

**Victorian Certificate of Education  
2023**

**ACCOUNTING**  
**Written examination**

**Friday 3 November 2023**

**Reading time: 3.00 pm to 3.15 pm (15 minutes)**

**Writing time: 3.15 pm to 5.15 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>
8	8	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 10 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 (7 marks)

FootsRus sells footwear designed for the building industry. One product it sells is the Steelkicks work boot. The business uses the First In, First Out (FIFO) cost assignment method and a 100% mark-up on cost.

#### Inventory Card

Item: Steelkicks work boot		Cost assignment method: FIFO								
Supplier: Parker Ltd		IN			OUT			BALANCE		
Date 2023	Document	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
1 Jan.	Balance							15	100	1 500
3 Jan.	Receipt 236				6	100	600	9	100	900
14 Jan.	Invoice 34	7	110	770				9 7	100 110	1 670
18 Jan.	Invoice 821				9 2	100 110	1 120	5	110	550
23 Jan.	Credit Note 92	2	110	220				7	110	770
26 Jan.	Invoice 854				3	110	330	4	110	440
27 Jan.	Invoice 65	4	115	460				4 4	110 115	900
31 Jan.	Credit Note 348				2	115	230	4 2	110 115	670

a. Prepare the General Journal entries to record the transactions on:

- 23 January 2023
- 31 January 2023.

Narrations are **not** required.

5 marks

Inventory turnover for FootsRus has changed from 124 days to 164 days over the past year and it is now well above industry average.

b. Describe **one** strategy that the business could use to improve inventory turnover.

2 marks

**Question 2** (11 marks)

FriendsEd is a business that sells educational supplies. The owner has decided to establish a double entry system from 1 January 2023.

The following is a list of the business's assets and liabilities as at 1 January 2023.

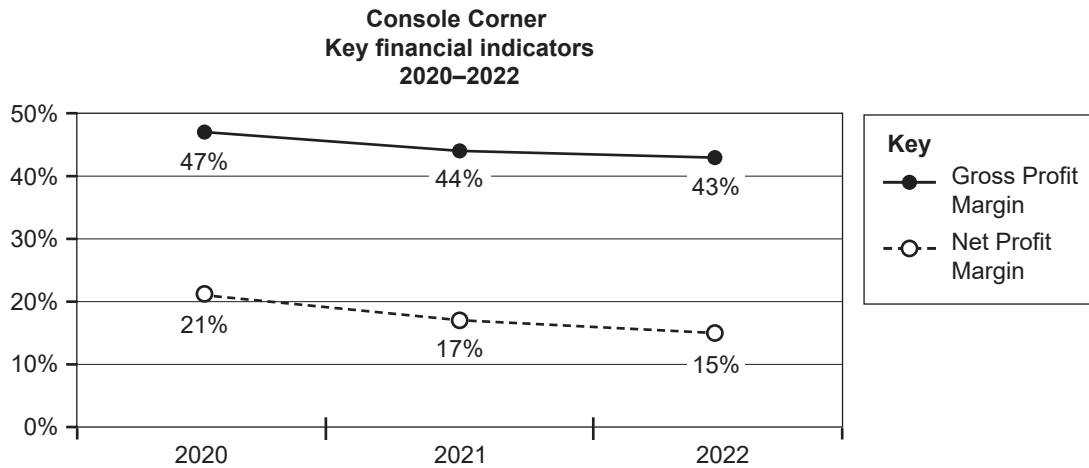
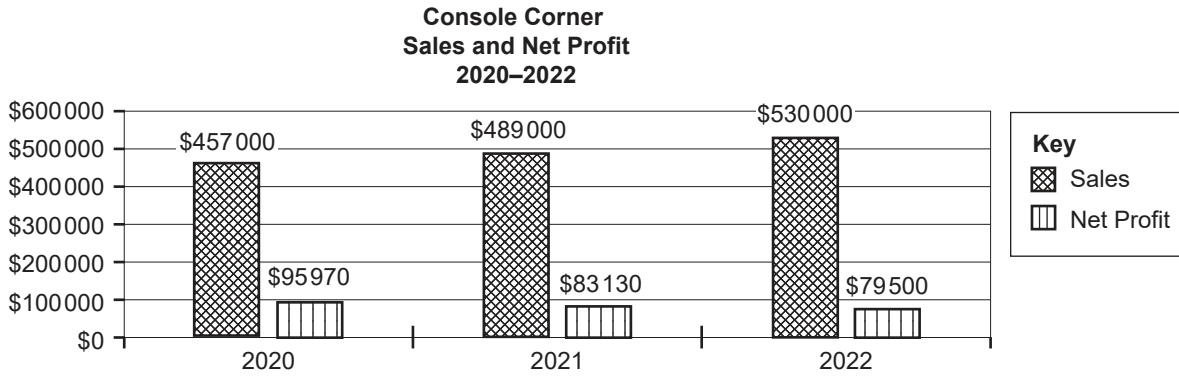
Account	\$
Accounts Payable	26 500
Accounts Receivable	17 100
Accumulated Depreciation – Computer System	9 650
Allowance for Doubtful Debts	500
Bank	4 750 cr
Computer System	25 000
GST Clearing	1 500 cr
Inventory	59 000
Loan – Lobster Bank	13 000
Prepaid Advertising	5 600

