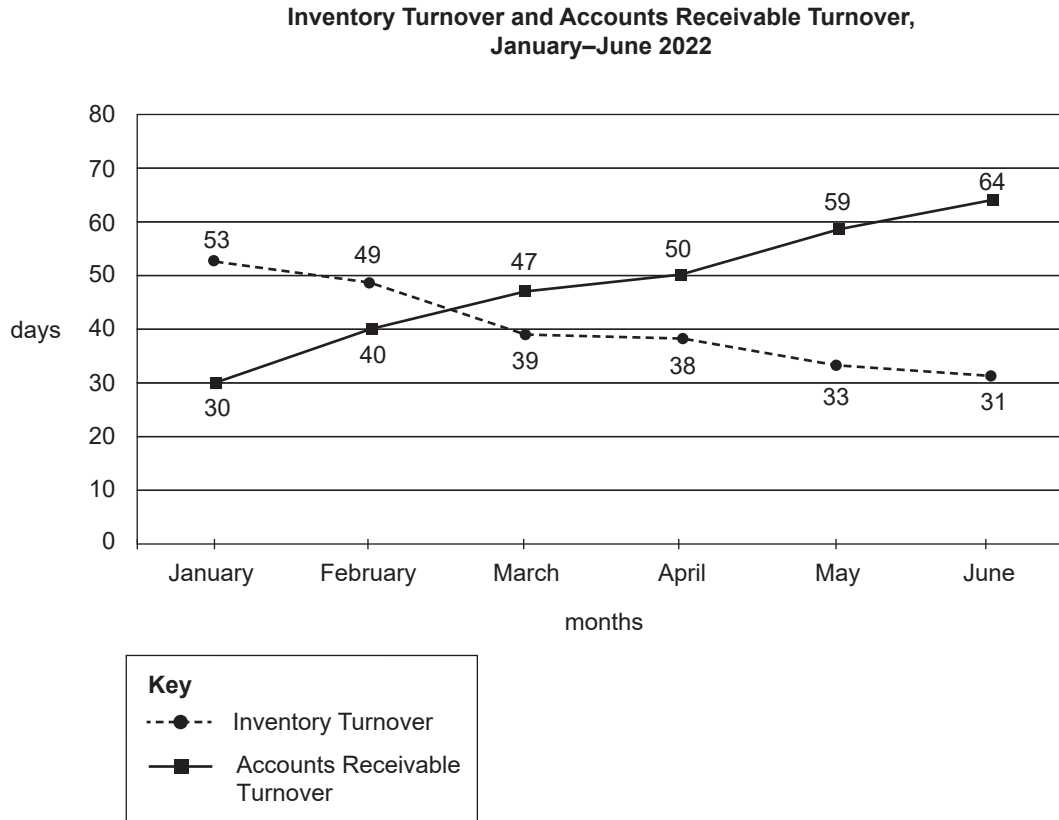
- Accounts Receivable:
  - balance at 1 April: \$21 200
  - balance at 30 April: \$24 400
- Sales Returns were \$4 400 (including GST).
- A physical count revealed \$160 000 inventory at cost. After applying the lower of cost and net realisable value rule, the valuation was \$159 800.
- The business operates seven days a week and wages are \$500 per day. Wages have been paid up to and including 28 April.
- There were no prepaid or accrued expenses at 31 March.
- Advertising was paid in advance for April and May.

- a. Prepare the Accounts Receivable account to determine Credit Sales for April 2022. 4 marks
- b. Prepare the Income Statement for the month ended 30 April 2022. 7 marks

**Question 11** (4 marks)

Ellianos Phones entered the smartphone market in 2020. This is a highly competitive industry and Ellianos Phones set out to gain a significant share of the market. By 30 June 2022, it had been successful in increasing its sales volume to gain a 5% share of the market, which is considered outstanding for a new business.

Ellianos Phones supplied the following data.



For each of the financial indicators provided, outline **one** strategy that the business could have been using to increase its sales volume.