- a. Prepare the General Journal entry to establish the double entry system at 1 January 2023.  
Narrations are **not** required. 3 marks
- b. Explain **one** reason for using a double entry accounting system. 2 marks
- c. Prepare the Current Assets section of the Balance Sheet as at 1 January 2023. 4 marks
- d. On 31 January the owner contributed their own vehicle, which had cost \$38 000 (plus GST).  
The vehicle was recorded in the General Journal at its fair value of \$27 000.  
Explain why the business would use fair value when recording the vehicle. 2 marks

**Question 3** (9 marks)

Console Corner sells computer games. The owner has been reviewing the business’s performance over the last three years and is concerned that Net Profit has declined. The business has increased its prices each year and, in late 2020, employed a part-time salesperson to help increase sales.

The accountant presented the following charts to help explain the decline in profit.



- a. Using the data and information provided above, explain to the owner why Net Profit has declined over the period. 5 marks
  
- b. Explain **two** strategies that the owner could use to improve profitability. 4 marks

**Question 4** (12 marks)

Cucina Cuisine sells an exclusive range of kitchen appliances in its retail store. The business reports monthly.

- On 5 March 2023, the business purchased 100 coffee machines from Italy for \$1 200 each (plus GST) (Inv. 4517).
- On 16 March, the business paid \$6 000 (plus GST) (EFT 3125) for air freight of the 100 coffee machines.

On arrival in Victoria, the coffee machines were held in Cucina Cuisine's warehouse until required by the store. Insurance on all inventory costs the business \$8 000 (plus GST) per year.

- a. Determine the cost price of one coffee machine. Justify your answer. 5 marks
- b. Prepare the General Journal entry to record the payment made on 16 March.  
A narration is **not** required. 2 marks
- c. The business uses a 200% mark-up on cost.  
Calculate the selling price of one coffee machine. 1 mark

Sales of the coffee machines peaked during winter. On 30 September, there were still 15 coffee machines on hand and these were written down to \$1 180 each.

By 31 October, nine of the coffee machines had still not been sold. It was decided to sell them in the Black Friday sales in November at a price of \$1 000 each (plus GST). A one-kilogram bag of coffee, costing \$20 (plus GST), would be provided free with each sale.

- d. Record the General Journal entry required on 31 October.  
A narration is **not** required. 4 marks

**Question 5** (18 marks)

Gradz Art Supplies is preparing its Cash Flow Statement for the six months ended 30 June 2023. Sales and purchases are all made on a cash basis.

The Income Statement for the six months ended 30 June 2023 showed:

<b>Revenue</b>	<b>\$</b>	<b>\$</b>
Sales		325 000
less Cost of Sales		<u>170 000</u>
<b>Gross Profit</b>		<b>155 000</b>
less Inventory write-down		4 000
<b>Adjusted Gross Profit</b>		<b>151 000</b>
<b>less Other Expenses</b>		
Rent	24 000	
Wages	43 000	
Administration expenses	6 000	
Depreciation – Fixtures	<u>8 000</u>	<u>81 000</u>
<b>Net Profit</b>		<b>70 000</b>

**Additional information**

- Relevant ledger account balances were:

	<b>31 December 2022</b>	<b>30 June 2023</b>
Inventory	60 000	64 000
Prepaid Rent	4 000	5 000
GST Clearing	3 000 cr	0

- A GST settlement was paid to the Australian Taxation Office (ATO) on 30 June. All other GST payments for the period totalled \$20 900.

a. Prepare the following ledger accounts to determine cash flow items required for the Operating Activities section of the Cash Flow Statement for the six months ended 30 June 2023.

- Inventory
- GST Clearing

7 marks

b. Prepare the Operating Activities section of the Cash Flow Statement for the six months ended 30 June 2023.

7 marks

c. The accountant tells the owner that ‘the Operating Activities section of the Cash Flow Statement often provides more important information than the Income Statement – although the differences are not as much for your business given you buy and sell for cash’.

Explain the accountant’s comment, using an example from the information provided.

4 marks

**Question 6** (17 marks)

Big Sportz sells a range of sporting gear. It reports monthly.

On 30 September 2023, the following items each required a balance day adjustment.

- On 15 August, Big Sportz paid \$13 200 rent (including GST) for the three months commencing 1 September.
- Wages owing on 30 September are \$900.
- On 24 September, a local basketball club paid \$2 200 (including GST) for 20 match-quality basketballs (Receipt 365). As they were not currently in stock, Big Sportz recorded the transaction as unearned sales revenue. 15 basketballs were supplied on 30 September and the rest will be provided in October.
- The delivery van with a carrying value of \$30 000 on 1 September is depreciated at a rate of 24% per annum using the reducing balance method of depreciation.
- An Allowance for Doubtful Debts was estimated to be 5% of net credit sales. In September, Credit Sales totalled \$81 000 and Sales Returns were \$1 000.

- a. Complete the ledger accounts provided at 30 September. Close and balance the appropriate accounts. 13 marks
- b. With reference to an accounting assumption, explain your treatment of **one** of the balance day adjustments. 4 marks

**Question 7 (13 marks)**

Starters Batteries has operated out of a small building near an industrial estate for several years. It specialises in selling car batteries and has developed a reputation for quality products and competitive pricing. All batteries are bought and sold for cash.

In April 2023, Starters Batteries decided to expand by renting a larger building in the industrial estate. It plans to extend its range of batteries to include truck and marine batteries.

The owner believes the business can eventually increase sales by at least 80% on March 2023 sales, which would exceed budget expectations.

The business will commence operations in the new building on 1 May 2023.

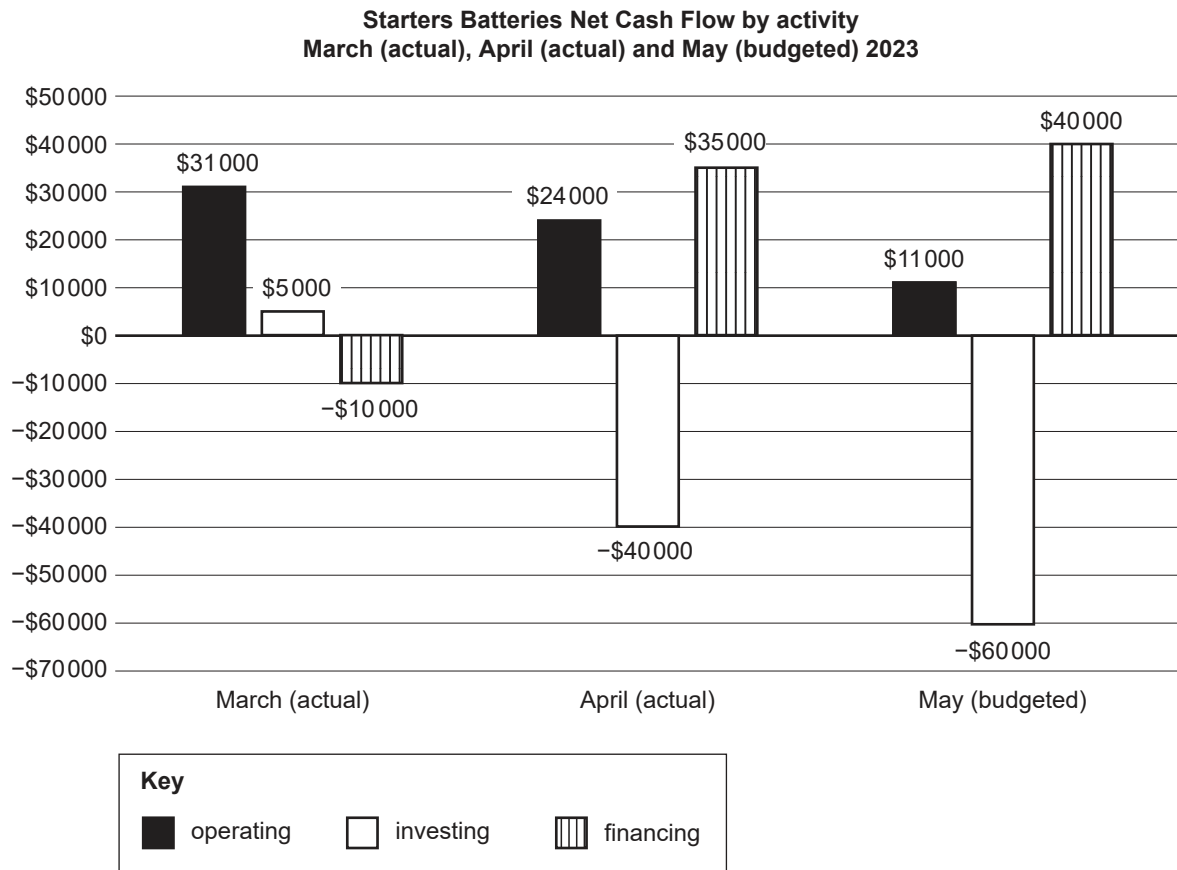
- Two additional staff will be employed in April.
- In April, shop fittings will be purchased for cash, and in May a new computer system and additional inventory will also be purchased for cash.
- Rent of the new building was prepaid in April for the three months of April, May and June.
- Credit terms of 2/14, n/30 will be offered to regular customers for orders over \$1 000. This offer is expected to be taken up by most of its larger customers.

The owner has indicated that they are unable to provide further capital contributions to help finance the expansion. Instead, a bank loan (4-year term – interest only) was obtained in April and is expected to be increased in May.

On 30 April the bank balance was \$16 000 (dr).

The owner is concerned about whether the business will have sufficient liquidity to meet their financial obligations over the next few months.

The following chart of cash flows is provided for the months of March (actual), April (actual) and May (budgeted).





- a. Using the information provided, explain how the expansion of the business affects each section of the Cash Flow Statement in April and May. 6 marks
- b. Calculate the budgeted bank balance at 31 May. 1 mark
- c. Discuss whether the owner should be concerned about the liquidity of the business. 6 marks

**Question 8** (13 marks)

Dobba's Enviroclean Supplies sells environmentally friendly cleaning products to schools, small businesses and the general public. It reports annually on 30 June.

The business is planning to purchase a new vehicle in September 2023 for the sales representative, who averages 25 000 km per year, driving mainly in the metropolitan area and at times to regional centres.

The owner is deciding whether to purchase an electric vehicle or a hybrid (petrol/electric) vehicle for the sales representative, and has identified two suitable vehicles to consider.

The accountant has provided the following information.

	<b>Electric</b>	<b>Hybrid</b>
Cost price	\$78 000 (plus GST)	\$60 000 (plus GST)
Expected useful life	5 years	5 years
Estimated residual value	40% of cost price	45% of cost price
Fast charger – supply/install	\$1 500 (plus GST)	–
Fuel/recharge costs (per year)	5 cents per km	18 cents per km
Registration/insurance/maintenance (per year)	\$2 850 (plus GST)	\$3 250 (plus GST)

**Additional information**

- The electric vehicle has a range of approximately 400 kilometres before needing to be recharged. A fast charger would be installed at the sales representative's home.
- Emissions from vehicles are considered harmful to the environment. Research showed:

	<b>Electric</b>	<b>Hybrid</b>
Emissions during manufacture	13 tonnes	10 tonnes
Emissions each year of use	0.1 tonnes	2.5 tonnes

- a. Calculate the total cost of holding each vehicle over its useful life. 5 marks
- b. Discuss the financial and ethical issues relating to the vehicle purchase and make a recommendation to the owner. 6 marks
- c. The Balance Sheet at 30 June 2023 reported the sales representative's current vehicle as a Non-Current Asset as follows:

	<b>\$</b>	<b>\$</b>
Vehicle	48 000	
less Accumulated Depreciation	<u>(37 000)</u>	11 000

Explain what the \$11 000 represents. 2 marks